

FAIR ISAAC CORP  
Form 10-K  
November 10, 2014  
Table of Contents

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, 2014

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  
(Address of principal executive offices)

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

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

Common Stock, \$0.01 par value per share

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

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

95110-1346  
(Zip Code)

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

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.

Edgar Filing: FAIR ISAAC CORP - Form 10-K

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, 2014, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was \$1,170,197,256 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 31, 2014 was 32,106,155 (excluding 56,750,628 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, 2015.

Table of Contents

## TABLE OF CONTENTS

PART I

Item 1.	<u>Business</u>	<u>3</u>
Item 1A.	<u>Risk Factors</u>	<u>12</u>
Item 1B.	<u>Unresolved Staff Comments</u>	<u>22</u>
Item 2.	<u>Properties</u>	<u>22</u>
Item 3.	<u>Legal Proceedings</u>	<u>22</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>22</u>

PART II

Item 5.	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>23</u>
Item 6.	<u>Selected Financial Data</u>	<u>25</u>
Item 7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>44</u>
Item 8.	<u>Financial Statements and Supplementary Data</u>	<u>46</u>
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>76</u>
Item 9A.	<u>Controls and Procedures</u>	<u>77</u>
	<u>Management’s Report on Internal Control Over Financial Reporting</u>	<u>77</u>
Item 9B.	<u>Other Information</u>	<u>77</u>

PART III

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	<u>78</u>
Item 11.	<u>Executive Compensation</u>	<u>80</u>
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>80</u>
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>80</u>
Item 14.	<u>Principal Accountant Fees and Services</u>	<u>80</u>

PART IV

Item 15.	<u>Exhibits, Financial Statement Schedules</u>	<u>81</u>
	<u>Signatures</u>	<u>85</u>

Table of Contents

**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 2015.

## Table of Contents

### 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](http://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. 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 the enterprise, an approach we commonly refer to as decision management. Most of our solutions address customer engagement, including customer acquisition, 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 Platform, 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 2014, 2013 and 2012 are set forth in Note 17 to the accompanying consolidated financial statements.

3

---

## Table of Contents

### Our Solutions

Our solutions involve four fundamental disciplines:

Analytics, which include predictive analytics that identify the 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 rules 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<sup>®</sup> Analytic Cloud, FICO<sup>®</sup> Solution Stack and FICO<sup>®</sup> Decision Management Platform, 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, categorized as 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 2014, FICO introduced a full suite of applications for the FICO<sup>®</sup> Analytic Cloud, expanding our product offerings to accommodate 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%, 22% and 25% of total revenues in each of fiscal 2014, 2013 and 2012, respectively; our customer management solutions accounted for 10%, 11% and 13% of total revenues, in each of these periods, respectively; and our collections & recovery solutions accounted for 9%, 9% and 8% for each of these periods, respectively.

#### Marketing Applications

The chief offerings for marketing are our FICO<sup>®</sup> Analytic Offer Manager and FICO<sup>®</sup> 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, installment 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 built on a service-oriented architecture (“SOA”), modularized approach, and is now available in the 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.

## Table of Contents

### Customer Management Applications

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

We provide customer strategy management solutions for banking, telecommunications and retail. Our leading account and customer strategy management product is FICO® TRIAD® Customer Manager. The solution is an adaptive control system, so named because it enables businesses to rapidly adapt to changing business and internal conditions by designing and testing new strategies in a “champion/challenger” environment. TRIAD® Customer Manager is one of the world's leading credit management systems, and our adaptive control systems are used by more than 250 banks. 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 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.

We also offer transaction-based models called FICO® Transaction Scores, which help card issuers identify high-risk behavior more quickly and manage their credit card accounts more profitably.

### 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; technical fraud and bad debt; 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 the leader in global payment card fraud detection. Falcon® Fraud Manager's neural network predictive models and patented profiling technology, both further described below in the “Technology” section, examine transaction, cardholder, account, customer, device and merchant data to detect a wide range of payment card fraud quickly and accurately. Falcon® Fraud Manager analyzes payment transactions in real time, assesses the risk of fraud, and takes the user-defined steps 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 aberrant 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.

#### 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® facilitates control over the distribution and management of accounts to agencies, attorneys, debt buyers and internal recovery departments. Companies using our Debt Manager™ and PlacementsPlus® solutions

## Table of Contents

in the U.S. can access partner services such as collection agencies and attorneys via FICO® Network Services, which provides web-based access to and from thousands of third-party collections and recovery service providers, as well as access to multiple data sources and FICO solutions hosted in Active Service Pages (“ASP”) mode. 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 SaaS-based 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.

### Analytics

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.

We offer FICO® Economic Impact Service, which uses time series modeling of the macro economy to allow lenders to forecast future credit risk performance based on their views of the economy. The resulting insights can be used to adjust current credit policy as well as provide input into the calculation of regulatory capital requirements.

### 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 FICO® Expansion Score, FICO® Credit Capacity Index,™ and the FICO® Economic Impact Index. We also develop various custom scores for our financial services clients. In Fiscal 2014, we introduced 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, we introduced 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 17 different countries across four 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.

## Table of Contents

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 distribution partners. 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 purchase Score Watch® subscriptions, which deliver alerts via email and text when the user's FICO Scores or other credit report content change. In addition, in fiscal 2014 we introduced identity theft monitoring products that safeguard consumers against the impact of identity fraud with comprehensive detection, defense, and identity restoration services.

The myFICO® products and subscription offerings are available online at [www.myfico.com](http://www.myfico.com) and are also available to consumers through numerous other partners.

## Tools

We provide analytic and decision management software products that businesses use to build their own tailored decision management applications on premise or within the FICO® Analytic Cloud. In contrast to our packaged applications developed for specific industry applications, our tools support the addition of decision management capabilities to virtually any application or operational system. These tools are sold as licensed software, and can be used by themselves or together to advance a client's decision management initiatives. We use these tools as common software components for our own decision management applications, described above in the Applications section. They are also key components of our decision management architecture, described in the Technology section. 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 2014, FICO introduced the FICO® Solution Stack, a collection of tools for building, extending, deploying and scaling applications and solutions. The FICO® Solution Stack includes the FICO® Decision Management Platform with three new analytic and decision studios, available in the FICO® Analytic Cloud and as on-premises software. The new studios are: FICO® Decision Studio, for building and customizing analytic and decision components and services, powered by analytics from any source, including broad support for Predictive Model Markup Language; FICO® Application Studio, for rapidly developing, orchestrating, and publishing analytics-powered applications; and FICO® Visual Insights Studio, for visualizing, analyzing and reporting data trends. The FICO® Solution Stack brings 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.

During fiscal 2014, FICO acquired InfoCentricity, Inc. ("InfoCentricity") and the technology from Karmasphere, Inc. ("Karmasphere"). The acquisitions enhance our FICO® Decision Management Platform by providing cloud-based analytics modeling technology along with the Big Data analytics for Hadoop technology capabilities. This aligns with our overall tools/ cloud strategy and is expected to benefit customers of all sizes and across all industries.

The principal products offered are software tools for:

**Rules Management.** The FICO® Blaze Advisor® business 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<sup>®</sup> system, available in six languages, is a multi-platform solution that: embeds rules management within existing applications; supports Web Services and 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<sup>®</sup> system is able to process and execute complex, high-volume business rules.

Predictive Modeling. FICO<sup>®</sup> Model Central<sup>™</sup> Solution 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<sup>®</sup> Model Builder, which enables the user to develop and deploy sophisticated predictive models for use in automated decisions as well as complete scoring routines, such as variable generation, segment logic, scoring, calibration and reason codes. 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

7

---

## Table of Contents

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.

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.

## 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.

#### 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.

## Table of Contents

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 our credit reporting agency partners and their affiliated companies, as well as with Trilegiant, InterSections, Credit Karma and others.

### 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 our 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 98 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 the world's top ten pharmaceuticals companies. All of the top ten companies on the 2014 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.

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 2014, 2013 and 2012, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for 15%, 16% and 18% of our total revenues, respectively.

## Table of Contents

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 over 100 countries.

Revenues from international customers, including end users and resellers, amounted to 42%, 40% and 39% of our total revenues in fiscal 2014, 2013 and 2012, 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.

Because of our pioneering work in credit scoring and fraud detection, we are widely recognized as a leader in predictive analytics. In all our work, 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 2014, we announced the general availability of the FICO® Analytic Cloud, FICO® Decision Management Platform and FICO® Solution Stack. The FICO® Decision Management Platform and FICO® Solution Stack enable 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. Our InfoCentricity acquisition during fiscal 2014 added the Xeno<sup>®</sup> model development software to our predictive modeling toolkit, and accelerated our development of a predictive modeling platform available on the FICO<sup>®</sup> Analytic Cloud.

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

## Table of Contents

language, an easy-to-use development environment, and a state-of-the-art set of optimization algorithms. Our InfoCentricity acquisition during fiscal 2014 added its Strategy Trees decision strategy software to our capabilities in this area. These capabilities allow us to solve a large variety of optimization problems across all industries.

**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. Our Big Data analytics technology acquired from Karmasphere during fiscal 2014 facilitates the use of data stored in Hadoop data stores.

**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. Our 2014 acquisition of InfoCentricity added its Strategy Trees decision strategy software to our capabilities in this area.

**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.** Through our acquisition of Infoglide Software, Inc. (“Infoglide”) in April 2013, 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. In fiscal 2014, we began 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, our emerging text analytics and entity extraction techniques, and new methods that we believe to be unique approaches for detecting certain types of cyber security threats.

#### Research and Development Activities

Our research and development expenses were \$83.4 million, \$67.0 million and \$59.5 million in fiscal 2014, 2013 and 2012, 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.

## Table of Contents

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 157 U.S. and 13 foreign patents with 87 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 36 trademarks registered in the U.S. and select foreign countries.

### PERSONNEL

As of September 30, 2014, we employed 2,646 persons worldwide. Of these, 131 full-time employees were located in our San Jose, California office, 306 full-time employees were located in our San Diego, California office, 244 full-time employees were located in our Roseville, Minnesota office, 212 full-time employees were located in our San Rafael, California office, 135 full-time employees were located in our Fairfax, Virginia office, 491 full-time employees were located in our India-based offices and 256 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.

### 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

## Table of Contents

custom client solutions that may lead to opportunities to develop new proprietary scores or other new proprietary products. The market may be unreceptive to this general DM business approach, including being unreceptive to purchasing multiple products from us or unreceptive to our customized solutions. If our DM strategy is not successful, we may not be able to grow our business, growth may occur more slowly than we anticipate or our revenues and profits may decline.

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

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

- changes in the business analytics industry;
- changes in technology;
- our inability to obtain or use key data for our products;
- saturation or contraction of market demand;
- loss of key customers;
- industry consolidation;
- failure to execute our selling approach; and
- inability to successfully sell our products in new vertical markets.

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

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

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

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

We rely on relatively few customers, as well as our contracts with the three major credit reporting agencies, for a significant portion of our revenues and profits. 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

## Table of Contents

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 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;
- 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.

## Table of Contents

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).

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:

## Table of Contents

- 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.

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. 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

## Table of Contents

in attempting to attract, train and retain qualified personnel, we will not succeed in our efforts, and our business could be harmed. The failure of the value of our stock to appreciate may adversely affect our ability to use equity and equity-based incentive plans to attract and retain personnel, and may require us to use alternative and more expensive forms of compensation for this purpose.

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

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

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

Our success depends, in part, upon our proprietary technology and other intellectual property rights. To date, we have relied primarily on a combination of copyright, patent, trade secret, and trademark laws, and nondisclosure and other contractual restrictions on copying and distribution to protect our proprietary technology. This protection of our proprietary technology is limited, and our proprietary technology could be used by others without our consent. In addition, patents may not be issued with respect to our pending or future patent applications, and our patents may not be upheld as valid or may not prevent the development of competitive products. Any disclosure, loss, invalidity of, or failure to protect our intellectual property could negatively impact our competitive position, and ultimately, our business. There can be no assurance that our protection of our intellectual property rights in the 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.

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.

## Table of Contents

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.

### 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.

## Table of Contents

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

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

- in-house analytic and systems developers;
- scoring model builders;
- enterprise resource planning (“ERP”) and customer relationship management (“CRM”) packaged solutions providers;
- business intelligence solutions providers;
- credit report and credit score providers;
- business process management solution providers;
- process modeling tools providers;
- automated application processing services providers;
- data vendors;
- neural network developers and artificial intelligence system builders;
- third-party professional services and consulting organizations;
- account/workflow management software providers; and
- software tools companies supplying modeling, rules, or analytic development tools.

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

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

Legislation that is enacted by the U.S. Congress, the states, Canadian provinces, and other countries, and government regulations that apply to us or to our customers may expose us to liability, 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;

Table of Contents

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.;

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 2014, 77% 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.

## Table of Contents

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

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

### Risk Related to External Conditions

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 2014, 42% 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.

## Table of Contents

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

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

Certain provisions of our Restated Certificate of Incorporation, as amended, could make a merger, tender offer or proxy contest involving us difficult, even if such events would be beneficial to the interests of our stockholders. These provisions include 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 45,000 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 234,000 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.

22

---

Table of Contents

## 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 September 30, 2014, we had 445 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 2013		
October 1 — December 31, 2012	\$47.86	\$40.47
January 1 — March 31, 2013	\$46.32	\$42.62
April 1 — June 30, 2013	\$50.93	\$41.33
July 1 — September 30, 2013	\$55.80	\$45.80
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

## Dividends

We paid dividends of two cents per share on a quarterly basis during each of fiscal 2014, 2013 and 2012. 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	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
July 1, 2014 through July 31, 2014	894,179	\$63.54	878,808	\$ 101,647
August 1, 2014 through August 31, 2014	2,362	\$55.54	—	\$ 250,000,000
September 1, 2014 through September 30, 2014	7,060	\$60.04	—	\$ 250,000,000
Total	903,601	\$63.49	878,808	\$ 250,000,000

(1) Includes 24,793 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, 2014.

(2) On April 22, 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 on August 18, 2014. The new 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.

Table of Contents

Performance Graph

The following graph shows the total stockholder return of an investment of \$100 in cash on September 30, 2009, 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.

Table of Contents

## Item 6. Selected Financial Data

We acquired Entiera, Inc. (“Entiera”) in May 2012, Adepra Ltd. (“Adepra”) in September 2012, CR Software, LLC. (“CR Software”) in November 2012, Infoglide Software, Inc. (“Infoglide”) in April 2013, and InfoCentricity in April 2014. 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,				
	2014	2013	2012	2011	2010
	(In thousands, except per share data)				
Revenues	\$788,985	\$743,444	\$676,423	\$619,683	\$605,643
Operating income	161,868	161,593	168,358	127,337	113,349
Net income	94,879	90,095	92,004	71,562	64,457
Basic earnings per share	2.80	2.55	2.64	1.82	1.44
Diluted earnings per share	2.72	2.48	2.55	1.79	1.42
Dividends declared per share	0.08	0.08	0.08	0.08	0.08

	September 30,				
	2014	2013	2012	2011	2010
	(In thousands)				
Working capital	\$(52,877)	\$83,308	\$49,720	\$217,983	\$225,028
Total assets	1,192,298	1,161,547	1,158,611	1,129,468	1,123,716
Senior Notes	447,000	455,000	504,000	512,000	520,000
Revolving line of credit	99,000	15,000	—	—	—
Stockholders' equity	454,614	530,677	474,406	465,494	474,914

Table of Contents

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

OVERVIEW

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 operating 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 the Item 1A, Risk Factors, in this Annual Report on Form 10-K.

Business Overview

Total revenues for fiscal 2014 were \$789.0 million, an increase of 6% from \$743.4 million in fiscal 2013. Revenue in each of our segments increased, with Applications, Scores and Tools increasing by 6%, 3% and 14% in fiscal 2014 compared to fiscal 2013, respectively. Our revenues derived from clients outside the U.S. have generally grown, and may in the future grow more rapidly than our revenues from domestic clients. International revenues totaled \$331.7 million for fiscal 2014, an increase of 13% from \$294.0 million in fiscal 2013, representing 42% and 40% of total consolidated revenues in each of these years. A significant portion of our revenues are derived from the sale of products and services within the banking (including consumer credit) industry, and 74% and 73% of our revenues were derived from within this industry during fiscal 2014 and 2013, 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 approximately 67% and 69% of our revenues during fiscal 2014 and 2013, respectively.

Operating income for fiscal 2014 was 161.9 million, an increase of \$0.3 million from \$161.6 million in fiscal 2013. Operating margin decreased to 21% from 22% primarily attributable to our continued investment in the areas of cloud computing and SaaS, partially offset by a higher percentage of revenues derived from our higher-margin software products. Net income for fiscal 2014 was \$94.9 million, an increase of 5% from \$90.1 million in fiscal 2013. Diluted earnings per share for fiscal 2014 was \$2.72, an increase of 10% from \$2.48 in fiscal 2013.

We 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.

During fiscal 2014, we continued to invest in our growth initiatives that expand our addressable markets. We introduced a full suite of applications for the FICO® Analytic Cloud, expanding product offerings in our Applications and Tools segments to accommodate small-to-midsize companies that benefit from the affordability and simplicity of cloud-based solutions. For our Scores segment, we introduced 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. We have more than 30 million consumers with access to their free score through the FICO® Score Open Access program and with the addition of new participants we expect this to grow to more than 60 million in early 2015. In addition, we introduced the FICO® Custom Credit Education program where lenders can license enhanced credit education tools to include in their consumer financial education programs.

We continued to make acquisitions that deliver solutions to the financial services industry and adjacent vertical industries; our recent acquisitions of InfoCentricity and Karmasphere are expected to benefit customers of all sizes and across all industries by leveraging cloud-based analytics modeling technology along with the Big Data analytics for Hadoop technology capabilities.

We also returned significant cash to shareholders through our stock repurchase program. During fiscal 2014, we repurchased approximately 3.7 million shares for a total cost of \$214.9 million. As of September 30, 2014, we had \$250.0 million remaining under our current stock repurchase program.

Table of Contents

## Bookings

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

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

## Transactional and Maintenance Bookings

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

- The health of the economy and economic trends in our customers' industries;
- Individual performance of our customers relative to their competitors; and
- Regulatory and other factors that affect the business environment in which our customers operate.

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

## Professional Services Bookings

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

## License Bookings

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

## Bookings Trend Analysis

	Bookings	Bookings Yield (1)	Number of Bookings over \$1 Million	Weighted-Average Term (2)
	(in millions)			(months)
Quarter ended September 30, 2014	\$85.8	26	% 12	22
Quarter ended September 30, 2013	\$91.3	29	% 18	22
Year ended September 30, 2014	\$362.3	38	% 63	N/M
Year ended September 30, 2013	\$328.2	42	% 61	N/M

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

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

Transactional and maintenance bookings were 28% and 40% of total bookings for the quarters ended September 30, 2014 and 2013, respectively. Professional services bookings were 51% and 41% of total bookings for the quarters ended September



Table of Contents

30, 2014 and 2013, respectively. License bookings were 21% and 19% of total bookings for the quarters ended September 30, 2014 and 2013, respectively.

Transactional and maintenance bookings were 29% and 37% of total bookings for the years ended September 30, 2014 and 2013, respectively. Professional services bookings were 47% and 41% of total bookings for the years ended September 30, 2014 and 2013, respectively. License bookings were 24% and 22% of total bookings for the years ended September 30, 2014 and 2013, respectively.

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

Management regards the volume of bookings achieved, among other factors, as an important indicator of future revenues, but they are not comparable to, nor substituted for, an analysis of our revenues, and they are subject to a number of risks and uncertainties concerning timing and contingencies affecting product delivery and performance. Although many of our contracts contain non-cancelable terms, most of our bookings are transactional or service related and are dependent upon estimates such as volume of transactions, number of active accounts, or number of hours incurred. Since these estimates cannot be considered fixed or firm, we do not believe it is appropriate to characterize bookings as backlog.

**Segment Information**

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, 2014, 2013 and 2012 are set forth in Note 17 to the accompanying consolidated financial statements.

**RESULTS OF OPERATIONS****Revenues**

The following tables set forth certain summary information on a segment basis related to our revenues for fiscal 2014, 2013 and 2012:

Segment	Revenues Year Ended September 30, (In thousands)			Period-to-Period Change (In thousands)		Period-to-Period Percentage Change		
	2014	2013	2012	2014 to 2013	2013 to 2012	2014 to 2013	2013 to 2012	
Applications	\$504,256	\$476,084	\$424,604	\$28,172	\$51,480	6	% 12	%
Scores	186,469	180,813	175,623	5,656	5,190	3	% 3	%
Tools	98,260	86,547	76,196	11,713	10,351	14	% 14	%
Total Revenues	\$788,985	\$743,444	\$676,423	45,541	67,021	6	% 10	%

Segment	Percentage of Revenues Year Ended September 30,			
	2014	2013	2012	
Applications	64	% 64	% 63	%
Scores	24	% 24	% 26	%
Tools	12	% 12	% 11	%
Total Revenues	100	% 100	% 100	%

Table of Contents

## Applications

	Year Ended September 30,			Period-to-Period Change		Period-to-Period Percentage Change		
	2014 (In thousands)	2013	2012	2014 to 2013 (In thousands)	2013 to 2012	2014 to 2013	2013 to 2012	
Transactional and maintenance	\$313,316	\$306,738	\$263,726	\$6,578	\$43,012	2	% 16	%
Professional services	121,100	110,081	104,637	11,019	5,444	10	% 5	%
License	69,840	59,265	56,241	10,575	3,024	18	% 5	%
Total	\$504,256	\$476,084	\$424,604	28,172	51,480	6	% 12	%

Applications segment revenues increased \$28.2 million in fiscal 2014 from fiscal 2013 primarily 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.

Applications segment revenues increased \$51.5 million in fiscal 2013 from fiscal 2012 primarily due to a \$51.1 million increase in our customer communications solutions and an \$11.1 million increase in our collections & recovery solutions, partially offset by a \$6.5 million decrease in our customer management solutions and a \$3.5 million decrease in our marketing solutions.

The increase in customer communication solutions was attributable to our Adepra acquisition in September 2012. The increase in collections & recovery solutions was primarily attributable to our CR Software acquisition in November 2012, partially offset by a decrease in revenues generated from our FICO® Debt Manager™ product. The decrease in customer management solutions was primarily attributable to a decrease in software revenue driven by a large license transaction in fiscal 2012. The decrease in marketing solutions was primarily attributable to the early termination of a large customer in December 2012.

## Scores

	Year Ended September 30,			Period-to-Period Change		Period-to-Period Percentage Change		
	2014 (In thousands)	2013	2012	2014 to 2013 (In thousands)	2013 to 2012	2014 to 2013	2013 to 2012	
Transactional and maintenance	\$178,023	\$175,281	\$172,218	\$2,742	\$3,063	2	% 2	%
Professional services	2,784	4,012	2,382	(1,228)	1,630	(31)	%) 68	%
License	5,662	1,520	1,023	4,142	497	273	% 49	%
Total	\$186,469	\$180,813	\$175,623	5,656	5,190	3	% 3	%

Scores segment revenues increased \$5.7 million in fiscal 2014 from 2013 due to a \$3.5 million increase in our myFICO® business-to-consumer services revenues and a \$2.2 million increase in our business-to-business scores revenues. The increase in our myFICO 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

Table of Contents

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.

Scores segment revenues increased \$5.2 million in fiscal 2013 from 2012 due to a \$5.8 million increase in our myFICO® business-to-consumer services revenues partially offset by a \$0.6 million decrease in our business-to-business scores revenues. The increase in our myFICO business-to-consumer services was attributable to a \$6.8 million increase in direct sales generated from the myFICO.com website, partly driven by the availability of FICO® scores generated using the consumer data of one credit reporting agency following an agreement with the credit reporting agency in May 2013. The increase was partially offset by a \$1.0 million decrease in royalties derived from scores sold indirectly to consumers through credit reporting agencies.

During fiscal 2014, 2013 and 2012, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 15%, 16% and 18%, 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		
	2014 (In thousands)	2013	2012	2014 to 2013 (In thousands)	2013 to 2012	2014 to 2013	2013 to 2012	
Transactional and maintenance	\$36,224	\$32,285	\$30,231	\$3,939	\$2,054	12	% 7	%
Professional services	25,950	21,101	17,952	4,849	3,149	23	% 18	%
License	36,086	33,161	28,013	2,925	5,148	9	% 18	%
Total	\$98,260	\$86,547	\$76,196	11,713	10,351	14	% 14	%

Tools segment revenues increased \$11.7 million 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.

Tools segment revenues increased \$10.4 million primarily due to a \$4.8 million increase in our rules management tools and a \$4.0 million increase in our predictive modeling tools. The increase in rules management tools was primarily attributable to increased services revenue related to our FICO® Blaze Advisor® and third-party products. The increase in predictive modeling tools was primarily attributable to increased license sales in our FICO® Model Central™ product.

Table of Contents

## 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 2014, 2013 and 2012:

	Year Ended September 30,			Period-to-Period Change		Period-to-Period Percentage Change		
	2014	2013	2012	2014 to 2013	2013 to 2012	2014 to 2013	2013 to 2012	
	(In thousands, except employees)			(In thousands, except employees)				
Revenues	\$788,985	\$743,444	\$676,423	\$45,541	\$67,021	6	% 10	%
Operating expenses:								
Cost of revenues	249,281	229,468	197,947	19,813	31,521	9	% 16	%
Research and development	83,435	66,967	59,527	16,468	7,440	25	% 12	%
Selling, general and administrative	278,203	268,395	238,522	9,808	29,873	4	% 13	%
Amortization of intangible assets	11,917	13,535	6,944	(1,618)	6,591	(12)	)% 95	%
Restructuring and acquisition-related	4,281	3,486	5,125	795	(1,639)	23	% (32)	)%
Total operating expenses	627,117	581,851	508,065	45,266	73,786	8	% 15	%
Operating income	161,868	161,593	168,358	275	(6,765)	—	% (4)	)%
Interest expense, net	(28,550)	(30,227)	(31,417)	1,677	1,190	(6)	)% (4)	)%
Other income (expense), net	(187)	618	(698)	(805)	1,316	(130)	)% (189)	)%
Income before income taxes	133,131	131,984	136,243	1,147	(4,259)	(9)	)% (3)	)%
Provision for income taxes	38,252	41,889	44,239	(3,637)	(2,350)	(9)	)% (5)	)%
Net income	\$94,879	\$90,095	\$92,004	4,784	(1,909)	5	% (2)	)%
Number of employees at fiscal year-end	2,646	2,482	2,315	164	167	7	% 7	%

	Percentage of Revenues			
	Year Ended September 30,			
	2014	2013	2012	
Revenues	100	% 100	% 100	%
Operating expenses:				
Cost of revenues	31	% 31	% 29	%
Research and development	11	% 9	% 9	%
Selling, general and administrative	35	% 36	% 35	%
Amortization of intangible assets	1	% 2	% 1	%
Restructuring and acquisition-related	1	% —	% 1	%
Total operating expenses	79	% 78	% 75	%
Operating income	21	% 22	% 25	%

Edgar Filing: FAIR ISAAC CORP - Form 10-K

Interest expense, net	(4	)%	(4	)%	(5	)%
Income before income taxes	17	%	18	%	20	%
Provision for income taxes	5	%	6	%	6	%
Net income	12	%	12	%	14	%

31

---

## Table of Contents

### 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.

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.

Cost of revenues as a percentage of revenues increased to 31% during fiscal 2013 from 29% during fiscal 2012. The \$31.5 million increase was primarily due to a \$14.9 million increase in third-party software and data costs, an \$11.2 million increase in personnel and labor costs, a \$2.3 million increase in travel cost and a \$1.8 million increase in outside services cost. The increase in third-party software and data costs was mainly related to integration of lower-margin products from our Adeptra and CR Software acquisitions in September and November 2012, respectively, as well as an increase in sales of our other products that require data acquisition. The increase in personnel and labor costs was primarily attributable to the increased headcount as a result of our recent acquisitions. The increase in travel cost was primarily attributable to an increase in services revenue requiring travel to client locations. The increase in outside services cost was due to an increase in use of external contractors as a result of increased services revenue.

In fiscal 2015, we expect cost of revenues as a percentage of revenues will be consistent with those incurred during fiscal 2014.

### 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 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.

The fiscal year 2013 over 2012 increase of \$7.4 million in research and development expenses was primarily attributable to an \$8.5 million increase in personnel and labor costs, attributable to the increased headcount as a result of our recent acquisitions. Research and development expenses as a percentage of revenues was 9% during the year ended September 30, 2013, consistent with those incurred during the year ended September 30, 2012.

In fiscal 2015, we expect that research and development expenditures as a percentage of revenues will be consistent with those incurred during fiscal 2014 as we continue to invest in the areas of cloud computing and SaaS.

### 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.

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.

Table of Contents

Selling, general and administrative expenses as a percentage of revenues was 36% for the year ended September 30, 2013 as compared to 35% for the year ended September 30, 2012. The \$29.9 million increase was primarily attributable to a \$15.7 million increase in labor and personnel costs, a \$4.4 million increase in equipment and software depreciation cost, a \$3.3 million increase in travel cost and a \$2.9 million increase in allocated facilities and infrastructure costs. The increase in labor and personnel costs was primarily due to the increased headcount as a result of our recent acquisitions. The increase in equipment and software depreciation cost was due to timing of fixed assets placed in service. The increase in travel cost was primarily due to increased non-revenue producing travel activities as a result of our recent acquisitions. The increase in allocated facilities and infrastructure costs was primarily due to increased resource requirement as a result of our recent acquisitions.

In fiscal 2015, we expect that selling, general and administrative expenses as a percentage of revenues will be consistent with those incurred during fiscal 2014.

**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 2014 over fiscal 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.

The fiscal 2013 over fiscal 2012 increase in amortization expense of \$6.6 million was attributable to the addition of intangible assets associated with our recent acquisitions of Entiera, Adeptra, CR Software and Infoglide, partially offset by certain intangible assets associated with our Dash and London Bridge acquisitions becoming fully amortized in January 2012 and May 2013, respectively.

In fiscal 2015, we expect amortization expense will be consistent with the amortization expense incurred in 2014 .

**Restructuring and Acquisition-related**

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 will be 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.

In fiscal 2012, we incurred \$1.1 million in acquisition-related cost in association with the Adeptra and Entiera acquisitions. We also eliminated 85 positions mainly within the product and technology organization of the Company and incurred \$4.0 million for severance costs. Cash payments for all the severance costs had been paid by the end of fiscal 2013.

The following table sets forth certain summary information on restructuring expenses for the fiscal 2014, 2013 and 2012:

	Year Ended September 30,		
	2014	2013	2012
	(In thousands)		
Severance costs	\$3,963	\$842	\$3,978
Lease exit costs and other adjustments	167	1,624	—
Total restructuring expense	\$4,130	\$2,466	\$3,978

**Interest Expense, Net**

Interest expense included 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. Interest expense is netted with interest income, which is derived

primarily

33

---

Table of Contents

from the investment of funds in excess of our immediate operating requirements, on our consolidated statements of income and comprehensive income.

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.

The fiscal 2013 over 2012 decrease in net interest expense of \$1.2 million was primarily attributable to the \$49.0 million and \$8.0 million principal payment in May 2013 and 2012, respectively, on the senior notes issued in May 2008 resulting in lower average debt balance for fiscal 2013, partially offset by lower average investment balances during fiscal 2013.

In fiscal 2015, we expect that net interest expense will be lower than what we incurred during fiscal 2014 due to the \$71.0 million principal payment expected in May 2015 on the senior notes issued in May 2008.

**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.

Net other expense was \$0.2 million in fiscal 2014, compared to net other income of 0.6 million in 2013. The change 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.

Net other income was \$0.6 million in fiscal 2013, compared to net other expense of \$0.7 million in 2012. The change was primarily attributable to a decrease in foreign exchange losses, as well as a one-time vendor termination fee during fiscal 2012.

**Provision for Income Taxes**

Our effective tax rates were 28.7%, 31.7% and 32.5% in fiscal 2014, 2013 and 2012, respectively.

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 secondly, due to a higher percentage of revenue in lower taxing jurisdictions.

The decrease in our effective tax rate in fiscal 2013 compared to fiscal 2012 was primarily due to the reenactment of the U.S. Federal Research and Development Credit in 2013, as well as the expiration of the U.S. Federal Research and Development credit and a one-time tax impact of a legal entity restructuring charge in 2012.

As of September 30, 2014 the Company has reported \$49.9 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 the Company's 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.

Table of Contents

## Operating Income

The following tables set forth certain summary information on a segment basis related to our operating income for the fiscal 2014, 2013 and 2012:

Segment	Year Ended September 30,			Period-to-Period Change		Period-to-Period Percentage Change		
	2014	2013	2012	2014 to 2013	2013 to 2012	2014 to 2013	2013 to 2012	
	(In thousands)			(In thousands)				
Applications	\$169,494	\$141,131	\$139,116	\$28,363	\$2,015	20	% 1	%
Scores	142,282	130,267	123,625	12,015	6,642	9	% 5	%
Tools	4,203	19,469	19,236	(15,266	) 233	(78	)% 1	%
Unallocated corporate expenses	(101,551	) (86,403	) (80,321	) (15,148	) (6,082	) 18	% 8	%
Total segment operating income	214,428	204,464	201,656	9,964	2,808	5	% 1	%
Unallocated share-based compensation	(36,362	) (25,850	) (21,229	) (10,512	) (4,621	) 41	% 22	%
Unallocated amortization expense	(11,917	) (13,535	) (6,944	) 1,618	(6,591	) (12	)% 95	%
Unallocated restructuring and acquisition-related	(4,281	) (3,486	) (5,125	) (795	) 1,639	23	% (32	)%
Operating income Applications	\$161,868	\$161,593	\$168,358	275	(6,765	) —	% (4	)%

	Year Ended September 30,			Percentage of Revenues				
	2014	2013	2012	2014	2013	2012		
	(In thousands)							
Segment revenues	\$504,256	\$476,084	\$424,604	100	% 100	% 100	%	%
Segment operating expenses	(334,762	) (334,953	) (285,488	) (66	)% (70	)% (67	)%	)%
Segment operating income Scores	\$169,494	\$141,131	\$139,116	34	% 30	% 33	%	%

	Year Ended September 30,			Percentage of Revenues				
	2014	2013	2012	2014	2013	2012		
	(In thousands)							
Segment revenues	\$186,469	\$180,813	\$175,623	100	% 100	% 100	%	%
Segment operating expenses	(44,187	) (50,546	) (51,998	) (24	)% (28	)% (30	)%	)%
Segment operating income Tools	\$142,282	\$130,267	\$123,625	76	% 72	% 70	%	%

	Year Ended September 30,			Percentage of Revenues				
	2014	2013	2012	2014	2013	2012		
	(In thousands)							
Segment revenues	\$98,260	\$86,547	\$76,196	100	% 100	% 100	%	%
Segment operating expenses	(94,057	) (67,078	) (56,960	) (96	)% (78	)% (75	)%	)%

Edgar Filing: FAIR ISAAC CORP - Form 10-K

Segment operating income	\$4,203	\$19,469	\$19,236	4	% 22	% 25	%
--------------------------	---------	----------	----------	---	------	------	---

35

---

Table of Contents

The increase in operating income between fiscal 2014 and 2013 of \$0.3 million was primarily 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 was 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 primarily 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.

The decrease in operating income between fiscal 2013 and 2012 of \$6.8 million was primarily attributable to a \$58.1 million increase in segment operating expenses, a \$6.6 million increase in amortization expense, a \$6.1 million increase in unallocated corporate expenses and a \$4.6 million increase in share-based compensation expense, partially offset by a \$67.0 million increase in segment revenues and a \$1.6 million decrease in restructuring and acquisition-related expenses.

At the segment level, the \$2.8 million increase in segment operating income was driven by a \$6.7 million increase in our Scores segment, a \$2.0 million increase in our Applications segment and a \$0.2 million increase in our Tools segment, partially offset by a \$6.1 million increase in unallocated corporate expenses.

The \$2.0 million increase in Applications segment operating income was attributable to a \$51.5 million increase in segment revenues, partially offset by a \$49.5 million increase in segment operating expenses. The increases in both segment revenues and segment operating expenses were primarily related to our Adeptra and CR Software acquisitions. Segment operating income as a percentage of segment revenues for Applications decreased to 30% from 33% mainly due to increased sales of lower-margin products from our Adeptra and CR Software acquisitions.

The \$6.7 million increase in Scores segment operating income was attributable to a \$5.2 million increase in segment revenues, primarily due to increased revenues generated from our myFICO® business-to-consumer services and a \$1.5 million decrease in segment operating expenses. Segment operating income as a percentage of segment revenues for Scores was 72% for fiscal 2013, materially consistent with fiscal 2012.

The \$0.2 million increase in Tools segment operating income was attributable primarily to a \$10.3 million increase in segment revenues, partially offset by a \$10.1 million increase in segment operating expenses. The increase in segment revenues was primarily due to an increase of services and software revenues related to our FICO® Blaze Advisor® and FICO® Model Central™ products. Segment operating income as a percentage of segment revenues for Tools decreased to 22% from 25% mainly due to an increase in our lower-margin services revenues and third-party software product

sales.

36

---

Table of Contents

## CAPITAL RESOURCES AND LIQUIDITY

## Outlook

As of September 30, 2014, we had \$105.1 million in cash and cash equivalents which included \$83.8 million held off-shore by our foreign subsidiaries. We believe these balances, as well as available borrowings from our \$200 million revolving line of credit and anticipated cash flows from operating activities, will be sufficient to fund our working and other capital requirements as well as the \$71.0 million principal payment due in May 2015 on our senior notes issued in May 2008. 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,		
	2014	2013	2012
	(In thousands)		
Cash provided by (used in):			
Operating activities	\$175,034	\$136,120	\$129,746
Investing activities	(19,843 )	(34,971 )	(65,670 )
Financing activities	(130,391 )	(86,634 )	(128,453 )
Effect of exchange rate changes on cash	(2,903 )	(2,946 )	234
Increase (decrease) in cash and cash equivalents	\$21,897	\$11,569	\$(64,143 )

## 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 \$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.

Net cash provided by operating activities totaled \$136.1 million in fiscal 2013 compared to \$129.7 million in fiscal 2012. The \$6.4 million increase, despite \$1.9 million decrease in net income, was mainly attributable to an increase in non-cash charges to depreciation and amortization, deferred income taxes and share-based compensation, partially offset by a decrease caused by the timing of receipts and payments in our ordinary course of business.

## Cash Flows from Investing Activities

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 primarily 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.

Net cash used in investing activities totaled \$35.0 million in fiscal 2013 compared to \$65.7 million in fiscal 2012. The \$30.7 million decrease was primarily attributable to a \$90.8 million decrease in net cash used for acquisitions, partially offset by a \$61.6 million decrease in proceeds from sales and maturities of marketable securities, net of purchases.

## Cash Flows from Financing Activities

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

## Table of Contents

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.

Net cash used in financing activities totaled \$86.6 million in fiscal 2013 compared to \$128.5 million in fiscal 2012. The \$41.9 million decrease was primarily due to a \$108.3 million decrease in common stock repurchased, partially offset by a \$40.5 million decrease in cash generated from stock option exercises. In addition, there was a \$26.0 million increase in payment on our senior notes and revolving line of credit, net of proceeds from revolving line of credit.

### Repurchases of Common Stock

From time to time, we repurchase our common stock in the open market. During fiscal 2014, 2013 and 2012, we expended \$214.9 million, \$84.9 million and \$184.3 million, respectively, in connection with our repurchase of common stock. In August 2012, 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 August 2012 program, our Board of Directors approved another open-ended stock repurchase program in April 2014 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. The new 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, 2014, we had \$250.0 million remaining under this authorization.

### Dividends

We paid quarterly dividends of two cents per share during each of fiscal 2014, 2013 and 2012. Our dividend rate is set by the Board of Directors on a quarterly basis taking into account a variety of factors, including among others, our operating results and cash flows, general economic and industry conditions, our obligations, changes in applicable tax laws and other factors deemed relevant by the Board. Although we expect to continue to pay dividends at the current rate, our dividend rate is subject to change from time to time based on the Board's business judgment with respect to these and other relevant factors.

### Revolving Line of Credit

We have a \$200 million unsecured revolving line of credit with a syndicate of banks that expires on September 28, 2016. Proceeds from the credit facility can be used for working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions, and the repurchase of the Company's common stock. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greater of (a) the prime rate and (b) the Federal Funds rate plus 0.50% or (ii) LIBOR plus an applicable margin. The margin on LIBOR borrowings ranges from 1.000% to 1.625% and is determined based on our consolidated leverage ratio. In addition, we must pay utilization fees if borrowings and commitments under the credit facility exceed 50% of the total credit facility commitment, as well as facility fees. The credit facility contains certain restrictive covenants including maintaining a maximum consolidated leverage ratio of 3.0 and a minimum fixed charge ratio of 2.5, and also contains other covenants typical of unsecured facilities. As of September 30, 2014, we had \$99.0 million in borrowings outstanding at a weighted average interest rate of 1.285% 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 5 to 10 years. The remaining 2008 Senior Notes' weighted average interest rate is 7.0% and the weighted average maturity is 9.0 years. 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 6 to 10 years. The 2010 Senior Notes' weighted average interest rate is 5.2% and the weighted average maturity is 8.0 years. 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, 2014 we were in compliance with all financial covenants under these purchase agreements.

Table of Contents

## Contractual Obligations

The following table presents a summary of our contractual obligations at September 30, 2014:

	Year Ended September 30,					Thereafter	Total
	2015	2016	2017	2018	2019		
	(In thousands)						
Senior Notes (1)	\$71,000	\$60,000	\$72,000	\$131,000	\$28,000	\$85,000	\$447,000
Interest due on debt obligations (2)	26,873	22,136	19,303	15,675	6,269	4,752	95,008
Operating lease obligations	21,666	18,544	15,158	13,427	11,702	11,097	91,594
Unrecognized tax benefits (3)	—	—	—	—	—	—	4,554
Total commitments	\$119,539	\$100,680	\$106,461	\$160,102	\$45,971	\$100,849	\$638,156

(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. 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

## Table of Contents

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.

### 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 the Company’s fees is probable. We do not view the activities of signing the contract or

## Table of Contents

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.

### 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.

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

41

---

Table of Contents

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.

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.

#### Valuation of Goodwill and Other Intangible Assets — Impairment Assessment

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

The determination of the value of these components of a business combination, as well as associated asset useful lives, requires management to make various estimates and assumptions. Critical estimates in valuing certain of the intangible assets include but are not limited to: future expected cash flows from product sales and services, maintenance agreements, consulting contracts, customer contracts, and acquired developed technologies and patents or trademarks; the acquired company's brand awareness and market position, as well as assumptions about the period of time the acquired products and services will continue to be used in our product portfolio; and discount rates. Management's estimates of fair value and useful lives are based upon assumptions believed to be reasonable. Estimates using different assumptions, or unanticipated events and circumstances could produce significantly different results. We assess potential impairments of our intangible assets when there is evidence that events and circumstances related to our financial performance and economic environment indicate the carrying amount of the assets may not be recoverable. When impairment indicators are identified with respect to our previously recorded intangible assets with finite useful lives, we test for impairment using undiscounted cash flows. If such tests indicate impairment, then we measure and record the impairment as the difference between the carrying value of the asset and the fair value of the asset. Significant management judgment is required in forecasting future operating results used in the preparation of the projected cash flows. Should different conditions prevail, material write downs of net intangible assets could occur. We periodically review the estimated remaining useful lives of our acquired intangible assets. A reduction in our estimate of remaining useful lives, if any, could result in increased annual amortization expense in future periods. We test goodwill for impairment at the reporting unit levels, which we have determined are the same as our reportable segments, at least annually during the fourth quarter of each fiscal year. The timing and frequency of our goodwill impairment test is based on an ongoing assessment of events and circumstances that would be an indicator of potential impairment of a reporting unit, with the fair value below its carrying value. The first step of the goodwill impairment test is a comparison of the fair value of a reporting unit to its carrying value. We estimate the fair values of our reporting units using a weighted combination of discounted cash flow valuation model (known as the income approach) and a comparison of our reporting units to guideline publicly-traded companies (known as the market approach). These methods require estimates of our future revenues, profits, capital expenditures, working capital, costs of capital and other relevant factors, as well as selecting appropriate guideline publicly-traded companies for each reporting unit. We evaluate historical trends, current budgets, operating plans, industry data, and other relevant factors when estimating these amounts. 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.

The key assumptions that require significant management judgment for the income approach include revenue growth rates and weighted average cost of capital. In our analysis, revenue growth rates were primarily based on third-party studies of industry growth rates for each of our reporting units. Within each reporting unit, management refined these estimates based on their knowledge of the product, the needs of our customers and expected market opportunity. The weighted average cost of capital was determined based on publicly available data such as the long-term yield on U.S. treasury bonds, the expected rate of return on high quality bonds and the returns and betas of various equity instruments. As it relates to the market approach, there

## Table of Contents

is less management judgment in determining the fair value of our reporting units other than selecting which guideline publicly-traded companies are included in our peer group.

In the fourth quarter of fiscal 2014 we performed our annual goodwill impairment test. In step one of that test we compared the estimated fair value of each reporting unit to its carrying value. The estimated fair value of each of our reporting units substantially exceeded its respective carrying value in fiscal 2014, indicating the underlying goodwill of each reporting unit was not impaired as of our most recent testing date. Accordingly, we were not required to complete the second step of the goodwill impairment test and recorded no goodwill impairment charges for the twelve months ended September 30, 2014.

As discussed above, estimates of fair value for all of our reporting units can be affected by a variety of external and internal factors. We believe that the assumptions and estimates utilized were appropriate based on the information available to management. The timing and recognition of impairment losses by us in the future, if any, may be highly dependent upon our estimates and assumptions.

### Share-Based Compensation

We 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). See Note 14 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 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.

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.

Table of Contents

## New Accounting Pronouncements Recently Issued or Adopted

In July 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (“ASU 2013-11”). ASU 2013-11 provides guidance for presentation of an unrecognized tax benefit, or a portion of an unrecognized tax benefit. ASU 2013-11 provides that a benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2013, which means it will be effective for our fiscal year beginning October 1, 2014. We do not believe that adoption of ASU 2013-11 will have a significant impact on our consolidated financial statements.

In May 2014, the 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. Early adoption is not permitted. ASU 2014-09 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2016, which means it will be effective for our fiscal year beginning October 1, 2017. 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.

## 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, 2014 and 2013:

	September 30, 2014			September 30, 2013			
	Cost Basis	Carrying Amount	Average Yield	Cost Basis	Carrying Amount	Average Yield	
	(Dollars in thousands)						
Cash and cash equivalents	\$ 105,075	\$ 105,075	0.03	% \$ 83,178	\$ 83,178	0.00	%

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, 2014 and 2013:

44

---

Table of Contents

	September 30, 2014			September 30, 2013		
	Principal	Carrying Amounts	Fair Value	Principal	Carrying Amounts	Fair Value
	(In thousands)			(In thousands)		
The 2008 Senior Notes	\$202,000	\$202,000	\$214,170	\$210,000	\$210,000	\$221,393
The 2010 Senior Notes	\$245,000	\$245,000	\$248,557	\$245,000	\$245,000	\$241,035

We have interest rate risk with respect to our five-year \$200 million unsecured revolving line of credit. Interest on amounts borrowed under the line of credit is based on (i) a base rate, which is the greater of (a) the prime rate and (b) the Federal Funds rate plus 0.50% or (ii) LIBOR plus an applicable margin. The margin on LIBOR borrowings ranges from 1.000% to 1.625% and is determined based on our consolidated leverage ratio. A change in interest rates on this variable rate debt impacts the interest incurred and cash flows, but does not impact the fair value of the instrument. We had \$99.0 million in borrowings outstanding at a weighted average interest of 1.285% under the credit facility as of September 30, 2014.

**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, 2014 and 2013:

	September 30, 2014		
	Contract Amount		Fair Value
	Foreign Currency	US\$	US\$
	(In thousands)		
Sell foreign currency:			
Canadian dollar (CAD)	CAD3,300	\$2,960	\$—
Euro (EUR)	EUR 3,800	\$4,790	—
Buy foreign currency:			
British pound (GBP)	GBP 6,795	\$11,000	—
	September 30, 2013		
	Contract Amount		Fair Value
	Foreign Currency	US\$	US\$
	(In thousands)		
Sell foreign currency:			
Canadian dollar (CAD)	CAD4,700	\$4,542	\$—
Euro (EUR)	EUR 5,400	\$7,307	—
Buy foreign currency:			
British pound (GBP)	GBP 6,513	\$10,500	—

The foreign currency forward contracts were entered into on September 30 of each fiscal year; therefore, the fair value was \$0 on September 30, 2014 and 2013.

45

---

Table of Contents

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, 2014 and 2013, and the related consolidated statements of income and comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended September 30, 2014. We also have audited the Company’s internal control over financial reporting as of September 30, 2014 based on the criteria established in Internal Control - Integrated Framework (1992) 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 as of September 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2014, 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, 2014, based on the criteria

established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP  
San Diego, CA  
November 10, 2014

46

---

Table of ContentsFAIR ISAAC CORPORATION  
CONSOLIDATED BALANCE SHEETS

	September 30,	
	2014	2013
	(In thousands, except par value data)	
Assets		
Current assets:		
Cash and cash equivalents	\$105,075	\$83,178
Accounts receivable, net	155,295	143,733
Prepaid expenses and other current assets	28,157	22,277
Total current assets	288,527	249,188
Marketable securities available for sale, less current portion	8,751	7,107
Other investments	11,033	11,033
Property and equipment, net	36,677	45,155
Goodwill	779,928	773,931
Intangible assets, net	47,914	57,361
Deferred income taxes	13,061	11,132
Other assets	6,407	6,640
Total assets	\$1,192,298	\$1,161,547
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$22,000	\$19,216
Accrued compensation and employee benefits	56,650	39,281
Other accrued liabilities	36,235	35,202
Deferred revenue	56,519	49,181
Current maturities on debt	170,000	23,000
Total current liabilities	341,404	165,880
Senior notes	376,000	447,000
Other liabilities	20,280	17,990
Total liabilities	737,684	630,870
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 32,047 and 34,786 shares outstanding at September 30, 2014 and September 30, 2013, respectively]	320	348
Paid-in-capital	1,129,317	1,110,198
Treasury stock, at cost [56,810 and 54,071 shares at September 30, 2014 and September 30, 2013, respectively]	(1,936,095)	(1,751,057)
Retained earnings	1,284,261	1,192,096
Accumulated other comprehensive loss	(23,189)	(20,908)
Total stockholders' equity	454,614	530,677
Total liabilities and stockholders' equity	\$1,192,298	\$1,161,547
See accompanying notes to consolidated financial statements.		



Table of ContentsFAIR ISAAC CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Year Ended September 30,		
	2014	2013	2012
	(In thousands, except per share data)		
Revenues:			
Transactional and maintenance	\$527,563	\$514,304	\$466,175
Professional services	149,834	135,194	124,971
License	111,588	93,946	85,277
Total revenues	788,985	743,444	676,423
Operating expenses:			
Cost of revenues (1)	249,281	229,468	197,947
Research and development	83,435	66,967	59,527
Selling, general and administrative (1)	278,203	268,395	238,522
Amortization of intangible assets (1)	11,917	13,535	6,944
Restructuring and acquisition-related	4,281	3,486	5,125
Total operating expenses	627,117	581,851	508,065
Operating income	161,868	161,593	168,358
Interest expense, net	(28,550)	) (30,227	) (31,417
Other income (expense), net	(187)	) 618	) (698
Income before income taxes	133,131	131,984	136,243
Provision for income taxes	38,252	41,889	44,239
Net income	94,879	90,095	92,004
Other comprehensive income (loss):			
Unrealized losses on investments, net of tax benefit of \$3 for the years ended September 30, 2012	—	—	(4
Foreign currency translation adjustments	(2,281	) (5,100	) 5,905
Comprehensive income	\$92,598	\$84,995	\$97,905
Basic earnings per share	\$2.80	\$2.55	\$2.64
Shares used in computing basic earnings per share	33,870	35,332	34,909
Diluted earnings per share	\$2.72	\$2.48	\$2.55
Shares used in computing diluted earnings per share	34,864	36,292	36,063

(1) Cost of revenues and selling, general and administrative expenses exclude the amortization of intangible assets.  
 (1) See Note 7 to the consolidated financial statements.  
 See accompanying notes to consolidated financial statements.

Table of Contents

FAIR ISAAC CORPORATION  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
Years Ended September 30, 2014, 2013 and 2012  
(In thousands, except per share data)

	Common Stock					Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Par Value	Paid-in- Capital	Treasury Stock	Retained Earnings		
Balance at September 30, 2011	37,084	\$371	\$1,098,388	\$(1,627,180)	\$1,015,624	\$ (21,709 )	\$ 465,494
Share-based compensation	—	—	21,229	—	—	—	21,229
Issuance of treasury stock under employee stock plans	2,942	29	(22,085 )	92,849	—	—	70,793
Tax effect from share-based payment arrangements	—	—	6,079	—	—	—	6,079
Repurchases of common stock	(5,187 )	(52 )	—	(184,239 )	—	—	(184,291 )
Dividends paid	—	—	—	—	(2,803 )	—	(2,803 )
Net income	—	—	—	—	92,004	—	92,004
Unrealized losses on investments, net of tax benefit of \$3	—	—	—	—	—	(4 )	(4 )
Foreign currency translation adjustments	—	—	—	—	—	5,905	5,905
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	—	—	—	—	—	(5,100 )	(5,100 )
Balance at September 30, 2013	34,786	348	1,110,198	(1,751,057 )	1,192,096	(20,908 )	530,677
Share-based compensation	—	—	36,362	—	—	—	36,362
Issuance of treasury stock under employee stock plans	911	9	(23,278 )	29,823	—	—	6,554
Tax effect from share-based payment arrangements	—	—	6,035	—	—	—	6,035
Repurchases of common stock	(3,650 )	(37 )	—	(214,861 )	—	—	(214,898 )
Dividends paid	—	—	—	—	(2,714 )	—	(2,714 )
Net income	—	—	—	—	94,879	—	94,879

Edgar Filing: FAIR ISAAC CORP - Form 10-K

Foreign currency translation adjustments	—	—	—	—	—	(2,281 )	(2,281 )
Balance at September 30, 2014	32,047	\$320	\$1,129,317	\$(1,936,095)	\$1,284,261	\$ (23,189 )	\$ 454,614

See accompanying notes to consolidated financial statements.

Table of ContentsFAIR ISAAC CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 30,		
	2014	2013	2012
	(In thousands)		
Cash flows from operating activities:			
Net income	\$94,879	\$90,095	\$92,004
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	32,632	33,214	21,549
Share-based compensation	36,362	25,850	21,229
Deferred income taxes	(16,026)	) 3,671	(7,121)
Tax effect from share-based payment arrangements	6,035	2,887	6,079
Excess tax benefits from share-based payment arrangements	(6,808)	) (6,362)	) (8,079)
Net amortization of premium on marketable securities	—	8	221
Provision of (benefit from) doubtful accounts	1,485	327	(122)
Net (gain) loss on sales of property and equipment	(10)	) 351	63
Changes in operating assets and liabilities:			
Accounts receivable	(13,649)	) 1,286	(26,490)
Prepaid expenses and other assets	(1,754)	) (822)	) 802
Accounts payable	3,174	(590)	) 6,810
Accrued compensation and employee benefits	17,450	(11,729)	) 11,314
Other liabilities	15,566	1,823	1,455
Deferred revenue	5,698	(3,889)	) 10,032
Net cash provided by operating activities	175,034	136,120	129,746
Cash flows from investing activities:			
Purchases of property and equipment	(12,590)	) (24,147)	) (25,483)
Purchases of marketable securities	—	—	(48,067)
Proceeds from maturities of marketable securities	—	22,000	131,659
Cash paid for acquisitions, net of cash acquired	(7,253)	) (32,874)	) (123,631)
Distribution from (purchase of) cost method investees	—	50	(148)
Net cash used in investing activities	(19,843)	) (34,971)	) (65,670)
Cash flows from financing activities:			
Proceeds from revolving line of credit	145,000	30,000	—
Payments on revolving line of credit and other short-term loans	(61,000)	) (18,676)	) (5,466)
Payments on senior notes	(8,000)	) (49,000)	) (8,000)
Proceeds from issuance of treasury stock under employee stock plans	6,554	30,256	70,793
Dividends paid	(2,714)	) (2,824)	) (2,803)
Repurchases of common stock	(217,039)	) (82,752)	) (191,056)
Excess tax benefits from share-based payment arrangements	6,808	6,362	8,079
Net cash used in financing activities	(130,391)	) (86,634)	) (128,453)
Effect of exchange rate changes on cash	(2,903)	) (2,946)	) 234
Increase (decrease) in cash and cash equivalents	21,897	11,569	(64,143)
Cash and cash equivalents, beginning of year	83,178	71,609	135,752
Cash and cash equivalents, end of year	\$105,075	\$83,178	\$71,609
Supplemental disclosures of cash flow information:			
Cash paid for income taxes, net of refunds of \$3,424, \$2,471 and \$584 during the years ended September 30, 2014, 2013 and 2012, respectively	\$22,367	\$24,141	\$36,852

Edgar Filing: FAIR ISAAC CORP - Form 10-K

Cash paid for interest	\$28,209	\$31,011	\$31,421
Supplemental disclosures of non-cash investing and financing activities:			
Unsettled repurchases of common stock	\$—	\$2,141	\$—
Purchase of property and equipment included in accounts payable	\$363	\$681	\$641
See accompanying notes to consolidated financial statements.			

50

---

Table of Contents

FAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

1. Nature of Business and Summary of Significant Accounting Policies

Fair Isaac Corporation

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

In these consolidated financial statements, FICO is referred to as “we,” “us,” “our,” or “the Company.”

Principles of Consolidation and Basis of Presentation

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

Use of Estimates

We make estimates and assumptions that affect the amounts reported in the financial statements and the disclosures made in the accompanying notes. For example, we use estimates in determining the collectibility of accounts receivable; the appropriate levels of various accruals; labor hours in connection with fixed-fee service contracts; the amount of our tax provision and the realizability of deferred tax assets. We also use estimates in determining the remaining economic lives and carrying values of acquired intangible assets, property and equipment, and other long-lived assets. In addition, we use assumptions to estimate the fair value of reporting units and share-based compensation. Actual results may differ from our estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and investments with an original maturity of 90 days or less at time of purchase.

Fair Value of Financial Instruments

The fair value of certain of our financial instruments, including cash and cash equivalents, receivables, other current assets, accounts payable, accrued compensation and employee benefits, other accrued liabilities and amounts outstanding under our revolving line of credit, approximate their carrying amounts because of the short-term maturity of these instruments. The fair values of our cash and cash equivalents and marketable security investments are disclosed in Note 4. The fair value of our derivative instruments is disclosed in Note 5. The fair value of our Senior Notes is disclosed in Note 10.

Investments

Management determines the appropriate classification of our investments in marketable debt and equity securities at the time of purchase, and re-evaluates this designation at each balance sheet date. While it is our intent to hold debt securities to maturity, our investments in U.S. government obligations and marketable equity and debt securities that have readily determinable fair values are classified as available-for-sale, as the sale of such securities may be required prior to maturity to implement management strategies. Therefore, such securities are carried at fair value with unrealized gains or losses related to these securities included in accumulated other comprehensive income (loss). The fair value of marketable securities is based upon inputs including quoted prices for identical or similar assets. Realized gains and losses are included in other income (expense), net on the consolidated statements of income and comprehensive income. The cost of investments sold is based on the specific identification method. Losses resulting from other than temporary declines in fair value are charged to operations. Investments with remaining maturities over one year are classified as long-term investments.

Our investments in equity securities of companies over which we do not have significant influence are accounted for under the cost method. The investment is originally recorded at cost and adjusted for additional contributions or distributions. Management periodically reviews cost-method investments for instances where fair value is less than the carrying amount and the decline in value is determined to be other than temporary. If the decline in value is judged to be other than temporary, the carrying amount of the security is written down to fair value and the resulting loss is

charged to operations. We currently do not have investments in which we own 20% to 50% and exercise significant influence over operating and financial policies, therefore we do not account for any investment under the equity method.

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012**Concentration of Risk**

Financial instruments that potentially expose us to concentrations of risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable, which are generally not collateralized. Our policy is to place our cash, cash equivalents, and marketable securities with high quality financial institutions, commercial corporations and government agencies in order to limit the amount of credit exposure. We have established guidelines relative to diversification and maturities for maintaining safety and liquidity. We generally do not require collateral from our customers, but our credit extension and collection policies include analyzing the financial condition of potential customers, establishing credit limits, monitoring payments, and aggressively pursuing delinquent accounts. We maintain allowances for potential credit losses.

A significant portion of our revenues are derived from the sales of products and services to the consumer credit and banking industries.

**Property and Equipment**

Property and equipment are recorded at cost less accumulated depreciation and amortization. Major renewals and improvements are capitalized, while repair and maintenance costs are expensed as incurred. Depreciation and amortization charges are calculated using the straight-line method over the following estimated useful lives:

	Estimated Useful Life
Data processing equipment and software	3 years
Office furniture and equipment	3 to 7 years
Leasehold improvements	Shorter of estimated useful life or lease term

The cost and accumulated depreciation for property and equipment sold, retired or otherwise disposed of are removed from the applicable accounts and resulting gains or losses are recorded in our consolidated statements of income and comprehensive income. Depreciation and amortization on property and equipment totaled \$20.7 million, \$19.7 million and \$14.6 million during fiscal 2014, 2013 and 2012, respectively.

**Internal-use Software**

Costs incurred to develop internal-use software during the application development stage are capitalized and reported at cost. Application development stage costs generally include costs associated with internal-use software configuration, coding, installation and testing. Costs of significant upgrades and enhancements that result in additional functionality are also capitalized whereas costs incurred for maintenance and minor upgrades and enhancements are expensed as incurred. Capitalized costs are amortized using the straight-line method over two to three years. Software development costs required to be capitalized for internal-use software have not been material to date.

**Capitalized Software and Research and Development Costs**

Software development costs relating to products to be sold in the normal course of business are expensed as incurred as research and development costs until technological feasibility is established. Technological feasibility for our products occurs approximately concurrently with the general release of our products; accordingly, we have not capitalized any development or production costs. Costs we incur to maintain and support our existing products after the general release of the product are expensed in the period they are incurred and included in research and development costs in our consolidated statements of income and comprehensive income.

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

## Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in connection with our business combinations. We test goodwill for impairment at the reporting unit level at least annually during the fourth quarter of each fiscal year and more frequently if impairment indicators are identified. We have determined that our reporting units are the same as our reportable segments. The first step of the goodwill impairment test is a comparison of the fair value of a reporting unit to its carrying value. We estimate the fair values of our reporting units using discounted cash flow valuation models and by comparing our reporting units to guideline publicly-traded companies. These methods require estimates of our future revenues, profits, capital expenditures, working capital, and other relevant factors, as well as selecting appropriate guideline publicly-traded companies for each reporting unit. We estimate these amounts by evaluating historical trends, current budgets, operating plans, industry data, and other relevant factors. We performed our annual goodwill impairment tests as of July 1, 2014 and 2013, and determined our goodwill was not impaired.

Finite-lived intangible assets are tested for impairment if impairment indicators arise. We amortize our finite-lived intangible assets which result from our acquisitions over the following estimated useful lives:

	Estimated Useful Life
Completed technology	4 to 10 years
Customer contracts and relationships	5 to 15 years
Trade names	1 to 5 years
Revenue Recognition	
Software Licenses	

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

We use the residual method to recognize revenue when a software arrangement includes one or more elements to be delivered at a future date 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

Table of Contents

FAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

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 material 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 material 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.

**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 the Company’s fees is probable. We do not view the activities of signing the contract or providing initial setup services as discrete earnings events. Revenue is typically deferred until the date the customer commences use of our services, at which point the up-front fees are recognized ratably over the 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

Table of Contents

FAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

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.

**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.

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. 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.

Table of Contents

FAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

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 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.

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.

Earnings per Share

Basic earnings per share are computed on the basis of the weighted-average number of common shares outstanding during the period under measurement. Diluted earnings per share are based on the weighted-average number of common shares outstanding and potential common shares. Potential common shares result from the assumed exercise of outstanding stock options or other potentially dilutive equity instruments, when they are dilutive under the treasury stock method.

Comprehensive Income

Comprehensive income is the change in our equity (net assets) during each period from transactions and other events and circumstances from non-owner sources. It includes net income, foreign currency translation adjustments and unrealized gains and losses on our investments in marketable securities, net of tax.

Foreign Currency and Derivative Financial Instruments

We have determined that the functional currency of each foreign operation is the local currency. Assets and liabilities denominated in their local foreign currencies are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at average rates of exchange prevailing during the period. Foreign currency translation adjustments are accumulated as a separate component of consolidated stockholders' equity.

We utilize derivative instruments to manage market risks associated with fluctuations in certain foreign currency exchange rates as they relate to specific balances of accounts receivable and cash denominated in foreign currencies. We principally utilize foreign currency forward contracts to protect against market risks arising in the normal course of business. Our policies prohibit the use of derivative instruments for the sole purpose of trading for profit on price fluctuations or to enter into contracts that intentionally increase our underlying exposure. All of our foreign currency forward contracts have maturity periods of less than three months.

At the end of the reporting period, foreign-currency-denominated assets and liabilities are remeasured into the functional currencies of the reporting entities at current market rates. The change in value from this remeasurement is reported as a foreign

Table of Contents

FAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

exchange gain or loss for that period in other income (expense), net in the accompanying consolidated statements of income and comprehensive income.

We recorded transactional foreign exchange losses of \$1.0 million, \$0.8 million and \$1.5 million during fiscal 2014, 2013 and 2012, respectively.

**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). See Note 14 for further discussion of our share-based employee benefit plans.

**Impairment of Long-Lived Assets**

We assess potential impairment of long-lived assets and certain identifiable intangible assets with finite lives whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted net cash flows that are expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. We determined that our long-lived assets were not impaired at September 30, 2014 and 2013.

**Advertising and Promotion Costs**

Advertising and promotion costs are expensed as incurred and are included in selling, general and administrative expenses in the accompanying consolidated statements of income and comprehensive income. Advertising and promotion costs totaled \$3.8 million, \$2.5 million and \$1.8 million in fiscal 2014, 2013 and 2012, respectively.

**New Accounting Pronouncements Recently Issued or Adopted**

In July 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). ASU 2013-11 provides guidance for presentation of an unrecognized tax benefit, or a portion of an unrecognized tax benefit. ASU 2013-11 provides that a benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2013, which means it will be effective for our fiscal year beginning October 1, 2014. We do not believe that adoption of ASU 2013-11 will have a significant impact on our consolidated financial statements.

In May 2014, the 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. Early adoption is not permitted. ASU 2014-09 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2016, which means it will be effective for our fiscal year beginning October 1, 2017. 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.

## 2. Business Combinations

On April 1, 2014, we acquired 100% of the common stock of InfoCentricity, Inc. (“InfoCentricity”) for \$8.2 million in cash. InfoCentricity is a SaaS-based predictive analytics software company that allows FICO to immediately broaden its offering for predictive analytics modeling and decision strategies. The primary objective of the acquisition was to leverage the InfoCentricity products through availability to the FICO® Analytic Cloud as well as an on premise offering for organizations across all industries. InfoCentricity has been included in our operating results since the acquisition date. The pro forma impact of this acquisition was not deemed material to our results of operations.

Table of Contents

FAIR ISAAC CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended September 30, 2014, 2013 and 2012

In fiscal 2013, we acquired 100% of the ownership interest of CR Software, LLC (“CR Software”) for \$29.6 million in cash. We recorded \$16.5 million of intangible assets, which are being amortized using the straight-line method over a weighted average useful life of approximately 8.8 years. The goodwill of \$13.7 million was allocated to our Applications segment and was not deductible for tax purposes. We also acquired 100% of the common stock of Infoglide Software, Inc. (“Infoglide”) for \$4.4 million in cash.

In fiscal 2012, we acquired 100% of the common stock of Adepra Ltd. (“Adepra”) for \$113.0 million in cash. We recorded \$36.7 million of intangible assets, which are being amortized using the straight-line method over a weighted average useful life of approximately 6.6 years. The goodwill of \$72.2 million was allocated to our Applications segment and was not deductible for tax purposes. We also acquired 100% of the common stock of Entiera, Inc. (“Entiera”) for \$18.4 million in cash. We recorded \$2.5 million of intangible assets, which are being amortized using the straight-line method over a weighted average useful life of approximately 4.1 years. The goodwill of \$15.0 million was allocated to our Applications segment and was not deductible for tax purposes.

### 3. Cash, Cash Equivalents and Marketable Securities Available for Sale

The following is a summary of cash, cash equivalents and marketable securities available for sale at September 30, 2014 and 2013:

	September 30, 2014			September 30, 2013		
	Amortized Cost	Gross Unrealized Gains	Fair Value	Amortized Cost	Gross Unrealized Gains	Fair Value
	(In thousands)					
Cash and Cash Equivalents:						
Cash	\$94,749	\$—	\$94,749	\$82,493	\$—	\$82,493
Money market funds	439	—	439	439	—	439
Non-U.S. money market funds	9,887	—	9,887	246	—	246
Total	\$105,075	\$—	\$105,075	\$83,178	\$—	\$83,178
Long-term Marketable Securities:						
Marketable equity securities	\$7,220	\$1,531	\$8,751	\$6,006	\$1,101	\$7,107

The long-term marketable equity securities represent securities held under a supplemental retirement and savings plan for senior management employees, which are distributed upon termination or retirement of the employees.

### 4. Fair Value Measurements

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

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

Level 2 — uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as

interest rates and volatility, can be corroborated by readily observable market data. We do not have any assets that are valued using inputs identified under a Level 2 hierarchy as of September 30, 2014 and 2013.

Level 3 — uses one or more significant inputs that are unobservable and supported by little or no market activity, and that reflect the use of significant management judgment. Level 3 assets and liabilities include

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, and significant management judgment or estimation. We do not have any assets or liabilities that are valued using inputs identified under a Level 3 hierarchy as of September 30, 2014 and 2013.

The following table represents financial assets that we measured at fair value on a recurring basis at September 30, 2014 and 2013:

September 30, 2014	Active Markets for Identical Instruments (Level 1)	Fair Value as of September 30, 2014
Assets:		
Cash equivalents (1)	\$ 10,326	\$10,326
Marketable securities (2)	8,751	8,751
Total	\$ 19,077	\$19,077
September 30, 2013	Active Markets for Identical Instruments (Level 1)	Fair Value as of September 30, 2013
Assets:		
Cash equivalents (1)	\$ 685	\$685
Marketable securities (2)	7,107	7,107
Total	\$ 7,792	\$7,792

(1) Included in cash and cash equivalents on our balance sheet at September 30, 2014 and 2013. Not included in this table are cash deposits of \$94.7 million and \$82.5 million at September 30, 2014 and 2013, respectively.

Represents securities held under a supplemental retirement and savings plan for certain officers and senior (2) management employees, which are distributed upon termination or retirement of the employees. Included in long-term marketable securities on our balance sheet at September 30, 2014 and 2013.

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

For the fair value of our derivative instruments and senior notes, see Note 5 and Note 10 to the consolidated financial statements, respectively.

#### 5. Derivative Financial Instruments

We use derivative instruments to manage risks caused by fluctuations in foreign exchange rates. The primary objective of our derivative instruments is to protect the value of foreign-currency-denominated 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

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

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, 2014 and 2013:

	September 30, 2014			Fair Value US\$
	Contract Amount		US\$	
	Foreign 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	—

	September 30, 2013			Fair Value US\$
	Contract Amount		US\$	
	Foreign Currency	(In thousands)		
Sell foreign currency:				
Canadian dollar (CAD)	CAD	4,700	\$4,542	\$—
Euro (EUR)	EUR	5,400	\$7,307	—
Buy foreign currency:				
British pound (GBP)	GBP	6,513	\$10,500	—

The foreign currency forward contracts were entered into on September 30 of each fiscal year; therefore, their fair value was \$0 at September 30, 2014 and 2013.

Gains on derivative financial instruments are recorded in our consolidated statements of income and comprehensive income as a component of other income (expense), net. These amounts are shown below for the years ended September 30, 2014, 2013 and 2012:

	Year Ended September 30,		
	2014	2013	2012
	(In thousands)		
Gain on foreign currency forward contracts	\$256	\$25	\$453

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

## 6. Receivables

Receivables at September 30, 2014 and 2013 consisted of the following:

	September 30,	
	2014	2013
	(In thousands)	
Billed	\$123,083	\$115,640
Unbilled (1)	35,139	31,250
	158,222	146,890
Less: allowance for doubtful accounts	(2,927)	(3,157)
Receivables, net	\$155,295	\$143,733

Represents revenue recorded in excess of amounts billable pursuant to contract provisions and generally become (1) billable at contractually specified dates or upon the attainment of milestones. Unbilled amounts are expected to be realized within one year.

Activity in the allowance for doubtful accounts was as follows:

	Year Ended September 30,	
	2014	2013
	(In thousands)	
Balance, beginning of year	\$3,157	\$3,406
Add: expense	1,485	327
Less: write-offs (net of recoveries)	(1,715)	(576)
Balance, end of year	\$2,927	\$3,157

## 7. Goodwill and Intangible Assets

Intangible assets that are subject to amortization consisted of the following at September 30, 2014 and 2013:

	September 30, 2014				September 30, 2013			
	(In thousands, except average life)							
	Gross Carrying Amount	Accumulated Amortization	Net	Average Life	Gross Carrying Amount	Accumulated Amortization	Net	Average Life
Completed technology	\$86,397	\$ (60,933 )	\$25,464	5	\$84,604	\$ (53,347 )	\$31,257	5
Customer contracts and relationships	54,990	(33,068 )	21,922	13	56,321	(30,422 )	25,899	13
Trade names	—	—	—		230	(182 )	48	1
	\$141,387	\$ (94,001 )	47,386	8	\$141,155	\$ (83,951 )	57,204	8
Foreign currency translation adjustments			528				157	
			\$47,914				\$57,361	

Intangible  
assets, net

Amortization expense associated with our intangible assets, which has been reflected as a separate operating expense caption within the accompanying consolidated statements of income and comprehensive income, consisted of the following during fiscal 2014, 2013 and 2012:

61

---

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

	Year Ended September 30,		
	2014	2013	2012
	(In thousands)		
Cost of revenues	\$7,371	\$6,630	\$1,332
Selling, general and administrative expenses	4,546	6,905	5,612
Total	\$11,917	\$13,535	\$6,944

In the table above, cost of revenues reflects our amortization of completed technology, and selling, general and administrative expenses reflect our amortization of other intangible assets.

Estimated future intangible asset amortization expense associated with intangible assets existing at September 30, 2014, was as follows (in thousands):

Year Ended September 30,	
2015	\$11,853
2016	11,624
2017	10,485
2018	3,269
2019	2,807
Thereafter	7,876
Total	\$47,914

The following table summarizes changes to goodwill during fiscal 2014 and 2013, both in total and as allocated to our operating segments. We have not recognized any goodwill impairment losses to date.

	Applications (In thousands)	Scores	Tools	Total
Balance at September 30, 2012	\$542,943	\$146,648	\$67,913	\$757,504
Addition from acquisitions	17,457	—	—	17,457
Foreign currency translation adjustment	(862)	) —	(168)	) (1,030)
Balance at September 30, 2013	559,538	146,648	67,745	773,931
Addition from acquisitions	—	—	5,129	5,129
Adjustment related to prior acquisitions	298	—	—	298
Foreign currency translation adjustment	459	—	111	570
Balance at September 30, 2014	\$560,295	\$146,648	\$72,985	\$779,928

## 8. Composition of Certain Financial Statement Captions

The following table presents the composition of property and equipment and other accrued liabilities at September 30, 2014 and 2013:

	September 30,	
	2014	2013
	(In thousands)	
Property and equipment:		
Data processing equipment and software	\$124,699	\$139,035
Office furniture and equipment	14,346	11,670
Leasehold improvements	25,503	24,117

Less: accumulated depreciation and amortization	(127,871	) (129,667	)
Total	\$36,677	\$45,155	

## Other accrued liabilities:

Interest payable	\$8,392	\$8,519
Other	27,843	26,683
Total	\$36,235	\$35,202

## 9. Revolving Line of Credit

We have a \$200 million unsecured revolving line of credit with a syndicate of banks that expires on September 28, 2016. Proceeds from the credit facility can be used for working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions, and the repurchase of 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 and (b) the Federal Funds rate plus 0.50% or (ii) LIBOR plus an applicable margin. The margin on LIBOR borrowings ranges from 1.000% to 1.625% and is determined

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

based on our consolidated leverage ratio. In addition, we must pay utilization fees if borrowings and commitments under the credit facility exceed 50% of the total credit facility commitment, as well as facility fees. The credit facility contains certain restrictive covenants including maintaining a maximum consolidated leverage ratio of 3.0 and a minimum fixed charge ratio of 2.5, and also contains other covenants typical of unsecured facilities. As of September 30, 2014, we had \$99.0 million in borrowings outstanding at a weighted average interest rate of 1.285% and were in compliance with all financial covenants under this credit facility.

## 10. Senior Notes

On May 7, 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 as follows:

Series	Amount	Interest Rate	Maturity Date
A	\$41	million 6.37	% May 7, 2013
B	\$40	million 6.37	% May 7, 2015
C	\$63	million 6.71	% May 7, 2015
D	\$131	million 7.18	% May 7, 2018

On July 14, 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 as follows:

Series	Amount	Interest Rate	Maturity Date
E	\$60	million 4.72	% July 14, 2016
F	\$72	million 5.04	% July 14, 2017
G	\$28	million 5.42	% July 14, 2019
H	\$85	million 5.59	% July 14, 2020

We are required to pay the entire unpaid principal balances of each note series on its maturity date except for Series B notes, which required annual principal payments of \$8.0 million starting on May 7, 2011 and ending on May 7, 2015. The Senior Notes require interest payments semi-annually and also include certain restrictive covenants. As of September 30, 2014, we were in compliance with all financial covenants which include the maintenance of consolidated net debt to consolidated EBITDA ratio and a fixed charge coverage ratio. The issuance of the Senior Notes also required us to make certain covenants typical of unsecured facilities.

The following table presents the principal amounts, carrying amounts and fair values for the Senior Notes at September 30, 2014 and 2013:

	September 30, 2014			September 30, 2013		
	Principal	Carrying Amounts	Fair Value	Principal	Carrying Amounts	Fair Value
	(In thousands)			(In thousands)		
The 2008 Senior Notes	\$202,000	\$202,000	\$214,170	\$210,000	\$210,000	\$221,393
The 2010 Senior Notes	\$245,000	\$245,000	\$248,557	\$245,000	\$245,000	\$241,035

We measure the fair value of the Senior Notes based on Level 2 inputs, which include quoted market prices and interest rate spreads of similar securities.

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

Future principal payments for the Senior Notes are as follows (in thousands):

Year Ended September 30,	
2015	\$71,000
2016	60,000
2017	72,000
2018	131,000
2019	28,000
Thereafter	85,000
Total	\$447,000

## 11. Employee Benefit Plans

## Defined Contribution Plans

We sponsor the Fair Isaac Corporation 401(k) plan for eligible employees in the U.S. Under this plan, eligible employees may contribute up to 25% of compensation, not to exceed statutory limits. We also provide a company matching contribution. Investment in FICO common stock is not an option under this plan. Our contributions into all 401(k) plans, including former acquired company sponsored plans that have since merged into the Fair Isaac Corporation 401(k) plan or have been frozen, totaled \$6.3 million, \$6.3 million and \$5.5 million during fiscal 2014, 2013 and 2012, respectively.

## Employee Incentive Plans

We maintain various employee incentive plans for the benefit of eligible employees, including officers. The awards generally are based on the achievement of certain financial and performance objectives subject to the discretion of management. Total expenses under our employee incentive plans were \$25.0 million, \$10.5 million and \$17.4 million during fiscal 2014, 2013 and 2012, respectively.

## 12. Restructuring Expenses

During 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 primarily in the U.S. Cash payments for all the restructuring charges will be paid by the end of the second quarter of our fiscal 2015.

During fiscal 2013, we incurred net charges totaling \$2.5 million consisting of \$1.6 million in facilities charges associated with vacating excess leased space in Minnesota, \$1.1 million in severance charges due to the elimination of 52 positions primarily in the U.S., and a reversal of \$0.2 million of previously recognized severance costs due to favorable adjustments. Cash payments for all the severance costs were paid during fiscal 2013. Cash payments for all the facilities charges were paid by the end of our fiscal 2014.

During fiscal 2012, we incurred \$4.0 million in severance charges due to the elimination of 85 positions mainly within the product and technology organization of the Company. Cash payments for all the severance costs were paid by the end of our fiscal 2013.

The following tables summarize our restructuring accruals associated with the above actions. The current portion and non-current portion was recorded in other accrued current liabilities and other liabilities, respectively, within the accompanying consolidated balance sheets.

Accrual at September 30, 2012 (In thousands)	Expense Additions	Cash Payments	Expense Reversals	Accrual at September 30, 2013
---	----------------------	------------------	----------------------	-------------------------------------

Edgar Filing: FAIR ISAAC CORP - Form 10-K

Facilities charges	\$3,333	\$1,624	\$(3,225	) \$—	\$1,732	
Employee separation	2,471	1,095	(3,313	) (253	) —	
	5,804	\$2,719	\$(6,538	) \$(253	) 1,732	
Less: current portion	(4,944	)			(1,732	)
Non-current	\$860				\$—	

Table of Contents

FAIR ISAAC CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended September 30, 2014, 2013 and 2012

	Accrual at September 30, 2013 (In thousands)	Expense Additions	Cash Payments	Expense Reversals	Accrual at September 30, 2014
Facilities charges	\$1,732	\$167	\$(1,807)	) \$—	\$92
Employee separation	—	3,963	(3,793)	) —	170
	1,732	\$4,130	\$(5,600)	) \$—	262
Less: current portion	(1,732)	)			(262)
Non-current	\$—				\$—

## 13. Income Taxes

The provision for income taxes was as follows during fiscal 2014, 2013 and 2012:

	Year ended September 30,		
	2014	2013	2012
	(In thousands)		
Current:			
Federal	\$42,570	\$31,469	\$42,502
State	4,221	2,755	4,899
Foreign	7,487	3,994	3,959
	54,278	38,218	51,360
Deferred:			
Federal	(15,401)	) (468)	) (6,843)
State	(1,093)	) 2,069	) (925)
Foreign	468	2,070	647
	(16,026)	) 3,671	) (7,121)
Total provision	\$38,252	\$41,889	\$44,239

The foreign provision was based on foreign pretax earnings of \$43.3 million, \$24.3 million and \$26.9 million in fiscal 2014, 2013 and 2012, respectively. Current foreign tax expense related to foreign tax withholdings was \$7.7 million, \$4.8 million and \$6.3 million in fiscal 2014, 2013 and 2012, respectively. Foreign withholding tax and related foreign tax credits are included in federal current tax expense above.

Deferred tax assets and liabilities at September 30, 2014 and 2013 were as follows:

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

	September 30,	
	2014	2013
	(In thousands)	
Deferred tax assets:		
Net operating loss carryforward	\$18,618	\$21,529
Research credit carryforward	5,018	4,074
Accrued Bonus	8,484	3,591
Capital loss carryforward	519	165
Investments	1,059	1,101
Accrued compensation	1,381	1,662
Share-based compensation	20,238	16,443
Deferred revenue	629	2,139
Accrued lease costs	1,007	1,127
Property and equipment	2,837	2,155
Other	4,212	3,502
	64,002	57,488
Less valuation allowance	(12,078	) (8,712
Total deferred tax assets	51,924	48,776
Deferred tax liabilities:		
Intangible assets	(27,391	) (29,912
Prepaid expense	(3,966	) (3,526
Other	(993	) (1,515
Total deferred tax liabilities	(32,350	) (34,953
Deferred tax assets, net	\$19,574	\$13,823

We believe, based upon the level of historical taxable income and projections for future taxable income over the periods deferred tax assets will reverse, that it is more likely than not we will realize the benefits of deferred tax assets, net of the existing valuation allowance, at September 30, 2014. The increase in our valuation allowance for fiscal 2014 was due to the addition of Luxembourg Net Operating Loss ("NOL"), UK Capital Allowances, as well as California Research & Development Credits. The remaining valuation allowance is associated with operations where we have an NOL carryforward where realization remains uncertain.

As of September 30, 2014, we had available U.S. federal, state and foreign NOL carryforwards of approximately \$29.0 million, \$0.3 million, and \$36.3 million, respectively. The NOLs were acquired in connection with our acquisitions of Braun in fiscal 2005, Adeptra and Entiera in fiscal 2012, Infoglide in fiscal 2013 and InfoCentricity in fiscal 2014. The change in NOL during fiscal 2014 was due to utilization of the UK NOL and the inclusion of the Luxembourg entity's NOL. The U.S. federal NOL carryforward will expire at various dates beginning in fiscal 2024, if not utilized. The state NOL carryforward will begin to expire at various dates beginning in fiscal 2021, if not utilized. The UK and Luxembourg NOL carryforwards do not have an expiration date. Utilization of the U.S. federal and state NOL are subject to an annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986, as amended, and similar state provisions. We also have available excess California state research credit of approximately \$5.0 million. The California state research credit does not have an expiration date; however, based on enacted law and expected future cash taxes, we have recorded a valuation allowance of \$5.0 million.



Table of Contents

FAIR ISAAC CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years Ended September 30, 2014, 2013 and 2012

The reconciliation between the U.S. federal statutory income tax rate of 35% and our effective tax rate is shown below for fiscal 2014, 2013 and 2012:

	Year Ended September 30,		
	2014	2013	2012
	(In thousands)		
Income tax provision at U.S. federal statutory rate	\$46,595	\$46,194	\$47,685
State income taxes, net of U.S. federal benefit	2,832	2,689	3,663
Foreign Tax Rate Differential	(4,592)	) (2,855	) (3,616
Intercompany Interest	(1,246	) —	—
Research credits	(302	) (2,412	) (375
Domestic production deduction	(3,141	) (2,168	) (3,054
Federal and State Audit Settlements	(5,886	) —	(1,203
Foreign	(1,654	) —	—
Valuation Allowance	3,888	2,310	—
Intercompany dividend	150	(32	) 2,692
Other	1,608	(1,837	) (1,553
Recorded income tax provision	\$38,252	\$41,889	\$44,239

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 secondly, due to a higher percentage of revenue in lower taxing jurisdictions. The 2013 effective tax rate was positively impacted by the reenactment of the U.S. Federal Research and Development Credit.

In fiscal 2014 and 2013, the foreign taxes consist of tax rate differentials, local country permanent items, and prior years' true ups.

In general, it is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. As of September 30, 2014, the Company has not made a provision for U.S. or additional foreign withholding taxes on approximately \$49.9 million of the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. Generally, such amounts become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. It is not practicable to estimate the amount of deferred tax liability related to investments in these foreign subsidiaries.

#### Unrecognized Tax Benefit for Uncertain Tax Positions

We conduct business globally and, as a result, file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities. With a few exceptions, we are no longer subject to U.S. federal, state, local, or foreign income tax examinations for fiscal years prior to 2012. We are currently under audit by the California Franchise Tax Board for fiscal 2010 and 2011. We do not anticipate any adjustments related to those audits that will result in a material change to our consolidated financial statements.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Year Ended September 30,		
	2014	2013	2012

Edgar Filing: FAIR ISAAC CORP - Form 10-K

	(In thousands)		
Gross unrecognized tax benefits at beginning of year	\$9,009	\$7,501	\$9,539
Gross increases for tax positions in prior years	2,468	508	64
Gross decreases for tax positions in prior years	(967	) —	(2,035 )
Gross increases based on tax positions related to the current year	923	1,000	681
Decreases for settlements and payments	(6,879	) —	(748 )
Gross unrecognized tax benefits at end of year	\$4,554	\$9,009	\$7,501

67

---

Table of Contents

FAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

We had \$4.6 million of total unrecognized tax benefits as of September 30, 2014, including \$3.9 million of tax benefits that, if recognized, would impact the effective tax rate. Although the timing and outcome of audit settlements are uncertain, it is reasonably possible that a \$1.2 million reduction of the uncertain tax benefits will occur in the next 12 months.

We recognize interest expense related to unrecognized tax benefits and penalties as part of the provision for income taxes in our consolidated statements of income and comprehensive income. We recognize interest earned related to income tax matters as interest income in our consolidated statements of income and comprehensive income. As of September 30, 2014, we have accrued interest of \$0.5 million related to the unrecognized tax benefits.

#### 14. Stock-Based Employee Benefit Plans

##### Description of Stock Option and Share Plans

We maintain the 2012 Long-Term Incentive Plan (the "2012 Plan") under which we are authorized to issue equity awards, including stock options, stock appreciation rights, restricted stock awards, stock unit awards and other stock-based awards. All employees, consultants and advisors of FICO or any subsidiary, as well as all non-employee directors are eligible to receive awards under the 2012 Plan. We also have two other long-term incentive plans under which awards are currently outstanding: the 1992 Long-term Incentive Plan, which was adopted in February 1992 and expired in February 2012, and the 2003 Employment Inducement Award Plan, which was adopted in November 2003 and terminated in February 2012. Stock option awards granted after September 30, 2005 have a maximum term of seven years, and stock option awards granted prior to October 1, 2005 had a maximum term of ten years. Stock option awards and restricted stock unit awards not subject to market conditions vest ratably over three or four years. Restricted stock unit awards subject to market conditions vest annually over a period of three years based on achievement of specified criteria. At September 30, 2014, there were 4,124,273 shares available for issuance under the 2012 Plan.

##### Description of Employee Stock Purchase Plan

Under our Employee Stock Purchase Plan ("Purchase Plan"), we are authorized to issue up to 5,062,500 shares of common stock to eligible employees. Employees may have up to 10% of their base salary withheld through payroll deductions to purchase FICO common stock during semi-annual offering periods. The purchase price of the stock is 85% of the fair market value on the exercise date (the last day of each offering period). Offering period means approximately six-month periods commencing (a) on the first trading day on or after January 1 and terminating on the last trading day in the following June, and (b) on the first trading day on or after July 1 and terminating on the last trading day in the following December. The Purchase Plan was suspended effective January 1, 2009 and employees cannot contribute to the Purchase Plan until the suspension is repealed. At September 30, 2014, there were 2,707,966 shares available for issuance.

We satisfy stock option exercises, vesting of restricted stock units and Purchase Plan issuances from treasury shares. Share-Based Compensation Expense and related income tax benefits

We recorded share-based compensation expense of \$36.4 million, \$25.9 million and \$21.2 million in fiscal years 2014, 2013 and 2012, respectively. The total tax benefit related to this share-based compensation expense was \$13.0 million, \$9.2 million and \$7.8 million in fiscal 2014, 2013 and 2012, respectively. As of September 30, 2014, there was \$65.1 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation plans. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. We expect to recognize that cost over a weighted average period of 2.32 years. In fiscal 2014 we received \$18.8 million in cash from stock option exercises, with the tax benefit realized for the tax deductions from these exercises of \$4.7 million.



Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

## Stock-Based Activity

## Stock Options

We estimate the fair value of stock options granted using the Black-Scholes option valuation model and we amortize the fair value on a straight-line basis over the vesting period. We used the following assumptions to estimate the fair value of our stock options during fiscal 2014, 2013 and 2012:

	Year Ended September 30,				
	2014	2013	2012		
Stock Options:					
Average expected term (years)	4.04	4.10	4.31		
Expected volatility (range)	35-36	% 35-37	% 38-41	%	
Weighted average volatility	35	% 37	% 40	%	
Risk-free interest rate (range)	0.8 - 1.2	% 0.5 - 1.1	% 0.5 - 1.5	%	
Average expected dividend yield	0.2	% 0.2	% 0.3	%	
Expected dividend yield (range)	0.2	% 0.2	% 0.2-0.3	%	

Expected Volatility. We estimate the volatility of our common stock at the date of grant based on a combination of the implied volatility of publicly traded options on our common stock and our historical volatility rate.

Expected Term. The expected term represents the period that our stock options are expected to be outstanding. We estimate the expected term based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior.

Dividends. The dividend yield assumption is based on historical dividend payouts.

Risk-Free Interest Rate. The risk-free interest rate assumption is based on observed interest rates appropriate for the term of our employee options.

Forfeitures. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest.

The following table summarizes option activity during fiscal 2014:

	Shares	Weighted- average Exercise Price	Weighted- average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands)		(In years)	(In thousands)
Outstanding at October 1, 2013	2,687	\$35.48		
Granted	58	53.82		
Exercised	(583)	) 33.91		
Forfeited	(68)	) 41.30		
Expired	(5)	) 35.37		
Outstanding at September 30, 2014	2,089	\$36.24	4.31	\$39,436
Options exercisable at September 30, 2014	998	\$33.28	3.85	\$21,787
Vested and expected to vest at September 30, 2014	1,990	\$35.97	4.28	\$38,090

The weighted average fair value of options granted were \$15.50, \$12.53 and \$12.32 during fiscal 2014, 2013 and 2012, respectively. The aggregate intrinsic value of options outstanding at September 30, 2014 was calculated as the difference between the exercise price of the underlying options and the market price of our common stock for the 2.1

million outstanding shares, which had exercise prices lower than the \$55.10 market price of our common stock at September 30, 2014. The total intrinsic value of options exercised was \$13.8 million , \$19.8 million and \$31.2 million during fiscal 2014, 2013 and 2012, respectively, determined as of the date of exercise.

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

## Restricted Stock Units

The fair value of restricted stock units (“RSUs”) granted is the closing market price of our common stock on the date of grant adjusted for the expected dividend yield. We amortize the fair value on a straight-line basis over the vesting period.

The following table summarizes the RSUs activity during fiscal 2014:

	Shares	Weighted-average Grant-date Fair Value
	(In thousands)	
Outstanding at October 1, 2013	1,424	\$38.02
Granted	640	56.23
Released	(480 )	35.56
Forfeited	(144 )	40.54
Outstanding at September 30, 2014	1,440	\$46.68

The weighted average fair value of the RSUs granted were \$56.23, \$42.41 and \$38.13 during fiscal 2014, 2013 and 2012, respectively. The total intrinsic value of the RSUs that vested was \$27.6 million, \$24.1 million and \$15.5 million during fiscal 2014, 2013 and 2012, respectively, determined as of the date of vesting.

## Performance Stock Units

Performance share units (“PSUs”) are granted to our senior officers and earned based on pre-established performance goals approved by the Leadership Development and Compensation Committee of our Board of Directors for any given performance period. The range of payout is zero to 200% of the number of granted PSUs, based on the outcome of the performance conditions. The fair value of the PSUs is the closing market price of our common stock on the date of grant adjusted for the expected dividend yield. We amortize the fair value on a straight-line basis over the vesting period, based on the performance condition that is probable of achievement that would result in the vesting of the most shares. The Company reassesses the probability at each reporting period and recognizes the cumulative effect of the change in estimate in the period of change. As of September 30, 2014, the performance condition of the PSUs granted during fiscal year 2014, as determined by the Leadership Development and Compensation Committee, had been achieved at 200% of target value.

The following table summarizes the PSUs activity during fiscal 2014:

	Shares	Weighted- average Grant-date Fair Value
	(In thousands)	
Outstanding at October 1, 2013	292	\$38.96
Granted	176	56.63
Released	(87 )	38.64
Outstanding at September 30, 2014	381	\$47.19

The weighted average fair value of the PSUs granted were \$56.63, \$41.56 and \$36.66 during fiscal 2014, 2013 and 2012, respectively. The total intrinsic value of the PSUs that vested was \$4.9 million and \$2.6 million during fiscal 2014 and 2013, respectively, determined as of the date of vesting.



Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

## Market Stock Units

In November 2013, the Leadership Development and Compensation Committee of our Board of Directors granted 88,000 market share units (“MSUs”), a new performance based equity award, to our senior officers. The MSUs will be earned based on our total shareholder return relative to the Russell 3000 Index over performance periods of one, two and three years. The MSUs had a grant date fair value of \$68.47 that was estimated using a Monte Carlo valuation model and the following assumptions: expected volatility of 33.9% and 17.3%, respectively, in FICO’s stock price and the Russell 3000 Index; a correlation of 68% between FICO and the Russell 3000 Index; a dividend yield of 0.16% and a risk-free interest of 0.68%. The expected volatility was determined based on daily historical movements in our stock price and the Russell 3000 index for the three years preceding the grant date. The correlation between FICO and the Russell 3000 Index was determined based on historical daily stock price movements for the three years preceding the grant date. The dividend yield was determined using the historical dividend payout and a trailing twelve month closing stock price on the grant date. The risk-free rate was determined based on U.S. Treasury zero-coupon yields over the three-year performance period. We attribute the cost separately for each vesting tranche of the award. In addition, we do not reverse the compensation cost solely because the market condition is not satisfied, and the award is therefore not exercisable or retained by the employee, provided the requisite service is rendered. All 88,000 units were outstanding at September 30, 2014.

## 15. Earnings Per Share

The following table presents reconciliations for the numerators and denominators of basic and diluted earnings per share (“EPS”) during fiscal 2014, 2013 and 2012:

	Year Ended September 30,		
	2014	2013	2012
	(In thousands, except per share data)		
Numerator for basic and diluted earnings per share — net income	\$94,879	\$90,095	\$92,004
Denominator — share:			
Basic weighted-average shares	33,870	35,332	34,909
Effect of dilutive securities	994	960	1,154
Diluted weighted-average shares	34,864	36,292	36,063
Earnings per share:			
Basic	\$2.80	\$2.55	\$2.64
Diluted	\$2.72	\$2.48	\$2.55

The computation of diluted EPS excludes options to purchase approximately 11,000, 111,000, and 1,420,000 shares of common stock for fiscal 2014, 2013 and 2012, respectively, because the options’ exercise prices exceeded the average market price of our common stock in these fiscal years and their inclusion would be antidilutive.

## 16. Related Party Transactions

We have a \$10 million investment in convertible preferred stock of a private company. The company is developing a range of products focused on revenue cycle activities for hospitals and healthcare providers. Related party revenue was immaterial for the years ended September 30, 2014, 2013 and 2012. The accounts receivable balance from this company was not significant as of September 30, 2014 and 2013.

## 17. Segment Information

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

- Applications. Our Applications products are pre-configured decision management applications and associated professional services, designed for a specific type of business problem or process, such as marketing, account

origination, customer management, fraud and insurance claims management.

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

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

Our Chief Executive Officer evaluates segment financial performance based on segment revenues and segment operating income. Segment operating expenses consist of direct and indirect costs principally related to personnel, facilities, consulting, travel and depreciation. Indirect costs are allocated to the segments generally based on relative segment revenues, fixed rates

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

established by management based upon estimated expense contribution levels and other assumptions that management considers reasonable. We do not allocate broad-based incentive expense, share-based compensation expense, restructuring and acquisition-related expense, amortization expense, various corporate charges and certain other income and expense measures to our segments. These income and expense items are not allocated because they are not considered in evaluating the segment's operating performance. Our Chief Executive Officer does not evaluate the financial performance of each segment based on its respective assets or capital expenditures; rather, depreciation amounts are allocated to the segments from their internal cost centers as described above. We have recast certain prior period amounts within this note to conform to the way we internally managed and monitored segment performance during the current fiscal year, reflecting immaterial movements of business activities between segments and changes in cost allocations.

The following tables summarize segment information for fiscal 2014, 2013 and 2012:

	Year Ended September 30, 2014			Unallocated Corporate Expenses	Total
	Applications	Scores	Tools		
	(In thousands)				
Segment revenues:					
Transactional and maintenance	\$313,316	\$178,023	\$36,224	\$—	\$527,563
Professional services	121,100	2,784	25,950	—	149,834
License	69,840	5,662	36,086	—	111,588
Total segment revenues	504,256	186,469	98,260	—	788,985
Segment operating expense	(334,762)	(44,187)	(94,057)	(101,551)	(574,557)
Segment operating income	\$169,494	\$142,282	\$4,203	\$(101,551)	\$214,428
Unallocated share-based compensation expense					(36,362)
Unallocated amortization expense					(11,917)
Unallocated restructuring and acquisition-related					(4,281)
Operating income					161,868
Unallocated interest expense, net					(28,550)
Unallocated other expense, net					(187)
Income before income taxes					\$133,131
Depreciation expense	\$14,451	\$851	\$2,752	\$2,661	\$20,715



Edgar Filing: FAIR ISAAC CORP - Form 10-K

Income before income taxes					\$136,243
Depreciation expense	\$11,321	\$724	\$1,258	\$1,302	\$14,605

73

---

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

Our revenues and percentage of revenues by reportable market segments were as follows for fiscal 2014, 2013 and 2012, the majority of which were derived from the sale of products and services within the banking (including consumer credit) industry:

	Year Ended September 30, 2014		2013		2012		
	(Dollars in thousands)						
Applications	\$504,256	64	% \$476,084	64	% \$424,604	63	%
Scores	186,469	24	% 180,813	24	% 175,623	26	%
Tools	98,260	12	% 86,547	12	% 76,196	11	%
Total	\$788,985	100	% \$743,444	100	% \$676,423	100	%

Within our Applications segment our fraud solutions accounted for 23%, 22% and 25% of total revenues in each of fiscal 2014, 2013 and 2012, respectively; our customer management solutions accounted for 10%, 11% and 13% of total revenues, in each of these periods, respectively; and our collections & recovery solutions accounted for 9%, 9% and 8% for each of these periods, respectively.

Our revenues and percentage of revenues on a geographical basis are summarized below for fiscal 2014, 2013 and 2012:

	Year Ended September 30, 2014		2013		2012		
	(Dollars in thousands)						
United States	\$457,270	58	% \$449,437	60	% \$410,178	61	%
United Kingdom	98,784	12	% 79,238	11	% 66,964	10	%
Other countries	232,931	30	% 214,769	29	% 199,281	29	%
Total	\$788,985	100	% \$743,444	100	% \$676,423	100	%

During fiscal 2014, 2013 and 2012, no individual customer accounted for 10% or more of our total revenues; however, we derive a substantial portion of revenues from our contracts with the three major credit reporting agencies, TransUnion, Equifax and Experian. Revenues collectively generated by agreements with these customers accounted for 15%, 16% and 18% of our total revenues in fiscal 2014, 2013 and 2012, respectively. At September 30, 2014 and 2013, no individual customer accounted for 10% or more of total consolidated receivables.

Our property and equipment, net, on a geographical basis are summarized below at September 30, 2014 and 2013. At September 30, 2014 and 2013, no individual country outside the U.S. accounted for 10% or more of total consolidated net property and equipment.

	September 30, 2014		2013		
	(Dollars in thousands)				
United States	\$29,276	80	% \$39,737	88	%
International	7,401	20	% 5,418	12	%
Total	\$36,677	100	% \$45,155	100	%

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

## 18. Commitments

Minimum future commitments under non-cancelable operating leases and other obligations were as follows at September 30, 2014:

Year Ended September 30,	Future Minimum Lease Commitments (In thousands)
2015	\$21,666
2016	18,544
2017	15,158
2018	13,427
2019	11,702
Thereafter	11,097
Total	\$91,594

## Lease Commitments

We occupy the majority of our facilities under non-cancelable operating leases with lease terms in excess of one year. Such facility leases generally provide for annual increases based upon the Consumer Price Index or fixed increments. Rent expense under operating leases, including month-to-month leases, totaled \$19.4 million, \$22.1 million and \$21.3 million during fiscal 2014, 2013 and 2012, respectively.

## Other Commitments

In the ordinary course of business, we enter into contractual purchase obligations and other agreements that are legally binding and specify certain minimum payment terms.

We are also a party to a management agreement with 23 of our executives providing for certain payments and other benefits in the event of a qualified change in control of FICO, coupled with a termination of the officer during the following year.

## 19. Contingencies

We are in disputes with certain customers regarding amounts owed in connection with the sale of certain of our products and services. We also have had claims asserted by former employees relating to compensation and other employment matters. We are also involved in various other claims and legal actions arising in the ordinary course of business. We record litigation accruals for legal matters which are both probable and estimable. For legal proceedings for which there is a reasonable possibility of loss (meaning those losses for which the likelihood is more than remote but less than probable), we have determined we do not have material exposure on an aggregate basis.

## 20. Guarantees

In the ordinary course of business, we are not subject to potential obligations under guarantees, except for standard indemnification and warranty provisions that are contained within many of our customer license and service agreements and certain supplier agreements, including underwriter agreements, as well as standard indemnification agreements that we have executed with certain of our officers and directors, and give rise only to the disclosure in the consolidated financial statements. In addition, we continue to monitor the conditions that are subject to the guarantees and indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under the guarantees and indemnifications when those losses are estimable.

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

Table of ContentsFAIR ISAAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years Ended September 30, 2014, 2013 and 2012

under the indemnification provisions in our customer license and service agreements, and officer and director agreements is unlimited.

## 21. Supplementary Financial Data (Unaudited)

The following table presents selected unaudited consolidated financial results for each of the eight quarters in the two-year period ended September 30, 2014. In the opinion of management, this unaudited information has been prepared on the same basis as the audited information and includes all adjustments (consisting of only normal recurring adjustments, except as noted below) necessary for a fair statement of the consolidated financial information for the period presented.

	Quarter Ended			
	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
	(In thousands, except per share data)			
Revenues	\$221,570	\$197,610	\$185,462	\$184,343
Cost of revenues (2)	71,026	62,752	58,183	57,319
Gross profit	150,544	134,858	127,279	127,024
Net income	\$36,603	\$20,548	\$20,751	\$16,977
Earnings per share (1):				
Basic	\$1.14	\$0.60	\$0.60	\$0.49
Diluted	\$1.10	\$0.58	\$0.59	\$0.47
Shares used in computing earnings per share:				
Basic	32,123	34,210	34,500	34,699
Diluted	33,217	35,162	35,311	35,820
	Quarter Ended			
	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012
	(In thousands, except per share data)			
Revenues	\$190,327	\$183,772	\$179,325	\$190,020
Cost of revenues (2)	56,809	57,655	58,856	56,148
Gross profit	133,518	126,117	120,469	133,872
Net income	\$28,557	\$19,622	\$18,495	\$23,421
Earnings per share (1):				
Basic	\$0.81	\$0.55	\$0.52	\$0.67
Diluted	\$0.79	\$0.54	\$0.51	\$0.65
Shares used in computing earnings per share:				
Basic	35,132	35,499	35,664	35,043
Diluted	36,151	36,385	36,492	36,151

(1) Earnings per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share amounts may not equal the totals for the respective years.

(2) Cost of revenues excludes amortization expense of \$1.9 million, \$1.9 million, \$1.8 million, \$1.8 million, \$1.7 million, \$1.7 million, \$1.7 million and \$1.5 million for the quarters ended September 30, 2014, June 30,

2014, March 31, 2014, December 31, 2013, September 30, 2013, June 30, 2013, March 31, 2013 and December 31, 2012, respectively.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

76

---

Table of Contents

Item 9A. Controls and Procedures

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

No change in FICO's internal control over financial reporting was identified in connection with the evaluation required by Rule 13a-15(d) of the Exchange Act that occurred during the year ended September 30, 2014, that has materially affected, or is reasonably likely to materially affect, FICO's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation management has concluded that our internal control over financial reporting was effective as of September 30, 2014.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has also audited the effectiveness of our internal control over financial reporting as of September 30, 2014, as stated in their attestation report included in Part II, Item 8 of this Annual Report on Form 10-K.

Item 9B. Other Information

Not applicable.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The required information regarding our Directors is incorporated by reference from the information under the caption “Director Nominees” in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 24, 2015.

Our current executive officers are as follows:

78

---

Edgar Filing: FAIR ISAAC CORP - Form 10-K

Table of Contents

Name	Positions Held	Age
William J. Lansing	January 2012-present, Chief Executive Officer and member of the Board of Directors of the Company. February 2009-November 2010, Chief Executive Offer and President, Infospace, Inc. 2004-2007, Chief Executive Officer and President, ValueVision Media, Inc. 2001-2003, General Partner, General Atlantic LLC. 2000-2001, Chief Executive Officer, NBC Internet, Inc. 1998-2000, President/Chief Executive Officer, Fingerhut Companies, Inc. 1996-1998, Vice President, Corporate Business Development, General Electric Company. 1996, Executive Vice President, Chief Operating Office, Prodigy, Inc. 1986-1995, various positions, McKinsey & Company, Inc.	56
Michael J. Pung	November 2010-present, Executive Vice President and Chief Financial Officer of the Company. August 2004-November 2010, Vice President, Finance of the Company. 2000-2004, Vice President and Controller, Hubbard Media Group, LLC. 1999-2000, Controller, Capella Education, Inc. 1998-1999, Controller, U.S. Satellite Broadcasting, Inc. 1992-1998, various financial management positions with Deluxe Corporation. 1985-1992, various audit positions, including audit manager, at Deloitte & Touche LLP.	51
Richard S. Deal	August 2007-present, Senior Vice President, Chief Human Resources Officer of the Company. January 2001-July 2007, Vice President, Human Resources of the Company. 1998-2001, Vice President, Human Resources, Arcadia Financial, Ltd. 1993-1998, managed broad range of human resources corporate and line consulting functions with U.S. Bancorp.	47
Wayne Huyard	November 2014-present, Executive Vice President of Sales, Services, and Marketing of the Company. January 2014-November 2014, Consultant to the Chief Executive Officer of the Company. September 2012-November 2014, Chief Executive Officer and President, TEXbase, Inc. March 2012-May 2012, General Manager of RightNow Technologies, Oracle Corporation. July 2010-February 2012, President and Chief Operating Officer, RightNow Technologies, Inc. May 2006-May 2010, Operations and Advisory Group Executive Leadership Team Member, Cerberus Capital Management L.P.	55
Andrew N. Jennings	February 2011-present, Senior Vice President, Chief Analytics Officer of the Company. October 2007-February 2011, Senior Vice President, Chief Research Officer of the Company. May 2007-September 2007, Vice President, Analytic Research and Development of the Company. May 2006-May 2007, Vice President, EDM Applications of the Company. 2001-2006, Vice President Global Account Management Solutions of the Company. 2000-2001, Senior Vice President International Sales of the Company. 1999-2000, Senior Vice President, International Operations of the Company. 1996-1999, Vice President European Operations of the Company. 1994-1996, Director, United Kingdom Operations of the Company.	59
Michael S. Leonard	November 2011-present, Vice President, Chief Accounting Officer of the Company. November 2007-November 2011, Senior Director, Finance of the Company. July 2000-November 2007, Director, Finance of the Company. 1998-2000, Controller of Natural Alternatives International, Inc. 1994-1998, various audit staff positions at KPMG LLP.	49
Mark R. Scadina		45

Edgar Filing: FAIR ISAAC CORP - Form 10-K

February 2009-present, Executive Vice President and General Counsel and Corporate Secretary of the Company. June 2007-February 2009, Senior Vice President and General Counsel and Corporate Secretary of the Company. 2003-2007, various senior positions including Executive Vice President, General Counsel and Corporate Secretary, Liberate Technologies, Inc. 1999-2003, various leadership positions including Vice President and General Counsel, Intertrust Technologies Corporation. 1994-1999, Associate, Pennie and Edmonds LLP.

James M. Wehmann April 2012-present, Executive Vice President, Scores of the Company. November 2003-March 2012, Vice President/Senior Vice President, Global Marketing, Digital River, Inc. March 2002-June 2003, Vice President, Marketing, Brylane, Inc. September 2000-March 2002, Senior Vice President, Marketing, New Customer Acquisition, Bank One. 1993-2000, various roles, including Senior Vice President, Marketing, Fingerhut Companies, Inc. 49

Stuart C. Wells April 2012-present, Executive Vice President, Chief Technology Officer of the Company. June 2010- April 2012, Head of Global Professional Services and Support of the Company (Consultant). February 2009-June 2010, CEO, and Chairman of the Board, ScaleMP. 58  
January 2007-January 2009, Senior Vice President and President, Avaya, Inc. April 2005-December 2006, Executive Vice President, Utility Computing, Sun Microsystems.

The required information regarding compliance with Section 16(a) of the Securities Exchange Act is incorporated by reference from the information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 24, 2015.

Table of Contents

FICO has adopted a Code of Ethics for Senior Financial Management that applies to the Company's Chief Executive Officer, Chief Financial Officer, Controller and other employees performing similar functions who have been identified by the Chief Executive Officer. We have posted the Code of Ethics on our web site located at [www.fico.com](http://www.fico.com). FICO intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or a waiver from, this Code of Ethics by posting such information on its web site. FICO also has a Code of Conduct and Business Ethics applicable to all directors, officers and employees, which is also available at the web site cited above.

The required information regarding the Company's audit committee is incorporated by reference from the information under the caption "Board Meetings, Committees and Attendance" in our definitive proxy statement for the Annual Meeting of Shareholders to be held on February 24, 2015.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference from the information under the captions "Director Compensation for 2014," "Executive Compensation," and "Compensation Committee Interlocks and Insider Participation" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 24, 2015.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference from the information under the caption "Security Ownership Of Certain Beneficial Owners and Management" and "Executive Compensation Plan Information" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 24, 2015.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference from the information under the caption "Certain Relationships and Related Transactions" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 24, 2015.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference from the information under the caption "Ratification of Independent Registered Public Accounting Firm" in our definitive proxy statement for the Annual Meeting of Stockholders to be held on February 24, 2015.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Consolidated Financial Statements:

	Reference Page Form 10-K
<u>Report of independent registered public accounting firm</u>	<u>46</u>
<u>Consolidated balance sheets as of September 30, 2014 and 2013</u>	<u>47</u>
<u>Consolidated statements of income and comprehensive income for the years ended September 30, 2014, 2013 and 2012</u>	<u>48</u>
<u>Consolidated statements of stockholders' equity for the years ended September 30, 2014, 2013 and 2012</u>	<u>49</u>
<u>Consolidated statements of cash flows for the years ended September 30, 2014, 2013 and 2012</u>	<u>50</u>
<u>Notes to consolidated financial statements</u>	<u>51</u>

2. Financial Statement Schedules

All financial statement schedules are omitted as the required information is not applicable or as the information required is included in the consolidated financial statements and related notes.

Table of Contents

## 3. Exhibits:

Exhibit Number	Description
3.1	Bylaws of Fair Isaac Corporation. (Incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q filed on February 8, 2010.)
3.2	Composite Restated Certificate of Incorporation of Fair Isaac Corporation. (Incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q filed on February 8, 2010.)
10.1	Form of Note Purchase Agreement, dated May 7, 2008, between Fair Isaac Corporation and the Purchasers listed on Schedule A thereto, which includes as Exhibits 1-4 the form of Senior Note for each of Series A, B, C and D (excluding certain schedules and exhibits thereto, which Fair Isaac Corporation agrees to furnish to the Securities and Exchange Commission upon request). (Incorporated by reference to Exhibit 10.1 to Fair Isaac's Form 10-Q for the fiscal quarter ended June 30, 2008.)
10.2	Form of Note Purchase Agreement, dated July 14, 2010, between Fair Isaac Corporation and the Purchasers listed on Schedule A thereto, which includes as Exhibits 1-4 the form of Senior Note for each of Series E, F, G and H (excluding certain schedules and exhibits thereto, which Fair Isaac Corporation agrees to furnish to the Securities and Exchange Commission upon request). (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on July 19, 2010.)
10.3	Fair Isaac Corporation 1992 Long-Term Incentive Plan, as amended effective May 4, 2010. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on August 6, 2010.) (1)
10.4	Form of Non-Qualified Stock Option Agreement under 1992 Long-term Incentive Plan, as amended effective July 18, 2007. (Incorporated by reference to Exhibit 10.42 to Fair Isaac's Form 10-Q for the fiscal quarter ended December 31, 2007.) (1)
10.5	Form of Nonstatutory Stock Option Agreement for Initial Grants to Non-Employee Directors under 1992 Long-term Incentive Plan. (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended December 31, 2008.) (1)
10.6	Form of Restricted Stock Unit Agreement under 1992 Long-term Incentive Plan, as amended effective July 18, 2007. (Incorporated by reference to Exhibit 10.49 to Fair Isaac's Form 10-Q for the fiscal quarter ended December 31, 2007.) (1)
10.7	Form of Restricted Stock Agreement under 1992 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.43 to the Company's Annual Report of Form 10-K for the period ended September 30, 2006.) (1)
10.8	Fair, Isaac Supplemental Retirement and Savings Plan, as amended and restated effective January 1, 2009. (Incorporated by reference to Exhibit 10.10 of the Company's Form 10-K for the fiscal year ended September 30, 2008.) (1)
10.9	Form of Indemnity Agreement entered into by the Company with the Company's directors and executive officers. (Incorporated by reference to Exhibit 10.49 to the Company's report on Form 10-K for the fiscal year ended September 30, 2002.) (1)

Edgar Filing: FAIR ISAAC CORP - Form 10-K

- 10.10 Form of Management Agreement entered into with each of the Company's executive officers. (Incorporated by reference to Exhibit 10.4 of the Company's Form 8-K filed on February 10, 2012.) (1)
- 10.11\* Form of Amendment Management Agreement entered into with certain of the Company's executive officers. (1)
- 10.12 Offer Letter entered into on May 29, 2007 with Mark R. Scadina. (Incorporated by reference to Exhibit 10.61 to the Company's Form 10-K for the fiscal year ended September 30, 2008.) (1)
- 10.13 Letter Agreement dated January 24, 2012 by and between the Company and William J. Lansing. (Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on January 26, 2012.) (1)
- 10.14 Letter Agreement dated February 6, 2012 by and between the Company and Michael Pung. (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on February 10, 2012.) (1)
- 10.15 Letter Agreement dated February 6, 2012 by and between the Company and Mark Scadina. (Incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed on February 10, 2012.) (1)
- 10.16 Letter Agreement dated March 7, 2012 by and between the Company and James M. Wehmann. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended December 31, 2012.) (1)

Table of Contents

- 10.17 Letter Agreement dated April 24, 2012 by and between the Company and Stuart C. Wells. (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended December 31, 2012.) (1)
- 10.18 Fair Isaac Corporation 2012 Long-Term Incentive Plan (incorporated by reference to Appendix A of the Company's definitive proxy statement for the 2012 Annual Meeting of Stockholders, filed with the SEC on January 4, 2012.) (1)
- 10.19 Form of Employee Non-Statutory Stock Option Agreement (U.S.) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)
- 10.20 Form of Employee Restricted Stock Unit Award Agreement (U.S.) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)
- 10.21 Form of Employee Non-Statutory Stock Option Agreement (International) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)
- 10.22 Form of Employee Restricted Stock Unit Award Agreement (International) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)
- 10.23 Form of Director Non-Statutory Stock Option Agreement under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)
- 10.24 Form of Director Restricted Stock Unit Award Agreement under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.7 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)
- 10.25 Form of Performance Share Unit Award Agreement (fiscal 2012 grants) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.8 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)
- 10.26 Form of Performance Share Unit Award Agreement (fiscal 2013 grants) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended December 31, 2012.) (1)
- 10.27 Form of Performance Share Unit Award Agreement (fiscal 2014 grants) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended December 31, 2013.) (1)
- 10.28 Form of Market Share Unit Agreement (fiscal 2014 grants) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended December 31, 2013.) (1)
- 10.29 Credit Agreement dated September 27, 2011 among the Company, Wells Fargo Securities, LLC, U.S. Bank National Association, and Wells Fargo Bank, National Association. (Incorporated by reference to Exhibit

Edgar Filing: FAIR ISAAC CORP - Form 10-K

10.1 to the Company's current report on Form 8-K filed with the SEC on September 30, 2011.)

- 12.1\* Computations of ratios of earnings to fixed charges.
- 21.1\* List of Company's subsidiaries.
- 23.1\* Consent of Deloitte & Touche LLP, independent registered public accounting firm.
- 31.1\* Rule 13a-14(a)/15d-14(a) Certifications of CEO.
- 31.2\* Rule 13a-14(a)/15d-14(a) Certifications of CFO.
- 32.1\* Section 1350 Certification of CEO.
- 32.2\* Section 1350 Certification of CFO.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

Table of Contents

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

(1)Management contract or compensatory plan or arrangement.

\* Filed herewith.

84

---

Table of Contents

SIGNATURES

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

FAIR ISAAC CORPORATION

By /s/ MICHAEL J. PUNG  
Michael J. Pung  
Executive Vice President  
and Chief Financial Officer

DATE: November 10, 2014

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael J. Pung his attorney-in-fact, with full power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Table of Contents

/s/ WILLIAM J. LANSING William J. Lansing	Chief Executive Officer (Principal Executive Officer) and Director	November 10, 2014
/s/ MICHAEL J. PUNG Michael J. Pung	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	November 10, 2014
/s/ MICHAEL S. LEONARD Michael S. Leonard	Vice President and Chief Accounting Officer (Principal Accounting Officer)	November 10, 2014
/s/ A. GEORGE BATTLE A. George Battle	Director	November 10, 2014
/s/ GREG R. GIANFORTE Greg R. Gianforte	Director	November 10, 2014
/s/ BRADEN R. KELLY Braden R. Kelly	Director	November 10, 2014
/s/ JAMES D. KIRSNER James D. Kirsner	Director	November 10, 2014
/s/ RAHUL N. MERCHANT Rahul N. Merchant	Director	November 10, 2014
/s/ DAVID A. REY David A. Rey	Director	November 10, 2014
/s/ DUANE E. WHITE Duane E. White	Director	November 10, 2014

Table of Contents

## EXHIBIT INDEX

To Fair Isaac Corporation

Report On Form 10-K For The Fiscal Year Ended September 30, 2014

Exhibit Number	Description	
3.1	Bylaws of Fair Isaac Corporation. (Incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q filed on February 8, 2010.)	Incorporated by Reference
3.2	Composite Restated Certificate of Incorporation of Fair Isaac Corporation. (Incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q filed on February 8, 2010.)	Incorporated by Reference
10.1	Form of Note Purchase Agreement, dated May 7, 2008, between Fair Isaac Corporation and the Purchasers listed on Schedule A thereto, which includes as Exhibits 1-4 the form of Senior Note for each of Series A, B, C and D (excluding certain schedules and exhibits thereto, which Fair Isaac Corporation agrees to furnish to the Securities and Exchange Commission upon request). (Incorporated by reference to Exhibit 10.1 to Fair Isaac's Form 10-Q for the fiscal quarter ended June 30, 2008.)	Incorporated by Reference
10.2	Form of Note Purchase Agreement, dated July 14, 2010, between Fair Isaac Corporation and the Purchasers listed on Schedule A thereto, which includes as Exhibits 1-4 the form of Senior Note for each of Series E, F, G and H (excluding certain schedules and exhibits thereto, which Fair Isaac Corporation agrees to furnish to the Securities and Exchange Commission upon request). (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on July 19, 2010.)	Incorporated by Reference
10.3	Fair Isaac Corporation 1992 Long-Term Incentive Plan, as amended effective May 4, 2010. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on August 6, 2010.) (1)	Incorporated by Reference
10.4	Form of Non-Qualified Stock Option Agreement under 1992 Long-term Incentive Plan, as amended effective July 18, 2007. (Incorporated by reference to Exhibit 10.42 to Fair Isaac's Form 10-Q for the fiscal quarter ended December 31, 2007.) (1)	Incorporated by Reference
10.5	Form of Nonstatutory Stock Option Agreement for Initial Grants to Non-Employee Directors under 1992 Long-term Incentive Plan. (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended December 31, 2008.) (1)	Incorporated by Reference
10.6	Form of Restricted Stock Unit Agreement under 1992 Long-term Incentive Plan, as amended effective July 18, 2007. (Incorporated by reference to Exhibit 10.49 to Fair Isaac's Form 10-Q for the fiscal quarter ended December 31, 2007.) (1)	Incorporated by Reference
10.7	Form of Restricted Stock Agreement under 1992 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.43 to the Company's Annual Report of Form 10-K for the period ended September 30, 2006.) (1)	Incorporated by Reference

- 10.8 Fair, Isaac Supplemental Retirement and Savings Plan, as amended and restated effective January 1, 2009. (Incorporated by reference to Exhibit 10.10 of the Company's Form 10-K for the fiscal year ended September 30, 2008.) (1) Incorporated by Reference
- 10.9 Form of Indemnity Agreement entered into by the Company with the Company's directors and executive officers. (Incorporated by reference to Exhibit 10.49 to the Company's report on Form 10-K for the fiscal year ended September 30, 2002.) (1) Incorporated by Reference
- 10.10 Form of Management Agreement entered into with each of the Company's executive officers. (Incorporated by reference to Exhibit 10.4 of the Company's Form 8-K filed on February 10, 2012.) (1) Incorporated by Reference
- 10.11\* Form of Amendment Management Agreement entered into with certain of the Company's executive officers. (1) Incorporated by Reference

Table of Contents

10.12	Offer Letter entered into on May 29, 2007 with Mark R. Scadina. (Incorporated by reference to Exhibit 10.61 to the Company's Form 10-K for the fiscal year ended September 30, 2008.) (1)	Incorporated by Reference
10.13	Letter Agreement dated January 24, 2012 by and between the Company and William J. Lansing. (Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on January 26, 2012.) (1)	Incorporated by Reference
10.14	Letter Agreement dated February 6, 2012 by and between the Company and Michael Pung. (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on February 10, 2012.) (1)	Incorporated by Reference
10.15	Letter Agreement dated February 6, 2012 by and between the Company and Mark Scadina. (Incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed on February 10, 2012.) (1)	Incorporated by Reference
10.16	Letter Agreement dated March 7, 2012 by and between the Company and James M. Wehmann. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended December 31, 2012.) (1)	Incorporated by Reference
10.17	Letter Agreement dated April 24, 2012 by and between the Company and Stuart C. Wells. (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended December 31, 2012.) (1)	Incorporated by Reference
10.18	Fair Isaac Corporation 2012 Long-Term Incentive Plan (incorporated by reference to Appendix A of the Company's definitive proxy statement for the 2012 Annual Meeting of Stockholders, filed with the SEC on January 4, 2012.) (1)	Incorporated by Reference
10.19	Form of Employee Non-Statutory Stock Option Agreement (U.S.) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)	Incorporated by Reference
10.20	Form of Employee Restricted Stock Unit Award Agreement (U.S.) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)	Incorporated by Reference
10.21	Form of Employee Non-Statutory Stock Option Agreement (International) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)	Incorporated by Reference
10.22	Form of Employee Restricted Stock Unit Award Agreement (International) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)	Incorporated by Reference
10.23	Form of Director Non-Statutory Stock Option Agreement under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)	Incorporated by Reference

Edgar Filing: FAIR ISAAC CORP - Form 10-K

10.24	Form of Director Restricted Stock Unit Award Agreement under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.7 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)	Incorporated by Reference
10.25	Form of Performance Share Unit Award Agreement (fiscal 2012 grants) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.8 to the Company's Form 10-Q for the quarter ended March 31, 2012.) (1)	Incorporated by Reference
10.26	Form of Performance Share Unit Award Agreement (fiscal 2013 grants) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarter ended December 31, 2012.) (1)	Incorporated by Reference
10.27	Form of Performance Share Unit Award Agreement (fiscal 2014 grants) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended December 31, 2013.) (1)	Incorporated by Reference
10.28	Form of Market Share Unit Agreement (fiscal 2014 grants) under the 2012 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended December 31, 2013.) (1)	Incorporated by Reference
10.29	Credit Agreement dated September 27, 2011 among the Company, Wells Fargo Securities, LLC, U.S. Bank National Association, and Wells Fargo Bank, National Association. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed with the SEC on September 30, 2011.)	Incorporated by Reference
12.1	Computations of ratios of earnings to fixed charges.	Filed Electronically
21.1	List of Company's subsidiaries.	Filed Electronically

Table of Contents

23.1	Consent of Deloitte & Touche LLP, independent registered public accounting firm.	Filed Electronically
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO.	Filed Electronically
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO.	Filed Electronically
32.1	Section 1350 Certifications of CEO.	Filed Electronically
32.2	Section 1350 Certifications of CFO.	Filed Electronically
101.INS	XBRL Instance Document.	Filed Electronically
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed Electronically
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed Electronically
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed Electronically
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed Electronically
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed Electronically