FAIR ISAAC CORP
Form 10-Q
January 29, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2014

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

For the transition period from to

Commission File Number 1-11689

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

| Delaware | 94-1499887 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 181 Metro Drive, Suite 700 San Jose, California | 95110-1346 |
| (Address of principal executive offices) | (Zip Code) |

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

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 ý No o

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 ý No o

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 | ý | Accelerated Filer | o |
|---|---|---|---|

Non-Accelerated Filer o Smaller Reporting Company o

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

The number of shares of common stock outstanding on January 16, 2015 was 31,425,871 (excluding 57,430,912 shares held by us as treasury stock).

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | December 31, 2014 | September 30, 2014 |
|---|---|---|
| | (In thousands, except par value data) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 94,651 | $ 105,075 |
| Accounts receivable, net | 147,123 | 155,295 |
| Prepaid expenses and other current assets | 38,096 | 28,157 |
| Total current assets | 279,870 | 288,527 |
| Marketable securities available for sale | 9,530 | 8,751 |
| Other investments | 10,958 | 11,033 |
| Property and equipment, net | 36,791 | 36,677 |
| Goodwill | 774,107 | 779,928 |
| Intangible assets, net | 44,218 | 47,914 |
| Deferred income taxes | 4,927 | 13,061 |
| Other assets | 7,521 | 6,407 |
| Total assets | $ 1,167,922 | $ 1,192,298 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 25,559 | $ 22,000 |
| Accrued compensation and employee benefits | 30,081 | 56,650 |
| Other accrued liabilities | 21,752 | 36,235 |
| Deferred revenue | 57,331 | 56,519 |
| Current maturities on debt | 231,000 | 170,000 |
| Total current liabilities | 365,723 | 341,404 |
| Senior notes | 376,000 | 376,000 |
| Other liabilities | 22,978 | 20,280 |
| Total liabilities | 764,701 | 737,684 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock [$0.01 par value; 1,000 shares authorized; none issued and outstanding] | — | — |
| Common stock [$0.01 par value; 200,000 shares authorized, 88,857 shares issued and 31,724 and 32,047 shares outstanding at December 31, 2014 and September 30, 2014, respectively] | 317 | 320 |
| Paid-in-capital | 1,118,285 | 1,129,317 |
| Treasury stock, at cost [57,133 and 56,810 shares at December 31, 2014 and September 30, 2014, respectively] | (1,978,774) | (1,936,095) |
| Retained earnings | 1,298,033 | 1,284,261 |
| Accumulated other comprehensive loss | (34,640) | (23,189) |
| Total stockholders' equity | 403,221 | 454,614 |
| Total liabilities and stockholders' equity | $ 1,167,922 | $ 1,192,298 |

See accompanying notes to condensed consolidated financial statements.

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FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

| | Quarter Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands, except per share data) | |
| Revenues: | | |
| Transactional and maintenance | $131,410 | $129,655 |
| Professional services | 35,198 | 34,286 |
| License | 22,942 | 20,402 |
| Total revenues | 189,550 | 184,343 |
| Operating expenses: | | |
| Cost of revenues * | 66,300 | 57,319 |
| Research and development | 22,637 | 18,092 |
| Selling, general and administrative * | 72,801 | 66,989 |
| Amortization of intangible assets * | 2,932 | 3,013 |
| Restructuring and acquisition-related | — | 3,660 |
| Total operating expenses | 164,670 | 149,073 |
| Operating income | 24,880 | 35,270 |
| Interest expense, net | (7,205) | (7,126) |
| Other income (expense), net | 649 | (961) |
| Income before income taxes | 18,324 | 27,183 |
| Provision for income taxes | 3,917 | 10,206 |
| Net income | 14,407 | 16,977 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments | (11,451) | 4,005 |
| Comprehensive income | $2,956 | $20,982 |
| Earnings per share: | | |
| Basic | $0.45 | $0.49 |
| Diluted | $0.43 | $0.47 |
| Shares used in computing earnings per share: | | |
| Basic | 31,936 | 34,699 |
| Diluted | 33,128 | 35,820 |

* Cost of revenues and selling, general and administrative expenses exclude the amortization of intangible assets. See Note 4 to the condensed consolidated financial statements.
See accompanying notes to condensed consolidated financial statements.

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FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except per share data)

| | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shares | Par Value | Paid-in-Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
| Balance at September 30, 2014 | 32,047 | $320 | $ 1,129,317 | $ (1,936,095 ) | $1,284,261 | $ (23,189 ) | $ 454,614 |
| Share-based compensation | — | — | 8,794 | — | — | — | 8,794 |
| Issuance of treasury stock under employee stock plans | 521 | 5 | (26,205 ) | 17,906 | — | — | (8,294 ) |
| Tax effect from share-based payment arrangements | — | — | 6,379 | — | — | — | 6,379 |
| Repurchases of common stock | (844 ) | (8 ) | — | (60,585 ) | — | — | (60,593 ) |
| Dividends paid | — | — | — | — | (635 ) | — | (635 ) |
| Net income | — | — | — | — | 14,407 | — | 14,407 |
| Foreign currency translation adjustments | — | — | — | — | — | (11,451 ) | (11,451 ) |
| Balance at December 31, 2014 | 31,724 | $317 | $ 1,118,285 | $ (1,978,774 ) | $1,298,033 | $ (34,640 ) | $ 403,221 |

See accompanying notes to condensed consolidated financial statements.

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

| | Quarter Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | $14,407 | $16,977 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 8,107 | 8,167 |
| Share-based compensation | 8,794 | 7,235 |
| Deferred income taxes | 5,676 | (1,576) |
| Tax effect from share-based payment arrangements | 6,379 | 4,196 |
| Excess tax benefits from share-based payment arrangements | (6,485) | (4,551) |
| Provision for doubtful accounts, net | — | 278 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 5,863 | 2,755 |
| Prepaid expenses and other assets | (8,843) | 1,344 |
| Accounts payable | 3,886 | 1,848 |
| Accrued compensation and employee benefits | (26,046) | (10,880) |
| Other liabilities | (13,850) | 4,686 |
| Deferred revenue | 3,472 | (2,101) |
| Net cash provided by operating activities | 1,360 | 28,378 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (5,667) | (2,154) |
| Distribution from cost method investees | 75 | — |
| Net cash used in investing activities | (5,592) | (2,154) |
| Cash flows from financing activities: | | |
| Proceeds from revolving line of credit | 81,000 | 8,000 |
| Payments on revolving line of credit | (20,000) | — |
| Proceeds from issuance of treasury stock under employee stock plans | 6,713 | 10,832 |
| Taxes paid related to net share settlement of equity awards | (15,007) | (8,821) |
| Dividends paid | (635) | (694) |
| Repurchases of common stock | (60,593) | (27,125) |
| Excess tax benefits from share-based payment arrangements | 6,485 | 4,551 |
| Net cash used in financing activities | (2,037) | (13,257) |
| Effect of exchange rate changes on cash | (4,155) | (208) |
| Increase (decrease) in cash and cash equivalents | (10,424) | 12,759 |
| Cash and cash equivalents, beginning of period | 105,075 | 83,178 |
| Cash and cash equivalents, end of period | $94,651 | $95,937 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for income taxes, net of refunds | $8,844 | $1,285 |
| Cash paid for interest | $7,539 | $7,472 |
| Supplemental disclosures of non-cash investing and financing activities: | | |
| Purchase of property and equipment included in accounts payable | $296 | $521 |

See accompanying notes to condensed consolidated financial statements.

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FAIR ISAAC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Business

Fair Isaac Corporation

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

In these condensed consolidated financial statements, Fair Isaac Corporation is referred to as "FICO," "we," "us," "our," or "th Company."

Principles of Consolidation and Basis of Presentation

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q and the applicable accounting guidance. Consequently, we have not necessarily included in this Form 10-Q all information and footnotes required for audited financial statements. In our opinion, the accompanying unaudited interim condensed consolidated financial statements in this Form 10-Q reflect all adjustments (consisting only of normal recurring adjustments, except as otherwise indicated) necessary for a fair presentation of our financial position and results of operations. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with our audited consolidated financial statements and notes thereto presented in our Annual Report on Form 10-K for the year ended September 30, 2014. The interim financial information contained in this report is not necessarily indicative of the results to be expected for any other interim period or for the entire fiscal year.

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

Use of Estimates

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.

New Accounting Pronouncements Recently Issued or Adopted

In May 2014, the Financial Accounting Standards Board 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. 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

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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 December 31, 2014 and September 30, 2014.
- Level 3 - uses one or more significant inputs that are unobservable and supported by little or no market activity, and that reflect the use of significant management judgment. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, and significant management judgment or estimation. We do not have any assets or liabilities that are valued using inputs identified under a Level 3 hierarchy as of December 31, 2014 and September 30, 2014.

The following table represents financial assets that we measured at fair value on a recurring basis at December 31, 2014 and September 30, 2014:

| December 31, 2014 | Active Markets for Identical Instruments (Level 1) | Fair Value as of December 31, 2014 |
|---|---|---|
| Assets: | | |
| Cash equivalents (1) | $ 439 | $439 |
| Marketable securities (2) | 9,530 | 9,530 |
| Total | $ 9,969 | $9,969 |

| 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 |

(1) Included in cash and cash equivalents on our condensed consolidated balance sheet at December 31, 2014 and September 30, 2014. Not included in this table are cash deposits of $94.2 million and $94.7 million at December 31, 2014 and September 30, 2014, respectively.

(2) Represents securities held under a supplemental retirement and savings plan for senior management employees, which are distributed upon termination or retirement of the employees. Included in marketable securities available for sale on our condensed consolidated balance sheet at December 31, 2014 and September 30, 2014.

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. We have 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 3 and Note 7 to the condensed consolidated financial statements, respectively.

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3. Derivative Financial Instruments

We use derivative instruments to manage risks caused by fluctuations in foreign exchange rates. The primary objective of our derivative instruments is to protect the value of foreign-currency-denominated receivable and cash balances from the effects of volatility in foreign exchange rates that might occur prior to conversion to their respective 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 December 31, 2014 and September 30, 2014:

| | December 31, 2014 | | |
|---|---|---|---|
| | Contract Amount | | Fair Value |
| | Foreign Currency | US$ | US$ |
| | (In thousands) | | |
| Sell foreign currency: | | | |
| Canadian dollar (CAD) | CAD 2,400 | $2,072 | $— |
| Euro (EUR) | EUR 4,550 | $5,536 | $— |
| Buy foreign currency: | | | |
| British pound (GBP) | GBP 6,643 | $10,350 | $— |

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

The foreign currency forward contracts were entered into on December 31, 2014 and September 30, 2014, respectively; therefore, their fair value was $0 on each of these dates.

Gains (losses) on derivative financial instruments are recorded in our condensed consolidated statements of income and comprehensive income as a component of other income (expense), net, and consisted of the following:

| | Quarter Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands) | |
| Gains (losses) on Foreign currency forward contracts | $(329) | $338 |

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4. Goodwill and Intangible Assets

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

| | Quarter Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands) | |
| Cost of revenues | $1,836 | $1,799 |
| Selling, general and administrative expenses | 1,096 | 1,214 |
| | $2,932 | $3,013 |

Cost of revenues reflects our amortization of completed technology and selling, general and administrative expenses reflects our amortization of other intangible assets. Intangible assets, gross were $140.8 million and $142.2 million as of December 31, 2014 and September 30, 2014, respectively.

Estimated future intangible asset amortization expense associated with intangible assets existing at December 31, 2014, was as follows (in thousands):

| Year Ended September 30, | |
|---|---|
| 2015 [excluding the quarter ended December 31, 2014] | $8,727 |
| 2016 | 11,407 |
| 2017 | 10,284 |
| 2018 | 3,238 |
| 2019 | 2,776 |
| Thereafter | 7,786 |
| | $44,218 |

The following table summarizes changes to goodwill during the quarter ended December 31, 2014, both in total and as allocated to our segments:

| | Applications | Scores | Tools | Total |
|---|---|---|---|---|
| | (In thousands) | | | |
| Balance at September 30, 2014 | $560,295 | $146,648 | $72,985 | $779,928 |
| Foreign currency translation adjustment | (4,835) | — | (986) | (5,821) |
| Balance at December 31, 2014 | $555,460 | $146,648 | $71,999 | $774,107 |

5. Composition of Certain Financial Statement Captions

The following table summarizes property and equipment, and the related accumulated depreciation and amortization at December 31, 2014 and September 30, 2014:

| | December 31, 2014 | September 30, 2014 |
|---|---|---|
| | (In thousands) | |
| Property and equipment | $167,872 | $164,548 |
| Less: accumulated depreciation and amortization | (131,081) | (127,871) |
| | $36,791 | $36,677 |

6. Revolving Line of Credit

In December 2014 we refinanced our $200 million unsecured revolving line of credit, increasing our borrowing capacity to $400 million with a syndicate of banks that expires on December 30, 2019. Proceeds from the credit facility can be used for

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working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions and the repurchase of our common stock. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greater of (a) the prime rate, (b) the Federal Funds rate plus 0.500% and (c) the one-month LIBOR rate plus 1.000%, plus, in each case, an applicable margin, or (ii) an adjusted LIBOR rate plus an applicable margin. The applicable margin for base rate borrowings ranges from 0% to 0.875% and for LIBOR borrowings ranges from 1.000% to 1.875%, and is determined based on our consolidated leverage ratio. In addition, we must pay credit facility fees. The credit facility contains certain restrictive covenants including maintaining a minimum fixed charge ratio of 2.5 and a maximum consolidated leverage ratio of 3.0, subject to a step up to 3.5 following certain permitted acquisitions. The credit agreement also contains other covenants typical of unsecured facilities. As of December 31, 2014, we had $160.0 million in borrowings outstanding at a weighted average interest rate of 1.295% and were in compliance with all financial covenants under this credit facility.

7. 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 with maturities ranging from 5 to 10 years. The outstanding 2008 Senior Notes’ weighted average interest rate is 7.0% and the weighted average maturity is 9.0 years. 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 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 require interest payments semi-annually and also include certain restrictive covenants. As of December 31, 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 carrying value of the Senior Notes was $447.0 million as of December 31, 2014 and September 30, 2014. The fair value of the Senior Notes was $464.5 million and $462.7 million as of December 31, 2014 and September 30, 2014, respectively. 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.

8. Restructuring Expenses

The following table summarizes our restructuring accruals and certain FICO facility closures. These balances, which are expected to be paid by the end of the second quarter of our fiscal 2015, are recorded in other accrued current liabilities within the accompanying condensed consolidated balance sheets.

| | Accrual at September 30, 2014 | Cash Payments | Accrual at December 31, 2014 |
|---|---|---|---|
| | (In thousands) | | |
| Facilities charges | $92 | $(46) | $46 |
| Employee separation | 170 | (162) | 8 |
| | $262 | $(208) | $54 |

9. Income Taxes

Effective Tax Rate

The effective income tax rate was 21.4% and 37.5% during the quarters ended December 31, 2014 and 2013, respectively. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the respective full fiscal year. The effective tax rate in any quarter can also be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution. The decrease in our effective tax rate year over year was primarily due to the retroactive extension of the U.S. Federal Research and Development Credit through 2014, which was enacted during the quarter ended December 31, 2014. The total unrecognized tax benefit for uncertain tax positions is estimated to be approximately $5.3 million and $4.6 million at December 31, 2014 and September 30, 2014, respectively. We recognize interest expense related to unrecognized tax benefits and penalties as part of the provision for income taxes in our condensed consolidated

statements of income and comprehensive income. We have accrued interest of $0.6 million and $0.5 million, related to unrecognized tax benefits as of December 31, 2014 and September 30, 2014, respectively.

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10. Share-Based Payments

We maintain the 2012 Long-Term Incentive Plan (the "2012 Plan") under which we could grant 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 have 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.

Stock Options

The following table summarizes option activity during the quarter ended December 31, 2014:

| | Shares | Weighted-average Exercise Price | Weighted-average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| | (In thousands) | | (In years) | (In thousands) |
| Outstanding at October 1, 2014 | 2,089 | $ 36.24 | | |
| Granted | 493 | 72.06 | | |
| Exercised | (217) | 30.92 | | |
| Forfeited | (35) | 39.49 | | |
| Outstanding at December 31, 2014 | 2,330 | $ 44.27 | 4.72 | $65,330 |
| Options exercisable at December 31, 2014 | 1,103 | $ 33.79 | 3.80 | $42,477 |
| Vested and expected to vest at December 31, 2014 | 2,151 | $ 43.17 | 4.68 | $62,664 |

Restricted Stock Units

The following table summarizes restricted stock unit activity during the quarter ended December 31, 2014:

| | Shares | Weighted- average Grant-date Fair Value |
|---|---|---|
| | (In thousands) | |
| Outstanding at October 1, 2014 | 1,440 | $46.68 |
| Granted | 389 | 70.33 |
| Released | (356) | 43.11 |
| Forfeited | (54) | 45.53 |
| Outstanding at December 31, 2014 | 1,419 | $54.11 |

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Performance Stock Units

The following table summarizes performance stock unit activity during the quarter ended December 31, 2014:

| | Shares | Weighted- average Grant-date Fair Value |
|---|---|---|
| | (In thousands) | |
| Outstanding at October 1, 2014 | 381 | $47.19 |
| Granted | 83 | 71.86 |
| Released | (135) | 45.58 |
| Forfeited | (29) | 50.36 |
| Outstanding at December 31, 2014 | 300 | $54.46 |

Market Stock Units

The following table summarizes market stock unit activity during the quarter ended December 31, 2014:

| | Shares | Weighted- average Grant-date Fair Value |
|---|---|---|
| | (In thousands) | |
| Outstanding at October 1, 2014 | 88 | $68.47 |
| Granted | 83 | 101.85 |
| Released | (24) | 58.07 |
| Forfeited | (11) | 66.37 |
| Outstanding at December 31, 2014 | 136 | $90.89 |

11. Earnings Per Share

The following table presents reconciliations for the numerators and denominators of basic and diluted earnings per share ("EPS") for the quarters ended December 31, 2014 and 2013:

| | Quarter Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands, except per share data) | |
| Numerator for diluted and basic earnings per share: | | |
| Net Income | $14,407 | $16,977 |
| Denominator - share: | | |
| Basic weighted-average shares | 31,936 | 34,699 |
| Effect of dilutive securities | 1,192 | 1,121 |
| Diluted weighted-average shares | 33,128 | 35,820 |
| Earnings per share: | | |
| Basic | $0.45 | $0.49 |
| Diluted | $0.43 | $0.47 |

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We exclude the options to purchase shares of common stock in the computation of the diluted EPS where the options' exercise price exceeds the average market price of our common stock as their inclusion would be antidilutive. There were approximately 493,000 options excluded for the quarter ended December 31, 2014. There were no options excluded for the quarter ended December 31, 2013.

12. Segment Information

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

- Applications. Our Applications products are pre-configured decision management applications and associated professional services, designed for a specific type of business problem or process, such as marketing, account origination, customer management, fraud and insurance claims management.
- Scores. This segment includes our business-to-business scoring solutions, our myFICO® solutions for consumers and associated professional services. Our scoring solutions give our clients access to analytics that can be easily integrated into their transaction streams and decision-making processes. Our scoring solutions are distributed through major credit reporting agencies, as well as services through which we provide our scores to clients directly.
- Tools. The Tools segment is composed of software tools and associated professional services that clients can use to create their own custom decision management applications.

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

The following tables summarize segment information for the quarters ended December 31, 2014 and 2013:

| | Quarter Ended December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Applications | Scores | Tools | Unallocated Corporate Expenses | Total |
| | (In thousands) | | | | |
| Segment revenues: | | | | | |
| Transactional and maintenance | $78,551 | $42,937 | $9,922 | $— | $131,410 |
| Professional services | 28,499 | 788 | 5,911 | — | 35,198 |
| License | 8,448 | 216 | 14,278 | — | 22,942 |
| Total segment revenues | 115,498 | 43,941 | 30,111 | — | 189,550 |
| Segment operating expense | (88,894) | (12,892) | (29,539) | (21,619) | (152,944) |
| Segment operating income | $26,604 | $31,049 | $572 | $(21,619) | 36,606 |
| Unallocated share-based compensation expense | | | | | (8,794) |
| Unallocated amortization expense | | | | | (2,932) |
| Operating income | | | | | 24,880 |
| Unallocated interest expense, net | | | | | (7,205) |
| Unallocated other income, net | | | | | 649 |
| Income before income taxes | | | | | $18,324 |
| Depreciation expense | $3,508 | $217 | $783 | $667 | $5,175 |

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| | Quarter Ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Applications | Scores | Tools | Unallocated Corporate Expenses | Total |
| | (In thousands) | | | | |
| Segment revenues: | | | | | |
| Transactional and maintenance | $77,779 | $43,318 | $8,558 | $— | $129,655 |
| Professional services | 26,787 | 589 | 6,910 | — | 34,286 |
| License | 7,350 | 3,273 | 9,779 | — | 20,402 |
| Total segment revenues | 111,916 | 47,180 | 25,247 | — | 184,343 |
| Segment operating expense | (81,962) | (10,375) | (21,071) | (21,757) | (135,165) |
| Segment operating income | $29,954 | $36,805 | $4,176 | $(21,757) | 49,178 |
| Unallocated share-based compensation expense | | | | | (7,235) |
| Unallocated amortization expense | | | | | (3,013) |
| Unallocated restructuring and acquisition-related | | | | | (3,660) |
| Operating income | | | | | 35,270 |
| Unallocated interest expense, net | | | | | (7,126) |
| Unallocated other expense, net | | | | | (961) |
| Income before income taxes | | | | | $27,183 |
| Depreciation expense | $3,637 | $212 | $614 | $691 | $5,154 |

## 13. Contingencies

We are in disputes with certain customers regarding amounts owed in connection with the sale of certain of our products and services. We also have had claims asserted by former employees relating to compensation and other employment matters. We are also involved in various other claims and legal actions arising in the ordinary course of business. We 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.

## 14. Subsequent Event

On January 12, 2015, we acquired 100% of the equity of TONBELLER Aktiengesellschaft ("TONBELLER"). TONBELLER is an innovative provider of financial crime and compliance ("FCC") solutions that support the demanding regulatory compliance requirements of more than a thousand banks and commercial organizations worldwide. This acquisition will allow us to capitalize on the escalating demand for new, risk-based, integrated FCC solutions. The pro forma impact of this acquisition is not expected to be material to our results of operations.

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## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### FORWARD LOOKING STATEMENTS

Statements contained in this report that are not statements of historical fact should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”). In addition, certain statements in our future filings with the Securities and Exchange Commission (“SEC”), in press releases, and in oral and written statements made by us or with our approval that are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other statements concerning future financial performance; (ii) statements of our plans and objectives by our management or Board of Directors, including those relating to products or services, 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 Part II, Item 1A, Risk Factors. The performance of our business and our securities may be adversely affected by these factors and by other factors common to other businesses and investments, or to the general economy. Forward-looking statements are qualified by some or all of these risk factors. Therefore, you should consider these risk factors with caution and form your own critical and independent conclusions about the likely effect of these risk factors on our future performance. Such forward-looking statements speak only as of the date on which statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events or circumstances. Readers should carefully review the disclosures and the risk factors described in this and other documents we file from time to time with the SEC, including our reports on Forms 10-Q and 8-K to be filed by FICO in fiscal 2015.

### OVERVIEW

We provide products and services that enable businesses to automate, improve and connect decisions across the enterprise, an approach we commonly refer to as decision management. Our predictive analytics, which includes the industry-standard FICO® Score, and our decision management systems power hundreds of billions of customer decisions each year. 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. 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.

We derive a significant portion of our revenues from clients outside the U.S. International revenues accounted for 39% and 41% of total consolidated revenues for the quarters ended December 31, 2014 and 2013, respectively. A

significant portion of our revenues are derived from the sale of products and services within the banking (including consumer credit) industry, and 68% and 75% of our revenues were derived from within this industry during the quarters ended December 31, 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 69% and 70% of our revenues during the quarters ended December 31, 2014 and 2013, respectively.

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We continue to invest in growth initiatives that expand our addressable markets. For our Scores segment, we introduced the FICO® Score Open Access program in fiscal 2014 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 now have more than 57 million consumer accounts 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 75 million. On December 29, 2014, we announced the FICO® Score is now available to consumers through Experian, a leading global information services provider. Consumers can go to Experian to access the credit score lenders use most when determining applicant eligibility for new credit cards, car loans, mortgages or other lines of credit.

We introduced a full suite of applications for the FICO® Analytic Cloud in fiscal 2014 and continue to invest in the areas of cloud computing and software as a service ("SaaS"). Through the expansion of our product offerings in our Applications and Tools segments, we can accommodate small-to-midsize companies that benefit from the affordability and simplicity of cloud-based solutions.

We continue to make acquisitions that deliver solutions to the financial services industry and adjacent vertical industries; our latest acquisition of TONBELLER was consummated to address the rapidly growing demand for integrated, enterprise-class financial crime and compliance solutions. We also continue to enhance shareholder value by returning cash to shareholders through our stock repurchase program. During the quarter ended December 31, 2014, we repurchased approximately 0.8 million shares for a total value of $60.6 million.

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 services resources used to complete a project.

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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 |
|---|---|---|---|---|
| | (In millions) | | | (Months) |
| Quarter Ended December 31, 2014 | $69.6 | 32% | 14 | 21 |
| Quarter Ended December 31, 2013 | $82.9 | 24% | 16 | 23 |

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

Transactional and maintenance bookings were 22% and 29% of total bookings for the quarters ended December 31, 2014 and 2013, respectively. Professional services bookings were 53% and 55% of total bookings for the quarters ended December 31, 2014 and 2013, respectively. License bookings were 25% and 16% of total bookings for the quarters ended December 31, 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.

RESULTS OF OPERATIONS

Revenues

The following tables set forth certain summary information on a segment basis related to our revenues for the quarters ended December 31, 2014 and 2013:

| | Quarter Ended December 31, | | Percentage of Revenues | | Period-to-Period | Period-to-Period Percentage |
|---|---|---|---|---|---|---|
| Segment | 2014 | 2013 | 2014 | 2013 | Change | Change |
| | (In thousands) | | | | (In thousands) | |
| Applications | $115,498 | $111,916 | 61% | 61% | $ 3,582 | 3% |
| Scores | 43,941 | 47,180 | 23% | 25% | (3,239) | (7)% |
| Tools | 30,111 | 25,247 | 16% | 14% | 4,864 | 19% |
| Total | $189,550 | $184,343 | 100% | 100% | 5,207 | 3% |

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Quarter Ended December 31, 2014 Compared to Quarter Ended December 31, 2013

Applications

| | Quarter Ended December 31, | | Period-to- | Period-to-Period Percentage |
|---|---|---|---|---|
| | 2014 | 2013 | Period Change | Change |
| | (In thousands) | | (In thousands) | |
| Transactional and maintenance | $78,551 | $77,779 | $772 | 1 % |
| Professional services | 28,499 | 26,787 | 1,712 | 6 % |
| License | 8,448 | 7,350 | 1,098 | 15 % |
| Total | $115,498 | $111,916 | 3,582 | 3 % |

Applications segment revenues increased $3.6 million primarily due to a $2.5 million increase in our collections & recovery solutions and a $2.4 million increase in our originations solutions, partially offset by a $1.5 million decrease in our customer management solutions.

The increase in both collections & recovery solutions and originations revenues was primarily attributable to an increase in service and software revenues. The decrease in customer management solutions revenues was primarily attributable to a decrease in service revenue.

Scores

| | Quarter Ended December 31, | | Period-to- | Period-to-Period Percentage |
|---|---|---|---|---|
| | 2014 | 2013 | Period Change | Change |
| | (In thousands) | | (In thousands) | |
| Transactional and maintenance | $42,937 | $43,318 | $(381) | (1)% |
| Professional services | 788 | 589 | 199 | 34 % |
| License | 216 | 3,273 | (3,057) | (93)% |
| Total | $43,941 | $47,180 | (3,239) | (7)% |

Scores segment revenues decreased $3.2 million due to a decrease of $2.7 million in our business-to-business Scores revenue and a decrease of $0.5 million in our business-to-consumer services revenue. The decrease in our business-to-business Scores was primarily attributable to a decline in software revenue related to Global FICO® Score. The decrease in business-to-consumer services was primarily attributable to a decline in direct sales generated from the myFICO.com website as well as a decline in royalties derived from scores sold indirectly to consumers through credit reporting agencies.

During the quarters ended December 31, 2014 and 2013, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for approximately 15% and 16%, respectively, of our total revenues, including revenues from these customers recorded in our other segments.

Tools

| | Quarter Ended December 31, | | Period-to- | Period-to-Period Percentage |
|---|---|---|---|---|
| | 2014 | 2013 | Period Change | Change |
| | (In thousands) | | (In thousands) | |
| Transactional and maintenance | $9,922 | $8,558 | $1,364 | 16 % |
| Professional services | 5,911 | 6,910 | (999) | (14)% |
| License | 14,278 | 9,779 | 4,499 | 46 % |
| Total | $30,111 | $25,247 | 4,864 | 19 % |

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Tools segment revenues increased $4.9 million primarily attributable to an increase in license revenue, driven by a one-time settlement with a customer related to under-reported royalties from a multi-year period.

Operating Expenses and Other Income / Expenses

The following tables set forth certain summary information related to our condensed consolidated statements of income and comprehensive income for the quarters ended December 31, 2014 and 2013:

| | Quarter Ended December 31, | | Percentage of Revenues | | Period-to- | Period-to-Period Percentage |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | Period Change | Change |
| | (In thousands, except employees) | | | | (In thousands, except employees) | |
| Revenues | $189,550 | $184,343 | 100 % | 100 % | $ 5,207 | 3 % |
| Operating expenses: | | | | | | |
| Cost of revenues | 66,300 | 57,319 | 35 % | 31 % | 8,981 | 16 % |
| Research and development | 22,637 | 18,092 | 12 % | 10 % | 4,545 | 25 % |
| Selling, general and administrative | 72,801 | 66,989 | 38 % | 36 % | 5,812 | 9 % |
| Amortization of intangible assets | 2,932 | 3,013 | 2 % | 2 % | (81) | (3)% |
| Restructuring and acquisition-related | — | 3,660 | — % | 2 % | (3,660) | (100)% |
| Total operating expenses | 164,670 | 149,073 | 87 % | 81 % | 15,597 | 10 % |
| Operating income | 24,880 | 35,270 | 13 % | 19 % | (10,390) | (29)% |
| Interest expense, net | (7,205) | (7,126) | (4)% | (3)% | (79) | 1 % |
| Other income (expense), net | 649 | (961) | 1 % | (1)% | 1,610 | (168)% |
| Income before income taxes | 18,324 | 27,183 | 10 % | 15 % | (8,859) | (33)% |
| Provision for income taxes | 3,917 | 10,206 | 2 % | 6 % | (6,289) | (62)% |
| Net income | $14,407 | $16,977 | 8 % | 9 % | (2,570) | (15)% |
| Number of employees at quarter end | 2,638 | 2,425 | | | 213 | 9 % |

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; outside services; costs of computer service bureaus; internal network hosting costs; amounts payable to credit reporting agencies for scores; software costs; and expenses related to our business-to-consumer services.

Cost of revenues as a percentage of revenues increased to 35% for the quarter ended December 31, 2014 from 31% for the quarter ended December 31, 2013. The increase of $9.0 million was primarily attributable to a $4.5 million increase in outside services and a $3.7 million increase in personnel and labor costs. The increase in outside services was primarily attributable to an increase in our billable consulting projects utilizing temporary resources. The increase in personnel and labor costs was primarily attributable to an increase in professional services delivery cost, as well as

an increase in salaries and benefits cost as a result of our increased headcount.

Over the next several quarters, we expect cost of revenues as a percentage of revenues will be consistent with or slightly lower than those incurred during the quarter ended December 31, 2014.

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Research and Development

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

Research and development expenses as a percentage of revenues increased to 12% for the quarter ended December 31, 2014 from 10% for the quarter ended December 31, 2013. The $4.5 million increase was mainly due to a $3.2 million increase in personnel and labor costs and a $0.8 million increase in outside services, primarily driven by our continued investment in the areas of cloud computing and SaaS, as well as our investment in several new products in the Tools segment.

Over the next several quarters, we expect that research and development expenditures as a percentage of revenues will be consistent with or slightly lower than those incurred during the quarter ended December 31, 2014.

Selling, General and Administrative

Selling, general and administrative expenses consist principally of employee salaries, commissions 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.

Selling, general and administrative expenses as a percentage of revenues increased to 38% for the quarter ended December 31, 2014 from 36% for the quarter ended December 31, 2013. The increase of $5.8 million was primarily attributable to a $2.9 million increase in labor and personnel costs and a $2.8 million increase in marketing expenses. The increase in labor and personnel costs was primarily attributable to an increase in salaries and benefits as a result of our increased headcount. The increase in marketing expenses was primarily attributable to a company-wide marketing event during the quarter ended December 31, 2014.

Over the next several quarters, we expect that selling, general and administrative expenses as a percentage of revenues will be consistent with those incurred during the quarter ended December 31, 2014.

Amortization of Intangible Assets

Amortization of intangible assets consists of amortization expense related to intangible assets recorded in connection with acquisitions accounted for by the acquisition method of accounting. Our finite-lived intangible assets, consisting primarily of completed technology and customer contracts and relationships, are being amortized using the straight-line method over periods ranging from four to fifteen years.

The quarter over quarter decrease of $0.1 million in amortization expense was attributable to certain intangible assets associated with our CR Software, LLC acquisition becoming fully amortized in November 2013, partially offset by the addition of intangible assets associated with our InfoCentricity, Inc. and Karmasphere, Inc. acquisitions in April 2014.

Over the next several quarters we expect that amortization expense will be consistent with or slightly higher than the amortization expense we recorded during the quarter ended December 31, 2014.

Restructuring and Acquisition-related

There were no restructuring or acquisition-related charges during the quarter ended December 31, 2014.

During the quarter ended December 31, 2013, we incurred $3.7 million in severance charges due to the elimination of 83 positions throughout the company. Cash payments for all the restructuring costs will be paid by the end of the second quarter of our fiscal 2015. There were no acquisition-related charges during the period.

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

The quarter over quarter increase in interest expense of $0.1 million was attributable to a higher average balance on our revolving line of credit, partially offset by a lower average balance on the senior notes for the quarter ended December 31, 2014.

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Over the next several quarters we expect net interest expense will be consistent with the net interest expense incurred during the quarter ended December 31, 2014.

Other Income (Expense), Net

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

The quarter over quarter change in other income (expense), net of $1.6 million was primarily attributable to a nonrecurring charge related to our fixed assets balance during the quarter ended December 31, 2013, as well as a decrease in foreign currency exchange loss during the quarter ended December 31, 2014.

Provision for Income Taxes

The effective income tax rate was 21.4% and 37.5% during the quarters ended December 31, 2014 and 2013, respectively. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the respective full fiscal year. The effective tax rate in any quarter can also be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution. The decrease in our effective tax rate year over year was primarily due to the retroactive extension of the U.S. Federal Research and Development Credit through 2014, which was enacted during the quarter ended December 31, 2014.

Operating Income

The following tables set forth certain summary information on a segment basis related to our operating income for the quarters ended December 31, 2014 and 2013:

| Segment | Quarter Ended December 31, 2014 | Quarter Ended December 31, 2013 | Period-to-Period Change | Period-to-Period Percentage Change |
|---|---|---|---|---|
| | (In thousands) | | (In thousands) | |
| Applications | $26,604 | $29,954 | $ (3,350) | (11)% |
| Scores | 31,049 | 36,805 | (5,756) | (16)% |
| Tools | 572 | 4,176 | (3,604) | (86)% |
| Corporate expenses | (21,619) | (21,757) | 138 | (1)% |
| Total segment operating income | 36,606 | 49,178 | (12,572) | (26)% |
| Unallocated share-based compensation | (8,794) | (7,235) | (1,559) | 22% |
| Unallocated amortization expense | (2,932) | (3,013) | 81 | (3)% |
| Unallocated restructuring and acquisition-related | — | (3,660) | 3,660 | (100)% |
| Operating income | $24,880 | $35,270 | (10,390) | (29)% |

Applications

| | Quarter Ended December 31, 2014 | Quarter Ended December 31, 2013 | Percentage of Revenues 2014 | Percentage of Revenues 2013 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Segment revenues | $115,498 | $111,916 | 100% | 100% |
| Segment operating expense | (88,894) | (81,962) | (77)% | (73)% |
| Segment operating income | $26,604 | $29,954 | 23% | 27% |

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Scores

| | Quarter Ended December 31, | | Percentage of Revenues | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (In thousands) | | | |
| Segment revenues | $43,941 | $47,180 | 100 % | 100 % |
| Segment operating expense | (12,892) | (10,375) | (29)% | (22)% |
| Segment operating income | $31,049 | $36,805 | 71 % | 78 % |

Tools

| | Quarter Ended December 31, | | Percentage of Revenues | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (In thousands) | | | |
| Segment revenues | $30,111 | $25,247 | 100 % | 100 % |
| Segment operating expense | (29,539) | (21,071) | (98)% | (83)% |
| Segment operating income | $572 | $4,176 | 2 % | 17 % |

The quarter over quarter $10.4 million decrease in operating income was mainly attributable to a $17.9 million increase in segment operating expenses and a $1.6 million increase in share-based compensation cost, partially offset by a $5.2 million increase in segment revenues and a $3.7 million decrease in restructuring and acquisition-related cost.

At the segment level, the quarter over quarter $12.6 million decrease in segment operating income was primarily driven by a $5.8 million decrease in our Scores segment operating income, a $3.6 million decrease in our Tools segment operating income and a $3.3 million decrease in our Applications segment operating income.

The quarter over quarter $3.3 million decrease in Applications segment operating income was due to a $6.9 million increase in segment operating expenses, partially offset by a $3.6 million increase in segment revenues. Segment operating income as a percentage of segment revenue for Applications decreased to 23% from 27% primarily due to an increase in professional services delivery cost, as well as an increase in salaries and benefits cost as a result of our increased headcount.

The quarter over quarter $5.8 million decrease in Scores segment operating income was due to a $3.3 million decrease in segment revenue and a $2.5 million increase in segment operating expenses. Segment operating income as a percentage of segment revenue for Scores decreased to 71% from 78% primarily due to a decrease in sales of our higher-margin software products, as well as an increase in salaries and benefits cost as a result of our increased headcount.

The quarter over quarter $3.6 million decrease in Tools segment operating income was due to an $8.5 million increase in segment operating expenses, partially offset by a $4.9 million increase in segment revenue. Segment operating margin for Tools decreased to 2% from 17% primarily due to an increase in the research and development efforts related to our cloud-based FICO® Decision Management Platform and several new products in the Tools segment, as well as an increase in professional services delivery cost, partially offset by an increase in sales of our higher-margin software products.

CAPITAL RESOURCES AND LIQUIDITY

Outlook

As of December 31, 2014, we had $94.7 million in cash and cash equivalents which included $74.0 million held off-shore by our foreign subsidiaries. We believe these balances, as well as available borrowings from our $400 million revolving line of credit and anticipated cash flows from operating activities, will be sufficient to fund our working and other capital requirements as well as the $71.0 million principal payment due in May 2015 on our Senior Notes issued in May 2008. Under our current

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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

| | Quarter Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (In thousands) | |
| Cash provided by (used in): | | |
| Operating activities | $1,360 | $28,378 |
| Investing activities | (5,592) | (2,154) |
| Financing activities | (2,037) | (13,257) |
| Effect of exchange rate changes on cash | (4,155) | (208) |
| Increase (decrease) in cash and cash equivalents | $(10,424) | $12,759 |

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 decreased to $1.4 million during the quarter ended December 31, 2014 from $28.4 million during the quarter ended December 31, 2013. The $27.0 million decrease was mainly attributable to a $15.2 million increase in our accrued incentive payout and a $7.7 million increase in our income tax payments.

Cash Flows from Investing Activities

Net cash used in investing activities increased to $5.6 million for the quarter ended December 31, 2014 from $2.2 million for the quarter ended December 31, 2013. The $3.4 million increase was primarily attributable to a $3.5 million increase in purchases of property and equipment.

Cash Flows from Financing Activities

Net cash used in financing activities decreased to $2.0 million for the quarter ended December 31, 2014 from $13.3 million for the quarter ended December 31, 2013. The $11.3 million decrease was primarily due to a $53.0 million increase in proceeds from our revolving line of credit, net of payments on our revolving line of credit. This was partially offset by a $33.5 million increase in repurchases of common stock, a $6.2 million increase in taxes paid related to net share settlement of equity awards and a $4.1 million decrease in proceeds from issuance of treasury stock under employee stock plans.

Repurchases of Common Stock

In August 2014, our Board of Directors approved a new stock repurchase program following the completion of our previous program. This program is open-ended and authorizes repurchases of shares of our common stock up to an aggregate cost of $250.0 million in the open market or in negotiated transactions.

Pursuant to this program, during the quarter ended December 31, 2014 we repurchased 844,135 shares of our common stock for $60.6 million. As of December 31, 2014, we had $189.4 million remaining under the August 2014 authorization.

Dividends

During the quarter ended December 31, 2014, we paid a quarterly dividend of two cents per common share. 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

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operating results and cash flows, general economic and industry conditions, our obligations, changes in applicable tax laws and other factors deemed relevant by the Board. Although we expect to continue to pay dividends at the current rate, our dividend rate is subject to change from time to time based on the Board’s business judgment with respect to these and other relevant factors.

Revolving Line of Credit

We have a $400 million unsecured revolving line of credit with a syndicate of banks that expires on December 30, 2019. Proceeds from the credit facility can be used for working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions, and the repurchase of our common stock. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greater of (a) the prime rate, (b) the Federal Funds rate plus 0.500% and (c) the one-month LIBOR rate plus 1.000%, plus, in each case, an applicable margin, or (ii) an adjusted LIBOR rate plus an applicable margin. The applicable margin for base rate borrowings ranges from 0% to 0.875% and for LIBOR borrowings ranges from 1.000% to 1.875%, and is determined based on our consolidated leverage ratio. In addition, we must pay credit facility fees. The credit facility contains certain restrictive covenants including maintaining a minimum fixed charge ratio of 2.5 and a maximum consolidated leverage ratio of 3.0, subject to a step up to 3.5 following certain permitted acquisitions. The credit agreement also contains other covenants typical of unsecured facilities. As of December 31, 2014, we had $160.0 million in borrowings outstanding at a weighted average interest rate of 1.295% and were in compliance with all financial covenants under this credit facility.

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 with maturities ranging from 5 to 10 years. The outstanding 2008 Senior Notes’ weighted average interest rate is 7.0% and the weighted average maturity is 9.0 years. 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 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 December 31, 2014 we were in compliance with all financial covenants under these facilities.

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 condensed consolidated financial statements:

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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 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 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.

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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 our fees is probable. We do not view the activities of signing the contract or providing initial setup services as discrete earnings events. Revenue is typically deferred until the date the customer commences use of our services, at which point the up-front fees are recognized ratably over the expected life of the customer relationship. ASP transactional fees are recorded monthly as earned.

Multiple-Deliverable Arrangements Including Non-Software

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

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 condensed consolidated statements of income and comprehensive income.

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

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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 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 account for share-based compensation using the fair value recognition provisions as required in the accounting literature. The fair value of options is estimated using the Black-Scholes option valuation model, which requires assumptions for expected volatility of our common stock, expected term of options, dividend yield and risk-free interest rate. The fair value of stock units not subject to market conditions is measured based on the grant date fair value of our common stock, discounted for non-participation in anticipated dividends during the vesting period. The fair value of stock units subject to market conditions is estimated using a Monte Carlo simulation model, which requires assumptions for expected volatility of our common stock, correlation coefficient, dividend yield and risk-free interest rate. Share-based compensation cost is recorded net of estimated forfeitures on a straight-line basis for awards not subject to market conditions, and on a graded-vesting basis for awards subject to market conditions, both over the requisite service period, which is generally the vesting period. Forfeitures are estimated based on historical experience.

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 condensed consolidated 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 condensed 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

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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.

New Accounting Pronouncements Recently Issued or Adopted

In May 2014, the Financial Accounting Standards Board 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 3. 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 December 31, 2014 and September 30, 2014:

| December 31, 2014 | | | September 30, 2014 | | |
|---|---|---|---|---|---|
| Cost Basis | Carrying Amount | Average Yield | Cost Basis | Carrying Amount | Average Yield |
| (Dollars in thousands) | | | | | |

| Cash and cash equivalents | $94,651 | $94,651 | 0.12 | % | $105,075 | $105,075 | 0.03 | % |
|---|---|---|---|---|---|---|---|---|

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On May 7, 2008, we issued $275 million of senior notes to a group of institutional investors in a private placement (the “2008 Senior Notes”). On July 14, 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 December 31, 2014 and September 30, 2014:

| | December 31, 2014 | | | September 30, 2014 | | |
|---|---|---|---|---|---|---|
| | Principal | Carrying Amounts | Fair Value | Principal | Carrying Amounts | Fair Value |
| | (In thousands) | | | (In thousands) | | |
| The 2008 Senior Notes | $202,000 | $202,000 | $213,908 | $202,000 | $202,000 | $214,170 |
| The 2010 Senior Notes | $245,000 | $245,000 | $250,548 | $245,000 | $245,000 | $248,557 |

We have a $400 million unsecured revolving line of credit with a syndicate of banks that expires on December 30, 2019. Proceeds from the credit facility can be used for working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions, and the repurchase of our common stock. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greater of (a) the prime rate, (b) the Federal Funds rate plus 0.500% and (c) the one-month LIBOR rate plus 1.000%, plus, in each case, an applicable margin, or (ii) an adjusted LIBOR rate plus an applicable margin. The applicable margin for base rate borrowings ranges from 0% to 0.875% and for LIBOR borrowings ranges from 1.000% to 1.875%, and is determined based on our consolidated leverage ratio. 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 $160.0 million in borrowings outstanding at a weighted average interest rate of 1.295% under the credit facility as of December 31, 2014.

Foreign Currency Forward Contracts

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

The following table summarizes our outstanding foreign currency forward contracts, by currency at December 31, 2014 and September 30, 2014:

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| | December 31, 2014 Contract Amount Foreign Currency (In thousands) | | US$ | Fair Value US$ |
|---|---|---|---|---|
| Sell foreign currency: | | | | |
| Canadian dollar (CAD) | CAD | 2,400 | $2,072 | $— |
| Euro (EUR) | EUR | 4,550 | $5,536 | $— |
| Buy foreign currency: | | | | |
| British pound (GBP) | GBP | 6,643 | $10,350 | $— |

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

The foreign currency forward contracts were entered into on December 31, 2014 and September 30, 2014, respectively; therefore, their fair value was $0 on each of these dates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

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PART II – OTHER INFORMATION
Item 1. Legal Proceedings
Not Applicable.
Item 1A. Risk Factors
We continue to expand the pursuit of our Decision Management strategy, and we may not be successful, which could cause our growth prospects and results of operations to suffer.

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

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

We expect that revenues derived from our scoring solutions, fraud solutions, 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.

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We rely on relatively few customers, as well as our contracts with the three major credit reporting agencies, for a significant portion of our revenues and profits. The businesses of our largest customers depend, in large part, on favorable macroeconomic conditions. If these customers are negatively impacted by weak global economic conditions, global economic volatility or the terms of these relationships otherwise change, our revenues and operating results could decline.

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

In addition, the U.S. and other key international economies have experienced in the past a downturn in which economic activity was impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy. The European Union continues to face great economic uncertainty which could impact the overall world economy or various other regional economies. The potential for economic disruption presents considerable risks to our business, including potential bankruptcies or credit deterioration of financial institutions with which we have substantial relationships. Such disruption could result in a decline in the volume of transactions that we execute for our customers.

We also derive a substantial portion of our revenues and operating income from our contracts with the three major credit reporting agencies, TransUnion, Equifax and Experian, and other parties that distribute our products to certain markets. The loss of or a significant change in a relationship with one of these credit reporting agencies with respect to their distribution of our products or with respect to our myFICO® offerings, the loss of or a significant change in a relationship with a major customer, the loss of or a significant change in a relationship with a significant third-party distributor 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:

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- 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

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accounting treatment, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, operating results or financial condition;

- we may not realize the anticipated increase in our revenues from an acquisition for a number of reasons, including if a larger than predicted number of customers decline to renew their contracts, if we are unable to sell the acquired products to our customer base or if contract models of an acquired company do not allow us to recognize revenues on a timely basis;
- we may have difficulty incorporating acquired technologies or products with our existing product lines and maintaining uniform standards, architecture, controls, procedures and policies;
- our use of cash to pay for acquisitions may limit other potential uses of our cash, including stock repurchases, dividend payments and retirement of outstanding indebtedness;
- to the extent we issue a significant amount of equity securities in connection with future acquisitions, existing stockholders may be diluted and earnings per share may decrease; and
- we may experience additional or unexpected changes in how we are required to account for our acquisitions pursuant to U.S. generally accepted accounting principles, including arrangements we assume from an acquisition.

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

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

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

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

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

- impairment of goodwill or intangible assets, or a reduction in the useful lives of intangible assets acquired;
- amortization of intangible assets acquired;
- identification of, or changes to, assumed contingent liabilities, both income tax and non-income tax related, after our final determination of the amounts for these contingencies or the conclusion of the measurement period (generally up to one year from the acquisition date), whichever comes first;
- costs incurred to combine the operations of companies we acquire, such as transitional employee expenses and employee retention, redeployment or relocation expenses;
- charges to our operating results to maintain certain duplicative pre-merger activities for an extended period of time or to maintain these activities for a period of time that is longer than we had anticipated, charges to eliminate certain

duplicative pre-merger activities, and charges to restructure our operations or to reduce our cost structure; and

- charges to our operating results resulting from expenses incurred to effect the acquisition.

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

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

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

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

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

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

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

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

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

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

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 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.

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

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

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

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

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

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

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

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

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

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are not willing to switch to or adopt our new products and services, either as a result of the quality of these products and services or due to other factors, such as economic conditions, our revenues will decrease.

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

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

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

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

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

- in-house analytic and systems developers;
- scoring model builders;
- enterprise resource planning (“ERP”) 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.



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

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

- Use of data by creditors and consumer reporting agencies. Examples in the U.S. include the Fair Credit Reporting Act ("FCRA"), as amended by the Fair and Accurate Credit Transactions Act ("FACTA");
- Laws and regulations that limit the use of credit scoring models such as state "mortgage trigger" laws, state "inquiries" laws, state insurance restrictions on the use of credit based insurance scores, and the Consumer Credit Directive in the European Union;
- Fair lending laws, such as the Truth In Lending Act ("TILA") and Regulation Z, as amended by the Credit Card Accountability Responsibility and Disclosure Act of 2009 ("Credit CARD Act of 2009"), and the Equal Credit Opportunity Act ("ECOA") and Regulation B;
- Privacy and security laws and regulations that limit the use and disclosure of personally identifiable information or require security procedures, including but not limited to the provisions of the Financial Services Modernization Act of 1999, also known as the Gramm Leach Bliley Act ("GLBA"); the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") as amended by the Health Information Technology for Economic and Clinical Health Act ("HITECH"); the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA Patriot Act"); identity theft, file freezing, security breach notification and similar state privacy laws;
- Extension of credit to consumers through the Electronic Fund Transfers Act and Regulation E, as well as nongovernmental VISA and MasterCard electronic payment standards;
- Regulations applicable to secondary market participants such as Fannie Mae and Freddie Mac that could have an impact on our products;
- Insurance laws and regulations applicable to our insurance clients and their use of our insurance products and services;
- The application or extension of consumer protection laws, including, laws governing the use of the Internet and telemarketing, advertising, endorsements and testimonials and credit repair;
- Laws and regulations applicable to operations in other countries, for example, the European Union's Privacy Directive and the Foreign Corrupt Practices Act;
- Sarbanes-Oxley Act ("SOX") requirements to maintain and verify internal process controls, including controls for material event awareness and notification;
- The implementation of the Emergency Economic Stabilization Act of 2008 by federal regulators to manage the financial crisis in the U.S.;
- 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

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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.

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:

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

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

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

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

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) |
|---|---|---|---|---|
| October 1, 2014 through October 31, 2014 | 6,450 | $56.22 | — | $ 250,000,000 |
| November 1, 2014 through November 30, 2014 | 527,581 | $71.92 | 519,135 | $ 212,632,395 |
| December 1, 2014 through December 31, 2014 | 522,708 | $71.35 | 325,000 | $ 189,407,036 |
| | 1,056,739 | $71.54 | 844,135 | $ 189,407,036 |

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(1) Includes 212,604 shares delivered in satisfaction of the tax withholding obligations resulting from the vesting of restricted stock units held by employees during the quarter ended December 31, 2014.

(2) In August 2014, our Board of Directors approved a new stock repurchase program following the completion of our previous program. This program is open-ended and authorizes repurchases of shares of our common stock up to an aggregate cost of $250.0 million in the open market or in negotiated transactions.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

| Exhibit Number | Description |
| --- | --- |
| 3.1 | Composite Restated Certificate of Incorporation of Fair Isaac Corporation (incorporated by reference to Exhibit 3.2 to the Company’s Form 10-Q filed on February 8, 2010). |
| 3.2 | By-laws of Fair Isaac Corporation (incorporated by reference to Exhibit 3.1 to the Company’s 10-Q filed on February 8, 2010). |
| 10.1 | Amended and Restated Credit Agreement among the Company Wells Fargo Securities, LLC and U.S. Bank National Association, as joint lead arrangers and joint bookrunners, U.S. Bank National Association, as syndication agent, and Wells Fargo Bank, National Association, as administrative agent dated as of December 30, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on December 31, 2014) |
| 10.2 * | Form of Amendment to Management Agreement entered into with certain of the Company's executive officers. (1) |
| 10.3 * | Letter Agreement dated November 5, 2014 by and between the Company and Wayne Huyard. (1) |
| 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. |
| 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.

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SIGNATURES

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

FAIR ISAAC CORPORATION

DATE: January 29, 2015

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

DATE: January 29, 2015

By /s/ MICHAEL S. LEONARD
Michael S. Leonard
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

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EXHIBIT INDEX
To Fair Isaac Corporation Report On Form 10-Q
For The Quarterly Period Ended December 31, 2014

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