

FAIR ISAAC CORP
Form 10-K
November 16, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2012

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

For the transition period from _____ to _____

Commission File Number 1-11689

Fair Isaac Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

94-1499887
(I.R.S. Employer

Identification No.)

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901 Marquette Avenue, Suite 3200
Minneapolis, Minnesota
(Address of principal executive offices)

55402-3232
(Zip Code)

Registrant's telephone number, including area code:

612-758-5200

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

(Title of Class)	(Name of each exchange on which registered)
Common Stock, \$0.01 par value per share	New York Stock Exchange, Inc.
Preferred Stock Purchase Rights	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

None

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

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

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

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

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

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

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

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

As of March 31, 2012, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$928,946,960 based on the last transaction price as reported on the New York Stock Exchange on such date. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purposes.

The number of shares of common stock outstanding on October 31, 2012 was 34,915,741 (excluding 53,941,042 shares held by the Company as treasury stock).

Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held on February 12, 2013.

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FORWARD LOOKING STATEMENTS

Statements contained in this report that are not statements of historical fact should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act). In addition, certain statements in our future filings with the Securities and Exchange Commission (SEC), in press releases, and in oral and written statements made by us or with our approval that are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other statements concerning future financial performance; (ii) statements of our plans and objectives by our management or Board of Directors, including those relating to products or services, research and development, and the sufficiency of capital resources; (iii) statements of assumptions underlying such statements, including those related to economic conditions; (iv) statements regarding business relationships with vendors, customers or collaborators, including the proportion of revenues generated from international as opposed to domestic customers; and (v) statements regarding products, their characteristics, performance, sales potential or effect in the hands of customers. Words such as believes, anticipates, expects, intends, targeted, should, potential, goals, strategy, and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, those described in Item 1A of Part I, Risk Factors, below. The performance of our business and our securities may be adversely affected by these factors and by other factors common to other businesses and investments, or to the general economy. Forward-looking statements are qualified by some or all of these risk factors. Therefore, you should consider these risk factors with caution and form your own critical and independent conclusions about the likely effect of these risk factors on our future performance. Such forward-looking statements speak only as of the date on which statements are made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events or circumstances. Readers should carefully review the disclosures and the risk factors described in this and other documents we file from time to time with the SEC, including our reports on Forms 10-Q and 8-K to be filed by the Company in fiscal 2013.

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PART I

Item 1. Business

GENERAL

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

We were founded in 1956 on the premise that data, used intelligently, can improve business decisions. Today, we help thousands of companies in over 90 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 and healthcare organizations. We also serve consumers through online services that enable people to purchase and understand their FICO® Scores, the standard measure in the United States of credit risk, empowering them to manage their financial health.

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

PRODUCTS AND SERVICES

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

Our Segments

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

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

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

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

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Comparative segment revenues, operating income and related financial information for fiscal 2012, 2011 and 2010 are set forth in Note 17 to the accompanying consolidated financial statements.

Our Solutions

Our solutions involve four fundamental disciplines:

Predictive analytics that identify the risks and opportunities associated with individual clients, prospects and transactions, in order to detect patterns such as risk and fraud, and that improve the design of decision logic or strategies ;

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

Software such as rules management systems that implement business rules, models and decision strategies, often in a real-time environment; and

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

All of our solutions are designed to help businesses make decisions that are faster, more precise, more consistent and more agile, while reducing costs and risks incurred in making decisions. With the acquisition of Adepra Ltd. (Adepra) in September 2012, we can now offer clients full-cycle decision management enabling them to assess a customer or situation, determine the ideal decision, act on that decision, and resolve a situation with a customer.

Applications

We develop industry-tailored Decision Management applications, categorized as Applications, which apply analytics, data management and Decision Management software to specific business challenges and processes. These include credit offer prescreening, insurance claims management and others. Our Applications primarily serve clients in the banking, insurance, healthcare, and retail sectors. Within our Applications segment our fraud solutions accounted for 25%, 23% and 20% of total revenues in each of fiscal 2012, 2011 and 2010, respectively; our customer management solutions accounted for 13%, 13% and 14% of total revenues, in each of these periods, respectively; and our marketing solutions accounted for 9%, 10% and 11% for each of these periods, respectively.

Marketing Applications

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

In fiscal year 2012, we acquired Entiera, Inc. (Entiera) with the intent of using its Insight product as the platform for our marketing solutions. The Insight product has been re-named FICO Customer Dialogue Manager, a multi-channel marketing platform that enables marketers to design, execute and manage precisely timed and targeted campaigns that engage customers across all channels based on their known interactions and preferences. FICO Customer Dialogue Manager replaces the Precision Marketing Manager solution previously offered at FICO and together with Analytic Offer Manager replaces Retail Action Manager.

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Originations Applications

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

Our newest origination application is FICO® Origination Manager, an application-to-decision processing solution built on a service-oriented architecture (SOA), modularized approach that launched in fiscal year 2011. Our other solutions include the web-based FICO® LiquidCredit® service, which is primarily focused on credit decisions and is offered largely to mid-tier banking institutions. In addition, we offer FICO® Origination Decision Manager, a rules-based application based on our FICO® Blaze Advisor® business rules management system. We also offer custom and consortium-based credit risk and application fraud models.

Customer Management Applications

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

We provide customer management solutions for banking, where our leading account and customer management product is the FICO® TRIAD® Customer Manager. The solution is an adaptive control system, so named because it enables businesses to rapidly adapt to changing business and internal conditions by designing and testing new strategies in a champion/challenger environment. The TRIAD system is the world's leading credit account management system, and our adaptive control systems are used by more than 250 banks. The current version of the TRIAD system enables users to manage risk and communications at both the account and customer level from a single platform.

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

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

Fraud Applications

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

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

Our leading fraud detection solution is FICO® Falcon® Fraud Manager, recognized as the leader in global payment card fraud detection. Falcon Fraud Manager's neural network predictive models and patented profiling technology, both further described below in the Technology section, examine transaction, cardholder, account,

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customer, device and merchant data to detect a wide range of payment card fraud quickly and accurately. Falcon Fraud Manager analyzes payment transactions in real time, assesses the risk of fraud, and takes the user-defined steps to prevent fraud while expediting legitimate transactions.

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

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

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

In fiscal 2012, FICO launched two new fraud solutions: FICO® Claims Fraud Solution, which provides auto and other property and casualty insurers with a powerful integrated set of sophisticated components that are configured to detect and prioritize claims fraud incidents so that most clients experience payback on the solution in a matter of months, not years. We have also introduced the FICO® Merchant Monitoring Solution, which enables merchant acquirers to identify the full spectrum of merchant risk – fraud, card association non-compliance, bankruptcy, and merchant attrition risk to mitigate losses while increasing portfolio volumes.

Collections & Recovery Applications

Our leading solutions in this area are the FICO® Debt Manager™ solution and the FICO® Recovery Management System™ (RMS) solution. The Debt Manager solution automates the full cycle of collections and recovery, including early collections, late collections, asset disposal, agency placement, recovery, litigation, bankruptcy, asset management and residual balance recovery. The RMS solution is focused on the later phases of distressed debt management in the U.S., including bankruptcy and agency management. Companies using the Debt Manager solution and the RMS solution in the U.S. can access partner services such as collection agencies and attorneys via FICO® Network Services, which provides web-based access to and from thousands of third-party collections and recovery service providers, as well as access to multiple data sources and FICO solutions hosted in Active Service Pages (ASP) mode. We also provide the FICO® PlacementsPlus® service, an account placement optimization and management system.

Analytics

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

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

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Mobility

In September 2012, we completed our acquisition of Adeptra, a leader in cloud-based customer engagement and risk intervention solutions. Adeptra's software as a service (SaaS) platform enables leading financial services institutions and other businesses to take advantage of the explosion in mobile communication in order to manage risk, fight fraud and dramatically improve the customer experience, all in real time. By using Adeptra's technology combined with FICO's decision management applications, businesses can move from defining, changing and testing decisions to executing and resolving customer interactions while improving customer outcomes.

With this acquisition, new offerings for FICO include Adeptra® Fraud Risk Intervention, which enables clients to engage with customers rapidly and effectively to identify true cases of fraud; Adeptra® Credit Risk Intervention, which enables clients to interact with customers using preferred channels, treatments and schedules to manage past due payments; and Adeptra® Customer Risk and Engagement, which facilitates effective, scalable and targeted two-way multi-channel engagement across a range of applications such as account activation, marketing and customer service.

Scores

We develop leading credit scores based on third-party data. Our FICO® Scores are used in most U.S. credit decisions, by most of the major banks and credit card organizations as well as by mortgage and auto loan originators. These scores provide a consistent and objective measure of an individual's credit risk. Credit grantors use the FICO® Scores to prescreen candidates for solicitation, to evaluate applicants for new credit and to review existing accounts. The FICO® Scores are calculated based on proprietary scoring models and implemented on third-party data. The scores produced by these models are available through each of the three major credit reporting agencies in the United States: TransUnion, Experian and Equifax. Users generally pay the credit reporting agencies scoring fees based on usage, and the credit reporting agencies share these fees with us.

The most recent version of the FICO® Score for U.S. and Canadian lenders is the FICO® 8 Score. This substantially upgraded version, available at the three major credit reporting agencies in the U.S. and the two major credit reporting agencies in Canada, includes enhancements that increase its predictive power as well as enhancements specific to the market. For example, the U.S. version includes enhancements that consider authorized user accounts (accounts where another consumer is added as a user of the primary cardholder's account) while limiting the possibility that such accounts are used to artificially inflate scores. The Canadian version includes enhancements that provide specialized line of credit handling.

Our scoring portfolio also includes the FICO Expansion® Score, which provides scores on U.S. consumers who do not have traditional FICO® Scores, generally because they have too few credit accounts being reported to the credit reporting agencies. The score analyzes multiple sources of non-traditional credit data such as subscription memberships, deposit account activity and utility payment histories. The resulting scores have the same 300-850 score range as the traditional FICO® Score.

Our other solutions include:

The FICO® Credit Capacity Index, the first market-ready predictive analytic to assess a consumer's ability to pay new debt. In fiscal 2012, we launched FICO® Credit Capacity Index in the United Kingdom, making it now available for use with four credit reporting agencies' data in multiple markets. Also, outside of North America, we have installed client-specific versions of the FICO® Credit Capacity Index in two countries.

The FICO® Economic Impact Index, the first market-ready, economically adjusted measure of consumer risk available for portfolio stress testing as well as individual credit decisions.

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The FICO® Score Trends Service is a comprehensive reporting package that allows lenders to drill down into industry FICO® Score trends, indexed by a range of criteria such as industry, geography and time period, in order to regularly analyze their own portfolios, and improve their risk management and forecasting.

Through the combination of these scoring solutions, FICO offers a comprehensive market-ready solution for giving lenders a 360 degree view of the customer, encompassing the risk view (FICO® Score), market view (FICO® Score Trends Service), opportunity view (FICO® Credit Capacity Index) and economic view (FICO® Economic Impact Index).

Outside of the United States and Canada, we offer the FICO® Score, for consumer and/or small and medium enterprises lending, through credit reporting agencies in 12 markets worldwide. We have installed client-specific versions of the FICO® Score in 6 countries. Like FICO® Scores in North America, these scores help lenders in multiple countries leverage the FICO® Score's predictive analysis to assess the risk of prospects, applicants and borrowers. FICO® Scores are in use or being implemented in 16 different countries across four continents.

In addition to the scoring solutions noted above, we also offer marketing and bankruptcy scores known as FICO® Revenue Scores and FICO® Bankruptcy Scores through the U.S. credit reporting agencies; an application fraud, revenue and bankruptcy score available in Canada; commercial credit scores delivered by both U.S. and U.K. credit reporting agencies, and soon to be released in Singapore; and the FICO® Medication Adherence Score, which uses predictive analytics to forecast an individual's likelihood of taking his or her prescription medication as directed. The FICO Medication Adherence Score is a HIPAA-compliant solution that helps improve drug adherence, boosting therapy effectiveness and reducing health care costs.

In fiscal 2012, we launched the FICO® Mortgage Score Powered by CoreLogic which evaluates the traditional credit data from the national credit data repositories and the unique supplemental consumer credit data contained in the CoreLogic CoreScore credit report to deliver a more comprehensive and accurate view of a consumer's credit risk profile for loan prequalification and origination. This expands our growing portfolio of mortgage solutions, which includes the FICO® Strategic Default Custom Analytic, which evaluates Automated Valuation Model data combined with traditional credit data to predict the likelihood that consumers who can afford to pay their mortgage will decide to default in response to (or in anticipation of) reaching negative home equity.

We have also developed scoring systems for insurance underwriters and marketers. Such systems use the same underlying statistical technology as our FICO® risk scores, but are designed to predict applicant or policyholder insurance loss ratio for automobile or homeowners coverage. Our insurance scores are available in the U.S. from TransUnion, Experian, Equifax and ChoicePoint, Inc., and in Canada from Equifax. We also offer an insurance score called the Property PredictR™ score, which analyzes property inspection database data from an insurance services provider, Millennium Information Services, Inc., to calculate the loss risk of a property.

We provide credit bureau scoring services and related consulting directly to users in banking through the FICO® PreScore® service for prescreening solicitation candidates and the FICO® Score Delivery Service for account review.

Through our myFICO® service, we provide solutions based on our analytics to consumers, sold directly by us or through distribution partners. Consumers can use the myFICO.com website to purchase their FICO® Scores, the credit reports underlying the scores, explanations of the factors affecting their scores, and customized advice on how to manage their scores. Customers can use the myFICO service to simulate how taking specific actions would affect their FICO Score. Consumers can also purchase Equifax's Score Watch® subscriptions, which deliver alerts via email and short message service or text messages when the user's scores or balances change. The myFICO products and subscription offerings are available online at www.myfico.com in partnership with two major U.S. credit reporting agencies: Equifax and TransUnion. The myFICO products and subscription offerings are also available to consumers through lenders, financial portals and numerous other partners.

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Tools

We provide software products that businesses use to build their own tailored Decision Management applications. In contrast to our packaged Applications developed for specific industry applications, our Tools support the addition of Decision Management capabilities to virtually any application or operational system. These tools are sold as licensed software, and can be used by themselves or together to advance a client's Decision Management initiatives. We use these tools as common software components for our own Decision Management applications, described above in the Applications section. They are also key components of our Decision Management architecture, described in the Technology section. We also partner with third-party providers within given industry markets and with major software companies to embed our tools within existing applications.

The principal products offered are software tools for:

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

Predictive Modeling. In fiscal year 2012 we introduced FICO® Model Central Solution, a comprehensive offering to help banks and other organizations, including insurance, retail and health care companies, maximize the power of their predictive models and meet stricter regulations for model management. It complements FICO® Model Builder, which enables the user to develop and deploy sophisticated predictive models for use in automated decisions as well as complete scoring routines, such as variable generation, segment logic, scoring, calibration and reason codes. This software is based on the methodology and tools FICO uses to build both client-level and industry-level predictive models and scorecards, which we have developed over more than 40 years, and includes additional algorithms for rapidly discovering variable relationships, predictive interactions and optimal segmentation. The predictive models produced can be embedded in custom production applications or one of our Decision Management applications and can also be executed in the FICO® Blaze Advisor system.

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

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COMPETITION

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

in-house analytic and systems developers;

scoring model builders;

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

business intelligence solutions providers;

business process management and business rules management providers;

providers of credit reports and credit scores;

providers of automated application processing services;

data vendors;

neural network developers and artificial intelligence system builders;

third-party professional services and consulting organizations;

providers of account/workflow management software;

software companies supplying modeling, rules, or analytic development tools; and

providers of cloud-based customer engagement and risk intervention solutions.

We believe that none of our competitors offers the same mix of products as we do, has the same expertise in predictive analytics and their integration with Decision Management software, and can offer the enhanced lifecycle management capabilities we offer in areas like banking. However, certain competitors may have larger shares of particular geographic or product markets.

Applications

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

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

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

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

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

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

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Scores

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

For our direct-to-consumer services that deliver credit scores, credit reports and consumer credit education services, we compete with our credit reporting agency partners and their affiliated companies, as well as with Trilegiant, InterSections and others.

Tools

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

Competitive Factors

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

MARKETS AND CUSTOMERS

Our products and services serve clients in multiple industries, including primarily banking, insurance, retail and healthcare. End users of our products include 92 of the 100 largest financial institutions in the United States, and more than half of the largest 100 banks in the world. Our clients also include more than 600 insurers, including the top ten U.S. property and casualty insurers; more than 400 retailers and general merchandisers, including about one-third of the top 100 U.S. retailers; more than 100 government or public agencies; and more than 150 healthcare and pharmaceuticals companies, including nine of the world's top ten pharmaceuticals companies. All of the top ten companies on the 2012 *Fortune* 500 list use FICO's solutions.

In addition, our consumer services are marketed to an estimated 200 million U.S. consumers whose credit relationships are reported to the three major credit reporting agencies.

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

During fiscal 2012, 2011 and 2010, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for 18%, 18%, and 20% of our total revenues, respectively.

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

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Our largest market segments outside the United States are the United Kingdom and Canada. In addition, we have delivered products to users in over 90 countries.

Revenues from international customers, including end users and resellers, amounted to 39%, 37% and 35% of our total revenues in fiscal 2012, 2011 and 2010, respectively. See Note 17 to the accompanying consolidated financial statements for a summary of our operating segments and geographic information.

TECHNOLOGY

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

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

Recent product releases support our integrated technical architecture for Decision Management, which ensures interoperability across FICO systems. Our intention is to bring greater flexibility, higher analytic performance and better decisions across the lifecycle. Building on FICO's broad and deep experience in developing Decision Management applications, the architecture is service-oriented, designed for easy standards-based integration with our clients' core systems and will support and deliver ever more powerful analytics that operate both within specific stages of the customer lifecycle and across them. This Decision Management architecture contains capabilities from existing FICO products, from new and existing components and from third-party providers. We have developed the architecture's components and are continuing to migrate our software products onto the architecture. This migration takes the form of successive product releases that also provide immediate client value through added functionality.

The technologies listed below are all supported by the Decision Management architecture, which will create tighter integration between our Decision Management Applications and our Tools.

Principal Areas of Expertise

Predictive Modeling. Predictive modeling identifies and mathematically represents underlying relationships in historical data in order to explain the data and make predictions or classifications about future events. Our models summarize large quantities of data to amplify its value. Predictive models typically analyze current and historical data on individuals to produce easily understood metrics such as scores. These scores rank-order individuals by likely future performance, e.g., their likelihood of making credit payments on time, or of responding to a particular offer for services. We also include in this category models that detect the likelihood of a transaction being fraudulent. Our predictive models are frequently operationalized in mission-critical transactional systems and drive decisions and actions in near real time. A number of analytic methodologies underlie our products in this area. These include proprietary applications of both linear and nonlinear mathematical programming algorithms, in which one objective is optimized within a set of constraints, and advanced neural systems, which learn complex patterns from large data sets to predict the probability that a new individual will exhibit certain behaviors of business interest. We also apply various related statistical techniques for analysis and pattern detection within large datasets.

Decision Analysis and Optimization. Decision analysis refers to the broad quantitative field that deals with modeling, analyzing and optimizing decisions made by individuals, groups and organizations. Whereas predictive models analyze multiple aspects of individual behavior to forecast future behavior, decision analysis

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analyzes multiple aspects of a given decision to identify the most effective action to take to reach a desired result. We have developed an integrated approach to decision analysis that incorporates the development of a decision model that mathematically maps the entire decision structure; proprietary optimization technology that identifies the most effective strategies, given both the performance objective and constraints; the development of designed testing required for active, continuous learning; and the robust extrapolation of an optimized strategy to a wider set of scenarios than historically encountered. Our optimization capabilities also include a proprietary mathematical modeling and programming language, an easy-to-use development environment, and a state-of-the-art set of optimization algorithms. These capabilities allow us to solve a large variety of optimization problems across all industries.

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

Customer Data Integration. Decisions made on customers or prospects can benefit from data stored in multiple sources, both inside and outside the enterprise. We have focused on developing data integration processes that are able to assemble and integrate those disparate data sources into a unified view of the customer or household, through the application of persistent keying technology. Through our acquisition of Entiera in May 2012, we now have the capability to store unstructured customer data commonly referred to as Big Data and enable business clients to use this data to develop more targeted customer communications.

Decision Management Software. In order to make a decision strategy operational, the various steps and rules need to be programmed or exported into the business's software infrastructure, where it can communicate with front-end, customer-facing systems and back-end systems such as billing systems. We have developed software systems, sometimes known as decision engines and business rules management systems, which perform the necessary functions to execute a decision strategy. Our software includes very efficient programs for these functions, facilitating, for example, business user definition of extremely complex decision strategies using graphic user interfaces; simultaneous testing of hundreds of decision strategies in champion/challenger (test/control) mode; high-volume processing and analysis of transactions in real time; integration of multiple data sources; and execution of predictive models for improved behavior forecasts and finer segmentation. Decision Management software is an integral part of our Decision Management Applications, described earlier. Through our acquisition of Adeptra in September 2012, we now have advanced technology for customer engagement, which enables the execution of decisions and customer contact through SMS, email, mobile applications and other channels.

Research and Development Activities

Our research and development expenses were \$59.5 million, \$62.1 million and \$73.6 million in fiscal 2012, 2011 and 2010, respectively. We believe that our future success depends on our ability to continually maintain and improve our core technologies, enhance our existing products, and develop new products and technologies that meet an expanding range of markets and customer requirements. In the development of new products and enhancements to existing products, we use our own development tools extensively.

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

PRODUCT PROTECTION AND TRADEMARKS

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

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

We have patents on many of our technologies and have patent applications pending on other technologies. The patents we hold may not be upheld as valid and may not prevent the development of competitive products. In addition, patents may never be issued on our pending patent applications or on any future applications that we may submit. We currently hold 121 U.S. and 13 foreign patents with 89 applications pending.

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

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

We have used, registered and/or applied to register certain trademarks and service marks for our technologies, products and services. We currently have 28 trademarks registered in the U.S. and select foreign countries.

PERSONNEL

As of September 30, 2012, we employed 2,315 persons worldwide. Of these, 307 full-time employees were located in our Minneapolis and Arden Hills, Minnesota offices, 297 full-time employees were located in our San Diego, California office, 225 full-time employees were located in our San Rafael, California office, 411 full-time employees were located in our India-based office and 260 full-time employees were located in our United Kingdom-based offices. None of our employees are covered by a collective bargaining agreement, and no work stoppages have been experienced.

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

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Item 1A. Risk Factors

Risks Related to Our Business

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

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

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

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

changes in the business analytics industry;

changes in technology;

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

saturation or contraction of market demand;

loss of key customers;

industry consolidation;

failure to execute our selling approach; and

inability to successfully sell our products in new vertical markets.

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

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

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,

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primarily due to difficulties developing models, acquiring data and adapting to particular operating environments. We have also experienced errors or bugs in our software products, despite testing prior to release of the products. Software errors in our products could affect the ability of our products to work with other hardware or software products, could delay the development or release of new products or new versions of products and could adversely affect market acceptance of our products. Errors or defects in our products that are significant, or are perceived to be significant, could result in rejection of our products, damage to our reputation, loss of revenues, diversion of development resources, an increase in product liability claims, and increases in service and support costs and warranty claims.

We rely on relatively few customers, as well as our contracts with the three major credit reporting agencies, for a significant portion of our revenues and profits. The businesses of our largest customers depend, in large part, on favorable macroeconomic conditions. If these customers are negatively impacted by the continued global economic downturn 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 and retailers. As a result, many of our customers and potential customers are significantly larger than we are and may have sufficient bargaining power to demand reduced prices and favorable nonstandard terms.

In addition, the global financial markets have continued to suffer substantial stress, volatility, illiquidity and disruption. The potential for increased and continuing economic disruption presents considerable risks to our business, including potential bankruptcies or credit deterioration of financial institutions with which we have substantial relationships. Such disruption would result in a continued decline in the volume of transactions that we execute for our customers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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;

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distraction of management from our ongoing business; and

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

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

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

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

impairment of goodwill or intangible assets, or a reduction in the useful lives of intangible assets acquired;

amortization of intangible assets acquired;

identification of, or changes to, assumed contingent liabilities, both income tax and non-income tax related, after our final determination of the amounts for these contingencies or the conclusion of the measurement period (generally up to one year from the acquisition date), whichever comes first;

costs incurred to combine the operations of companies we acquire, such as transitional employee expenses and employee retention, redeployment or relocation expenses;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our success depends, in part, upon our proprietary technology and other intellectual property rights. To date, we have relied primarily on a combination of copyright, patent, trade secret, and trademark laws, and nondisclosure and other contractual restrictions on copying and distribution to protect our proprietary technology.

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This protection of our proprietary technology is limited, and our proprietary technology could be used by others without our consent. In addition, patents may not be issued with respect to our pending or future patent applications, and our patents may not be upheld as valid or may not prevent the development of competitive products. Any disclosure, loss, invalidity of, or failure to protect our intellectual property could negatively impact our competitive position, and ultimately, our business. There can be no assurance that our protection of our intellectual property rights in the United States or abroad will be adequate or that others, including our competitors, will not use our proprietary technology without our consent. Furthermore, litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of resources and could harm our business, financial condition or results of operations.

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

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

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

incur significant defense costs or substantial damages;

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

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

discontinue the use of some technology; or

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

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

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

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

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

Risks Related to Our Industry

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

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

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

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

innovate by internally developing new and competitive technologies;

use leading third-party technologies effectively;

continue to develop our technical expertise;

anticipate and effectively respond to changing customer needs;

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

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

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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,

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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;

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

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

Financial regulatory reform stemming from the Dodd-Frank Wall Street Reform and Consumer Protection Act and the many regulations mandated by that Act, including regulations issued by, and the supervisory 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.

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

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

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

During fiscal 2012, 80% of our revenues were derived from sales of products and services to the banking and insurance industries. The continued global economic downturn has 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 increased and continuing disruptions present considerable risks to our businesses and operations. These risks include potential bankruptcies or credit deterioration of financial institutions, many of which are our customers. Such increased or continuing disruption would result in a continued 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 and banking and insurance products and services into international markets, the risks are greater as these markets are also experiencing substantial disruption and we are less well-known in them.

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Risk Related to External Conditions

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

Purchases of technology products and services and decisioning solutions are subject to adverse economic conditions. When an economy is struggling, companies in many industries delay or reduce technology purchases, and we experience softened demand for our decisioning solutions and other products and services. The continued global economic downturn has produced substantial stress, volatility, illiquidity and disruption of global credit and other financial markets. The widespread economic downturn negatively affected the businesses and purchasing decisions of companies in the industries we serve. The potential for increased and continuing disruptions present 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 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 United States, we are subject to unique risks that may harm our business, financial condition or results of operations.

A growing portion of our revenues is derived from international sales. During fiscal 2012, 39% of our revenues were derived from business outside the United States. As part of our growth strategy, we plan to continue to pursue opportunities outside the United States, including opportunities in countries with economic systems that are in early stages of development and that may not mature sufficiently to result in growth for our business. Accordingly, our future operating results could be negatively affected by a variety of factors arising out of international commerce, some of which are beyond our control. These factors include:

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

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

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

import and export licensing requirements;

longer payment cycles;

reduced protection for intellectual property rights;

currency fluctuations;

changes in tariffs and other trade barriers; and

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

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.

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our properties consist primarily of leased office facilities for sales, data processing, research and development, consulting and administrative personnel. Our principal office is located in Minneapolis, Minnesota.

Our leased properties include:

approximately 161,000 square feet of office, data center, and data processing space in Arden Hills and Minneapolis, Minnesota, in five buildings under leases expiring in fiscal 2013 or later; 35,000 square feet of this space is subleased to third parties;

approximately 124,000 square feet of office space in San Rafael, California in one building under a lease expiring in 2020;

approximately 80,000 square feet of office space in San Diego, California in one building under a lease expiring in 2019; and

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an aggregate of approximately 295,000 square feet of office and data center space in: Annandale, VA; Bangalore, India; Bangkok, Thailand; Beijing, China; Birmingham, United Kingdom; Chicago, IL; Denver, CO; Hong Kong, China; Istanbul, Turkey; Kaula Lumpur, Malaysia; London, United Kingdom; Madrid, Spain; Moscow, Russia; Mumbai, India; Munich, Germany; New Castle, DE; New York, NY; Norcross, GA; Norwalk, CT; Pune, India; Reading, United Kingdom; San Jose, CA; Sao Paulo, Brazil; Seoul, Korea; Shanghai, China; Singapore, Singapore; Sydney, Australia; Taipei City, Taiwan; Tokyo, Japan; and Toronto, Canada; 49,000 square feet of this space is subleased to third parties.

See Note 18 to the accompanying consolidated financial statements for information regarding our obligations under leases. We believe that suitable additional space will be available to accommodate future needs.

Item 3. *Legal Proceedings*

Not Applicable.

Item 4. *Mine Safety Disclosures*

Not Applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

Our common stock trades on the New York Stock Exchange under the symbol: FICO. According to records of our transfer agent, at September 30, 2012, we had 534 shareholders of record of our common stock.

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

	High	Low
Fiscal 2011		
October 1 – December 31, 2010	\$ 26.00	\$ 22.95
January 1 – March 31, 2011	\$ 31.81	\$ 22.16
April 1 – June 30, 2011	\$ 31.78	\$ 27.79
July 1 – September 30, 2011	\$ 31.04	\$ 20.89
Fiscal 2012		
October 1 – December 31, 2011	\$ 38.49	\$ 20.05
January 1 – March 31, 2012	\$ 44.35	\$ 34.60
April 1 – June 30, 2012	\$ 45.00	\$ 38.02
July 1 – September 30, 2012	\$ 46.11	\$ 38.99

Dividends

We paid quarterly dividends of two cents per share, or eight cents per year, during each quarter of fiscal 2012, 2011 and 2010. Our dividend rate is set by the Board of Directors on a quarterly basis taking into account a variety of factors, including among others, our operating results and cash flows, general economic and industry conditions, our obligations, changes in applicable tax laws and other factors deemed relevant by the Board. Although we expect to continue to pay dividends at the current rate, our dividend rate is subject to change from time to time based on the Board's business judgment with respect to these and other relevant factors.

Sales of Unregistered Equity Securities and Use of Proceeds

Not applicable.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)
July 1, 2012 through July 31, 2012	29,744	\$ 43.16	\$ 221,695	
August 1, 2012 through August 31, 2012	10,994	\$ 43.54	\$ 150,000,000	
September 1, 2012 through September 30, 2012	2,374	\$ 45.08	\$ 150,000,000	
Total	43,112	\$ 43.36	\$ 150,000,000	

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- (1) All 43,112 shares were delivered in satisfaction of the tax withholding obligations resulting from the vesting of restricted stock units held by employees during the quarter ended September 30, 2012.
- (2) On November 2, 2011, our Board of Directors approved an open-ended stock repurchase program to acquire shares of our common stock up to an aggregate cost of \$150.0 million in the open market or through negotiated transactions. Following completion of the program in July 2012, our Board of Directors approved a stock repurchase program on August 16, 2012 to acquire shares of our common stock up to an aggregate cost of \$150.0 million in the open market or in negotiated transactions. We did not repurchase any shares during the quarter ended September 30, 2012 pursuant to either of these programs.

Performance Graph

The follow graph shows the total stockholder return of an investment of \$100 in cash on September 30, 2007, in (a) the Company's Common Stock (b) the Standard & Poor's 500 Stock Index and (c) the Standard & Poor's 500 Application Software Index, in each case with reinvestment of dividends. We do not believe there are any publicly traded companies that compete with us across the full spectrum of our product and service offerings.

The Company is listed on the New York Stock Exchange (NYSE). As an NYSE-listed company, our Chief Executive Officer must certify annually that he is not aware of any violation by the Company of NYSE corporate governance listing standards as of the date of that certification. The most recent Chief Executive Officer's certification was filed with the NYSE on March 2, 2012.

Table of Contents**Item 6. Selected Financial Data**

We acquired Dash Optimization (Dash) in January 2008, Entiera in May 2012, and Adepra in September 2012, respectively. Results of operations from the acquisitions are included prospectively from their respective acquisition dates. As a result of these acquisitions, the comparability of the data below is impacted.

In April 2008, we completed the sale of our Insurance Bill Review business unit. We accounted for this business unit as a discontinued operation and, accordingly, we have reclassified the selected financial data for all periods presented.

	Fiscal Years Ended September 30,				
	2012 (1)	2011 (1)	2010 (1)	2009 (1)(2)	2008 (1)
	(In thousands, except per share data)				
Revenues	\$ 676,423	\$ 619,683	\$ 605,643	\$ 630,735	\$ 744,842
Operating income	168,358	127,337	113,349	116,747	122,283
Income from continuing operations	92,004	71,562	64,457	65,465	81,186
Income (loss) from discontinued operations				(363)	2,766
Net income	92,004	71,562	64,457	65,102	83,952
Basic earnings (loss) per share:					
Continuing operations	\$ 2.64	\$ 1.82	\$ 1.44	\$ 1.35	\$ 1.66
Discontinued operations				(0.01)	0.06
Total	\$ 2.64	\$ 1.82	\$ 1.44	\$ 1.34	\$ 1.72
Diluted earnings (loss) per share:					
Continuing operations	\$ 2.55	\$ 1.79	\$ 1.42	\$ 1.34	\$ 1.64
Discontinued operations				(0.01)	0.06
Total	\$ 2.55	\$ 1.79	\$ 1.42	\$ 1.33	\$ 1.70
Dividends declared per share	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08

	Fiscal Years Ended September 30,				
	2012	2011	2010	2009	2008
	(In thousands)				
Working capital	\$ 49,720	\$ 217,983	\$ 225,028	\$ 327,970	\$ 229,071
Total assets	1,158,611	1,129,468	1,123,716	1,303,888	1,275,253
Senior Notes	504,000	512,000	520,000	275,000	275,000
Revolving line of credit				295,000	295,000
Stockholders' equity	474,406	465,494	474,914	600,269	561,941

- (1) Results of operations for fiscal years 2012, 2011, 2010, 2009 and 2008 include pre-tax charges of \$5.1 million, \$12.4 million, \$1.6 million, \$8.7 million and \$10.2 million, respectively, in restructuring and acquisition-related expenses.
- (2) Results of operations for fiscal year 2009 includes a \$3.0 million pre-tax loss on the sale of product line assets.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations****OVERVIEW**

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) begins with an overview of our key operating business segments and significant trends. This overview is followed by a more detailed analysis of our results of operations and financial condition, including liquidity and capital resources, which discusses key aspects of our statements of cash flows, changes in our balance sheets and our financial commitments. We then provide a summary of our critical accounting policies and estimates we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. Our MD&A should be read in conjunction with Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

Business Overview

We are a leader in Decision Management solutions that enable businesses to automate, improve and connect decisions to enhance business performance. Our predictive analytics, which include the industry standard FICO® score, and our Decision Management systems power billions of customer decisions each year. We help companies acquire customers more efficiently, increase customer value, reduce fraud and credit losses, lower operating expenses and enter new markets more profitably. Our clients utilize our products and services to facilitate a variety of business processes, including customer marketing and acquisition, account origination, credit and underwriting risk management, fraud loss prevention and control, and client account and policyholder management. Most leading banks and credit card issuers rely on our solutions, as do many insurers, retailers, healthcare organizations, pharmaceutical companies and government agencies. We also serve consumers through online services that enable people to purchase and understand their FICO® scores, the standard measure in the United States of credit risk, empowering them to manage their financial health. On September 7, 2012, we completed the acquisition of Adepra. The acquisition brought us a SaaS offering that increases value for our clients and provides a global footprint across multiple industries consistent with our strategy to expand into the fast-growing mobile economy. The results of Adepra's operations from the acquisition date are included in our Applications segment.

General economic conditions continued to improve in fiscal 2012 from which we realized overall growth in our revenues of 9% to \$676.4 million from \$619.7 million in fiscal 2011. Revenue in each of our segments increased, with Applications, Scores and Tools increasing by 11%, 4% and 12% in fiscal 2012 compared to 2011, respectively. The revenue growth for each segment was primarily driven by fees recognized under large multi-year license transactions or other large non-recurring projects. In our Applications segment, we had large multi-year license transactions in our *fraud* and *customer management solutions*; in our Scores segment we had large non-recurring projects in our business-to-business scores; and in our Tools segment license sales and associated services of Blaze Advisor and Xpress Optimization products. A significant portion of our revenues are derived from the sale of products and services within the banking (including consumer credit) industry, and 77%, 74% and 72% of our revenues were derived from within this industry during the years ended September 30, 2012, 2011 and 2010, respectively. Our remaining revenues are primarily derived from the insurance, healthcare and retail industries. Our revenues derived from clients outside the United States have generally grown, and may in the future grow more rapidly than our revenues from domestic clients. International revenues totaled \$266.2 million, \$230.0 million and \$209.6 million in fiscal 2012, 2011 and 2010, respectively, representing 39%, 37% and 35% of total consolidated revenues in each of these years.

A significant portion of our revenues are derived from transactional or unit-based software license fees, annual license fees under long-term software license arrangements, transactional fees derived under scoring, network service or internal hosted software arrangements, and annual software maintenance fees. Arrangements with transactional or unit-based pricing accounted for approximately 69%, 73% and 75% of our revenues during

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fiscal 2012, 2011 and 2010, respectively. The recurrence of these revenues is, to a significant degree, dependent upon our clients' continued usage of our products and services in their business activities. The more significant activities underlying the use of our products in these areas include: credit and debit card usage or active account levels; lending acquisition, origination and customer management activity; and customer acquisition, cross selling and retention programs. We also derive revenues from other sources which generally do not recur and include, but are not limited to, perpetual or time-based licenses with upfront payment terms and non-recurring consulting service arrangements.

Also recognized during the fourth quarter of fiscal 2012 were additional restructuring charges under our ongoing reengineering initiative. We incurred net charges totaling \$4.0 million for severance costs associated with the reduction of 85 positions mainly within the product and technology organization of the Company.

For 2013, the operating environment will continue to present challenges for the marketing and growth of our products and services. However, we do expect to derive growth through modest improvements in the credit economy and from strategic acquisitions that complement our product offerings.

Bookings

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

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

Transactional and Maintenance Bookings

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

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

Individual performance of our customers relative to their competitors; and

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

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

Professional Services Bookings

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

Table of Contents**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 (in millions)	Bookings Yield (1)	Number of Bookings over \$1 Million	Weighted- Average Term (2) (months)
Quarter ended September 30, 2012	\$ 98.6	32%	19	29
Quarter ended September 30, 2011	\$ 112.0	13%	14	27
Year ended September 30, 2012	\$ 293.8	43%	54	N/M
Year ended September 30, 2011	\$ 303.6	34%	45	N/M

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

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

Transactional and maintenance bookings were 40% and 43% of total bookings for the quarters ended September 30, 2012 and 2011, respectively. Professional services bookings were 34% and 34% of total bookings for the quarters ended September 30, 2012 and 2011, respectively. License bookings were 26% and 23% of total bookings for the quarters ended September 30, 2012 and 2011, respectively.

Transactional and maintenance bookings were 35% and 44% of total bookings for the years ended September 30, 2012 and 2011, respectively. Professional services bookings were 43% and 36% of total bookings for the years ended September 30, 2012 and 2011, respectively. License bookings were 22% and 20% of total bookings for the years ended September 30, 2012 and 2011, respectively.

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

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

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

Segment Information

We are organized into the following three reportable segments: Applications, Scores and Tools. Although we sell solutions and services into a large number of end user product and industry markets, our reportable business segments reflect the primary method in which management organizes and evaluates internal financial

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information to make operating decisions and assess performance. Comparative segment revenues, operating income, and related financial information for the years ended September 30, 2012, 2011 and 2010 are set forth in Note 17 to the accompanying consolidated financial statements.

RESULTS OF OPERATIONS**Revenues**

The following tables set forth certain summary information on a segment basis related to our revenues for the fiscal years indicated.

Segment	Revenues Fiscal Year			Period-to-Period Change		Period-to-Period Percentage Change	
	2012	2011 (In thousands)	2010	2011 to 2010 (In thousands)	2011 to 2010	2012 to 2011	2011 to 2010
Applications	\$ 424,604	\$ 383,028	\$ 367,258	\$ 41,576	\$ 15,770	11%	4%
Scores	175,623	168,567	172,339	7,056	(3,772)	4%	(2)%
Tools	76,196	68,088	66,046	8,108	2,042	12%	3%
Total Revenues	\$ 676,423	\$ 619,683	\$ 605,643	56,740	14,040	9%	2%

Segment	Percentage of Revenues Fiscal Year		
	2012	2011	2010
Applications	63%	62%	61%
Scores	26%	27%	28%
Tools	11%	11%	11%
Total Revenues	100%	100%	100%

Applications

Segment	Fiscal Year			Period-to-Period Change		Period-to-Period Percentage Change	
	2012	2011 (In thousands)	2010	2012 to 2011 (In thousands)	2011 to 2010	2012 to 2011	2011 to 2010
Transactional and maintenance	\$ 263,726	\$ 258,736	\$ 257,275	\$ 4,990	\$ 1,461	2%	1%
Professional services	104,637	100,921	86,097	3,716	14,824	4%	17%
License	56,241	23,371	23,886	32,870	(515)	141%	(2)%
Total	\$ 424,604	\$ 383,028	\$ 367,258	41,576	15,770	11%	4%

Applications segment revenues increased \$41.6 million in fiscal 2012 from fiscal 2011 primarily due to a \$25.3 million increase in our *fraud solutions*, an \$8.0 million increase in our *customer management solutions*, a \$4.2 million increase in our *Mobility solutions* and a \$4.0 million increase in our *Collections & Recovery solutions*.

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The increase in *fraud solutions* revenue was primarily due to software revenue attributable to two large multi-year license transactions during fiscal 2012. In addition, the *fraud solutions* revenue was also impacted by increased professional services revenue from software implementations and consulting services and a decrease in transactional-based revenues. The increase in *customer management solutions* revenue was due to an increase in

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software revenue primarily driven by a large license transaction, increased services revenue as well as increased transactional and maintenance revenue. The increase in *Mobility solutions* was due to our acquisition of Adepra in September 2012. The increase in *Collections & Recovery solutions* was mainly due to an increase in license sales.

Applications segment revenues increased \$15.8 million in fiscal 2011 from fiscal 2010 due to an \$18.2 million increase in our *fraud solutions* and a \$6.0 million increase in our *originations solutions*. These increases were partially offset by a \$4.8 million decrease in our *customer management solutions*, and a \$3.6 million decrease from our other Applications solutions.

The increase in *fraud solutions* was attributable to higher volumes associated with transactional-based agreements, increased software sales of FICO® Falcon® Fraud Manager and FICO® Insurance Fraud Manager, and increased services related to these software sales. The increase in *originations solutions* was attributable to an increase in professional services, and sales of a new product, FICO® Originations Manager, partially offset by a decrease in volumes associated with transactional-based agreements on existing products. The decrease in *customer management solutions* was attributable to a decline in license revenue and a decline in professional services.

Scores

	Fiscal Year			Period-to-Period Change		Period-to-Period Percentage Change	
	2012	2011	2010	2012 to 2011	2011 to 2010	2012 to 2011	2011 to 2010
	(In thousands)			(In thousands)			
Transactional and maintenance	\$ 172,218	\$ 164,918	\$ 170,141	\$ 7,300	\$ (5,223)	4%	(3)%
Professional services	2,382	2,102	2,042	280	60	13%	3%
License	1,023	1,547	156	(524)	1,391	(34)%	892%
Total	\$ 175,623	\$ 168,567	\$ 172,339	7,056	(3,772)	4%	(2)%

Scores segment revenues increased \$7.1 million in fiscal 2012 from 2011 due to a \$9.2 million increase in our business-to-business scores revenues partially offset by a \$2.1 million decrease in our myFICO® business-to-consumer services revenues. The increase in our business-to-business scores was primarily attributable to an increase in Credit Bureau Risk Scores driven by a couple of special projects conducted by a major customer utilizing historical Credit Bureau Risk Scores, and an increase in transactional volumes. The decline in our myFICO business-to-consumer services was primarily attributable to a decrease in royalties derived from scores sold indirectly to consumers through credit reporting agencies.

Scores segment revenues decreased \$3.8 million in fiscal 2011 from 2010 due to a \$2.1 million decrease in our myFICO® business-to-consumer services revenues and a \$1.7 million decrease in our business-to-business scores revenues. The decline in business-to-consumer services was primarily attributable to a decrease in royalties derived from scores sold indirectly to consumers through credit reporting agencies. This decline was partially offset by stronger direct sales generated from the myFICO.com website. Business-to-business scores revenues decrease was mainly attributable to a decrease in credit bureau risk scores revenues.

During fiscal 2012, 2011 and 2010, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 18%, 18% and 20%, respectively, of our total revenues, including revenues from these customers that are recorded in our other segments.

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	Fiscal Year			Period-to-Period Change		Period-to-Period Percentage Change	
	2012	2011 (In thousands)	2010	2012 to 2011 (In thousands)	2011 to 2010	2012 to 2011	2011 to 2010
Transactional and maintenance	\$ 30,231	\$ 29,776	\$ 28,071	\$ 455	\$ 1,705	2%	6%
Professional services	17,952	12,918	14,739	5,034	(1,821)	39%	(12)%
License	28,013	25,394	23,236	2,619	2,158	10%	9%
Total	\$ 76,196	\$ 68,088	\$ 66,046	8,108	2,042	12%	3%

Tools segment revenues increased \$8.1 million in fiscal 2012 from fiscal 2011 primarily due to an increase in our services revenue and license revenue. The increase in our services revenue was primarily attributable to increased professional services related to our FICO® Blaze Advisor® product. The increase in our license revenue was primarily attributable to an increase in our FICO® Xpress Optimization Suite and FICO® Blaze Advisor® product sales.

Tools segment revenues increased \$2.0 million in fiscal 2011 from fiscal 2010 primarily due to an increase in license and maintenance revenues related to our FICO® Blaze Advisor® product. The increase was partially offset by a decrease in license sales related to our FICO® Model Builder and FICO® Decision Optimizer products, and a decrease in professional services related to our FICO® Blaze Advisor® as a result of the completion of several large installations in the prior year.

Operating Expenses and Other Income (Expense), Net

The following tables set forth certain summary information related to our consolidated statements of income and comprehensive income for the fiscal years indicated.

	Fiscal Year			Period-to-Period Change		Period-to-Period Percentage Change	
	2012	2011	2010	2012 to 2011 (In thousands, except employees)	2011 to 2010	2012 to 2011	2011 to 2010
Revenues	\$ 676,423	\$ 619,683	\$ 605,643	\$ 56,740	\$ 14,040	9%	2%
Operating expenses:							
Cost of revenues	197,947	186,470	180,932	11,477	5,538	6%	3%
Research and development	59,527	62,129	73,581	(2,602)	(11,452)	(4)%	(16)%
Selling, general and administrative	238,522	223,615	225,263	14,907	(1,648)	7%	(1)%
Amortization of intangible assets	6,944	7,741	10,901	(797)	(3,160)	(10)%	(29)%
Restructuring and acquisition-related	5,125	12,391	1,617	(7,266)	10,774	(59)%	666%
Total operating expenses	508,065	492,346	492,294	15,719	52	3%	%
Operating income	168,358	127,337	113,349	41,021	13,988	32%	12%
Interest income	317	2,192	1,688	(1,875)	504	(86)%	30%
Interest expense	(31,734)	(32,364)	(24,124)	630	(8,240)	(2)%	34%
Other income (expense), net	(698)	290	1,391	(988)	(1,101)	(341)%	(79)%
Income before income taxes	136,243	97,455	92,304	38,788	5,151	40%	6%

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Provision for income taxes	44,239	25,893	27,847	18,346	(1,954)	71%	(7)%
Net income	\$ 92,004	\$ 71,562	\$ 64,457	20,442	7,105	29%	11%
Number of employees at fiscal year-end	2,315	2,023	2,157	292	(134)		

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	Percentage of Revenues		
	Fiscal Year		
	2012	2011	2010
Revenues	100%	100%	100%
Operating expenses:			
Cost of revenues	29%	30%	30%
Research and development	9%	10%	12%
Selling, general and administrative	35%	36%	37%
Amortization of intangible assets	1%	1%	2%
Restructuring and acquisition-related	1%	2%	%
Total operating expenses	75%	79%	81%
Operating income	25%	21%	19%
Interest income	%	%	%
Interest expense	(5)%	(5)%	(4)%
Other income (expense), net	%	%	%
Income before income taxes	20%	16%	15%
Provision for income taxes	6%	4%	4%
Net income	14%	12%	11%

Cost of Revenues

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

The fiscal year 2012 over 2011 increase of \$11.5 million in cost of revenues resulted from a \$5.9 million increase in personnel and labor costs, a \$2.7 million increase in allocated facilities and infrastructure costs, a \$1.5 million increase in travel cost, and a \$1.4 million increase in other costs. The increase in personnel and other labor-related costs was attributable to an increase in salary, related benefit and incentive cost. The increase in allocated facilities and infrastructure costs was attributable to the Company's utilization of additional resources towards direct revenue generating activities. The increase in travel cost was primarily attributable to an increase in services revenue requiring travel to the client locations. Cost of revenues as a percentage of revenues was 29% for the year ended September 30, 2012 compared to 30% for the year ended September 30, 2011 as a result of increased sales of higher-margin software and Scores products.

Cost of revenues as a percentage of revenues was 30% in fiscal 2011, consistent with fiscal 2010. The fiscal year 2011 over 2010 increase of \$5.5 million in cost of revenues resulted from a \$13.3 million increase in personnel and labor costs, partially offset by a \$4.2 million decrease in third party software and data cost, a \$3.0 million decrease in facilities and infrastructure costs, and a \$0.6 million decrease in other expenses. The increase in personnel and other labor-related costs was attributable to an increase in salary and related benefit costs as a result of increased consulting services activities, and an increase in incentive cost. The decrease in third party software and data costs was attributable to decreased sales that require data acquisition. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities.

In fiscal 2013, we expect that cost of revenues as a percentage of revenues will be higher than those incurred during fiscal 2012 due to integration of lower-margin products from our acquisitions.

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Research and Development

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

Research and development as a percentage of revenues was 9% during the year ended September 30, 2012, compared to 10% during the year ended September 30, 2011. The \$2.6 million decrease was mainly attributable to a \$2.1 million decrease in personnel and labor costs, resulting from decreased salary and related benefit expenses partially offset by an increase in incentive expense for the year ended September 30, 2012.

Research and development as a percentage of revenues was 10% in fiscal 2011, as compared to 12% in fiscal 2010. The decrease of \$11.5 million in research and development expenditures was attributable primarily to a \$8.7 million decrease in personnel and related costs, a \$2.1 million decrease in facilities and infrastructure costs, and a \$0.7 million decrease in other expenses. The decrease in personnel and related costs was due to decreased salary and related benefit costs, partially offset by a higher incentive cost for fiscal 2011. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities.

In fiscal 2013, we expect that research and development expenditures as a percentage of revenues will be consistent with or slightly higher than those incurred during fiscal 2012 as we continue to invest in our Decision Management solutions.

Selling, General and Administrative

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

The fiscal 2012 over 2011 increase of \$14.9 million in selling, general and administrative expenses was attributable to a \$15.4 million increase in labor and personnel costs, a \$2.4 million increase in marketing expenses and a \$1.5 million increase in travel cost, partially offset by a \$2.1 million decrease in allocated facilities and infrastructure costs, a \$1.1 million decrease in equipment depreciation cost, a \$0.8 million decrease in outside services cost, and a \$0.4 million decrease in other costs. The increase in labor and personnel costs was due to an increase in stock compensation cost, salary and related benefit costs, commission cost, incentive cost and severance and retention costs. The increase in marketing expenses was due to a company marketing event held in fiscal 2012. The increase in travel cost was primarily due to the reinstatement of non-revenue producing travel during fiscal 2012. The decrease in allocated facilities and infrastructure costs was attributable primarily to the Company's utilization of additional resources towards direct revenue generating activities. The decrease in equipment depreciation cost was mainly due to timing of fixed assets placed in service. The decrease in outside services was due to a non-recurring strategic consulting service incurred in fiscal 2011. Selling, general and administrative expenses as a percentage of revenues was 35% during fiscal 2012 compared to 36% during fiscal 2011 as a result of revenue growing at a higher rate than cost due to improved operations efficiency.

Selling, general and administrative expenses as a percentage of revenues was 36% in fiscal 2011, as compared to 37% in fiscal 2010. The fiscal 2011 over 2010 decrease of \$1.6 million in selling, general and administrative expenses was attributable to a \$5.5 million decrease in marketing expenses and a \$2.4 million decrease in facilities and infrastructure costs, partially offset by a \$4.8 million increase in personnel and related costs and a \$1.5 million increase in other costs. The decrease in marketing expenses was due to a reduction in marketing programs in areas that were not producing the anticipated sales results. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities. The increase in personnel and related cost was due to increased salary, commission and incentive expenses.

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In fiscal 2013, we expect that selling, general and administrative expenses as a percentage of revenues will be consistent with those incurred during fiscal 2012.

Amortization of Intangible Assets

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

The fiscal 2012 over fiscal 2011 decrease in amortization expense of \$0.8 million was attributable to certain intangible assets associated with our Dash acquisition becoming fully amortized in January 2012, partially offset by the addition of intangible assets associated with our Entiera acquisition in May 2012 and Adepra acquisition in September 2012.

The fiscal 2011 over 2010 decline of \$3.2 million in amortization expense was attributable mainly to certain intangible assets associated with our London Bridge acquisition becoming fully amortized during fiscal 2010.

In fiscal 2013, we expect amortization expense will be higher than the amortization expense incurred in 2012 due to a full year amortization of the intangible assets acquired through our Adepra and Entiera acquisitions.

Restructuring and acquisition-related

In fiscal 2012, we incurred \$1.1 million in acquisition-related cost in association with the Adepra acquisition. We also eliminated 85 positions mainly within the product and technology organization of the Company and incurred \$4.0 million for severance costs. Cash payments for substantially all the severance costs will be paid by the end of our first quarter of fiscal 2013.

In fiscal 2011 we eliminated 177 positions across the company and incurred charges of \$8.2 million for severance costs. Cash payments for substantially all the severance costs have been paid by the end of fiscal 2011. We also recognized charges of \$4.2 million associated with vacating excess leased space. Costs for vacating excess leased space represent future cash lease payments, net of estimated sublease income, which will be paid out over the next seven years.

In fiscal 2010 we incurred restructuring expenses of \$1.6 million. The expenses include a \$0.9 million charge related to lease exit activities and \$0.7 million for severance costs, which was paid in fiscal 2011.

The following table sets forth certain summary information on restructuring expenses:

	2012	Fiscal Year 2011 (In thousands)	2010
Severance costs	\$ 3,978	\$ 8,165	\$ 742
Lease exit costs and other adjustments		4,226	875
Total restructuring expense	\$ 3,978	\$ 12,391	\$ 1,617

Interest Income

Interest income is derived primarily from the investment of funds in excess of our immediate operating requirements.

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The fiscal 2012 over 2011 decrease in interest income of \$1.9 million was primarily attributable to interest received on tax refunds during fiscal 2011.

The fiscal 2011 over 2010 increase of \$0.5 million in interest income was attributable to interest received on tax refunds in fiscal 2011 partially offset by lower average investment balances and a decline in interest rates and investment income yields due to market conditions.

Interest Expense

In fiscal 2012 and 2011, interest expense included interest on the Senior Notes issued in May 2008 and July 2010. In fiscal 2010, interest expense included interest on the Senior Notes issued in May 2008 and July 2010 and borrowings under our revolving credit facility. Interest expense for all three years also included credit facility fees for the revolving line of credit.

The fiscal 2012 over 2011 decrease in interest expense of \$0.6 million was attributable to an \$8.0 million principal payment in both May 2011 and May 2012 on the Senior Notes issued in May 2008 resulting in a lower average debt balance for fiscal 2012, as well as a decline in credit facility fees as a result of the Company lowering the revolving line of credit in fiscal 2011.

The fiscal 2011 over 2010 increase of \$8.2 million in interest expense was attributable to the higher average interest rate on our July 2010 Senior Notes as compared to our revolving credit facility.

In fiscal 2013, we expect that interest expense will be consistent with what we incurred during fiscal 2012.

Other Income (Expense), Net

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

Other income (expense), net was (\$0.7) million in fiscal 2012, compared to \$0.3 million in 2011. The decrease was primarily attributable to a one-time vendor termination fee as well as increased foreign currency losses during fiscal 2012.

Other income (expense), net was \$0.3 million in fiscal 2011, compared to \$1.4 million in 2010. The decrease was primarily attributable to a non-recurring sale of a patent in fiscal 2010.

Provision for Income Taxes

Our effective tax rates were 32.5%, 26.6% and 30.2% in fiscal 2012, 2011 and 2010, respectively.

The increase in our effective tax rate in fiscal 2012 compared to fiscal 2011 was due to two factors. The fiscal year 2011 effective rate was largely decreased due to a \$1.1 million benefit recorded in recognition of the 2010 extension of the U.S. Federal Research and Development Credit and a manufacturing deduction rate increase, and the fiscal year 2012 effective tax rate was increased by a one-time \$1.6 million tax charge associated with the Company's intellectual property rights.

The decrease in our effective tax rate in fiscal 2011 compared with fiscal 2010 was largely due to a \$1.1 million benefit recorded in recognition of the 2010 extension of the U.S. Federal Research and Development Credit and a manufacturing deduction rate increase. In addition there was a one-time Foreign Tax Credit benefit related to an intercompany dividend.

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As of September 30, 2012 the Company has reported \$47.0 million of unremitted earnings of the international subsidiaries in the consolidated income. U.S. income taxes have not been provided on undistributed earnings of international subsidiaries. It is our intention to reinvest these earnings permanently or to repatriate the earnings only when it is tax efficient to do so. The amount of the unrecognized deferred tax liability depends on judgment required to analyze the withholding tax due, the applicable tax law and related tax treaties, and factual circumstances in effect at the time of any such distribution, therefore, we believe it is not practicable at this time to reliably determine the amount of the unrecognized deferred tax liability related to the Company's undistributed earnings. If circumstances change and it becomes apparent that some or all of the undistributed earnings of a subsidiary will be remitted in the next twelve months and income taxes have not been recognized by the parent entity, the parent entity shall accrue as an expense of the current period income taxes attributable to that remittance.

We expect existing domestic cash, cash equivalents and short-term marketable security investments (as of September 30, 2012, approximately \$48.8 million), as well as anticipated domestic earnings will be sufficient to fund our domestic operating activities and cash commitments for investing and financing activities for the next twelve months.

Operating Income

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

Segment	Fiscal Year			Period-to-Period Change		Period-to-Period Percentage Change	
	2012	2011 (In thousands)	2010	2012 to 2011 (In thousands)	2011 to 2010 (In thousands)	2012 to 2011	2011 to 2010
Applications	\$ 132,826	\$ 106,561	\$ 93,275	\$ 26,265	\$ 13,286	25%	14%
Scores	122,936	113,398	110,651	9,538	2,747	8%	2%
Tools	17,599	13,690	8,412	3,909	5,278	29%	63%
Unallocated corporate expenses	(71,705)	(70,680)	(69,166)	(1,025)	(1,514)	1%	2%
Total segment operating income	201,656	162,969	143,172	38,687	19,797	24%	14%
Unallocated share-based compensation	(21,229)	(15,500)	(17,305)	(5,729)	1,805	37%	(10)%
Unallocated amortization expense	(6,944)	(7,741)	(10,901)	797	3,160	(10)%	(29)%
Unallocated restructuring and acquisition-related	(5,125)	(12,391)	(1,617)	7,266	(10,774)	(59)%	666%
Operating income	\$ 168,358	\$ 127,337	\$ 113,349	41,021	13,988	32%	12%

Applications

Segment	Fiscal Year			Percentage of Revenues		
	2012 (In thousands)	2011 (In thousands)	2010	2012	2011	2010
Segment revenues	\$ 424,604	\$ 383,028	\$ 367,258	100%	100%	100%
Segment operating expense	(291,778)	(276,467)	(273,983)	(69)%	(72)%	(75)%
Segment operating income	\$ 132,826	\$ 106,561	\$ 93,275	31%	28%	25%

Table of Contents**Scores**

	Fiscal Year			Percentage of Revenues		
	2012	2011	2010	2012	2011	2010
	(In thousands)					
Segment revenues	\$ 175,623	\$ 168,567	\$ 172,339	100%	100%	100%
Segment operating expense	(52,687)	(55,169)	(61,688)	(30)%	(33)%	(36)%
Segment operating income	\$ 122,936	\$ 113,398	\$ 110,651	70%	67%	64%

Tools

	Fiscal Year			Percentage of Revenues		
	2012	2011	2010	2012	2011	2010
	(In thousands)					
Segment revenues	\$ 76,196	\$ 68,088	\$ 66,046	100%	100%	100%
Segment operating expense	(58,597)	(54,398)	(57,634)	(77)%	(80)%	(87)%
Segment operating income	\$ 17,599	\$ 13,690	\$ 8,412	23%	20%	13%

The increase in operating income between fiscal 2012 and 2011 of \$41.0 million was primarily attributable to a \$56.7 million increase in segment revenues and a \$7.3 million decrease in restructuring and acquisition-related expenses, partially offset by a \$17.0 million increase in segment operating expenses and a \$5.7 million increase in share-based compensation expense.

At the segment level, the \$38.7 million increase in segment operating income was driven by a \$26.3 million increase in our Applications segment, a \$9.5 million increase in our Scores segment and a \$3.9 million increase in our Tools segment, partially offset by a \$1.0 million increase in unallocated corporate operating expenses.

The increase in Applications segment operating income was attributable to a \$41.6 million increase in segment revenue primarily due to several large multi-year license transactions, partially offset by a \$15.3 million increase in segment operating expenses. Segment operating income as a percentage of segment revenue for Applications increased from 28% to 31% mainly due to increased sales of higher margin software products.

The increase in Scores segment operating income was attributable to a \$7.1 million increase in segment revenue, primarily attributable to an increase in Credit Bureau Risk Scores driven by a couple of large projects conducted by a major customer utilizing historical Credit Bureau Risk Scores, and a \$2.4 million decrease in segment operating expenses, driven by a decrease in digital marketing and third party data costs.

The increase in Tools segment operating income was attributable primarily to an \$8.1 million increase in segment revenue partially offset by a \$4.2 million increase in segment operating expenses. The increase in segment revenue was primarily due to an increase of services and software revenues related to our Blaze Advisor and Xpress Optimization products. Segment operating income as a percentage of segment revenue for Tools increased from 20% to 23% mainly due to increased sales of higher margin software products.

The increase in operating income between fiscal 2011 and 2010 of \$14.0 million was attributable to an increase in segment revenues, a decrease in segment operating expenses and reductions in amortization and share-based compensation expenses, partially offset by an increase in restructuring cost and unallocated corporate expenses. At the segment level, our segment operating income increased across all segments \$13.3 million increase in our Applications segment, \$2.7 million increase in our Scores segment and \$5.3 million increase in our Tools segment.

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The \$13.3 million increase in our Applications segment operating income was attributable to a \$15.8 million increase in segment revenue partially offset by a \$2.5 million increase in segment operating expenses. The increase in segment revenue was due to an \$18.2 million increase in our fraud solutions and a \$6.0 million increase in originations solutions, partially offset by a \$4.8 million decrease in our customer management solutions and a \$3.6 million decrease in our other application solutions. The increase in segment operating expenses was mainly attributable to increased labor cost as a result of increased consulting services activities, partially offset by a decline in allocated costs resulting from overhead reductions and exiting certain facilities.

The increase in our Scores segment operating income was attributable to a decrease in operating expenses due to decreased marketing activities, partially offset by a decline in revenues in both business-to-business scores and business-consumer services.

In our Tools segment, the increase in segment operating income was primarily attributed to a decrease in operating expenses and an increase in FICO Blaze Advisor revenues, partially offset by a decline in FICO Model Builder and FICO Decision Optimizer revenues.

Capital Resources and Liquidity**Outlook**

As of September 30, 2012, we had \$93.6 million in cash, cash equivalents and short-term marketable security investments. We believe that these balances, as well as available borrowings from our \$200 million revolving line of credit and anticipated cash flows from operating activities, will be sufficient to fund our working and other capital requirements as well as the \$49.0 million principal payment due in May 2013 on our Senior Notes issued in May 2008. Under our current financing arrangements we have no other significant debt obligations maturing over the next twelve months. In the normal course of business, we evaluate the merits of acquiring technology or businesses, or establishing strategic relationships with or investing in these businesses. We may elect to use available cash and cash equivalents and marketable security investments to fund such activities in the future. In the event additional needs for cash arise, or if we refinance our existing debt, we may raise additional funds from a combination of sources, including the potential issuance of debt or equity securities. Additional financing might not be available on terms favorable to us, or at all. If adequate funds were not available or were not available on acceptable terms, our ability to take advantage of unanticipated opportunities or respond to competitive pressures could be limited.

Summary of Cash Flows

	Years Ended September 30,		
	2012	2011	2010
	(in thousands)		
Cash provided by/(used in):			
Operating activities	\$ 129,746	\$ 136,156	\$ 105,780
Investing activities	(65,670)	(51,701)	110,637
Financing activities	(128,453)	(94,021)	(248,473)
Effect of exchange rate changes on cash	234	(881)	98
Decrease in cash and cash equivalents	\$ (64,143)	\$ (10,447)	\$ (31,958)

Cash Flows from Operating Activities

Our primary method for funding operations and growth has been through cash flows generated from operating activities. Net cash provided by operating activities totaled \$129.7 million in fiscal 2012 compared to \$136.2 million in fiscal 2011. The \$6.5 million decrease was mainly attributable to a \$23.8 million decrease caused by the timing of receipts and payments in our ordinary course of business, including a \$35.1 million decrease from timing of cash receipts on accounts receivable, partially offset by higher net income for the year ended September 30, 2012.

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Net cash provided by operating activities totaled \$136.2 million in fiscal 2011 compared to \$105.8 million in fiscal 2010. The \$30.4 million increase was mainly attributable to higher income for fiscal 2011, as well as a \$38.3 million increase caused by the timing of receipts and payments in our ordinary course of business, including primarily a \$20.1 million increase from timing of cash receipts on accounts receivable and a \$26.7 million increase from timing of income tax payments from other liabilities.

Cash Flows from Investing Activities

Net cash used by investing activities totaled \$65.7 million in fiscal 2012 compared to \$51.7 million in fiscal 2011. The increase in cash used in investing activities was primarily attributable to \$123.6 million net cash used for the acquisition of Adeptra and Entiera and a \$11.5 million increase in purchases of property and equipment during fiscal 2012, partially offset by \$83.6 million of proceeds from sales and maturities of marketable securities, net of purchases, for fiscal 2012 compared to \$37.8 million of cash used in purchases of marketable securities, net of sales and maturities, during fiscal 2011.

Net cash used by investing activities totaled \$51.7 million in fiscal 2011 compared to net cash provided of \$110.6 million in fiscal 2010. The change was driven by \$37.8 million in cash used for purchases of marketable securities, net of sales and proceeds from maturities during fiscal 2011 compared to \$125.9 million in proceeds from maturities and sales of marketable securities, net of purchases, during fiscal 2010.

Cash Flows from Financing Activities

Net cash used in financing activities increased \$34.5 million to \$128.5 million during fiscal 2012 from \$94.0 million during fiscal 2011. The increase was primarily due to \$191.1 million of common stock repurchased in fiscal 2012 versus \$91.4 million of common stock repurchased in fiscal 2011, partially offset by a \$63.2 million increase in cash generated from stock option exercises attributable to a higher average stock price for fiscal 2012.

Net cash used in financing activities totaled \$94.0 million in fiscal 2011, compared to \$248.5 million in fiscal 2010. The decrease in cash used in financing activities was primarily due to the \$104.7 million decrease of cash paid to repurchase common stock, and the repayment of \$295 million of debt outstanding on our revolving line of credit in fiscal 2010, partially offset by cash provided from the issuance of \$245 million of Senior Notes on July 14, 2010.

Repurchases of Common Stock

From time to time, we repurchase our common stock in the open market. During fiscal 2012, 2011 and 2010, we expended \$184.3 million, \$96.3 million and \$198.0 million, respectively, in connection with our repurchase of common stock. On November 2, 2011, our Board of Directors approved an open-ended stock repurchase program to acquire shares of our common stock up to an aggregate cost of \$150.0 million in the open market or through negotiated transactions. Following completion of the program in July 2012, our Board of Directors approved a stock repurchase program on August 16, 2012 to acquire shares of our common stock up to an aggregate cost of \$150.0 million in the open market or in negotiated transactions. As of September 30, 2012, we had \$150.0 million remaining under this authorization.

Dividends

We paid quarterly dividends of two cents per share, or eight cents per year, during each of fiscal 2012, 2011 and 2010. Our dividend rate is set by the Board of Directors on a quarterly basis taking into account a variety of factors, including among others, our operating results and cash flows, general economic and industry conditions, our obligations, changes in applicable tax laws and other factors deemed relevant by the Board. Although we expect to continue to pay dividends at the current rate, our dividend rate is subject to change from time to time based on the Board's business judgment with respect to these and other relevant factors.

Table of Contents***Revolving Line of Credit***

We have a \$200 million unsecured revolving line of credit with a syndicate of banks that expires on September 28, 2016. Proceeds from the credit facility can be used for working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions, and the repurchase of the Company's common stock. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greater of (a) the prime rate and (b) the Federal Funds rate plus 0.50% or (ii) LIBOR plus an applicable margin. The margin on LIBOR borrowings ranges from 1.000% to 1.625% and is determined based on our consolidated leverage ratio. In addition, we must pay utilization fees if borrowings and commitments under the credit facility exceed 50% of the total credit facility commitment, as well as facility fees. The credit facility contains certain restrictive covenants including maintaining a maximum consolidated leverage ratio of 3.0 and a minimum fixed charge ratio of 2.5, and also contains other covenants typical of unsecured facilities. As of September 30, 2012, we had no borrowings outstanding under the credit facility and were in compliance with all financial covenants.

Senior Notes

In May 2008, we issued \$275 million of Senior Notes in a private placement to a group of institutional investors. These Senior Notes were issued in four series with maturities ranging from 5 to 10 years. These Senior Notes' weighted average interest rate is 6.8% and the weighted average maturity is 7.9 years. In addition, on July 14, 2010, we issued \$245 million of Senior Notes in a private placement to a group of institutional investors. These Senior Notes have a weighted average interest rate of 5.2% and a weighted average maturity of 8.0 years.

All of the Senior Notes are subject to certain restrictive covenants that are substantially similar to those in the credit agreement for the revolving credit facility, including maintenance of consolidated leverage and fixed charge coverage ratios. The purchase agreements for the Senior Notes also include covenants typical of unsecured facilities. As of September 30, 2012 we were in compliance with all financial covenants under these purchase agreements.

Contractual Obligations

The following is a summary of our contractual obligations at September 30, 2012:

	2013	2014	2015	2016	2017	Thereafter	Total
Senior Notes (1)	\$ 49,000	\$ 8,000	\$ 71,000	\$ 60,000	\$ 72,000	\$ 244,000	\$ 504,000
Interest due on debt obligations (2)	30,503	27,382	26,873	22,136	19,303	26,696	152,893
Operating lease obligations	25,180	22,537	17,808	14,714	11,762	26,150	118,151
Purchase obligations (3)	4,400	2,600					7,000
Unrecognized tax benefits (4)							7,501
Total commitments	\$ 109,083	\$ 60,519	\$ 115,681	\$ 96,850	\$ 103,065	\$ 296,846	\$ 789,545

- (1) Represents the unpaid principal amount of our \$275 million Senior Notes issued in May 2008 and the \$245 million Senior Notes issued in July 2010.
- (2) Interest due on debt obligations represents interest payments on our Senior Notes.
- (3) Represents amounts associated with agreements that are enforceable, legally binding and specify terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the payments.
- (4) Unrecognized tax benefits related to uncertain tax positions. As we are not able to reasonably estimate the timing of the payments or the amount by which the liability will increase or decrease over time, the related balances have not been reflected in the section of the table showing payment by fiscal year.

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Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles. These accounting principles require management to make certain judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We periodically evaluate our estimates including those relating to revenue recognition, the allowance for doubtful accounts, goodwill and other intangible assets resulting from business acquisitions, share-based compensation, income taxes and contingencies and litigation. We base our estimates on historical experience and various other assumptions that we believe to be reasonable based on the specific circumstances, the results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Revenue Recognition

Software Licenses

Software license fee revenue is recognized when persuasive evidence of an arrangement exists, software is made available to our customers, the fee is fixed or determinable and collection is probable. The determination of whether fees are fixed or determinable and collection is probable involves the use of 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.

When software licenses are sold together with implementation or consulting services, license fees are recognized upon delivery provided that the above criteria are met, payment of the license fees is not dependent upon the performance of the services, and the services do not provide significant customization or modification

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of the software products and are not essential to the functionality of the software that was delivered. For arrangements with services that are essential to the functionality of the software, the license and related service revenues are recognized using contract accounting as described below.

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

Transactional-based Revenues

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

Consulting Services

We provide consulting, training, model development and software integration services under both hourly-based time and materials and fixed-priced contracts. When consulting services qualify for separate accounting, revenues from these services are generally recognized as the services are performed. For fixed-price service contracts, we use a proportionate performance model with hours as the input method of attribution to determine progress towards completion, with consideration also given to output measures, such as contract milestones, when applicable. In such instances, management is required to estimate the total estimated hours of the project. Adjustments to estimates are made in the period in which the facts requiring such revisions become known and, accordingly, recognized revenues and profits are subject to revisions as the contract progresses to completion. Estimated losses, if any, are recorded in the period in which current estimates of total contract revenue and contract costs indicate a loss. If substantive uncertainty related to customer acceptance of services exists, we defer the associated revenue until the contract is completed. We have not experienced significant variances between our estimates and actual hours in the past and anticipate that we will be able to continue to make reasonable estimates in the future. If for some reason we are unable to accurately estimate the input measures, revenue would be deferred until the contract is complete, and this could have a material impact on our consolidated results of operations.

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

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arrangement, the service has been provided to the customer, the amount of fees is fixed or determinable and the collection of the Company's fees is probable. We do not view the activities of signing the contract or providing initial setup services as discrete earnings events. Revenue is typically deferred until the date the customer commences use of our services, at which point the up-front fees are recognized ratably over the customer life of the customer arrangement. 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. 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. We analyze selling prices used in our allocation of arrangement consideration on an annual basis, or more frequently if necessary. Selling prices will be analyzed more frequently if a significant change in our business necessitates a more timely analysis or if we experience significant variances in our selling prices.

Gross vs. Net Revenue Reporting

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

Business Combinations

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

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

Examples of critical estimates in valuing certain of the intangible assets we have acquired include but are not limited to: (i) future expected cash flows from software license sales, support agreements, consulting contracts, other customer contracts and acquired developed technologies and patents; (ii) expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed, and; (iii) the acquired company's brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

In addition, uncertain tax positions and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. We reevaluate these items quarterly based upon facts and circumstances that existed as of the acquisition date with any adjustments to our preliminary estimates being recorded to goodwill provided that we are within the measurement period. Subsequent to the measurement period or our final determination of the tax allowance's or contingency's estimated value, whichever comes first, changes to these uncertain tax positions and tax related valuation allowances will affect our provision for income taxes in our consolidated statement of operations and could have a material impact on our results of operations and financial position.

Allowance for Doubtful Accounts

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

Valuation of Goodwill and Other Intangible Assets Impairment Assessment

Our business acquisitions typically result in the recognition of goodwill and other intangible assets, which affect the amount of current and future period charges and amortization expense. Goodwill represents the excess of the purchase price over the fair value of net assets acquired, including identified intangible assets, in connection with our business combinations. We amortize our finite-lived intangible assets using the straight-line method 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

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and patents or trademarks; the acquired company's brand awareness and market position, as well as assumptions about the period of time the acquired products and services will continue to be used in our product portfolio; and discount rates. Management's estimates of fair value and useful lives are based upon assumptions believed to be reasonable. Estimates using different assumptions, or unanticipated events and circumstances could produce significantly different results.

We assess potential impairments to our intangible assets when there is evidence that events and circumstances related to our financial performance and economic environment indicate the carrying amount of the assets may not be recoverable. When impairment indicators are identified with respect to our previously recorded intangible assets with finite useful lives, we test for impairment using undiscounted cash flows. If such tests indicate impairment, then we measure and record the impairment as the difference between the carrying value of the asset and the fair value of the asset. Significant management judgment is required in forecasting future operating results used in the preparation of the projected cash flows. Should different conditions prevail, material write downs of net intangible assets could occur. We periodically review the estimated remaining useful lives of our acquired intangible assets. A reduction in our estimate of remaining useful lives, if any, could result in increased annual amortization expense in future periods.

We test goodwill for impairment at the reporting unit levels, which we have determined are the same as our reportable segments, at least annually during the fourth quarter of each fiscal year. The timing and frequency of our goodwill impairment test is based on an ongoing assessment of events and circumstances that would be an indicator of potential impairment of a reporting unit, with the fair value below its carrying value. The first step of the goodwill impairment test is a comparison of the fair value of a reporting unit to its carrying value. We estimate the fair values of our reporting units using a weighted combination of discounted cash flow valuation model (known as the income approach) and a comparison of our reporting units to guideline publicly-traded companies (known as the market approach). These methods require estimates of our future revenues, profits, capital expenditures, working capital, costs of capital and other relevant factors, as well as selecting appropriate guideline publicly-traded companies for each reporting unit. We evaluate historical trends, current budgets, operating plans, industry data, and other relevant factors when estimating these amounts. Using assumptions that are different from those used in our estimates, but in each case reasonable, could produce significantly different results and materially affect the determination of fair value and/or goodwill impairment for each reporting unit. For example, if the economic environment impacts our forecasts beyond what we have anticipated, it could cause the fair value of a reporting unit to fall below its respective carrying value.

The key assumptions that require significant management judgment for the income approach include revenue growth rates and weighted average cost of capital. In our analysis, revenue growth rates were primarily based on third party studies of industry growth rates for each of our reporting units. Within each reporting unit, management refined these estimates based on their knowledge of the product, the needs of our customers and expected market opportunity. The weighted average cost of capital was determined based on publicly available data such as the long-term yield on U.S. treasury bonds, the expected rate of return on high quality bonds and the returns and betas of various equity instruments. As it relates to the market approach, there 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 2012 we performed our annual goodwill impairment test. In step one of that test we compared the estimated fair value of each reporting unit to its carrying value. The estimated fair value of each of our reporting units exceeded its respective carrying value in fiscal 2012, 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, 2012.

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

Share-Based Compensation

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

Income Taxes

We 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 and assess temporary differences that result from differing treatments of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities recorded on our balance sheet. We then assess the likelihood our deferred tax assets will be realized and to the extent we believe realization is not likely, we establish a valuation allowance. When we establish a valuation allowance or increase this allowance in an accounting period, we record a corresponding income tax expense in our consolidated statement 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 will be realizable; and ongoing prudent and feasible tax planning strategies. An increase in the valuation allowance would have an adverse impact, which could be material, on our income tax provision and net income in the period in which we record the increase.

We recognize and measure benefits for uncertain tax positions using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the technical merits of the tax position indicate it is more likely than not that the tax position will be sustained upon audit, including resolution of any related appeals or litigation processes. For tax positions more likely than not of being sustained upon audit, the second step is to measure the tax benefit as the largest amount more than 50% likely of being realized upon settlement. Significant judgment is required to evaluate uncertain tax positions and they are evaluated on a quarterly basis. Our evaluations are based upon a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of audits and effective settlement of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in our income tax expense in the period in which we make the change, which could have a material impact on our effective tax rate and operating results.

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

Table of Contents***Contingencies and Litigation***

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

New Accounting Pronouncements Recently Issued or Adopted

On May 12, 2011 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). This update amends Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement and Disclosure*. ASU 2011-04 clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 is effective for annual and interim reporting periods beginning on or after December 15, 2011, which means that it will be effective for our fiscal year beginning October 1, 2012. The new guidance is to be adopted prospectively and early adoption is not permitted. We do not believe that adoption of ASU 2011-04 will have a significant impact on our consolidated financial statements.

On September 15, 2011, the FASB issued ASU No. 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment* (ASU 2011-08). This update amends the guidance in ASC 350-20 on testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e. step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. ASU 2011-08 does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill annually for impairment. In addition, ASU 2011-08 does not amend the requirement to test goodwill for impairment between annual tests if events or circumstances warrant; however, it does revise the examples of events and circumstances that an entity should consider. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, which means that it will be effective for our fiscal year beginning October 1, 2012. We do not believe that adoption of ASU 2011-08 will have a significant impact on our consolidated financial statements.

On June 16, 2011 the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05) and on December 23, 2011 the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. These updates amend ASC Topic 220, *Comprehensive Income* to provide that total comprehensive income will be reported in one continuous statement or two separate but consecutive statements of financial performance. Presentation of total comprehensive income in the statement of stockholders' equity or the footnotes will no longer be allowed. The calculation of net income and basic and diluted net income per share will not be affected. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011, which means that it will be effective for our fiscal year beginning October 1, 2012. Retrospective adoption is required and early adoption is permitted. We elected to early adopt ASU 2011-05 under the one-statement approach, which did not have a significant impact on our consolidated financial statements.

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LIBOR borrowings ranges from 1.000% to 1.625% and is determined based on our consolidated leverage ratio. A change in interest rates on this variable rate debt impacts the interest incurred and cash flows, but does not impact the fair value of the instrument. We had no borrowings outstanding under the credit facility as of September 30, 2012.

Forward Foreign Currency Contracts

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

The following table summarizes our outstanding forward foreign currency contracts, by currency at September 30, 2012 and 2011:

	September 30, 2012		Fair Value US\$
	Foreign Currency	Contract Amount	
		US\$ (In thousands)	
Sell foreign currency:			
Canadian dollar (CAD)	CAD 2,750	\$ 2,794	\$
Euro (EUR)	EUR 4,060	\$ 5,255	
Buy foreign currency:			
British pound (GBP)	GBP 6,131	\$ 9,950	

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

The forward foreign currency contracts were all entered into on September 30, 2012 and 2011; therefore, the fair value was \$0 on that date.

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Fair Isaac Corporation

Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheets of Fair Isaac Corporation and subsidiaries (the Company) as of September 30, 2012 and 2011, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2012. We also have audited the Company's internal control over financial reporting as of September 30, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP
Minneapolis, MN

November 16, 2012

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FAIR ISAAC CORPORATION
CONSOLIDATED BALANCE SHEETS

	September 30, 2012	September 30, 2011
	(In thousands, except par value data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 71,609	\$ 135,752
Marketable securities available for sale, current portion	22,008	105,826
Accounts receivable, net	142,595	104,974
Prepaid expenses and other current assets	23,113	17,929
Total current assets	259,325	364,481
Marketable securities available for sale, less current portion	5,417	4,170
Other investments	11,083	10,934
Property and equipment, net	41,080	33,017
Goodwill	757,504	664,688
Intangible assets, net	52,299	19,498
Deferred income taxes	22,856	25,032
Other assets	9,047	7,648
Total assets	\$ 1,158,611	\$ 1,129,468
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 18,958	\$ 11,139
Accrued compensation and employee benefits	50,043	36,470
Other accrued liabilities	43,645	47,031
Deferred revenue	47,959	41,768
Deferred income taxes		2,090
Current maturities on long-term debt	49,000	8,000
Total current liabilities	209,605	146,498
Senior notes	455,000	504,000
Other liabilities	19,600	13,476
Total liabilities	684,205	663,974
Commitments and contingencies		
Stockholders equity:		
Preferred stock (\$0.01 par value; 1,000 shares authorized; none issued and outstanding)		
Common stock (\$0.01 par value; 200,000 shares authorized, 88,857 shares issued and 34,839 and 37,084 shares outstanding at September 30, 2012 and 2011, respectively)	348	371
Paid-in-capital	1,103,611	1,098,388