

FAIR ISAAC CORP  
Form 10-Q  
January 28, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

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

**For the quarterly period ended December 31, 2013**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-11689**

**Fair Isaac Corporation**

**(Exact name of registrant as specified in its charter)**

<b>Delaware</b> <b>(State or other jurisdiction of</b>	<b>94-1499887</b> <b>(I.R.S. Employer</b>
<b>incorporation or organization)</b>	<b>Identification No.)</b>
<b>181 Metro Drive, Suite 700</b> <b>San Jose, California</b> <b>(Address of principal executive offices)</b>	<b>95110-1346</b> <b>(Zip Code)</b>
<b>Registrant's telephone number, including area code:</b>	
<b>408-535-1500</b>	

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

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

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company

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

The number of shares of common stock outstanding on January 17, 2014 was 34,913,253 (excluding 53,943,530 shares held by us as treasury stock).

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**FAIR ISAAC CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

	<b>December 31, 2013</b>	<b>September 30, 2013</b>
	<b>(In thousands, except par value data)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 95,937	\$ 83,178
Accounts receivable, net	141,112	143,733
Prepaid expenses and other current assets	20,639	22,277
Total current assets	257,688	249,188
Marketable securities available for sale	7,676	7,107
Other investments	11,033	11,033
Property and equipment, net	41,997	45,155
Goodwill	776,831	773,931
Intangible assets, net	55,055	57,361
Deferred income taxes	9,703	11,132
Other assets	6,293	6,640
Total assets	\$ 1,166,276	\$ 1,161,547
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 20,976	\$ 19,216
Accrued compensation and employee benefits	28,457	39,281
Other accrued liabilities	32,819	35,202
Deferred revenue	48,388	49,181
Current maturities on debt	31,000	23,000
Total current liabilities	161,640	165,880
Senior notes	447,000	447,000
Other liabilities	18,213	17,990
Total liabilities	626,853	630,870
Commitments and contingencies		
Stockholders equity:		

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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 34,909 and 34,786 shares outstanding at December 31, 2013 and September 30, 2013, respectively)	349	348
Paid-in-capital	1,105,402	1,110,198
Treasury stock, at cost (53,948 and 54,071 shares at December 31, 2013 and September 30, 2013, respectively)	(1,757,804)	(1,751,057)
Retained earnings	1,208,379	1,192,096
Accumulated other comprehensive loss	(16,903)	(20,908)
Total stockholders equity	539,423	530,677
Total liabilities and stockholders equity	\$ 1,166,276	\$ 1,161,547

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****FAIR ISAAC CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME****(Unaudited)**

	<b>Quarter Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In thousands, except per share data)</b>	
<b>Revenues:</b>		
Transactional and maintenance	\$ 129,655	\$ 129,898
Professional services	34,286	32,337
License	20,402	27,785
<b>Total revenues</b>	<b>184,343</b>	<b>190,020</b>
<b>Operating expenses:</b>		
Cost of revenues *	57,319	56,148
Research and development	18,092	14,552
Selling, general and administrative *	66,989	69,665
Amortization of intangible assets *	3,013	3,372
Restructuring and acquisition-related	3,660	3,289
<b>Total operating expenses</b>	<b>149,073</b>	<b>147,026</b>
<b>Operating income</b>	<b>35,270</b>	<b>42,994</b>
Interest income	6	21
Interest expense	(7,132)	(7,880)
Other expense, net	(961)	(92)
<b>Income before income taxes</b>	<b>27,183</b>	<b>35,043</b>
Provision for income taxes	10,206	11,622
<b>Net income</b>	<b>16,977</b>	<b>23,421</b>
<b>Other comprehensive income (loss):</b>		
Foreign currency translation adjustments	4,005	(1,391)
<b>Comprehensive income</b>	<b>\$ 20,982</b>	<b>\$ 22,030</b>
<b>Earnings per share:</b>		
Basic	\$ 0.49	\$ 0.67
Diluted	\$ 0.47	\$ 0.65
<b>Shares used in computing earnings per share:</b>		
Basic	34,699	35,043

Diluted	35,820	36,151
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\* Cost of revenues and selling, general and administrative expenses exclude the amortization of intangible assets. See Note 4 to the condensed consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.



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**FAIR ISAAC CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

(Unaudited)

(In thousands, except per share data)

	Common Stock		Paid-in-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	Shares	Par Value					
<b>Balance at September 30, 2013</b>	<b>34,786</b>	<b>\$ 348</b>	<b>\$ 1,110,198</b>	<b>\$ (1,751,057)</b>	<b>\$ 1,192,096</b>	<b>\$ (20,908)</b>	<b>\$ 530,677</b>
Share-based compensation			7,235				7,235
Issuance of treasury stock under employee stock plans	561	5	(16,227)	18,233			2,011
Tax effect from share-based payment arrangements			4,196				4,196
Repurchases of common stock	(438)	(4)		(24,980)			(24,984)
Dividends paid (\$0.02 per share)					(694)		(694)
Net income					16,977		16,977
Foreign currency translation adjustments						4,005	4,005
<b>Balance at December 31, 2013</b>	<b>34,909</b>	<b>\$ 349</b>	<b>\$ 1,105,402</b>	<b>\$ (1,757,804)</b>	<b>\$ 1,208,379</b>	<b>\$ (16,903)</b>	<b>\$ 539,423</b>

See accompanying notes to condensed consolidated financial statements.

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

	<b>Quarter Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 16,977	\$ 23,421
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,167	7,973
Share-based compensation	7,235	5,832
Deferred income taxes	(1,576)	(1,418)
Tax effect from share-based payment arrangements	4,196	973
Excess tax benefits from share-based payment arrangements	(4,551)	(2,940)
Net amortization of premium on marketable securities		8
Provision for doubtful accounts, net	278	92
Net loss on sales of property and equipment		280
Changes in operating assets and liabilities:		
Accounts receivable	2,755	6,754
Prepaid expenses and other assets	1,344	45
Accounts payable	1,848	1,748
Accrued compensation and employee benefits	(10,880)	(20,242)
Other liabilities	4,686	8,967
Deferred revenue	(2,101)	(2,764)
Net cash provided by operating activities	28,378	28,729
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(2,154)	(9,012)
Proceeds from maturities of marketable securities		22,000
Cash paid for acquisitions, net of cash acquired		(27,605)
Distribution from cost method investees		50
Net cash used in investing activities	(2,154)	(14,567)
<b>Cash flows from financing activities:</b>		
Proceeds from revolving line of credit	8,000	
Payments on other short-term loans		(2,933)
Proceeds from issuance of treasury stock under employee stock plans	2,011	6,189
Dividends paid	(694)	(702)
Repurchases of common stock	(27,125)	
Excess tax benefits from share-based payment arrangements	4,551	2,940

Net cash provided by (used in) financing activities	(13,257)	5,494
<b>Effect of exchange rate changes on cash</b>	(208)	(426)
Increase in cash and cash equivalents	12,759	19,230
Cash and cash equivalents, beginning of period	83,178	71,609
Cash and cash equivalents, end of period	\$ 95,937	\$ 90,839
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for income taxes, net of refunds	\$ 1,285	\$ 1,978
Cash paid for interest	\$ 7,472	\$ 9,011
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Purchase of property and equipment included in accounts payable	\$ 521	\$ 1,045
See accompanying notes to condensed consolidated financial statements.		

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**FAIR ISAAC CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Nature of Business**

***Fair Isaac Corporation***

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

In these condensed consolidated financial statements, FICO is referred to as we, us, our, or FICO .

***Principles of Consolidation and Basis of Presentation***

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q and the applicable accounting guidance. Consequently, we have not necessarily included in this Form 10-Q all information and footnotes required for audited financial statements. In our opinion, the accompanying unaudited interim condensed consolidated financial statements in this Form 10-Q reflect all adjustments (consisting only of normal recurring adjustments, except as otherwise indicated) necessary for a fair presentation of our financial position and results of operations. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with our audited consolidated financial statements and notes thereto presented in our Annual Report on Form 10-K for the year ended September 30, 2013. The interim financial information contained in this report is not necessarily indicative of the results to be expected for any other interim period or for the entire fiscal year.

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

***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include, but are not limited to: revenue recognition; recoverability of accounts receivable; valuation of goodwill and intangible assets, including impairment assessment; valuation of share-based compensation; and realizability of deferred tax assets.

***New Accounting Pronouncements Recently Issued or Adopted***

In July 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit*

*Carryforward Exists.* (ASU 2013-11). ASU 2013-11 provides guidance for presentation of an unrecognized tax benefit, or a portion of an unrecognized tax benefit. ASU 2013-11 provides that a benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2013, which means it will be effective for our fiscal year beginning October 1, 2014. We do not believe that adoption of ASU 2013-11 will have a significant impact on our condensed consolidated financial statements.

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**2. Fair Value Measurements**

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) in the principal or most a