

FAIR ISAAC CORP
Form 10-Q
May 10, 2011

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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 March 31, 2011

**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.)*

**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

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 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
(Do not check if a smaller
reporting company)

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 April 30, 2011 was 39,832,994 (excluding 49,023,789 shares held by the Company as treasury stock).

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FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2011 (Unaudited)	September 30, 2010
	(In thousands, except par value data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 258,294	\$ 146,199
Marketable securities available for sale, current portion		68,615
Accounts receivable, net	106,893	113,187
Prepaid expenses and other current assets	15,898	19,174
Total current assets	381,085	347,175
Marketable securities available for sale, less current portion	5,123	4,367
Other investments	10,999	11,074
Property and equipment, net	29,038	30,975
Goodwill	667,431	665,953
Intangible assets, net	23,423	27,244
Deferred income taxes	27,530	27,774
Other assets	7,797	9,154
Total assets	\$ 1,152,426	\$ 1,123,716
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 16,424	\$ 8,765
Accrued compensation and employee benefits	24,004	33,697
Other accrued liabilities	26,383	28,732
Deferred revenue	51,020	42,953
Current maturities on long-term debt	8,000	8,000
Total current liabilities	125,831	122,147
Senior notes	512,000	512,000
Other liabilities	16,318	14,655
Total liabilities	654,149	648,802
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, 39,824 and 39,882 shares outstanding at March 31, 2011 and September 30, 2010, respectively)	398	399
Paid-in-capital	1,099,635	1,103,244
Treasury stock, at cost (49,033 and 48,975 shares at March 31, 2011 and September 30, 2010, respectively)	(1,555,141)	(1,556,253)
Retained earnings	969,357	947,202
Accumulated other comprehensive loss	(15,972)	(19,678)
Total stockholders' equity	498,277	474,914
Total liabilities and stockholders' equity	\$ 1,152,426	\$ 1,123,716

See accompanying notes to condensed consolidated financial statements.

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FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Quarter Ended March		Six Months Ended March	
	31,	31,	31,	31,
	2011	2010	2011	2010
	(in thousands, except per share data)			
Revenues:				
Transactional and maintenance	\$ 111,431	\$ 113,701	\$ 226,193	\$ 228,807
Professional services	27,041	23,926	54,949	50,163
License	14,352	6,093	27,613	16,246
Total revenues	152,824	143,720	308,755	295,216
Operating expenses:				
Cost of revenues (1)	48,506	44,641	94,309	87,160
Research and development	16,222	19,251	34,283	38,227
Selling, general and administrative (1)	55,449	53,697	115,082	108,900
Amortization of intangible assets (1)	1,933	3,070	3,862	6,235
Restructuring	11,522		12,391	
Total operating expenses	133,632	120,659	259,927	240,522
Operating income	19,192	23,061	48,828	54,694
Interest income	57	507	161	1,046
Interest expense	(8,137)	(5,423)	(16,378)	(10,831)
Other income (expense), net	(78)	1,027	(154)	646
Income from operations before income taxes	11,034	19,172	32,457	45,555
Provision for income taxes	3,289	6,180	8,703	14,877
Net Income	\$ 7,745	\$ 12,992	\$ 23,754	\$ 30,678
Earnings per share				
Basic	\$ 0.19	\$ 0.28	\$ 0.59	\$ 0.65
Dilluted	\$ 0.19	\$ 0.28	\$ 0.59	\$ 0.65
Shares used in computing earnings per share:				
Basic	40,010	46,447	39,966	47,033
Diluted	40,618	46,870	40,528	47,399

- (1) Cost of revenues and selling, general and administrative expenses exclude the amortization of intangible assets. See Note 2 to the accompanying 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 AND
COMPREHENSIVE INCOME
(Unaudited)

	Common Stock Shares	Par Value	Paid-in-Capital	Treasury Stock (In thousands)	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income
Balance at September 30, 2010	39,882	\$ 399	\$ 1,103,244	\$ (1,556,253)	\$ 947,202	\$ (19,678)	\$ 474,914	
Share-based compensation			8,205				8,205	
Exercise of stock options	443	4	(5,489)	14,064			8,579	
Tax effect from share-based payment arrangements			(144)				(144)	
Repurchases of common stock	(642)	(6)		(17,442)			(17,448)	
Issuance of ESPP shares from treasury			(4)	19			15	
Issuance of restricted stock to employees from treasury	141	1	(6,177)	4,471			(1,705)	
Dividends paid					(1,599)		(1,599)	
Net income					23,754		23,754	\$ 23,754
Unrealized loss on investments						(37)	(37)	(37)
Cumulative translation adjustments						3,743	3,743	3,743
Balance at March 31, 2011	39,824	\$ 398	\$ 1,099,635	\$ (1,555,141)	\$ 969,357	\$ (15,972)	\$ 498,277	\$ 27,460

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended March	
	31,	
	2011	2010
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 23,754	\$ 30,678
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,770	16,128
Share-based compensation	8,205	9,382
Deferred income taxes	818	
Tax effect from share-based payment arrangements	(144)	(3,419)
Excess tax benefits from share-based payment arrangements	(1,127)	(1,038)
Net amortization of premium on marketable securities	365	1,060
Benefit from provision for doubtful accounts, net	(582)	(810)
Net loss on sales of property and equipment	155	56
Changes in operating assets and liabilities, net of disposition effects:		
Accounts receivable	7,275	12,324
Prepaid expenses and other assets	3,911	(644)
Accounts payable	6,257	20
Accrued compensation and employee benefits	(9,788)	(3,138)
Other liabilities	1,580	9,304
Deferred revenue	6,169	62
Net cash provided by operating activities	59,618	69,965
Cash flows from investing activities:		
Purchases of property and equipment	(5,106)	(8,010)
Cash proceeds from sale of property and equipment		50
Cash proceeds from sale of product line assets		490
Purchases of marketable securities		(71,749)
Proceeds from sales of marketable securities	13,644	
Proceeds from maturities of marketable securities	54,545	80,666
Distribution from cost method investees	75	
Net cash provided by investing activities	63,158	1,447
Cash flows from financing activities:		
Proceeds from issuances of common stock under employee stock option and purchase plans	6,889	2,156
Dividends paid	(1,599)	(1,877)
Repurchases of common stock	(19,311)	(57,530)
Excess tax benefits from share-based payment arrangements	1,127	1,038

Net cash used in financing activities	(12,894)	(56,213)
Effect of exchange rate changes on cash	2,213	(2,446)
Increase in cash and cash equivalents	112,095	12,753
Cash and cash equivalents, beginning of year	146,199	178,157
Cash and cash equivalents, end of year	\$ 258,294	\$ 190,910
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net of refunds	\$ 8,696	\$ 9,607
Cash paid for interest	\$ 16,082	\$ 10,629

See accompanying notes to condensed consolidated financial statements.

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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 and healthcare organizations.

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, 2010. 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. These estimates and assumptions include, but are not limited to, assessing the following: the recoverability of accounts receivable, goodwill and other intangible assets, software development costs and deferred tax assets; the benefits related to uncertain tax positions, the determination of the fair value of stock-based compensation, the ability to estimate hours in connection with fixed-fee service contracts, the ability to estimate transactional-based revenues for which actual transaction volumes have not yet been received and the determination of whether fees are fixed or determinable and collection is probable or reasonably assured.

2. Goodwill and Intangible Assets

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

	Quarter Ended		Six Months Ended March	
	March 31,		31,	
	2011	2010	2011	2010
	(In thousands)			
Cost of revenues	\$ 568	\$ 1,711	\$ 1,137	\$ 3,450
Selling, general and administrative expenses	1,365	1,359	2,725	2,785
	\$ 1,933	\$ 3,070	\$ 3,862	\$ 6,235

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Cost of revenues reflects our amortization of completed technology and selling, general and administrative expenses reflects our amortization of other intangible assets. Intangible assets (excluding goodwill) were \$23.4 million and \$27.2 million, net of accumulated amortization of \$111.1 million and \$107.0 million, as of March 31, 2011 and September 30, 2010, respectively.

Estimated future intangible asset amortization expense associated with intangible assets existing at March 31, 2011, was as follows (in thousands):

Fiscal year

Remainder of fiscal 2011	\$ 3,869
2012	6,162
2013	4,148
2014	2,407
2015	2,407
Thereafter	4,430
	\$ 23,423

The following table summarizes changes to goodwill during fiscal 2011, both in total and as allocated to our segments.

	Applications	Scores	Tools	Total
	(In thousands)			
Balance at September 30, 2010	\$ 452,248	\$ 146,648	\$ 67,057	\$ 665,953
Foreign currency translation adjustment	1,218		260	1,478
Balance at March 31, 2011	\$ 453,466	\$ 146,648	\$ 67,317	\$ 667,431

3. Restructuring Expenses

The following table summarizes our restructuring accruals and certain FICO facility closures. The current portion and non-current portion is recorded in other accrued current liabilities and other long-term liabilities, respectively, within the accompanying condensed consolidated balance sheets. These balances are expected to be paid by fiscal 2018.

	Accrual at September 30, 2010	Expense Additions	Cash Payments (In thousands)	Expense Reversals	Accrual at March 31, 2011
Facilities charges	\$ 2,836	\$ 4,226	\$ (355)	\$	\$ 6,707
Employee separation	742	8,165	(5,613)		3,294
	3,578	\$ 12,391	\$ (5,968)	\$	10,001
Less: current portion	(1,474)				(5,496)
Non-current	\$ 2,104				\$ 4,505

During the quarter ended December 31, 2010, we incurred net charges totaling \$0.9 million consisting mainly of costs for vacating excess leased space. During the quarter ended March 31, 2011, in connection with our reengineering initiative, we incurred net charges totaling \$11.5 million. The charges included \$8.2 million for severance costs associated with the reduction of 177 positions throughout the company. Cash payments for substantially all the severance costs will be paid by the end of our third quarter of fiscal 2011. We also recognized charges of \$3.3 million associated with vacating excess leased space in Minnesota and Georgia. The charge represents future cash lease payments, net of estimated sublease income, which will be paid out over the next seven years.

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The following table summarizes property and equipment, and the related accumulated depreciation and amortization.

	March 31, 2011	September 30, 2010
	(In thousands)	
Property and equipment	\$ 193,676	\$ 218,125
Less: accumulated depreciation and amortization	(164,638)	(187,150)
	\$ 29,038	\$ 30,975

5. Earnings Per Share

The following reconciles the numerators and denominators of basic and diluted earnings per share (EPS):

	Quarter Ended March 31, 2011 2010		Six Months Ended March 31, 2011 2010	
	(In thousands, except per share data)		(In thousands, except per share data)	
Numerator for diluted and basic earnings per share net income:	\$ 7,745	\$ 12,992	\$ 23,754 &n	\$ 30,678