

FAIR ISAAC CORP
Form 10-K
November 23, 2010

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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, 2010
- 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)

**901 Marquette Avenue, Suite 3200
Minneapolis, Minnesota**

(Address of principal executive offices)

94-1499887

(I.R.S. Employer Identification No.)

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
Preferred Stock Purchase Rights

New York Stock Exchange, Inc.
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

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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 the 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
(Do not check if a smaller reporting company)

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

As of March 31, 2010, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$770,150,790 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, 2010 was 39,887,143 (excluding 48,969,640 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 1, 2011.

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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; (iii) statements of assumptions underlying such statements; (iv) statements regarding business relationships with vendors, customers or collaborators; 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, sh 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 2011.

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 80 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.

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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.

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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, collections and recovery. We also help businesses improve noncustomer decisions such as transaction and claims processing, and network integrity review. 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

Effective October 1, 2009, we implemented an organizational restructuring resulting in a consolidation of our operating segment structure from four segments to three. We now deliver Decision Management through products and services that we categorize into the following three operating segments:

Applications. This segment includes the former Strategy Machine Solutions™ segment, excluding our myFICO® solutions for consumers, and associated professional services. Our Applications products are 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.

Scores. This segment includes our business-to-business scoring solutions and services, our myFICO® solutions for consumers (previously included in the Strategy Machine Solutions segment), 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. This segment includes the former Analytic Software Tools segment and associated professional services. The Tools segment is composed of software tools that clients can use to create their own custom Decision Management applications.

The former Professional Services segment, which represents delivery and integration services, has been included within the applicable segment to which the services relate and is no longer its own segment.

Comparative segment revenues, operating income and related financial information for fiscal 2010, 2009 and 2008 are set forth in Note 20 to the accompanying consolidated financial statements.

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Key Products and Services by Operating Segment

Operating Segment	Key Products and Services
Applications	
Marketing	FICO® Precision Marketing Manager FICO® Retail Action Manager
Originations	FICO® LiquidCredit® service FICO® Capstone® Decision Manager FICO® Capstone® Decision Accelerator
Customer Management	FICO® TRIAD® Customer Manager FICO® Transaction Scores
Fraud	FICO™ Falcon® Fraud Manager FICO™ Insurance Fraud Manager FICO™ Fraud Predictor with Merchant Profiles FICO™ Falcon® ID solution
Collections & Recovery	FICO™ Card Alert Service FICO® Debt Manager™ solution FICO™ Recovery Management System™ solution (RMS®)
Analytics	FICO® Network Services FICO™ PlacementsPlus® service FICO® Predictive Analytics FICO™ Custom Decision Optimization
Scores	
Business-to-business	FICO® Scores FICO® Expansion® Scores FICO® Revenue Scores FICO® Bankruptcy Scores FICO® Insurance Scores Property PredictR™, a FICO® Insurance Score FICO® PreScore® Service
Business-to-consumer	myFICO® service Score Watch® subscription
Tools	FICO™ Blaze Advisor® business rules management system FICO™ Model Builder FICO™ Decision Optimizer FICO™ Xpress Optimization Suite

Our Solutions

Our solutions involve four fundamental disciplines:

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

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

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

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

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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.

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 customer management solutions accounted for 14%, 15% and 15% of total revenues in each of fiscal 2010, 2009 and 2008, respectively, our fraud solutions accounted for 20%, 20% and 18% of total revenues in each of these periods, respectively, and our marketing solutions accounted for 11%, 9% and 7% for each of these periods, respectively.

Marketing Applications

The chief offering for marketing is our FICO® Precision Marketing Manager. The Precision Marketing Manager solution is 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. The Precision Marketing Manager solution enables 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 under the Precision Marketing Manager brand name 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.

A number of our marketing products and services are designed for specific industries, such as retail. For example, a product for retailers is our FICO® Retail Action Manager, which determines the optimal products to recommend to consumers based on purchase propensity.

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 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® Capstone® Decision Manager, an end-user software solution for application decisioning and processing and FICO® Capstone® Decision Accelerator, 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 decisions on their existing customers. These solutions help businesses decide which customers to cross-sell, what additional products and services to offer, whether customer risk levels have increased or decreased, when and how much to change a

customer's credit line, what pricing adjustments to make in response to account performance or promotional goals, and how to treat delinquent and high-risk accounts.

We provide customer management solutions for:

Banking. In banking, 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

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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 issuers. 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 also offer transaction-based neural network models (the term neural network is defined under Technology later in this section) called FICO[®] Transaction Scores, which help card issuers identify high-risk behavior more quickly and thus manage their credit card accounts more profitably. 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.

Insurance. We provide property and casualty insurers with Decision Management solutions that enable them to create, test and implement decision strategies for areas such as cross-selling, pricing, claims handling, retention, prospecting and underwriting.

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 customer 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. These applications can also detect some organized fraud schemes, such as skimming or organized bust-out fraud, that are too complex and well-hidden to be identified by other methods.

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; deposit account fraud; identity fraud; technical fraud and bad debt; healthcare fraud; Medicaid and Medicare fraud; and property and casualty insurance fraud, including workers compensation fraud. FICO fraud solutions protect merchants, financial institutions, insurance companies, government agencies and employers 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 and merchant data to detect a wide range of credit and debit card fraud quickly and accurately. Falcon Fraud Manager analyzes card 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 to improve fraud detection rates by analyzing merchant profile data. The merchant profiles 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.

FICO[™] Falcon[®] ID solution enables lenders to control identity fraud across the customer lifecycle. Falcon ID solution relies on multiple sources of data and complex statistical modeling techniques to identify activity that is at high risk of stemming from identity theft. It also provides business rules management that companies can use to identify and resolve cases that appear to involve identity theft.

FICO[™] Insurance Fraud Manager, which uses predictive modeling to detect claims fraud, abuse and errors before payment, and identify suspicious providers as soon as aberrant behavior patterns emerge. FICO offers versions tailored to Healthcare and Workers Compensation.

In addition to the Falcon products, we offer FICO[™] Card Alert Service. Card Alert Service is a solution for fighting debit and ATM fraud in the U.S. The Card Alert Service identifies and reports counterfeit payment cards to issuers before the majority of them incur fraud losses. The service analyzes daily transactions across

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multiple financial institutions, and uses this data to pinpoint multi-card fraud and identify common points of compromise.

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, 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 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.

Scores

We develop the world's 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 solicitation candidates, to evaluate applicants for new credit and to review existing accounts. The FICO® Scores are calculated based on proprietary scoring models. 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. lenders is the FICO® 8 Score. This substantially upgraded version, available at the three major credit reporting agencies, includes enhancements that increase its predictive power, as well as 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.

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.

In fiscal 2010, the FICO® Economic Impact Index became available at Equifax. It is the first market-ready economic consumer risk measure available for portfolio stress testing as well as individual credit decisions.

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 and is available for use with four credit reporting agencies' data in markets worldwide.

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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, or are close to launching, the FICO® Score, for consumer and/or SME lending, through credit reporting agencies in 11 markets worldwide. We have installed client-specific versions of the FICO® Score in 11 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 20 different countries across five 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; and commercial credit scores delivered by both U.S. and U.K. credit reporting agencies, and soon to be released in Singapore.

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 risk 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.

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 SMS 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 Inc. (Equifax) and TransUnion Corporation (TransUnion). The myFICO products and subscription offerings are also available to consumers through lenders, financial portals and numerous other partners.

Tools

We provide end-user 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.

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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 businesses to more quickly develop complex decision-making applications, respond to changing customer needs, implement regulatory compliance and reduce the total cost of day-to-day operations. 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 supports Web Services and service-oriented architectures (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.

Model Development. FICO[™] Model Builder enables the user to develop and deploy sophisticated predictive models for use in automated decisions. This software is based on the methodology and tools FICO uses to build both client-level and industry-level predictive models, which we have evolved over more than 40 years. 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 includes Xpress-Mosel, a powerful compiled modeling and programming language specifically designed for the rapid modeling and deployment of optimization problems; Xpress-Optimizer, sophisticated, robust optimization algorithms for solving large optimization problems; and Xpress-IVE, a complete visual development environment for Xpress-Mosel under Windows, incorporating a Mosel program editor, compiler and execution environment. The Xpress tools are licensed to end users, consultants and independent software vendors in several industries, and Xpress-Optimizer is embedded in FICO[™] Decision Optimizer software. Decision Optimizer is a software tool that enables complex, large-scale optimizations involving dozens of networked action-effect models, and enables exploration and simulation of many optimized scenarios along an efficient frontier of options. The data-driven strategies produced by these tools can be executed by the FICO[™] Blaze Advisor[®] system or one of our Decision Management applications.

COMPETITION

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

in-house analytic and systems developers;

scoring model builders;

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

business intelligence solutions providers;

business process management and business rules management providers;

providers of credit reports and credit scores;

providers of automated application processing services;

data vendors;

neural network developers and artificial intelligence system builders;

third-party professional services and consulting organizations;

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providers of account/workflow management software; and

software companies supplying modeling, rules, or analytic development tools.

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.

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, we mainly compete with NICE Systems, ID Analytics, Experian, SAS, Retail Decisions plc, Norkom and ACI Worldwide, a division of Transaction Systems Architects, in the banking market; IBM and ViPS in the healthcare segment; and SAS, Infoglide Software Corporation, NetMap Analytics and Magnify in the property and casualty and workers compensation insurance market.

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

In the insurance and healthcare solutions market, we mainly compete with Emdeon, Ingenix, ViPS, MedStat, Detica, SAS, Verisk Analytics and IBM.

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, SPSS (acquired by IBM), Angoss, Computer Associates International and Pegasystems.

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

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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 88 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 400 insurers, including the top ten U.S. property and casualty insurers; more than 200 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 eight of the world's top ten pharmaceuticals companies. Nine of the top ten companies on the 2010 *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 2010, 2009 and 2008, revenues generated from our agreements with Equifax, TransUnion and Experian collectively accounted for 20%, 19%, and 19% 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.

Our largest market segments outside the United States are the United Kingdom and Canada. In addition, we have delivered products to users in over 80 countries.

Revenues from international customers, including end users and resellers, amounted to 35%, 32% and 33% of our total revenues in fiscal 2010, 2009 and 2008, respectively. See Note 20 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 the leader in predictive analytics. In addition, our Blaze Advisor software is consistently ranked as a leader in rules management systems. 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

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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, as well as 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 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.

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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 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.

Research and Development Activities

Our research and development expenses were \$73.6 million, \$73.6 million and \$77.8 million in fiscal 2010, 2009 and 2008, 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.

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 83 U.S. and 14 foreign patents with 130 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.

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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 39 trademarks registered in the U.S. and select foreign countries.

PERSONNEL

As of September 30, 2010, we employed 2,157 persons worldwide. Of these, 333 full-time employees were located in our Minneapolis and Arden Hills, Minnesota offices, 281 full-time employees were located in our San Rafael, California office, 311 full-time employees were located in our San Diego, California office, 340 full-time employees were located in our India-based office and 220 full-time employees were located in our United Kingdom-based offices. None of our employees is covered by a collective bargaining agreement, and no work stoppages have been experienced.

Information regarding our officers is included in Executive Officers of the Registrant at the end of Part I of this report.

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.

As we implement our DM strategy, we expect that revenues derived from our scoring solutions, account management solutions, fraud solutions, originations and collections and recovery solutions 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.

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

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

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

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

We rely on relatively few customers, as well as our contracts with the three major credit reporting agencies, for a significant portion of our revenues and profits. Certain of our large customers have been negatively impacted by the recent financial crisis. If these customers continue to be negatively impacted, or if 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, since mid-2007, global financial markets have suffered substantial stress, volatility, illiquidity and disruption. These forces reached unprecedented levels in the fall of 2008, resulting in the bankruptcy or acquisition of, or government assistance to, several major domestic and international financial institutions which are customers of our company. 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. Further deterioration or a continuation of the market conditions experienced since the fall of 2008 is likely to lead to 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. We are also currently involved in litigation with Experian arising from its development and marketing of credit scoring products competitive with our products. We have asserted various claims, including trademark

infringement, unfair competition, and antitrust violations against Experian and the joint venture entity, VantageScore, LLC, that Experian formed with the other major credit reporting agencies. This litigation could have a material adverse effect on our relationship with one or more of the major credit reporting agencies, or with major customers.

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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 one of the major 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 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.

If we do not engage in acquisition activity to the extent we have in the past, we may be unable to increase our revenues at historical growth rates.

Our historical revenue growth has been augmented by numerous acquisitions, and we anticipate that acquisitions may continue to be an important part of our revenue growth. Our future revenue growth rate may decline if we do not make acquisitions of similar size and at a comparable rate as in the past.

If we engage in acquisitions, significant investments in new businesses, or divestitures of existing businesses, we will incur a variety of risks, any of which may adversely affect our business.

We have made in the past, and may make in the future, acquisitions of, or significant investments in, businesses that offer complementary products, services and technologies. Any acquisitions or investments will be accompanied by the risks commonly encountered in acquisitions of businesses, which may include:

- failure to achieve the financial and strategic goals for the acquired and combined business;
- overpayment for the acquired companies or assets;
- difficulty assimilating the operations and personnel of the acquired businesses;
- product liability and other exposure associated with acquired businesses or the sale of their products;
- disruption of our ongoing business;
- dilution of our existing stockholders and earnings per share;
- unanticipated liabilities, legal risks and costs;
- retention of key personnel;

distraction of management from our ongoing business; and

impairment of relationships with employees and customers as a result of integration of new management personnel.

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We have also divested ourselves of businesses in the past and may do so again in the future. Any divestitures will be accompanied by the risks commonly encountered in the sale of businesses, which may include:

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

These risks could harm our business, financial condition or results of operations, particularly if they occur in the context of a significant acquisition. Acquisitions of businesses having a significant presence outside the U.S. will increase our exposure to the risks of conducting operations in international markets.

Our reengineering initiative may not be successful which could 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. Periodically, implementation of our reengineering initiative may reduce our revenues as a result of our exit from non-strategic product lines. Our reengineering initiative may not be successful as a result of our failure to reduce expenses at the anticipated level, our inability to exit all non-strategic product lines included in the initiative, or a lower, or no, positive impact on revenues from strategic resource allocation. If our reengineering initiative is not successful, our revenues, results of operations and business may suffer.

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

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

- variability in demand from our existing customers;
- failure to meet the expectations of market analysts;
- changes in recommendations by market analysts;
- the lengthy and variable sales cycle of many products, combined with the relatively large size of orders for our products, increases the likelihood of short-term fluctuation in revenues;

consumer dissatisfaction with, or problems caused by, the performance of our products;

the timing of new product announcements and introductions in comparison with our competitors;

the level of our operating expenses;

changes in competitive and other conditions in the consumer credit, banking and insurance industries;

fluctuations in domestic and international economic conditions, including a continuation of the substantial disruption currently being experienced by the global financial markets;

our ability to complete large installations on schedule and within budget;

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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 adversely affect the market price of our common stock.

Due to ongoing uncertainty in economic conditions and weakness in financial credit markets, the fair value of our businesses has declined. If difficult market and economic conditions continue over a sustained period, we may experience a further decline in the fair value of one or more of our businesses from fiscal 2010 year-end levels. Such further declines in fair value may 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 because it emphasizes the sale of complete DM solutions involving multiple products or 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. Since our DM strategy contemplates the sale of multiple decision solutions to a customer, expenditures by any given customer are expected to be larger than with our prior sales approach. This may cause customers, particularly those experiencing financial stress, to make purchasing decisions more cautiously. Delays in completing sales can arise while customers complete their internal procedures to approve large capital expenditures and test and accept our applications. Consequently, we face difficulty predicting the quarter in which sales to expected customers will occur and experience fluctuations in our revenues and operating results. If we are unable to accurately forecast our revenues, our stock price could be adversely affected.

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

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

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

Our DM strategy and our future success will depend in large part on our ability to attract and retain experienced sales, consulting, research and development, marketing, technical support and management personnel. The complexity of our products requires highly trained customer service and technical support personnel to assist customers with product installation and deployment. The labor market for these individuals is very competitive due to the limited number of people available with the necessary technical skills and understanding and may become more competitive with general market and economic improvement. We cannot be certain that our compensation strategies will be perceived as competitive by current or prospective

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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. 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.

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

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

incur significant defense costs or substantial damages;

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

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

discontinue the use of some technology; or

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

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.

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.

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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. For example, the rapid growth of the Internet environment creates new opportunities, risks and uncertainties for businesses, such as ours, which develop software that must also be designed to operate in Internet, intranet and other online environments. Our future success will depend, in part, upon our ability to:

innovate by internally developing new and competitive technologies;

use leading third-party technologies effectively;

continue to develop our technical expertise;

anticipate and effectively respond to changing customer needs;

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

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

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

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

in-house analytic and systems developers;

scoring model builders;

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

business intelligence solutions providers;

credit report and credit score providers;

business process management solution providers;

process modeling tools providers;

automated application processing services providers;

data vendors;

neural network developers and artificial intelligence system builders;

third-party professional services and consulting organizations;

account/workflow management software providers; and

software tools companies supplying modeling, rules, or analytic development tools.

We expect to experience additional competition from other established and emerging companies, as well as from other technologies. For example, certain of our fraud solutions products compete against other methods of preventing credit card fraud, such as credit cards that contain the cardholder's photograph, smart

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

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

Legislation that is enacted by the U.S. Congress, the states, Canadian provinces, and other countries, and government regulations that apply to us or to our customers may expose us to liability, 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 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), the Fair and Accurate Credit Transactions Act (FACTA), which amends FCRA, and certain proposed regulations and studies mandated by FACTA, under consideration;

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, 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); FACTA; the Health Insurance Portability and Accountability Act of 1996 (HIPAA); 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, 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;

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Insurance laws and regulations applicable to our insurance clients and their use of our insurance products and services;

The application or extension of consumer protection laws, including, laws governing the use of the Internet and telemarketing, advertising, endorsements and testimonials and credit repair;

Laws and regulations applicable to operations in other countries, for example, the European Union's Privacy Directive and the Foreign Corrupt Practices Act;

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

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

Financial regulatory reform stemming from the Dodd-Frank Wall Street Reform and Consumer Protection Act;

Laws and regulations regarding export controls as they apply to FICO products delivered in non-US countries.

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

In response to recent market disruptions, 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, 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, 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 2010, 76% of our revenues were derived from sales of products and services to the banking and insurance industries. Since mid-2007, global credit and other financial markets have suffered substantial stress, volatility, illiquidity and disruption. These forces reached unprecedented levels in the fall of 2008, resulting in the

bankruptcy or acquisition of, or government assistance to, several major domestic and international financial institutions. The recent market developments and 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. Further deterioration or a continuation of recent market conditions is likely to lead to a continued decline in the revenue we receive from financial and other institutions.

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

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

Risk Related to External Conditions

Continuing 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. Since mid-2007, global credit and other financial markets have suffered substantial stress, volatility, illiquidity and disruption. These forces reached unprecedented levels in the fall of 2008, resulting in the bankruptcy or acquisition of, or government assistance to, several major domestic and international financial institutions. The widespread economic downturn has also negatively affected the businesses and purchasing decisions of companies in the other industries we serve. These recent market developments and the potential for increased and continuing disruptions present considerable risks to our businesses and operations. If global economic conditions continue to 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 current economic downturn and the uncertainties underlying efforts to mitigate or reverse the downturn, 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 2010, 35% 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;

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

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

import and export licensing requirements;

longer payment cycles;

reduced protection for intellectual property rights;

currency fluctuations;

changes in tariffs and other trade barriers; and

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

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

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

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

Certain provisions of our Restated Certificate of Incorporation, as amended, could make a merger, tender offer or proxy contest involving us difficult, even if such events would be beneficial to the interests of our stockholders. These provisions include adopting a Shareholder Rights Agreement, commonly known as a poison pill, and 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.

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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 243,000 square feet of office, data center, and data processing space in Arden Hills and Minneapolis, Minnesota, in six buildings under leases expiring in 2011 or later; 33,000 square feet of this space is subleased to a third party;

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

an aggregate of approximately 312,000 square feet of office and data center space in; Annandale, VA; Bangalore, India; Beijing, China; Birmingham, United Kingdom; Chicago, IL; Hong Kong, China; Gauteng, Malaysia; London, United Kingdom; Madrid, Spain; Melbourne, Australia; Mumbai, India; Munich, Germany; New Castle, DE; New York, NY; Norcross, GA; San Jose, CA; Sao Paulo, Brazil; Seoul, Korea; Shanghai, China; Singapore, Singapore; Sydney, Australia; Taipei City, Taiwan; Tokyo, Japan; Toronto, Canada; and Westminster, CO; 43,000 square feet of this space is subleased to third parties.

See Note 21 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*

On October 11, 2006, we filed a lawsuit in the U.S. District Court for the District of Minnesota captioned Fair Isaac Corporation and myFICO Consumer Services Inc. v. Equifax Inc., Equifax Information Services LLC, Experian Information Solutions, Inc., TransUnion LLC, VantageScore Solutions LLC, and Does I through X. The lawsuit related in part to the development, marketing, and distribution of VantageScore, a credit score product developed by VantageScore Solutions LLC, which is jointly owned by the three national credit reporting companies. We alleged in the lawsuit violations of antitrust laws, unfair competitive practices and false advertising, trademark infringement, and breach of contract. We sought injunctive relief and compensatory damages. On June 6, 2008, we entered into a settlement agreement with Equifax Inc. and Equifax Information Services LLC, and on June 13, 2008, Equifax Inc. and Equifax Information Services LLC were formally dismissed from this lawsuit. On February 9, 2009, the Court granted our motions to strike counterclaims the remaining defendants had attempted to bring against us in the case, allowing them to assert only a counterclaim for trademark cancellation. On July 24, 2009, the Court issued a summary judgment order, which limited the claims to be tried. The Court dismissed our antitrust, contract, and certain false advertising claims. The Court allowed our trademark infringement, unfair competition, and passing off claims to proceed to trial. After a three-week trial on these claims, the jury ruled in the defendants' favor on November 20, 2009. We filed post-trial motions to address issues in the trial, and the defendants filed post-trial motions seeking payment of certain attorneys' fees and costs. On May 10, 2010, the Court issued a ruling denying our post-trial motions and

substantially denying defendants' motions for attorneys' fees and costs (other than an award to TransUnion LLC for certain fees associated with our contract claims). On May 17, 2010, we entered into a settlement agreement with TransUnion LLC pursuant to which, among many other terms, TransUnion LLC released all claims to the fee award and was dismissed from the lawsuit. On August 20, 2010, we filed

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an appeal with the U.S. Court of Appeals for the Eight Circuit appealing the results from the district court, including the dismissal of our antitrust claims and certain rulings fundamental to our trademark and false advertising claims. On November 4, 2010, the remaining defendants, Experian Information Solutions, Inc. and VantageScore Solutions LLC, filed an appeal regarding the denial of their motions for attorneys' fees. Briefing on the appeals is expected to be complete in January 2011, and rulings are expected in mid-2011.

Item 4. (Removed and Reserved)**EXECUTIVE OFFICERS OF THE REGISTRANT**

Our current executive officers are as follows:

Name	Positions Held	Age
Mark N. Greene	February 2007-present, Chief Executive Officer and member of the Board of Directors of the Company. 2006-2007, Vice President, Financial Services Sales and Distribution at IBM Corporation (IBM), 2001-2006, General Manager, Global Banking Industry Sales and Distribution at IBM. 2000-2001, Vice President Financial Services Strategy and Solutions Sales and Distribution at IBM. 1998-2000, Vice President, SecureWay Software Group at IBM. 1995-1998, Vice President, Electronic Commerce Software Group at IBM. 1993-1994, Vice President and Practice Area Leader at Technology Solutions Company. 1989-1992, Senior Vice President, Trading Products and Consulting at Berkley Investment Technologies. 1987-1989, Director, Fixed Income Products at Citicorp. 1985-1986, Assistant Director, Research at the Federal Reserve Board. 1984-1985, Chief Automation and Research Computing at the Federal Reserve Board. 1982-1984, Economist Special Studies at the Federal Reserve Board.	56
Thomas A. Bradley	November 2010-present, Vice President, Finance of the Company. April 2009-November 2010, Executive Vice President and Chief Financial Officer of the Company. 2008-2009, Head of North American Operations at Zurich Financial Services (Zurich). 2005-2008, President and Chief Executive Officer at Zurich Direct Underwriters. 2004-2005, Executive Vice President and Chief Financial Officer for North America at Zurich. 2001-2004, Executive Vice President and Chief Financial Officer at St. Paul Companies, Inc. 1998-2001, Senior Vice President, Finance at St. Paul Companies. 1993-1998, Vice President, Finance and Corporate Controller at USF&G Corporation. 1989-1993, Vice President and Chief Financial Officer, Commercial Division at Maryland Casualty Company (Maryland Casualty), 1984-1989, Vice President and Controller at Maryland Casualty. 1980-1984, Auditor at Ernst & Young, LLP.	53
Deborah Kerr	February 2009-present, Executive Vice Present, Chief Product and Technology Officer of the Company. 2007-2009, Chief Technology Officer, at Hewlett-Packard Enterprise Services (HP Services and EDS). 2005-2007, Vice President, Business Technology Optimization Products at Hewlett-Packard Software. 1998-2005, various positions and most recently Senior Vice President, Product Delivery at Peregrine Systems, Inc. (which filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code is September of 2002). 1988-1998, various leadership positions at NASA/Jet Propulsion	38

Laboratory (JPL), including Mission Operations Manager, Space Very Long
Baseline Interferometry.

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Name	Positions Held	Age
Charles L. III	February 2010-Present, Executive Vice President, Sales and Marketing of the Company. 2006-2008, Senior Vice President, Global Sales at Avaya, Inc. (Avaya), 2005-2006, Vice President, Software at Avaya. 2005, Vice President, Worldwide Sales Operations and Channels at Avaya. 2003-2004, Vice President, Worldwide Software Sales at BEA Systems, Inc. 2002-2003, Vice President, Worldwide Software Sales at IBM Corporation (IBM). 2000-2002, Vice President, Software Sales and Marketing, Americas at IBM. 1999-2000, Vice President, Worldwide Software Marketing at IBM. 1998-1999, Vice President, EMEA Software Sales and Marketing at IBM. 1997-1998, General Manager, APAC Software Marketing and Channels at IBM. 1996-1997, Director, Asia Pacific Software Operations at IBM. 1994-1996, PC Software Product Mgmt Director at IBM. 1993-1994, PC Company M&S PS Brand Manager at IBM. 1991-1992, Manager of the Opportunity Project Office at IBM. 1989-1991, Executive Assistant M&S Director, PC and Software Marketing at IBM. 1987-1989, Customer Executive Instructor, Adv. Business Institute at IBM. 1984-1987, Business Unit Executive at IBM. 1983-1984, Executive Assistant to Director of Finance and Insurance at IBM.	56
Mark R. Scadina	February 2009-present, Executive Vice President and General Counsel and Corporate Secretary of the Company. June 2007-February 2009, Senior Vice President and General Counsel and Corporate Secretary of the Company. 2003-2007, various senior positions including Executive Vice President, General Counsel and Corporate Secretary, Liberate Technologies, Inc. 1999-2003, various leadership positions including Vice President and General Counsel, Intertrust Technologies Corporation. 1994-1999, Associate, Pennie and Edmonds LLP.	41
Jordan L. Graham	August 2010-Present, Executive Vice President, Scores, and President, FICO Consumer Services, of the Company. 2007-2010, Managing Director and Head of North America Business Development, Global Transaction Services Division at Citi Markets and Banking. 2005-2006, Managing Director and Founder at Quotient Partners. 2000-2004, Vice President, Services Industries Consulting, Internet Business Group (IBSG) at Cisco Systems, Inc. (Cisco). 1998-2000, Managing Director, Financial Services Industry Consulting, IBSG at Cisco. 1997-1998, Managing Director and Founder at Quotient Partners. 1995-1997, President, CEO and Board Director at Electric Classified Inc./Match.com. 1992-1995, President, CEO and Board Director at Tristar Market Data Inc. 1991-1992, Director of Business Development Eastern Europe, Former Soviet Union, Middle East & Africa at Sun Microsystems, Inc. (Sun). 1990-1991, Commercial Industry Marketing Group Manager at Sun. 1988-1990, Financial Services Market Development Manager at Sun. 1982-1988, various sales and sales management positions at AT&T Information Systems.	50
Richard S. Deal	August 2007-present, Senior Vice President, Chief Human Resources Officer of the Company. January 2001-July 2007, Vice President, Human Resources of the Company. 1998-2001, Vice President, Human Resources, Arcadia Financial, Ltd. 1993-1998, managed broad range of human resources corporate and line consulting functions with U.S. Bancorp.	43
Andrew N. Jennings	October 2007-present, Senior Vice President, Chief Research Officer of the Company. May 2007-September 2007, Vice President, Analytic Research and	55

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Development of the Company. May 2006-May 2007, Vice President, EDM Applications of the Company. 2001-2006, Vice President Global Account Management Solutions of the Company. 2000-2001, Senior Vice President International Sales of the Company. 1999-2000, Senior Vice President, International Operations of the Company. 1996-1999, Vice President European Operations of the Company. 1994-1996, Director, United Kingdom Operations of the Company.

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Name	Positions Held	Age
Richard A. Stewart	November 2010-present, Vice President, Solutions Delivery. April 2007-November 2010, Senior Vice President, Services and Product Support of the Company. 2000-2006, Senior Vice President and General Manager, SAP Consulting. 1999-2000, Co-Chief Operating Partner, Grant Thornton, LLP. 1991-1999, Regional Managing Partner, Grant Thornton, LLP. 1984-1991, Domestic and International Client Services Partner, Grant Thornton, LLP. 1974-1984, various consulting positions at Grant Thornton, LLP.	58
Michael J. Pung	November 2010-present, Senior Vice President and Chief Financial Officer of the Company. August 2004-November 2010, Vice President, Finance of the Company. 2000-2004, Vice President and Controller, Hubbard Media Group, LLC. 1999-2000, Controller, Capella Education, Inc. 1998-1999, Controller, U.S. Satellite Broadcasting, Inc. 1992-1998, various financial management positions with Deluxe Corporation. 1985-1992, various audit positions, including audit manager, at Deloitte & Touche LLP.	47

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, 2010, we had 623 shareholders of record of our common stock.

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

	High	Low
Fiscal 2009		
October 1 – December 31, 2008	\$ 22.57	\$ 10.94
January 1 – March 31, 2009	\$ 17.25	\$ 9.90
April 1 – June 30, 2009	\$ 18.37	\$ 14.15
July 1 – September 30, 2009	\$ 24.22	\$ 13.88
Fiscal 2010		
October 1 – December 31, 2009	\$ 22.75	\$ 18.07
January 1 – March 31, 2010	\$ 26.57	\$ 19.95
April 1 – June 30, 2010	\$ 26.02	\$ 20.97
July 1 – September 30, 2010	\$ 25.27	\$ 21.97

Dividends

We paid quarterly dividends of two cents per share, or eight cents per year, during each quarter of fiscal 2010, 2009 and 2008. Our dividend rate is set by the Board of Directors on a quarterly basis taking into account a variety of

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

Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Table of Contents**Issuer Purchases of Equity Securities (1)**

Period	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2010 through July 31, 2010	642,032	\$ 23.42	616,682	\$ 218,742,102
August 1, 2010 through August 31, 2010	1,273,851	\$ 23.02	1,258,500	\$ 189,764,751
September 1, 2010 through September 30, 2010	618,205	\$ 24.38	616,850	\$ 174,728,894
	2,534,088	\$ 23.45	2,492,032	\$ 174,728,894

- (1) In June 2010, our Board of Directors approved a common stock repurchase program that allows us to purchase shares of our common stock up to an aggregate cost of \$250.0 million in the open market or through negotiated transactions. The June 2010 program does not have a fixed expiration date. This program replaced a similar plan approved in November 2007.
- (2) Includes 42,056 shares delivered in satisfaction of the tax withholding obligations resulting from the vesting of restricted stock units held by employees during the quarter ended September 30, 2010.

Performance Graph

The follow graph shows the total stockholder return of an investment of \$100 in cash on September 30, 2005, 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.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among FICO, the S&P 500 Index
and the S&P Application Software Index

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* \$100 invested on 9/30/05 in stock or index, including reinvestment of dividends. Fiscal year ending September 30.

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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 4, 2010.

Item 6. Selected Financial Data

We acquired Dash Optimization (Dash) in January 2008. Results of operations from the acquisition are included prospectively from the date of each acquisition. 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,				
	2010(1)	2009(1)(2)	2008(1)	2007(1)(2)	2006(1)
	(In thousands, except per share data)				
Revenues	\$ 605,643	\$ 630,735	\$ 744,842	\$ 784,188	\$ 782,995
Operating income	113,349	116,747	122,283	160,327	154,400
Income from continuing operations	64,457	65,465	81,186	111,851	104,505
Income (loss) from discontinued operations		(363)	2,766	(7,201)	(1,019)
Net income	64,457	65,102	83,952	104,650	103,486
Basic earnings (loss) per share:					
Continuing operations	\$ 1.44	\$ 1.35	\$ 1.66	\$ 2.00	\$ 1.64
Discontinued operations		(0.01)	0.06	(0.13)	(0.01)
Total	\$ 1.44	\$ 1.34	\$ 1.72	\$ 1.87	\$ 1.63
Diluted earnings (loss) per share:					
Continuing operations	\$ 1.42	\$ 1.34	\$ 1.64	\$ 1.94	\$ 1.60
Discontinued operations		(0.01)	0.06	(0.12)	(0.01)
Total	\$ 1.42	\$ 1.33	\$ 1.70	\$ 1.82	\$ 1.59
Dividends declared per share	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08

	Fiscal Years Ended September 30,				
	2010	2009	2008	2007	2006
	(In thousands)				

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Working capital (deficit)	\$ 225,028	\$ 327,970	\$ 229,071	\$ (103,173)	\$ (123,719)
Total assets	1,123,716	1,303,888	1,275,253	1,275,771	1,321,205
Senior convertible notes				390,963	400,000
Senior Notes	520,000	275,000	275,000		
Revolving line of credit		295,000	295,000	170,000	
Stockholders equity	474,914	600,269	561,941	566,314	770,028

- (1) Results of operations for fiscal years 2010, 2009, 2008, 2007 and 2006 include pre-tax charges of \$1.6 million, \$8.7 million, \$10.2 million, \$2.5 million and \$19.5 million, respectively, in restructuring expenses.
- (2) Results of operations for fiscal year 2009 and 2007 include a \$3.0 million pre-tax loss and a \$1.5 million pre-tax gain on the sale of product line assets, respectively.

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

OVERVIEW

We are a leader in Decision Management (DM) 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. 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.

A significant portion of our revenues are derived from the sale of products and services within the banking (including consumer credit) and insurance industries, and during the year ended September 30, 2010, 76% of our revenues were derived from within these industries. A significant portion of our remaining revenues are derived from the healthcare and retail industries. 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. 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. 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. Approximately 75% of our revenues during fiscal 2010 were derived from arrangements with transactional or unit-based pricing. 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.

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 \$209.6 million, \$199.8 million and \$246.3 million in fiscal 2010, 2009 and 2008, respectively, representing 35%, 32% and 33% of total consolidated revenues in each of these years. We expect that the percentage of our revenues derived from international clients will increase in the future, subject to the impact of foreign currency fluctuations.

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.

Table of Contents**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 customer's 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 services resources used to complete a project.

License Bookings

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

Bookings Trend Analysis

	Bookings (In millions)	Bookings Yield*	Number of Bookings Over \$1 Million	Weighted- Average Term (Months)
Quarter ended September 30, 2010	\$ 105.6	20%	18	27
Quarter ended September 30, 2009	\$ 85.9	17%	12	37
Year ended September 30, 2010	\$ 283.3	36%	53	N/M
Year ended September 30, 2009	\$ 234.2	41%	39	N/M

* Bookings yield represents the percentage of revenue recognized from bookings for the period indicated.

N/M Measure is not meaningful

Transactional and maintenance bookings were 52% and 61% of total bookings for the quarters ended September 30, 2010 and 2009, respectively. Professional services bookings were 32% and 25% of total bookings for the quarters ended September 30, 2010 and 2009, respectively. License bookings were 16% and 14% of total bookings for the quarters ended September 30, 2010 and 2009, respectively.

Transactional and maintenance bookings were 50% and 48% of total bookings for the years ended September 30, 2010 and 2009, respectively. Professional services bookings were 34% and 35% of total bookings for the years ended September 30, 2010 and 2009, respectively. License bookings were 16% and 17% of total bookings for the years ended September 30, 2010 and 2009, 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

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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.

Reengineering Initiative

In fiscal 2008, we announced the details of an ongoing reengineering initiative designed to grow revenues through strategic resource allocation and improve profitability through cost reduction. Key components of the initiative included rationalizing the business portfolio, simplifying management hierarchy, eliminating low-priority positions, investing in high-priority positions, consolidating facilities and managing fixed and variable costs. In fiscal 2009, we completed additional actions under our reengineering initiative. These actions were aimed at reducing costs through headcount reductions and facility consolidations. With respect to the headcount reductions, we identified and eliminated 255 positions throughout the Company. Also in connection with the initiative, we sold our Insurance Bill Review business unit and our LiquidCredit® Service for Telecom (LCT) and RoamEx product line assets, and we fully exited our Cortronics neural research product line, Fast Panel diagnostics product line and advertising services group.

Current Business Environment

General economic conditions stabilized in 2010, however, high levels of unemployment and a difficult housing market continue to impact our customers in the United States and the pace of global recovery is likely to be modest across the geographical markets we serve. During the latter half of fiscal 2010 our business stabilized and we currently see signs of gradual improvement. We will continue to manage our expenses in an effort to maintain solid earnings and cash flows. We also plan to continue to invest in our Decision Management solutions as well as our core business operations to drive revenue growth.

The mixed economic conditions impacted the estimates used in our July 1, 2010 annual goodwill impairment testing, and in particular, for our Applications segment, which has \$448.0 million in goodwill. If market conditions decline more quickly than we can reduce costs, our margins will decrease and we may experience a decline in the fair value of our reporting units. Such declines in fair value may require us to record an impairment charge related to goodwill.

Acquisition and Divestiture Activity

In June 2009, we signed definitive agreements to sell the assets associated with our LCT and RoamEx product lines for \$6.2 million in cash. We recognized a combined \$3.0 million pre-tax loss, and a \$3.9 million after-tax loss on the sales, as the goodwill associated with the sale of these product lines was not deductible for income tax purposes. LCT and RoamEx solutions were included in our Applications segment. Revenues attributable to the LCT and RoamEx product lines were \$15.7 million and \$24.9 million during fiscal 2009 and 2008, respectively. The earnings contribution from the LCT and RoamEx product lines were not significant to our fiscal 2009 and 2008 results of

operations.

In April 2008, we completed the sale of our Insurance Bill Review business unit for \$16.0 million in cash. We recorded a \$6.9 million pre-tax loss, but a \$3.4 million after-tax gain on the sale as the amount of goodwill disposed of for income tax purposes exceeded the amount determined for financial reporting

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purposes. During fiscal 2009, we recorded an additional \$0.4 million working capital adjustment in favor of the purchaser. Revenues from the business were \$22.9 million in fiscal 2008. After-tax losses were \$0.7 million in fiscal 2008. The Insurance Bill Review business unit is classified as discontinued operations in our consolidated financial statements and in the following management discussion and analysis.

In January 2008, we acquired Dash Optimization Ltd., a leading provider of decision modeling and optimization software, for an aggregate purchase price of \$34.1 million in cash. Results of operations from this acquisition are included in our results prospectively from the date of acquisition.

Segment Information

Effective October 1, 2009, we implemented an organizational restructuring resulting in a consolidation of our reportable segment structure from four to three. Our reportable segments are: Applications, Scores and Tools. Although we sell solutions and services into a large number of end user product and industry markets, our reportable business segments reflect the primary method in which management organizes and evaluates internal financial information to make operating decisions and assess performance. Comparative segment revenues, operating income, and related financial information for the years ended September 30, 2010, 2009 and 2008 are set forth in Note 20 to the accompanying consolidated financial statements. All periods presented have been restated to reflect the new segment structure.

RESULTS OF OPERATIONS**Continuing 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	
	2010	2009	2008	2010 to 2009	2009 to 2008	2010 to 2009	2009 to 2008
	(In thousands)			(In thousands)			
Applications	\$ 367,258	\$ 383,130	\$ 450,450	\$ (15,872)	\$ (67,320)	(4)%	(15)%
Scores	172,339	179,575	211,902	(7,236)	(32,327)	(4)%	(15)%
Tools	66,046	68,030	82,490	(1,984)	(14,460)	(3)%	(18)%
Total Revenues	\$ 605,643	\$ 630,735	\$ 744,842	(25,092)	(114,107)	(4)%	(15)%

Segment	Percentage of Revenues Fiscal Year		
	2010	2009	2008

Applications	61%	61%	61%
Scores	28%	28%	28%
Tools	11%	11%	11%
Total Revenues	100%	100%	100%

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Applications	2010	Fiscal Year 2009 (In thousands)	2008	Period-to-Period Change		Period-to-Period Percentage Change	
				2010 to 2009	2009 to 2008	2010 to 2009	2009 to 2008
Transactional and maintenance	\$ 257,275	\$ 274,123	\$ 299,569	\$ (16,848)	\$ (25,446)	(6)%	(8)%
Professional services	86,097	92,000	115,855	(5,903)	(23,855)	(6)%	(21)%
License	23,886	17,007	35,026	6,879	(18,019)	40%	(51)%
Total	\$ 367,258	\$ 383,130	\$ 450,450	(15,872)	(67,320)	(4)%	(15)%

Applications segment revenues decreased \$15.9 million in fiscal 2010 from fiscal 2009 due to a \$14.5 million decrease in revenues from our *originations solutions*, a \$10.6 million decrease in our *customer management solutions* and a \$2.6 million decrease from our other *Applications solutions*. These decreases were partially offset by an \$11.8 million increase in revenues from our *marketing solutions*.

The decrease in *originations solutions* was attributable to a decrease in volumes associated with transactional-based agreements, a decline in professional services and the June 2009 divestiture of our Liquid Credit Service for Telecom product line, which accounted for \$9.1 million of revenue during the year ended September 30, 2009. The decrease in *customer management solutions* was attributable to a decrease in volumes associated with transactional-based agreements and a decline in implementation services. The increase in our *marketing solutions* revenues was attributable to sales of a new product, FICO® Retail Action Manager. In addition, although revenues from our *fraud solutions* revenues remained consistent from fiscal 2009 to fiscal 2010, revenues were positively impacted by higher volumes, new sales of FICO™ Falcon® Fraud Manager and sales of a new product, FICO® Insurance Fraud Manager. *Fraud solutions* revenues were negatively impacted by the June 2009 divestiture of our RoamEx product line, which accounted for \$6.6 million of revenue during fiscal 2009.

Applications segment revenues decreased \$67.3 million in fiscal 2009 from fiscal 2008 due to a \$20.0 million decrease in revenues from our *customer management solutions*, a \$19.0 million decrease in revenues from our *collections and recovery solutions*, a \$16.1 million decrease in revenues from our *fraud solutions*, an \$8.3 million decrease in revenues from our *originations solutions* and a \$3.9 million decrease in revenues from our other *Applications solutions*.

The decrease in *customer management solutions* revenues was attributable to a decline in license sales, as the prior year included several large license sales, and a decrease in customer management implementation services. In addition, there was a decline in transactional-based revenues. The decrease in *collections and recovery solutions* revenues resulted from a decline in license sales as the prior year included several large license sales, and the loss of one large customer. In addition, we experienced a decrease in implementation services and volumes associated with transactional-based agreements. The decrease in *fraud solutions* revenues was attributable primarily to decreases in volumes associated with transactional-based agreements. Additionally, the revenue decline was due partially to the

June 2009 divestiture of our RoamEx product line. Revenues were also adversely impacted by the restructuring of a large customer contract. The decrease in *originations solutions* revenues was attributable primarily to a decline in sales volumes associated with our LCT product, which was divested in June 2009. The decrease in originations revenues was partially offset by a slight increase in implementation services.

Table of Contents**Scores**

Scores	2010	Fiscal Year 2009 (In thousands)	2008	Period-to-Period Change		Period-to-Period Percentage Change	
				2010 to 2009 (In thousands)	2009 to 2008 (In thousands)	2010 to 2009	2009 to 2008
Transactional and maintenance	\$ 170,141	\$ 178,048	\$ 210,280	\$ (7,907)	\$ (32,232)	(4)%	(15)%
Professional services	2,042	1,527	1,622	515	(95)	34%	(6)%
License	156			156		%	%
Total	\$ 172,339	\$ 179,575	\$ 211,902	(7,236)	(32,327)	(4)%	(15)%

Scores segment revenues decreased \$7.2 million in fiscal 2010 from 2009 due to a \$5.4 million decrease in our myFICO® business-to-consumer services revenues and a \$1.8 million decrease in our business-to-business scores revenues. The decline in our business-to-consumer services was primarily attributable to Experian terminating its relationship with myFICO.com in February 2009. Business-to-business scores revenue was impacted by a \$3.4 million reduction in scores used for marketing purposes, partially offset by a true-up of royalty fees with one of the reporting agencies. The decrease in scores used for marketing purposes was due to a decline in volumes of prescreening initiatives by our customers.

During fiscal 2010 and 2009, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 20% and 19%, respectively, of our total revenues, including revenues from these customers that are recorded in our other segments.

Scores segment revenues decreased \$32.3 million in fiscal 2009 from fiscal 2008 due to a \$25.3 million decrease in our business-to-business scores revenues and a \$7.0 decrease in our myFICO® business-to-consumer services revenues. The decline in our business-to-business scores revenue was primarily attributable to volume declines as financial institutions have significantly reduced new account acquisition activities and extension of credit. Revenues were also impacted by a \$4.4 million reduction in scores used for marketing purposes, which resulted from increased pricing pressures and a decline in volumes due to a decrease in prescreening initiatives by our customers. The decline in our business-to-consumer services was primarily attributable to Experian terminating its relationship with myFICO.com in February 2009.

During fiscal 2009 and 2008, revenues generated from our agreements with Equifax, TransUnion and Experian, collectively accounted for approximately 19% of our total revenues, including revenues from these customers that are recorded in our other segments.

Tools**Period-to-Period**

Tools	2010	Fiscal Year 2009 (In thousands)	2008	Period-to-Period Change		Percentage Change	
				2010 to 2009	2009 to 2008	2010 to 2009	2009 to 2008
				(In thousands)			
Transactional and maintenance	\$ 28,071	\$ 26,531	\$ 26,106	\$ 1,540	\$ 425	6%	2%
Professional services	14,739	18,886	30,437	(4,147)	(11,551)	(22)%	(38)%
License	23,236	22,613	25,947	623	(3,334)	3%	(13)%
Total	\$ 66,046	\$ 68,030	\$ 82,490	(1,984)	(14,460)	(3)%	(18)%

Tools segment revenues decreased \$2.0 million in fiscal 2010 from fiscal 2009 primarily due to a decrease of license and professional services sales related to our FICOtm Blaze Advisor[®] product, which was negatively impacted by the current business environment. Professional services revenue declined due to the completion of several large installations in prior periods and fewer implementation services due to a reduction in FICOtm

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Blaze Advisor® license sales. These decreases were partially offset by an increase in revenues from our FICO™ Model Builder and FICO™ Decision Optimizer products.

Tools segment revenues decreased \$14.5 million in fiscal 2009 from fiscal 2008 primarily due to a decrease in license and professional services related to our FICO™ Blaze Advisor® and Model Builder products, which were negatively impacted by the business environment. This decrease was partially offset by \$4.9 million increase from products acquired in our January 2008 acquisition of Dash Optimization Ltd.

Operating Expenses and Other Income (Expense)

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

	Fiscal Year			Period-to-Period Change		Period-to-Period Percentage Change	
	2010	2009	2008	2010 to 2009	2009 to 2008	2010 to 2009	2009 to 2008
	(In thousands, except employees)			(In thousands, except employees)			
Revenues	\$ 605,643	\$ 630,735	\$ 744,842	\$ (25,092)	\$ (114,107)	(4)%	(15)%
Operating expenses:							
Cost of revenues	180,932	206,448	274,917	(25,516)	(68,469)	(12)%	(25)%
Research and development	73,581	73,626	77,794	(45)	(4,168)	%	(5)%
Selling, general and administrative	225,263	209,319	245,639	15,944	(36,320)	8%	(15)%
Amortization of intangible assets	10,901	12,891	14,043	(1,990)	(1,152)	(15)%	(8)%
Restructuring	1,617	8,711	10,166	(7,094)	(1,455)	(81)%	(14)%
Loss on sale of product line assets		2,993		(2,993)	2,993	(100)%	
Total operating expenses	492,294	513,988	622,559	(21,694)	(108,571)	(4)%	(17)%
Operating income	113,349	116,747	122,283	(3,398)	(5,536)	(3)%	(5)%
Interest income	1,688	4,717	8,802	(3,029)	(4,085)	(64)%	(46)%
Interest expense	(24,124)	(25,481)	(20,335)	1,357	(5,146)	(5)%	25%
Other income, net	1,391	1,587	2,245	(196)	(658)	(12)%	(29)%
Income from continuing operations before income taxes	92,304	97,570	112,995	(5,266)	(15,425)	(5)%	(14)%
	27,847	32,105	31,809	(4,258)	296	(13)%	1%

Provision for income taxes

Income from continuing operations	64,457	65,465	81,186	(1,008)	(15,721)	(2)%	(19)%
Income (loss) from discontinued operations		(363)	2,766	363	(3,129)	(100)%	(113)%
Net income	\$ 64,457	\$ 65,102	\$ 83,952	(645)	(18,850)	(1)%	(22)%
Number of employees at fiscal year-end	2,157	2,086	2,480	71	(394)		

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	Percentage of Revenues		
	Fiscal Year		
	2010	2009	2008
Revenues	100%	100%	100%
Operating expenses:			
Cost of revenues	30%	33%	37%
Research and development	12%	12%	11%
Selling, general and administrative	37%	33%	33%
Amortization of intangible assets	2%	2%	2%
Restructuring	%	1%	1%
Loss on sale of product line assets		%	%
Total operating expenses	81%	81%	84%
Operating income	19%	19%	16%
Interest income	%	1%	1%
Interest expense	(4)%	(5)%	(2)%
Other income, net	%	%	%
Income from continuing operations before income taxes	15%	15%	15%
Provision for income taxes	4%	5%	4%
Income from continuing operations	11%	10%	11%
Income (loss) from discontinued operations	%	%	%
Net income	11%	10%	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.

Cost of revenues as a percentage of revenues was 30% in fiscal 2010, as compared to 33% in fiscal 2009. The decrease of \$25.5 million in cost of revenues resulted from a \$12.2 million decrease in personnel and other labor-related costs, an \$11.8 million decrease in facilities and infrastructure costs and a \$1.5 million decrease in other costs. The decrease in personnel and other labor-related costs was attributable primarily to a decline in salary and related benefit costs resulting from staff reductions and from the decline in consulting services activities. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from overhead reductions and exiting certain facilities.

Cost of revenues as a percentage of revenues was 33% in fiscal 2009, as compared to 37% for fiscal 2008. The decrease was driven by a decline in costs associated with lower margin professional services projects and myFICO consumer data costs. The decrease of \$68.5 million resulted from a \$43.6 million decrease in personnel and other

labor-related costs, a \$9.8 million decrease in facilities and infrastructure costs, an \$8.2 million decrease in third party software and data, a \$4.9 million decrease in billable travel costs, and a \$2.0 million decrease in other costs. The decrease in personnel and other labor-related costs was attributable primarily to a decline in salary and related benefit costs resulting from staff reductions and from the decline in professional services activities. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from staff reductions and exiting certain facilities. The decrease in third party software and data costs was due to decreased sales in our consumer solutions that required data acquisition. The decrease in travel costs was from the overall reduction in consulting services activities.

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In fiscal 2011, we expect that cost of revenues as a percentage of revenues will be consistent with or slightly higher than those incurred during fiscal 2010.

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 expenditures for fiscal 2010 were consistent with expenditures for fiscal 2009.

The fiscal 2009 over 2008 decrease of \$4.2 million in research and development expenditures was attributable primarily to a decrease of \$5.2 million in personnel and \$1.5 million in other expenses, partially offset by a \$2.5 million increase in data related expenses. The decrease in personnel and related costs was driven by reductions associated with our reengineering program. The increase in data expenses was due to higher costs for data that is used for product development initiatives.

In fiscal 2011, we expect that research and development expenditures as a percentage of revenues will be consistent with or slightly higher than those incurred during fiscal 2010 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, overhead, advertising and other promotional expenses, corporate facilities expenses, legal expenses, business development expenses and the cost of operating computer systems.

The fiscal 2010 over 2009 increase of \$15.9 million in selling, general and administrative expenses was attributable to an \$18.6 million increase in personnel and related costs, a \$2.8 million increase in travel expenses and a \$1.6 million increase in marketing expenses, partially offset by a \$3.9 million decrease in professional fees and a \$3.2 million decrease in other costs, which includes bad debt expense, taxes and licenses and other miscellaneous expenses. The increase in personnel and related costs was primarily due to increased commissions and salaries and benefits for the year ended September 30, 2010. The increase in travel expenses was due to increased travel to support sales efforts. The increase in marketing expense was attributable to an increase in marketing campaigns and related activities. The decline in professional fees was primarily due to decreased legal fees.

The fiscal 2009 over 2008 decrease of \$36.3 million in selling, general and administrative expenses was attributable to a decrease of \$23.6 million in personnel and other labor-related costs, a \$4.4 million decrease in professional fees, a \$4.4 million decrease in travel costs, a \$2.9 million decrease in bad debt expense and a \$1.8 million decrease in facilities and infrastructure costs, partially offset by a \$0.8 million increase in other expenses. The decrease in personnel and labor-related costs related primarily to a decrease in salary and benefits costs resulting from staff reductions associated with our reengineering program. The decrease in professional fees was primarily due to decreased legal expenses. The decrease in travel expenses was due to management programs focused on reducing expenses. The decrease in bad debt expense was due to successful collection efforts and a decrease in revenues. The decrease in facilities and infrastructure costs was attributable primarily to a decline in allocated costs resulting from staff reductions and exiting certain facilities.

In fiscal 2011, we expect that selling, general and administrative expenses as a percentage of revenues will be slightly higher than those incurred during fiscal 2010.

Amortization of Intangible Assets

Amortization of intangible assets consists of amortization expense related to intangible assets recorded in connection with acquisitions accounted for by the purchase method of accounting. Our definite-lived intangible assets, consisting primarily of completed technology and customer contracts and relationships, are being

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amortized using the straight-line method or based on forecasted cash flows associated with the assets over periods ranging from two to fifteen years.

The fiscal 2010 over 2009 decline of \$2.0 million in amortization expense was attributable mainly to certain intangible assets associated with our London Bridge acquisition becoming fully amortized.

The fiscal 2009 over 2008 decline of \$1.2 million in amortization expense was attributable mainly to certain intangible assets becoming fully amortized.

In fiscal 2011, we expect amortization expense will be slightly lower than the amortization expense incurred in 2010 due to certain intangible assets related to our London Bridge acquisition that became fully amortized during fiscal 2010.

Restructuring Expense

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

	2010	Fiscal Year 2009	2008
		(In thousands)	
Severance costs	\$ 742	\$ 5,860	\$ 7,353
Lease exit costs and other adjustments	875	2,851	&