FAIR ISAAC CORP
Form 10-Q
August 06, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

o **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	**94-1499887**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
901 Marquette Avenue, Suite 3200 Minneapolis, Minnesota	**55402-3232**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
612-758-5200

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of common stock outstanding on July 31, 2009 was 48,855,019 (excluding 40,001,764 shares held by the Company as treasury stock).

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value data)
(Unaudited)

	June 30, 2009	September 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 240,346	$ 129,678
Marketable securities available for sale, current portion	75,743	57,049
Accounts receivable, net	98,604	141,571
Prepaid expenses and other current assets	25,477	23,404
Total current assets	440,170	351,702
Marketable securities available for sale, less current portion	55,467	72,101
Other investments	11,074	12,374
Property and equipment, net	38,269	46,360
Goodwill	671,061	686,082
Intangible assets, net	41,734	52,468
Deferred income taxes	45,050	45,786
Other assets	10,100	8,380
	$ 1,312,925	$ 1,275,253
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 10,698	$ 11,172
Accrued compensation and employee benefits	28,485	29,551
Other accrued liabilities	40,526	43,665
Deferred revenue	40,166	38,243
Total current liabilities	119,875	122,631
Revolving line of credit	295,000	295,000
Senior notes	275,000	275,000
Other liabilities	18,802	20,681
Total liabilities	708,677	713,312
Commitments and contingencies		
Stockholders equity:		
Preferred stock ($0.01 par value; 1,000 shares authorized; none issued and outstanding)		
	489	485

Common stock ($0.01 par value; 200,000 shares authorized; 88,857 shares issued and 48,855 and 48,473 shares outstanding at June 30, 2009 and September 30, 2008, respectively)		
Paid-in-capital	1,107,984	1,110,165
Treasury stock, at cost (40,002 and 40,384 shares at June 30, 2009 and September 30, 2008, respectively)	(1,361,411)	(1,374,455)
Retained earnings	870,180	825,109
Accumulated other comprehensive income (loss)	(12,994)	637
Total stockholders equity	604,248	561,941
	$ 1,312,925	$ 1,275,253

See accompanying notes to condensed consolidated financial statements.

1

Table of Contents

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Revenues	$ 156,018	$ 183,315	$ 478,813	$ 566,655
Operating expenses:				
Cost of revenues (1)	48,160	68,709	160,655	208,627
Research and development	18,364	18,779	55,409	58,910
Selling, general and administrative (1)	50,290	59,734	157,519	187,858
Amortization of intangible assets (1)	3,219	3,797	9,622	10,481
Restructuring	(237)	2,176	8,711	7,855
Loss on sale of product line assets	2,993		2,993	
Total operating expenses	122,789	153,195	394,909	473,731
Operating income	33,229	30,120	83,904	92,924
Interest income	936	1,707	3,836	5,942
Interest expense	(6,086)	(5,203)	(19,771)	(13,461)
Other income, net	503	1,478	1,651	2,095
Income from continuing operations before income taxes	28,582	28,102	69,620	87,500
Provision for income taxes	10,443	9,304	21,263	30,092
Income from continuing operations	18,139	18,798	48,357	57,408
Income (loss) from discontinued operations		7,703	(363)	2,766
Net income	$ 18,139	$ 26,501	$ 47,994	$ 60,174
Basic earnings per share:				
Continuing operations	$ 0.37	$ 0.39	$ 0.99	$ 1.17
Discontinued operations		0.16		0.06
Total	$ 0.37	$ 0.55	$ 0.99	$ 1.23
Diluted earnings (loss) per share:				
Continuing operations	$ 0.37	$ 0.38	$ 0.99	$ 1.16
Discontinued operations		0.16	(0.01)	0.05
Total	$ 0.37	$ 0.54	$ 0.98	$ 1.21

Shares used in computing earnings (loss) per share:				
Basic	48,835	48,521	48,707	49,111
Diluted	48,986	48,727	48,777	49,633

(1) Cost of revenues and selling, general and administrative expenses exclude the amortization of intangible assets. See Note 2 to the accompanying condensed consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.

2

Table of Contents

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Common Stock Shares	Common Stock Par Value	Paid-In-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity	Comprehensive Income (Loss)
Balance at September 30, 2008	**48,473**	**$ 485**	**$ 1,110,165**	**$ (1,374,455)**	**$ 825,109**	**$ 637**	**$ 561,941**	
Share-based compensation			15,342				15,342	
Exercise of stock options	82	1	(1,887)	2,779			893	
Tax effect from share-based payment arrangements			(7,297)				(7,297)	
Issuance of ESPP shares from treasury	195	2	(3,841)	6,628			2,789	
Forfeitures of restricted stock	(2)		64	(64)				
Issuance of stock to employees from treasury	107	1	(4,562)	3,701			(860)	
Dividends paid					(2,923)		(2,923)	
Net income					47,994		47,994	$ 47,994
Unrealized gains on investments						456	456	456
Cumulative translation adjustments						(14,087)	(14,087)	(14,087)
Balance at June 30, 2009	**48,855**	**$ 489**	**$ 1,107,984**	**$ (1,361,411)**	**$ 870,180**	**$ (12.994)**	**$ 604,248**	**$ 34,363**

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2008
Cash flows from operating activities:		
Net income	$ 47,994	$ 60,174
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,052	29,753
Share-based compensation	15,342	21,713
Deferred income taxes	3,660	948
Tax effect from share-based payment arrangements	(7,297)	(1,874)
Excess tax benefits from share-based payment arrangements	(121)	(1,301)
Gain on repurchase of senior convertible notes		(896)
Net amortization of premium on marketable securities	601	370
Provision for doubtful accounts	499	2,867
Loss on sale of product line assets	2,993	
Loss on sale of discontinued operations		6,952
Net loss (gain) on sales of property and equipment	103	(37)
Changes in operating assets and liabilities, net of acquisition and disposition effects:		
Accounts receivable	35,251	13,576
Prepaid expenses and other assets	925	2,353
Accounts payable	(864)	(3,159)
Accrued compensation and employee benefits	(624)	(12,120)
Other liabilities	(10,390)	(3,827)
Deferred revenue	7,222	(1,649)
Net cash provided by operating activities	124,346	113,843
Cash flows from investing activities:		
Purchases of property and equipment	(11,283)	(17,613)
Cash proceeds from sales of property and equipment		1,552
Cash paid for acquisition, net of cash acquired		(33,336)
Cash proceeds from sale of business unit		14,200
Cash proceeds from sale of product line assets	1,000	
Purchases of marketable securities	(110,723)	(153,483)
Proceeds from sales of marketable securities		2,008
Proceeds from maturities of marketable securities	107,495	160,085
Distribution from cost-method investees	1,300	
Net cash used in investing activities	(12,211)	(26,587)
Cash flows from financing activities:		

Repayments made on revolving line of credit		(132,000)
Repurchases of senior convertible notes		(122,808)
Proceeds from issuance of senior notes		275,000
Debt issuance costs		(1,477)
Proceeds from issuances of common stock under employee stock option and purchase plans	2,822	19,592
Dividends paid	(2,923)	(2,928)
Repurchases of common stock		(116,642)
Excess tax benefits from share-based payment arrangements	121	1,301
Net cash provided by (used in) financing activities	20	(79,962)
Effect of exchange rate changes on cash	(1,487)	298
Increase in cash and cash equivalents	110,668	7,592
Cash and cash equivalents, beginning of period	129,678	95,284
Cash and cash equivalents, end of period	$ 240,346	$ 102,876
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net	$ 20,910	$ 13,971
Cash paid for interest	$ 24,861	$ 10,513

See accompanying notes to condensed consolidated financial statements.

4

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

1. Nature of Business

Fair Isaac Corporation

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

In these consolidated financial statements, Fair Isaac Corporation is referred to as we, us, our, FICO , Fair Isaac and the Company.

Principles of Consolidation and Basis of Presentation

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q and the standards of accounting measurement set forth in Accounting Principles Board (APB) Opinion No. 28 and any amendments thereto adopted by the Financial Accounting Standards Board (FASB). Consequently, we have not necessarily included in this Form 10-Q all information and footnotes required for audited financial statements. In our opinion, the accompanying unaudited interim condensed consolidated financial statements in this Form 10-Q reflect all adjustments (consisting only of normal recurring adjustments, except as otherwise indicated) necessary for a fair presentation of our financial position and results of operations. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with our audited consolidated financial statements and notes thereto presented in our Annual Report on Form 10-K for the year ended September 30, 2008. The interim financial information contained in this report is not necessarily indicative of the results to be expected for any other interim period or for the entire fiscal year.

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. These estimates and assumptions include, but are not limited to, assessing the following: the recoverability of accounts receivable, goodwill and other intangible assets, software development costs and deferred tax assets; estimated losses associated with contingencies and litigation; the ability to estimate hours in connection with fixed-fee service contracts, the ability to estimate transactional-based revenues for which actual transaction volumes have not yet been received, the determination of whether fees are fixed or determinable and collection is probable or reasonably assured; and the development of assumptions for use in the Black-Scholes model that estimates the fair value of our share-based awards and assessing forfeiture rates of share-based awards.

Adoption of Recent Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events (SFAS 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted SFAS 165 in the third quarter of fiscal 2009. We have evaluated subsequent events through the time of filing these financial statements on August 6, 2009.

In April 2009, the FASB issued FASB Staff Position (FSP) No. FAS 107-1 and APB 28-1, *Interim Disclosures About Fair Value of Financial Instruments* (FSP No. 107-1 and APB 28-1). FSP No. FAS 107-1 and APB 28-1 requires fair value disclosures of financial instruments on a quarterly basis, as well as new disclosures regarding the methodology and significant assumptions underlying the fair value measures and any changes to the methodology and assumptions during the reporting period. The additional disclosures required by this standard are included in Note 12.

The adoption of FSP No. 107-1 and APB 28-1 did not affect our consolidated financial statements.

Table of Contents

In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP No. 157-4). FSP No. FAS 157-4 amends SFAS 157 to provide additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. The adoption of FSP No. FAS 157-4 did not affect our consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP No. FAS 115-2 and FAS 124-2). FSP No. FAS 115-2 and FAS 124-2 provides new criteria for determining whether an impairment of a debt security is temporary and recorded in other comprehensive income in the equity section of the balance sheet or other-than-temporary and recorded as a loss on the statement of operations. The adoption of FSP No. FAS 115-2 and FAS 124-2 did not affect our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB statement No. 133* (SFAS 161). SFAS 161 expands the disclosure requirements about an entity s derivative instruments and hedging activities. We adopted SFAS 161 as of January 1, 2009 on a prospective basis. Since SFAS 161 requires only additional disclosures of our derivative and hedging activities, the adoption of SFAS 161 did not affect our consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require or permit assets or liabilities to be measured at fair value. This standard does not expand the use of fair value in any new circumstances. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157,* which defers the effective date of SFAS 157 for one year for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in an entity s financial statements on a recurring basis (at least annually). In October 2008, the FASB issued FSP No. 157 3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* , which clarifies the application of SFAS 157 in a market that is not active. As described in Note 8, we have adopted Statement 157 and the related FASB staff positions. Consistent with the provisions of FSP 157 2, we elected to defer the adoption of SFAS 157 for non financial assets and liabilities measured at fair value on a non recurring basis until October 1, 2009. We are currently evaluating the impact of the full adoption of SFAS 157 on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. The standard s objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The standard requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of a company s choice to use fair value on its earnings. It also requires companies to display the fair value of those assets and liabilities for which a company has chosen to use fair value on the face of the balance sheet. The new standard does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFAS 107, *Disclosures about Fair Value of Financial Instruments.* On October 1, 2008 we adopted SFAS 159 but did not elect the fair value option for any additional financial assets or liabilities that we held at that date.

2. Amortization of Intangible Assets

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

	Quarter Ended June 30,	Nine Months Ended June 30,

	2009	2008	2009	2008
		(In thousands)		
Cost of revenues	$ 1,704	$ 2,043	$ 5,090	$ 5,464
Selling, general and administrative	1,515	1,754	4,532	5,017
	$ 3,219	$ 3,797	$ 9,622	$ 10,481

6

Cost of revenues reflects our amortization of completed technology, and selling, general and administrative expenses reflect our amortization of other intangible assets. Intangible assets were $41.7 million and $52.5 million, net of accumulated amortization of $110.1 million and $101.7 million, as of June 30, 2009 and September 30, 2008, respectively.

3. Restructuring and Acquisition-Related Expenses

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

	Accrual at September 30, 2008	**Expense Additions**	**Cash Payments**	**Expense Reversal**	**Accrual at June 30, 2009**
			(In thousands)		
Facilities charges	$ 9,688	$ 3,877	$ (3,467)	$ (650)	$ 9,448
Employee separation	930	5,860	(6,348)	(376)	66
	10,618	$ 9,737	$ (9,815)	$ (1,026)	9,514
Less: current portion	(4,224)				(6,974)