
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2022

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

For the transition period from _____ to _____

Commission File Number 1-11689

Fair Isaac Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

5 West Mendenhall, Suite 105
Bozeman, Montana
(Address of principal executive offices)

94-1499887
(I.R.S. Employer
Identification No.)

59715
(Zip Code)

Registrant's telephone number, including area code: 406-982-7276

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value per share	FICO	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of common stock outstanding on April 15, 2022 was 25,932,030 (excluding 62,924,753 shares held by us as treasury stock).

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1.	Financial Statements	1
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 4.	Controls and Procedures	37

PART II – OTHER INFORMATION

Item 1.	Legal Proceedings	38
Item 1A.	Risk Factors	38
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	53
Item 3.	Defaults Upon Senior Securities	53
Item 4.	Mine Safety Disclosures	53
Item 5.	Other Information	53
Item 6.	Exhibits	54
	Signatures	55

PART I – FINANCIAL INFORMATION**Item 1. Financial Statements**

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2022	September 30, 2021
	(In thousands, except par value data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 174,219	\$ 195,354
Accounts receivable, net	273,356	312,107
Prepaid expenses and other current assets	34,634	43,513
Total current assets	482,209	550,974
Marketable securities	31,303	31,884
Other investments	1,289	1,312
Property and equipment, net	22,897	27,913
Operating lease right-of-use assets	43,256	47,275
Goodwill	783,744	788,185
Intangible assets, net	3,007	4,099
Deferred income taxes	17,428	20,549
Other assets	101,352	95,585
Total assets	<u>\$ 1,486,485</u>	<u>\$ 1,567,776</u>
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 16,828	\$ 20,749
Accrued compensation and employee benefits	61,825	103,506
Other accrued liabilities	71,628	79,535
Deferred revenue	102,481	105,417
Current maturities on debt	130,000	250,000
Total current liabilities	382,762	559,207
Long-term debt	1,664,674	1,009,018
Operating lease liabilities	47,362	53,670
Other liabilities	55,103	56,823
Total liabilities	2,149,901	1,678,718
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock (\$0.01 par value; 1,000 shares authorized; none issued and outstanding)	—	—
Common stock (\$0.01 par value; 200,000 shares authorized, 88,857 shares issued and 25,982 and 27,568 shares outstanding at March 31, 2022 and September 30, 2021, respectively)	260	276
Additional paid-in-capital	1,242,280	1,237,348
Treasury stock, at cost (62,875 and 61,289 shares at March 31, 2022 and September 30, 2021, respectively)	(4,599,242)	(3,857,855)
Retained earnings	2,774,485	2,585,143
Accumulated other comprehensive loss	(81,199)	(75,854)
Total stockholders' deficit	(663,416)	(110,942)
Total liabilities and stockholders' deficit	<u>\$ 1,486,485</u>	<u>\$ 1,567,776</u>

See accompanying notes.

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	Quarter Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
(In thousands, except per share data)				
Revenues:				
On-premises and SaaS software	\$ 149,088	\$ 125,551	\$ 275,426	\$ 252,006
Professional services	24,365	37,091	50,901	78,399
Scores	183,742	168,719	353,229	313,370
Total revenues	<u>357,195</u>	<u>331,361</u>	<u>679,556</u>	<u>643,775</u>
Operating expenses:				
Cost of revenues	71,794	88,333	140,997	177,861
Research and development	36,387	43,612	75,367	84,263
Selling, general and administrative	96,414	97,272	194,462	191,183
Amortization of intangible assets	543	945	1,087	1,882
Gains on product line asset sales and business divestiture	—	—	—	(7,334)
Total operating expenses	<u>205,138</u>	<u>230,162</u>	<u>411,913</u>	<u>447,855</u>
Operating income	152,057	101,199	267,643	195,920
Interest expense, net	(17,211)	(9,943)	(29,406)	(19,584)
Other income (expense), net	(2,361)	568	(932)	3,448
Income before income taxes	132,485	91,824	237,305	179,784
Provision for income taxes	28,102	23,150	47,963	24,618
Net income	<u>104,383</u>	<u>68,674</u>	<u>189,342</u>	<u>155,166</u>
Other comprehensive income (loss):				
Foreign currency translation adjustments	(3,207)	(1,846)	(5,345)	15,202
Comprehensive income	<u>\$ 101,176</u>	<u>\$ 66,828</u>	<u>\$ 183,997</u>	<u>\$ 170,368</u>
Earnings per share:				
Basic	<u>\$ 3.99</u>	<u>\$ 2.36</u>	<u>\$ 7.10</u>	<u>\$ 5.33</u>
Diluted	<u>\$ 3.95</u>	<u>\$ 2.33</u>	<u>\$ 7.02</u>	<u>\$ 5.23</u>
Shares used in computing earnings per share:				
Basic	<u>26,145</u>	<u>29,087</u>	<u>26,662</u>	<u>29,107</u>
Diluted	<u>26,421</u>	<u>29,531</u>	<u>26,978</u>	<u>29,660</u>

See accompanying notes.

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited)

(In thousands)	Common Stock		Additional Paid-in-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
	Shares	Par Value					
Balance at December 31, 2021	26,509	\$ 265	\$ 1,208,365	\$ (4,339,039)	\$ 2,670,102	\$ (77,992)	\$ (538,299)
Share-based compensation	—	—	27,936	—	—	—	27,936
Issuance of treasury stock under employee stock plans	52	1	5,979	3,762	—	—	9,742
Repurchases of common stock	(579)	(6)	—	(263,965)	—	—	(263,971)
Net income	—	—	—	—	104,383	—	104,383
Foreign currency translation adjustments	—	—	—	—	—	(3,207)	(3,207)
Balance at March 31, 2022	25,982	\$ 260	\$ 1,242,280	\$ (4,599,242)	\$ 2,774,485	\$ (81,199)	\$ (663,416)

(In thousands)	Common Stock		Additional Paid-in-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Par Value					
Balance at December 31, 2020	29,236	\$ 292	\$ 1,145,893	\$ (3,035,668)	\$ 2,279,551	\$ (65,947)	\$ 324,121
Share-based compensation	—	—	28,206	—	—	—	28,206
Issuance of treasury stock under employee stock plans	34	—	7,593	1,766	—	—	9,359
Repurchases of common stock	(441)	(4)	—	(205,207)	—	—	(205,211)
Net income	—	—	—	—	68,674	—	68,674
Foreign currency translation adjustments	—	—	—	—	—	(1,846)	(1,846)
Balance at March 31, 2021	28,829	\$ 288	\$ 1,181,692	\$ (3,239,109)	\$ 2,348,225	\$ (67,793)	\$ 223,303

(In thousands)	Common Stock		Additional Paid-in-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
	Shares	Par Value					
Balance at September 30, 2021	27,568	\$ 276	\$ 1,237,348	\$ (3,857,855)	\$ 2,585,143	\$ (75,854)	\$ (110,942)
Share-based compensation	—	—	57,814	—	—	—	57,814
Issuance of treasury stock under employee stock plans	237	2	(52,882)	16,148	—	—	(36,732)
Repurchases of common stock	(1,823)	(18)	—	(757,535)	—	—	(757,553)
Net income	—	—	—	—	189,342	—	189,342
Foreign currency translation adjustments	—	—	—	—	—	(5,345)	(5,345)
Balance at March 31, 2022	25,982	\$ 260	\$ 1,242,280	\$ (4,599,242)	\$ 2,774,485	\$ (81,199)	\$ (663,416)

(In thousands)	Common Stock		Additional Paid-in-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Par Value					
Balance at September 30, 2020	29,096	\$ 291	\$ 1,218,583	\$ (2,997,856)	\$ 2,193,059	\$ (82,995)	\$ 331,082
Share-based compensation	—	—	53,338	—	—	—	53,338
Issuance of treasury stock under employee stock plans	275	2	(90,229)	13,964	—	—	(76,263)
Repurchases of common stock	(542)	(5)	—	(255,217)	—	—	(255,222)
Net income	—	—	—	—	155,166	—	155,166
Foreign currency translation adjustments	—	—	—	—	—	15,202	15,202
Balance at March 31, 2021	28,829	\$ 288	\$ 1,181,692	\$ (3,239,109)	\$ 2,348,225	\$ (67,793)	\$ 223,303

See accompanying notes.

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

	Six Months Ended March 31,	
	2022	2021
(In thousands)		
Cash flows from operating activities:		
Net income	\$ 189,342	\$ 155,166
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,656	13,701
Share-based compensation	57,814	53,338
Deferred income taxes	3,004	(287)
Net (gain) loss on marketable securities	3,209	(2,669)
Non-cash operating lease costs	8,166	8,005
Provision for doubtful accounts	650	266
Gains on product line asset sales and business divestiture	—	(7,334)
Net loss on sales and abandonment of property and equipment	166	96
Changes in operating assets and liabilities:		
Accounts receivable	33,098	64,304
Prepaid expenses and other assets	5,179	4,572
Accounts payable	(4,105)	(3,695)
Accrued compensation and employee benefits	(41,745)	(46,147)
Other liabilities	(14,159)	(9,989)
Deferred revenue	(3,791)	2,143
Net cash provided by operating activities	<u>247,484</u>	<u>231,470</u>
Cash flows from investing activities:		
Purchases of property and equipment	(3,293)	(4,220)
Proceeds from sales of marketable securities	3,354	2,264
Purchases of marketable securities	(5,982)	(4,379)
Proceeds from product line asset sales and business divestiture	2,257	8,291
Purchase of equity investment	—	(210)
Net cash provided by (used in) investing activities	<u>(3,664)</u>	<u>1,746</u>
Cash flows from financing activities:		
Proceeds from revolving line of credit and term loan	800,000	251,000
Payments on revolving line of credit and term loan	(806,750)	(121,000)
Proceeds from issuance of senior notes	550,000	—
Payments on debt issuance costs	(8,819)	—
Payments on finance leases	—	(176)
Proceeds from issuance of treasury stock under employee stock plans	11,117	10,390
Taxes paid related to net share settlement of equity awards	(47,849)	(86,653)
Repurchases of common stock	(760,861)	(250,356)
Net cash used in financing activities	<u>(263,162)</u>	<u>(196,795)</u>
Effect of exchange rate changes on cash	<u>(1,793)</u>	<u>4,021</u>
Increase (decrease) in cash and cash equivalents	(21,135)	40,442
Cash and cash equivalents, beginning of period	195,354	157,394
Cash and cash equivalents, end of period	<u>\$ 174,219</u>	<u>\$ 197,836</u>
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net of refunds of \$1,003 and \$288 during the six-month periods ended March 31, 2022 and 2021, respectively	\$ 30,788	\$ 18,131
Cash paid for interest	\$ 21,368	\$ 18,488
Supplemental disclosures of non-cash investing and financing activities:		
Purchase of property and equipment included in accounts payable	\$ 139	\$ 388
Unsettled repurchases of common stock	\$ 4,735	\$ 4,866

See accompanying notes.

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

1. Nature of Business

Fair Isaac Corporation

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,” or “FICO”) is a leading applied analytics company. We were founded in 1956 on the premise that data, used intelligently, can improve business decisions. Today, FICO’s software and the widely used FICO® Score operationalize analytics, enabling thousands of businesses in nearly 120 countries to uncover new opportunities, make timely decisions that matter, and execute them at scale. Most leading banks and credit card issuers rely on our solutions, as do insurers, retailers, telecommunications providers, automotive companies, public agencies, and organizations in other industries. We also serve consumers through online services that enable people to access and understand their FICO Scores — the standard measure in the U.S. of consumer credit risk — empowering them to increase financial literacy and manage their financial health.

Principles of Consolidation and Basis of Presentation

We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q and the applicable accounting guidance. Consequently, we have not necessarily included all information and footnotes required for audited financial statements. In our opinion, the accompanying unaudited interim condensed consolidated financial statements 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 fiscal year ended September 30, 2021. 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.

During the fourth quarter of fiscal 2021, we consolidated our operating segment structure from three to two by merging Applications and Decision Management Software segments into the new Software segment. As a result, we modified the presentation of our segment financial information with retrospective application to all prior periods presented. Refer to Note 18 - Segment Information to the consolidated financial statements included in Part II, Item 8 of our 2021 Annual Report on Form 10-K for further information.

In addition, effective beginning in the fourth quarter of fiscal 2021, we changed the classification of revenue from transactional and maintenance, professional services, and license to on-premises and SaaS software, professional services and scores, which is reflected in our condensed consolidated statements of income and comprehensive income, as well as our disclosures on disaggregation of revenue, to better align with our business strategy. Previously reported amounts in the condensed consolidated statements of income and comprehensive income and notes to the condensed consolidated financial statements were adjusted to conform to the current presentation.

Use of Estimates

We make estimates and assumptions that affect the amounts reported in the financial statements and the disclosures made in the accompanying notes. For example, we use estimates in determining the appropriate levels of various accruals; variable considerations included in the transaction price and standalone selling price of each performance obligation for our customer contracts; labor hours in connection with fixed-fee service contracts; the amount of our tax provision; and the realizability of deferred tax assets. We also use estimates in determining the remaining economic lives and carrying values of acquired intangible assets, property and equipment, and other long-lived assets. In addition, we use assumptions to estimate the fair value of reporting units and share-based compensation. Actual results may differ from our estimates.

As the impact of the COVID-19 pandemic continues to evolve, estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require increased judgment. These estimates and assumptions may change in future periods and will be recognized in the condensed consolidated financial statements as new events occur and additional information becomes known. To the extent our actual results differ materially from those estimates and assumptions, our future financial statements could be affected. For more information, see Part II, Item 1A “Risk Factors” of this Quarterly Report on Form 10-Q.

New Accounting Pronouncements

Recent Accounting Pronouncements Not Yet Adopted

In October 2021, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2021-08, “*Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*” (“ASU 2021-08”). ASU 2021-08 requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities from acquired contracts using the revenue recognition guidance under Accounting Standards Codification Topic 606 in order to align the recognition of a contract liability with the definition of a performance obligation. The standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, which means that it will be effective for our fiscal year beginning October 1, 2023. Early adoption is permitted. We do not believe that adoption of ASU 2021-08 will have a significant impact on our condensed consolidated financial statements.

We do not expect that any other recently issued accounting pronouncements will have a significant effect on our financial statements.

2. Fair Value Measurements

Fair value is defined as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The accounting guidance establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities.

- Level 1 - uses unadjusted quoted prices that are available in active markets for identical assets or liabilities. Our Level 1 assets were comprised of money market funds and certain marketable securities and our Level 1 liabilities included senior notes as of March 31, 2022 and September 30, 2021.
- Level 2 - uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data. We did not have any assets or liabilities that are valued using inputs identified under a Level 2 hierarchy as of March 31, 2022 and September 30, 2021.
- Level 3 - uses one or more significant inputs that are unobservable and supported by little or no market activity, and that reflect the use of significant management judgment. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, and significant management judgment or estimation. We did not have any assets or liabilities that are valued using inputs identified under a Level 3 hierarchy as of March 31, 2022 and September 30, 2021.

The following tables represent financial assets that we measured at fair value on a recurring basis at March 31, 2022 and September 30, 2021:

March 31, 2022	Active Markets for Identical Instruments (Level 1)	Fair Value as of March 31, 2022
(In thousands)		
Assets:		
Cash equivalents ⁽¹⁾	\$ 50,194	\$ 50,194
Marketable securities ⁽²⁾	31,303	31,303
Total	<u>\$ 81,497</u>	<u>\$ 81,497</u>
September 30, 2021	Active Markets for Identical Instruments (Level 1)	Fair Value as of September 30, 2021
(In thousands)		
Assets:		
Cash equivalents ⁽¹⁾	\$ 194	\$ 194
Marketable securities ⁽²⁾	31,884	31,884
Total	<u>\$ 32,078</u>	<u>\$ 32,078</u>

(1) Included in cash and cash equivalents on our condensed consolidated balance sheets at March 31, 2022 and September 30, 2021. Not included in these tables are cash deposits of \$124.0 million and \$195.2 million at March 31, 2022 and September 30, 2021, respectively.

(2) Represents securities held under a supplemental retirement and savings plan for certain officers and senior management employees, which are distributed upon termination or retirement of the employees. Included in marketable securities on our condensed consolidated balance sheets at March 31, 2022 and September 30, 2021.

See Note 7 for the fair value of our senior notes.

There were no transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy during the quarters and six-month periods ended March 31, 2022 and 2021.

3. Derivative Financial Instruments

We use derivative instruments to manage risks caused by fluctuations in foreign exchange rates. The primary objective of our derivative instruments is to protect the value of foreign-currency-denominated receivable and cash balances from the effects of volatility in foreign exchange rates that might occur prior to conversion to their functional currencies. We principally utilize foreign currency forward contracts, which enable us to buy and sell foreign currencies in the future at fixed exchange rates and economically offset changes in foreign exchange rates. We routinely enter into contracts to offset exposures denominated in the British pound, Euro, and Singapore dollar.

Foreign currency-denominated receivable and cash balances are remeasured at foreign exchange rates in effect on the balance sheet date with the effects of changes in foreign exchange rates reported in other income (expense), net. The forward contracts are not designated as hedges and are marked to market through other income (expense), net. Fair value changes in the forward contracts help mitigate the changes in the value of the remeasured receivable and cash balances attributable to changes in foreign exchange rates. The forward contracts are short-term in nature and typically have average maturities at inception of less than three months.

The following tables summarize our outstanding foreign currency forward contracts, by currency, at March 31, 2022 and September 30, 2021:

	March 31, 2022			
	Contract Amount		Fair Value	
	Foreign Currency	USD	USD	USD
	(In thousands)			
Sell foreign currency:				
Euro (EUR)	EUR	16,500	\$ 18,330	\$ —
Buy foreign currency:				
British pound (GBP)	GBP	9,223	\$ 12,100	\$ —
Singapore dollar (SGD)	SGD	7,571	\$ 5,600	\$ —

	September 30, 2021			
	Contract Amount		Fair Value	
	Foreign Currency	USD	USD	USD
	(In thousands)			
Sell foreign currency:				
Euro (EUR)	EUR	17,100	\$ 19,829	\$ —
Buy foreign currency:				
British pound (GBP)	GBP	11,467	\$ 15,400	\$ —
Singapore dollar (SGD)	SGD	6,650	\$ 4,900	\$ —

The foreign currency forward contracts were entered into on March 31, 2022 and September 30, 2021, respectively; therefore, their fair value was \$0 on each of these dates.

Gains (losses) on derivative financial instruments were recorded in our condensed consolidated statements of income and comprehensive income as a component of other income (expense), net, and consisted of the following:

	Quarter Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
	(In thousands)			
Gains (losses) on foreign currency forward contracts	\$ (576)	\$ 1,229	\$ (14)	\$ 2,915

4. Goodwill and Intangible Assets

Amortization expense associated with our intangible assets is reflected as a separate operating expense caption — amortization of intangible assets — and is excluded from cost of revenues and selling, general and administrative expenses within the accompanying condensed consolidated statements of income and comprehensive income. Amortization expense consisted of the following:

	Quarter Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
	(In thousands)			
Completed technology	\$ 125	\$ 323	\$ 250	\$ 645
Customer contracts and relationships	418	578	837	1,149
Non-compete agreements	—	44	—	88
Total	\$ 543	\$ 945	\$ 1,087	\$ 1,882

Estimated future intangible asset amortization expense associated with intangible assets existing at March 31, 2022 was as follows:

Year Ending September 30,	(In thousands)	
2022 (excluding the six months ended March 31, 2022)	\$	990
2023		1,100
2024		917
Total	\$	<u>3,007</u>

The following table summarizes changes to goodwill during the six months ended March 31, 2022, both in total and as allocated to our segments. We have not recognized any goodwill impairment losses to date.

	Scores	Software	Total
	(In thousands)		
Balance at September 30, 2021	\$ 146,648	\$ 641,537	\$ 788,185
Foreign currency translation adjustment	—	(4,441)	(4,441)
Balance at March 31, 2022	<u>\$ 146,648</u>	<u>\$ 637,096</u>	<u>\$ 783,744</u>

5. Composition of Certain Financial Statement Captions

The following table presents the composition of property and equipment, net at March 31, 2022 and September 30, 2021:

	March 31, 2022	September 30, 2021
	(In thousands)	
Property and equipment, net:		
Property and equipment	\$ 123,455	\$ 124,966
Less: accumulated depreciation and amortization	(100,558)	(97,053)
Total	<u>\$ 22,897</u>	<u>\$ 27,913</u>

6. Revolving Line of Credit and Term Loan

We have a \$600 million unsecured revolving line of credit with a syndicate of banks that expires on August 19, 2026. Borrowings under the credit facility can be used for working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions, and the repurchase of our common stock. Interest on amounts borrowed under the credit facility is based on (i) an adjusted base rate, which is the greatest of (a) the prime rate, (b) the Federal Funds rate plus 0.500%, and (c) the one-month LIBOR rate plus 1.000%, plus, in each case, an applicable margin, or (ii) an adjusted LIBOR rate plus an applicable margin. The applicable margin for base rate borrowings ranges from 0% to 0.750% and for LIBOR borrowings ranges from 1.000% to 1.750%, and is determined based on our consolidated leverage ratio. In addition, we must pay credit facility fees. The credit facility contains certain restrictive covenants including a maximum consolidated leverage ratio of 3.50, subject to a step up to 4.00 following certain permitted acquisitions; and a minimum interest coverage ratio of 3.00. The credit agreement also contains other covenants typical of unsecured facilities.

In addition, we have a term loan in an initial principal amount of \$300 million. The term loan is subject to the same pricing and covenants as the revolving line of credit and matures at the expiration of the facility on August 19, 2026. The term loan requires principal payments in consecutive quarterly installments of \$3.75 million on the last business day of each quarter.

As of March 31, 2022, we had \$215.0 million in borrowings outstanding under the revolving credit facility at a weighted-average interest rate of 1.932%, and \$296.3 million in outstanding balance of the term loan at an interest rate of 1.955%, of which \$381.3 million was classified as a long-term liability and recorded in long-term debt within the accompanying condensed consolidated balance sheets. We were in compliance with all financial covenants under this credit facility as of March 31, 2022.

7. Senior Notes

On May 8, 2018, we issued \$400 million of senior notes in a private offering to qualified institutional investors (the “2018 Senior Notes”). The 2018 Senior Notes require interest payments semi-annually at a rate of 5.25% per annum and will mature on May 15, 2026.

On December 6, 2019, we issued \$350 million of senior notes in a private offering to qualified institutional investors (the “2019 Senior Notes”). The 2019 Senior Notes require interest payments semi-annually at a rate of 4.00% per annum and will mature on June 15, 2028.

On December 17, 2021, we issued \$550 million of additional senior notes of the same class as the 2019 Senior Notes in a private offering to qualified institutional investors (the “2021 Senior Notes,” and collectively with the 2018 Senior Notes and the 2019 Senior Notes, the “Senior Notes”). The 2021 Senior Notes require interest payments semi-annually at a rate of 4.00% per annum and will mature on June 15, 2028, the same date as the 2019 Senior Notes.

The indentures for the Senior Notes contain certain covenants typical of unsecured obligations.

The following table presents the face values and fair values for the Senior Notes at March 31, 2022 and September 30, 2021:

	March 31, 2022		September 30, 2021	
	Face Value (*)	Fair Value	Face Value (*)	Fair Value
	(In thousands)			
The 2018 Senior Notes	\$ 400,000	\$ 416,000	\$ 400,000	\$ 453,000
The 2019 Senior Notes and the 2021 Senior Notes	900,000	871,875	350,000	357,000
Total	\$ 1,300,000	\$ 1,287,875	\$ 750,000	\$ 810,000

(*) The carrying value of the Senior Notes was the face value reduced by the net debt issuance costs of \$15.7 million and \$9.0 million at March 31, 2022 and September 30, 2021, respectively.

8. Revenue from Contracts with Customers

Disaggregation of Revenue

The following tables provide information about disaggregated revenue by primary geographical market:

	Quarter Ended March 31, 2022			
	Scores	Software	Total	Percentage
	(Dollars in thousands)			
Americas	\$ 175,091	\$ 104,664	\$ 279,755	78 %
Europe, Middle East and Africa	1,252	34,128	35,380	10 %
Asia Pacific	7,399	34,661	42,060	12 %
Total	\$ 183,742	\$ 173,453	\$ 357,195	100 %

	Quarter Ended March 31, 2021			
	Scores	Software	Total	Percentage
	(Dollars in thousands)			
Americas	\$ 161,787	\$ 99,672	\$ 261,459	79 %
Europe, Middle East and Africa	5,642	44,033	49,675	15 %
Asia Pacific	1,290	18,937	20,227	6 %
Total	\$ 168,719	\$ 162,642	\$ 331,361	100 %

Six Months Ended March 31, 2022				
	Scores	Software	Total	Percentage
(Dollars in thousands)				
Americas	\$ 340,803	\$ 203,849	\$ 544,652	80 %
Europe, Middle East and Africa	2,745	71,526	74,271	11 %
Asia Pacific	9,681	50,952	60,633	9 %
Total	<u>\$ 353,229</u>	<u>\$ 326,327</u>	<u>\$ 679,556</u>	<u>100 %</u>

Six Months Ended March 31, 2021				
	Scores	Software	Total	Percentage
(Dollars in thousands)				
Americas	\$ 302,500	\$ 207,696	\$ 510,196	79 %
Europe, Middle East and Africa	7,355	87,868	95,223	15 %
Asia Pacific	3,515	34,841	38,356	6 %
Total	<u>\$ 313,370</u>	<u>\$ 330,405</u>	<u>\$ 643,775</u>	<u>100 %</u>

The following table provides information about disaggregated revenue for our Software segment by deployment method:

	Quarter Ended March 31,		Percentage of revenues		Six Months Ended March 31,		Percentage of revenues	
	2022	2021	2022	2021	2022	2021	2022	2021
(Dollars in thousands)								
On-premises software	\$ 77,959	\$ 63,431	52 %	51 %	\$ 135,254	\$ 129,913	49 %	52 %
SaaS software	71,129	62,120	48 %	49 %	140,172	122,093	51 %	48 %
Total on-premises and SaaS software	<u>\$ 149,088</u>	<u>\$ 125,551</u>	<u>100 %</u>	<u>100 %</u>	<u>\$ 275,426</u>	<u>\$ 252,006</u>	<u>100 %</u>	<u>100 %</u>

The following table provides information about disaggregated revenue for our Software segment by product features:

	Quarter Ended March 31,		Percentage of revenues		Six Months Ended March 31,		Percentage of revenues	
	2022	2021	2022	2021	2022	2021	2022	2021
(Dollars in thousands)								
Platform software (*)	\$ 39,802	\$ 15,312	27 %	12 %	\$ 61,874	\$ 29,437	22 %	12 %
Non-platform software	109,286	110,239	73 %	88 %	213,552	222,569	78 %	88 %
Total on-premises and SaaS software	<u>\$ 149,088</u>	<u>\$ 125,551</u>	<u>100 %</u>	<u>100 %</u>	<u>\$ 275,426</u>	<u>\$ 252,006</u>	<u>100 %</u>	<u>100 %</u>

(*) The FICO platform software is a set of interoperable services which use software assets owned and/or governed by FICO for building solutions and which conform to FICO architectural standards based on key elements of Cloud Native Computing design principles. These standards encompass shared security context and pre-integration using FICO standard application programming interfaces for all services.

The following table provides information about disaggregated revenue for our Software segment by timing of revenue recognition:

	Quarter Ended March 31,		Percentage of revenues		Six Months Ended March 31,		Percentage of revenues	
	2022	2021	2022	2021	2022	2021	2022	2021
(Dollars in thousands)								
Software recognized at a point in time ⁽¹⁾	\$ 26,540	\$ 11,844	18 %	9 %	\$ 33,699	\$ 24,738	12 %	10 %
Software recognized over contract term ⁽²⁾	122,548	113,707	82 %	91 %	241,727	227,268	88 %	90 %
Total on-premises and SaaS software	<u>\$ 149,088</u>	<u>\$ 125,551</u>	<u>100 %</u>	<u>100 %</u>	<u>\$ 275,426</u>	<u>\$ 252,006</u>	<u>100 %</u>	<u>100 %</u>

- (1) Includes license portion of our on-premises subscription software and perpetual license, both of which are recognized when the software is made available to the customer, or at the start of the subscription.
- (2) Includes maintenance portion and usage-based fees of our on-premises subscription software, maintenance revenue on perpetual licenses, as well as SaaS revenue.

The following table provides information about disaggregated revenue for our Scores segment by distribution method:

	Quarter Ended March 31,		Percentage of revenues		Six Months Ended March 31,		Percentage of revenues	
	2022	2021	2022	2021	2022	2021	2022	2021
(Dollars in thousands)								
Business-to-business Scores	\$ 125,243	\$ 119,319	68 %	71 %	\$ 238,211	\$ 219,463	67 %	70 %
Business-to-consumer Scores	58,499	49,400	32 %	29 %	115,018	93,907	33 %	30 %
Total	<u>\$ 183,742</u>	<u>\$ 168,719</u>	<u>100 %</u>	<u>100 %</u>	<u>\$ 353,229</u>	<u>\$ 313,370</u>	<u>100 %</u>	<u>100 %</u>

We derive a substantial portion of revenues from our contracts with the three major consumer reporting agencies, TransUnion, Equifax and Experian. Revenues collectively generated by agreements with these customers accounted for 39% of our total revenues in each of the quarters ended March 31, 2022 and 2021, with all three consumer reporting agencies each contributing more than 10% of our total revenues in each of the quarters ended March 31, 2022 and 2021. Revenues collectively generated by agreements with these customers accounted for 38% and 37% of our total revenues in the six months ended March 31, 2022 and 2021, respectively, with two and three consumer reporting agencies each contributing more than 10% of our total revenues in the six months ended March 31, 2022 and 2021, respectively.

Contract Balances

We record a receivable when we satisfy a performance obligation prior to invoicing if only the passage of time is required before payment is due or if we have an unconditional right to consideration before we satisfy a performance obligation. We record a contract asset when we satisfy a performance obligation prior to invoicing but our right to consideration is conditional. We record deferred revenue when the payment is made or due before we satisfy a performance obligation.

Receivables at March 31, 2022 and September 30, 2021 consisted of the following:

	March 31, 2022	September 30, 2021
	(In thousands)	
Billed	\$ 164,659	\$ 198,305
Unbilled	156,018	155,408
	320,677	353,713
Less: allowance for doubtful accounts	(3,780)	(4,154)
Net receivables	316,897	349,559
Less: long-term receivables (*)	(43,541)	(37,452)
Short-term receivables (*)	\$ 273,356	\$ 312,107

(*) Short-term receivables and long-term receivables were recorded in accounts receivable, net and other assets, respectively, within the accompanying condensed consolidated balance sheets.

Deferred revenue primarily relates to our maintenance and SaaS contracts billed annually in advance and generally recognized ratably over the term of the service period. Significant changes in the deferred revenues balances are as follows:

	Six Months Ended March 31,	
	2022	2021
Deferred revenues, beginning balance (*)	\$ 110,763	\$ 122,141
Revenue recognized that was included in the deferred revenues balance at the beginning of the period	(70,160)	(75,600)
Increases due to billings, excluding amounts recognized as revenue during the period	66,292	78,945
Reclassified as liabilities related to assets held for sale	—	(16,508)
Deferred revenues, ending balance (*)	\$ 106,895	\$ 108,978

(*) Deferred revenues at March 31, 2022 included current portion of \$102.5 million and long-term portion of \$4.4 million that were recorded in deferred revenue and other liabilities, respectively, within the condensed consolidated balance sheets. Deferred revenues at September 30, 2021 included current portion of \$105.4 million and long-term portion of \$5.4 million that were recorded in deferred revenue and other liabilities, respectively, within the condensed consolidated balance sheets.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to provide customers with financing or to receive financing from our customers. Examples include multi-year on-premises licenses that are invoiced annually with revenue recognized upfront and invoicing at the beginning of a subscription term with revenue recognized ratably over the contract period.

Performance Obligations

Revenue allocated to remaining performance obligations represents contracted revenue that will be recognized in future periods, which is comprised of deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. This does not include:

- Usage-based revenue that will be recognized in future periods from on-premises software subscriptions;
- Consumption-based variable fees from SaaS software that will be recognized in the distinct service period during which it is earned; and
- Revenue from variable considerations that will be recognized in accordance with the “right-to-invoice” practical expedient, such as fees from our professional services billed based on a time and materials basis.

Revenue allocated to remaining performance obligations was \$291.7 million as of March 31, 2022, approximately 52% of which we expect to recognize over the next 16 months and the remainder thereafter. Revenue allocated to remaining performance obligations was \$289.0 million as of September 30, 2021.

9. Income Taxes

Effective Tax Rate

The effective income tax rate was 21.2% and 25.2% during the quarters ended March 31, 2022 and 2021, respectively, and 20.2% and 13.7% during the six months ended March 31, 2022 and 2021, respectively. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the full fiscal year. The effective tax rate in any quarter can also be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

The effective tax rates for the six months ended March 31, 2022 and 2021 were both favorably impacted by the recording of excess tax benefits relating to stock awards. The impact is dependent upon grants of share-based compensation and the future stock price in relation to the fair value of awards on the grant date. The decrease in stock price for awards that vested in December 2021 has resulted in a decreased net excess tax benefit for the six months ended March 31, 2022, as compared to the six months ended March 31, 2021.

The total unrecognized tax benefit for uncertain tax positions was estimated to be \$13.2 million and \$10.9 million at March 31, 2022 and September 30, 2021, respectively. We recognize interest expense related to unrecognized tax benefits and penalties as part of the provision for income taxes in our condensed consolidated statements of income and comprehensive income. We accrued interest of \$0.6 million and \$0.4 million related to unrecognized tax benefits as of March 31, 2022 and September 30, 2021, respectively.

10. Earnings per Share

The following table presents reconciliations for the numerators and denominators of basic and diluted earnings per share (“EPS”) for the quarters and six-month periods ended March 31, 2022 and 2021:

	Quarter Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
(In thousands, except per share data)				
Numerator for diluted and basic earnings per share:				
Net income	\$ 104,383	\$ 68,674	\$ 189,342	\$ 155,166
Denominator — share:				
Basic weighted-average shares	26,145	29,087	26,662	29,107
Effect of dilutive securities	276	444	316	553
Diluted weighted-average shares	26,421	29,531	26,978	29,660
Earnings per share:				
Basic	\$ 3.99	\$ 2.36	\$ 7.10	\$ 5.33
Diluted	\$ 3.95	\$ 2.33	\$ 7.02	\$ 5.23

Anti-dilutive share-based awards excluded from the calculations of diluted EPS were immaterial during the periods presented.

11. Segment Information

During the fourth quarter of our fiscal 2021, we reevaluated our operating segments to better align with how our chief operating decision maker (“CODM”), who is our Chief Executive Officer, evaluates performance and allocates resources. The key factors evaluated included our evolving platform strategies, our go-to market considerations, and sales of our product lines and businesses during fiscal 2021, and in particular the divestiture of our Collections and Recovery (“C&R”) business in June 2021, among others. As a result, we consolidated our operating segment structure from three to two by merging Applications and Decision Management Software segments into the new Software segment. Based on this change, we determined we have two reportable segments and revised prior comparative periods to conform to the current period segment presentation. The new segments are as follows:

- *Scores*. This segment includes our business-to-business (“B2B”) scoring solutions and services which give our clients access to predictive credit and other scores that can be easily integrated into their transaction streams and decision-making processes. This segment also includes our business-to-consumer (“B2C”) scoring solutions, including our myFICO.com subscription offerings.
- *Software*. This segment includes pre-configured analytic and decision management solutions designed for a specific type of business need or process — such as account origination, customer management, customer engagement, fraud detection, financial crimes compliance, and marketing — as well as associated professional services. This segment also includes FICO® Platform, a modular software offering designed to support advanced analytic and decision use cases, as well as stand-alone analytic and decisioning software that can be configured by our customers to address a wide variety of business use cases. These offerings are available to our customers as SaaS or as on-premises software.

Our CODM evaluates segment financial performance based on segment revenues and segment operating income. Segment operating expenses consist of direct and indirect costs principally related to personnel, facilities, IT infrastructure, consulting, travel and depreciation. Indirect costs are allocated to the segments generally based on relative segment revenues, fixed rates established by management based upon estimated expense contribution levels and other assumptions that management considers reasonable. We do not allocate broad-based incentive expense, share-based compensation expense, restructuring and acquisition-related expense, amortization expense, various corporate charges and certain other income and expense measures to our segments. These income and expense items are not allocated because they are not considered in evaluating the segment’s operating performance. Our CODM does not evaluate the financial performance of each segment based on its respective assets or capital expenditures; rather, depreciation amounts are allocated to the segments from their internal cost centers as described above.

The following tables summarize segment information for the quarters and six-month periods ended March 31, 2022 and 2021:

	Quarter Ended March 31, 2022			
	Scores	Software	Unallocated Corporate Expenses	Total
	(In thousands)			
Segment revenues:				
On-premises and SaaS software	\$ —	\$ 149,088	\$ —	\$ 149,088
Professional services	—	24,365	—	24,365
Scores	183,742	—	—	183,742
Total segment revenues	183,742	173,453	—	357,195
Segment operating expense	(21,026)	(119,953)	(35,680)	(176,659)
Segment operating income	\$ 162,716	\$ 53,500	\$ (35,680)	180,536
Unallocated share-based compensation expense				(27,936)
Unallocated amortization expense				(543)
Operating income				152,057
Unallocated interest expense, net				(17,211)
Unallocated other expense, net				(2,361)
Income before income taxes				\$ 132,485
Depreciation expense	\$ 189	\$ 3,807	\$ 28	\$ 4,024

Quarter Ended March 31, 2021				
	Scores	Software	Unallocated Corporate Expenses	Total
(In thousands)				
Segment revenues:				
On-premises and SaaS software	\$ —	\$ 125,551	\$ —	\$ 125,551
Professional services	—	37,091	—	37,091
Scores	168,719	—	—	168,719
Total segment revenues	168,719	162,642	—	331,361
Segment operating expense	(22,177)	(145,442)	(33,392)	(201,011)
Segment operating income	<u>\$ 146,542</u>	<u>\$ 17,200</u>	<u>\$ (33,392)</u>	<u>130,350</u>
Unallocated share-based compensation expense				(28,206)
Unallocated amortization expense				(945)
Operating income				101,199
Unallocated interest expense, net				(9,943)
Unallocated other income, net				568
Income before income taxes				<u>\$ 91,824</u>
Depreciation expense	<u>\$ 167</u>	<u>\$ 5,012</u>	<u>\$ 45</u>	<u>\$ 5,224</u>

Six Months Ended March 31, 2022				
	Scores	Software	Unallocated Corporate Expenses	Total
(In thousands)				
Segment revenues:				
On-premises and SaaS software	\$ —	\$ 275,426	\$ —	\$ 275,426
Professional services	—	50,901	—	50,901
Scores	353,229	—	—	353,229
Total segment revenues	353,229	326,327	—	679,556
Segment operating expense	(43,010)	(238,534)	(71,468)	(353,012)
Segment operating income	<u>\$ 310,219</u>	<u>\$ 87,793</u>	<u>\$ (71,468)</u>	<u>326,544</u>
Unallocated share-based compensation expense				(57,814)
Unallocated amortization expense				(1,087)
Operating income				267,643
Unallocated interest expense, net				(29,406)
Unallocated other expense, net				(932)
Income before income taxes				<u>\$ 237,305</u>
Depreciation expense	<u>\$ 381</u>	<u>\$ 7,684</u>	<u>\$ 57</u>	<u>\$ 8,122</u>

	Six Months Ended March 31, 2021			
	Scores	Software	Unallocated Corporate Expenses	Total
	(In thousands)			
Segment revenues:				
On-premises and SaaS software	\$ —	\$ 252,006	\$ —	\$ 252,006
Professional services	—	78,399	—	78,399
Scores	313,370	—	—	313,370
Total segment revenues	313,370	330,405	—	643,775
Segment operating expense	(43,803)	(292,521)	(63,645)	(399,969)
Segment operating income	\$ 269,567	\$ 37,884	\$ (63,645)	243,806
Unallocated share-based compensation expense				(53,338)
Unallocated amortization expense				(1,882)
Unallocated gains on product line asset sales and business divestiture				7,334
Operating income				195,920
Unallocated interest expense, net				(19,584)
Unallocated other income, net				3,448
Income before income taxes				\$ 179,784
Depreciation expense	\$ 361	\$ 10,370	\$ 78	\$ 10,809

12. Contingencies

We are in disputes with certain customers regarding amounts owed in connection with the sale of certain of our products and services. We also have had claims asserted by former employees relating to compensation and other employment matters. We are also involved in various other claims and legal actions arising in the ordinary course of business. We record litigation accruals for legal matters which are both probable and estimable. For legal proceedings for which there is a reasonable possibility of loss (meaning those losses for which the likelihood is more than remote but less than probable), we have determined we do not have material exposure on an aggregate basis.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**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 "PSLRA"). 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 PSLRA. Examples of forward-looking statements include, but are not limited to: (i) projections of revenue, income or loss, expenses, earnings or loss per share, the payment or nonpayment of dividends, share repurchases, capital structure and other statements concerning future financial performance; (ii) statements of our plans and objectives by our management or Board of Directors, including those relating to products or services, research and development, and the sufficiency of capital resources; (iii) statements of assumptions underlying such statements, including those related to economic conditions; (iv) statements regarding results of business combinations or strategic divestitures; (v) statements regarding business relationships with vendors, customers or collaborators, including the proportion of revenues generated from international as opposed to domestic customers; and (vi) statements regarding products, their characteristics, performance, sales potential or effect in the hands of customers. Words such as "believes," "anticipates," "expects," "intends," "targeted," "should," "potential," "goals," "strategy," "outlook," "plan," "estimated," "will," variations of these terms 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 Part II, Item 1A "Risk Factors" of this Quarterly Report on Form 10-Q. 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 Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

OVERVIEW

We were founded in 1956 on the premise that data, used intelligently, can improve business decisions. Today, FICO's software and the widely used FICO® Score operationalize analytics, enabling thousands of businesses in nearly 120 countries to uncover new opportunities, make timely decisions that matter, and execute them at scale. Most leading banks and credit card issuers rely on our solutions, as do insurers, retailers, telecommunications providers, automotive companies, public agencies, and organizations in other industries. We also serve consumers through online services that enable people to access and understand their FICO Scores — the standard measure in the U.S. of consumer credit risk — empowering them to increase financial literacy and manage their financial health.

Our business consists of two operating segments: Scores and Software.

Our Scores segment includes our business-to-business ("B2B") scoring solutions and services which give our clients access to predictive credit and other scores that can be easily integrated into their transaction workflows and decision-making processes. This segment also includes our business-to-consumer ("B2C") scoring solutions, including our myFICO.com subscription offerings.

Our Software segment includes pre-configured analytic and decision management solutions designed for a specific type of business need or process — such as account origination, customer management, customer engagement, fraud detection, financial crimes compliance, and marketing — as well as associated professional services. This segment also includes FICO® Platform, a modular software offering designed to support advanced analytic and decision use cases, as well as stand-alone analytic and decisioning software that can be configured by our customers to address a wide variety of business use cases. Our offerings are available to our customers as software-as-a-service ("SaaS") or as on-premises software.

Due to the COVID-19 pandemic, we continue to conduct business with substantial modifications to employee travel and work locations. We expect these modifications to remain in place throughout calendar year 2022, along with substantially modified interactions with customers and suppliers, among other adjustments. We have maintained a “Remote Work Policy” providing our employees with valued flexibility. While we have not experienced material disruptions to our operations from the COVID-19 pandemic, we are unable to predict the full impact that the COVID-19 pandemic will have on our operations and future financial performance, including demand for our offerings, impact to our customers and partners, actions that may be taken by governmental authorities, and other factors identified in “Risk Factors” in Part II, Item 1A of this Report.

Highlights from the quarter and six months ended March 31, 2022

- Total revenue was \$357.2 million during the quarter ended March 31, 2022, an 8% increase from the quarter ended March 31, 2021, and \$679.6 million during the six months ended March 31, 2022, a 6% increase from the six months ended March 31, 2021.
- Total revenue for our Scores segment was \$183.7 million during the quarter ended March 31, 2022, a 9% increase from the quarter ended March 31, 2021, and \$353.2 million during the six months ended March 31, 2022, a 13% increase from the six months ended March 31, 2021.
- Annual Recurring Revenue for our Software segment as of March 31, 2022 was \$550.3 million, a 11% increase from March 31, 2021, excluding divestitures.
- Dollar-Based Net Retention Rate for our Software segment was 110% during the quarter ended March 31, 2022, excluding divestitures.
- Operating income was \$152.1 million during the quarter ended March 31, 2022, a 50% increase from the quarter ended March 31, 2021, and \$267.6 million during the six months ended March 31, 2022, a 37% increase from the six months ended March 31, 2021.
- Net income was \$104.4 million during the quarter ended March 31, 2022, a 52% increase from the quarter ended March 31, 2021, and \$189.3 million during the six months ended March 31, 2022, a 22% increase from the six months ended March 31, 2021.
- EPS was \$3.95 during the quarter ended March 31, 2022, a 70% increase from the quarter ended March 31, 2021, and \$7.02 during the six months ended March 31, 2022, a 34% increase from the six months ended March 31, 2021.
- Cash flows from operations were \$247.5 million during the six months ended March 31, 2022, compared with \$231.5 million during the six months ended March 31, 2021.
- Cash and cash equivalents were \$174.2 million as of March 31, 2022, compared with \$195.4 million as of September 30, 2021.
- Total debt balance was \$1.79 billion as of March 31, 2022, compared with \$1.26 billion as of September 30, 2021.
- Total share repurchases during the quarter ended March 31, 2022 were \$264.0 million, compared with \$205.2 million during the quarter ended March 31, 2021, and during the six months ended March 31, 2022 were \$757.6 million, compared with \$255.2 million during the six months ended March 31, 2021.

Key performance metrics for Software segment

Annual Contract Value Bookings (“ACV Bookings”)

Management regards ACV Bookings as an important indicator of future revenues, but they are not comparable to, nor are they a substitute for, an analysis of our revenues and other GAAP measures. We define ACV Bookings as the average annualized value of software contracts signed in the current reporting period that generate current and future on-premises and SaaS software revenue. We only include contracts with an initial term of at least 24 months and we exclude perpetual licenses and other revenues that are non-recurring in nature. For renewals of existing software subscription contracts, we count only incremental annual revenue expected over the current contract as ACV Bookings.

ACV Bookings is calculated by dividing the total expected contract value by the contract term in years. The expected contract value equals the fixed amount — including guaranteed minimums — stated in the contract, plus estimates of future usage-based fees. We develop estimates from discussions with our customers and examinations of historical data from similar products and customer arrangements. Differences between estimates and actual results occur due to variability in the estimated usage. This variability can be the result of the economic trends in our customers’ industries; individual performance of our customers relative to their competitors; and regulatory and other factors that affect the business environment in which our customers operate.

We disclose estimated revenue expected to be recognized in the future related to remaining performance obligations in Note 8 to the accompanying condensed consolidated financial statements. However, we believe ACV Bookings is a more meaningful measure of our business as it includes estimated revenues and future billings excluded from Note 8, such as usage-based fees and guaranteed minimums derived from our on-premises software licenses, among others.

The following table summarizes our ACV Bookings during the periods indicated:

	Quarter Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
	(In millions)			
Total on-premises and SaaS software *	\$ 20.6	\$ 13.3	\$ 37.2	\$ 25.4

(*) During fiscal 2021, we sold all assets related to our cyber risk score operations, sold certain assets related to our Software segment to an affiliated joint venture in China, and divested our Collections and Recovery (“C&R”) business. The amounts for the quarter and six months ended March 31, 2021 excluded these divested product lines and businesses.

Annual Recurring Revenue (“ARR”)

Accounting Standards Codification 606 requires us to recognize a significant portion of revenue from our on-premises software subscriptions at the point in time when the software is first made available to the customer, or at the beginning of the subscription term, despite the fact that our contracts typically call for billing these amounts ratably over the life of the subscription. The remaining portion of our on-premises software subscription revenue including maintenance and usage-based fees are recognized over the life of the contract. This point-in-time recognition of a portion of our on-premises software subscription revenue creates significant variability in the revenue recognized period to period based on the timing of the subscription start date and the subscription term. Furthermore, this point-in-time revenue recognition can create a significant difference between the timing of our revenue recognition and the actual customer billing under the contract. We use ARR to measure the underlying performance of our subscription-based contracts and mitigate the impact of this variability. ARR is defined as the annualized revenue run-rate of on-premises and SaaS software agreements within a quarterly reporting period, and as such, is different from the timing and amount of revenue recognized. All components of our software licensing and subscription arrangements that are not expected to recur (primarily perpetual licenses) are excluded. We calculate ARR as the quarterly recurring revenue run-rate multiplied by four.

The following table summarizes our ARR at each of the dates presented:

	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021	March 31, 2022
ARR (*)	(In millions)							
Platform (**)	\$ 43.8	\$ 47.7	\$ 55.1	\$ 60.2	\$ 67.7	\$ 75.2	\$ 92.2	\$ 96.7
Non-platform	438.5	443.6	439.9	437.1	445.9	448.8	454.4	453.6
Total	\$ 482.3	\$ 491.3	\$ 495.0	\$ 497.3	\$ 513.6	\$ 524.0	\$ 546.6	\$ 550.3
Percentage								
Platform	9 %	10 %	11 %	12 %	13 %	14 %	17 %	18 %
Non-platform	91 %	90 %	89 %	88 %	87 %	86 %	83 %	82 %
Total	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
YoY Change								
Platform	44 %	45 %	38 %	47 %	54 %	58 %	67 %	60 %
Non-platform	(3)%	(2)%	(2)%	(3)%	2 %	1 %	3 %	4 %
Total on-premises and SaaS software	— %	1 %	2 %	1 %	6 %	7 %	10 %	11 %

(*) During fiscal 2021, we sold all assets related to our cyber risk score operations, sold certain assets related to our Software segment to an affiliated joint venture in China, and divested our C&R business. The amounts and percentages above excluded these divested product lines and businesses at all dates presented.

(**) The FICO platform software is a set of interoperable services which use software assets owned and/or governed by FICO for building solutions and which conform to FICO architectural standards based on key elements of Cloud Native Computing design principles. These standards encompass shared security context and pre-integration using FICO standard application programming interfaces for all services.

Dollar-Based Net Retention Rate (“DBNRR”)

We consider DBNRR to be an important measure of our success in retaining and growing revenue from our existing customers. To calculate DBNRR for any period, we compare the ARR at the end of the prior comparable quarter (“base ARR”) to the ARR from that same cohort of customers at the end of the current quarter (“retained ARR”); we then divide the retained ARR by the base ARR to arrive at the DBNRR. Our calculation includes the positive impact among this cohort of customers of selling additional products, price increases and increases in usage-based fees, and the negative impact of customer attrition, price decreases, and decreases in usage-based fees during the period. However, the calculation does not include the positive impact from sales to any new customers acquired during the period. Our DBNRR may increase or decrease from period to period as a result of various factors, including the timing of new sales and customer renewal rates.

The following table summarizes our DBNRR for each of the periods presented:

	Quarter Ended							
	June 30, 2020	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021	March 31, 2022
<i>DBNRR</i> (*)								
Platform	108 %	116 %	123 %	130 %	137 %	143 %	143 %	141 %
Non-platform	95 %	96 %	97 %	96 %	100 %	100 %	102 %	103 %
Total on-premises and SaaS software	98 %	99 %	100 %	100 %	105 %	106 %	109 %	110 %

(*) During fiscal 2021, we sold all assets related to our cyber risk score operations, sold certain assets related to our Software segment to an affiliated joint venture in China, and divested our C&R business. The percentages above excluded these divested product lines and businesses for all periods presented.

RESULTS OF OPERATIONS

We are organized into the following two reportable segments: Scores and Software. 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.

Segment revenues, operating income, and related financial information, including disaggregation of revenue are set forth in Note 8 and Note 11 to the accompanying condensed consolidated financial statements.

Revenues

The following tables set forth certain summary information on a segment basis related to our revenues for the quarters and six-month periods ended March 31, 2022 and 2021:

Segment	Quarter Ended March 31,		Percentage of Revenues		Period-to-Period Change	Period-to-Period Percentage Change
	2022	2021	2022	2021		
	(In thousands)				(In thousands)	
Scores	\$ 183,742	\$ 168,719	51 %	51 %	\$ 15,023	9 %
Software	173,453	162,642	49 %	49 %	10,811	7 %
Total	\$ 357,195	\$ 331,361	100 %	100 %	25,834	8 %

Segment	Six Months Ended March 31,		Percentage of Revenues		Period-to-Period Change	Period-to-Period Percentage Change
	2022	2021	2022	2021		
	(In thousands)				(In thousands)	
Scores	\$ 353,229	\$ 313,370	52 %	49 %	\$ 39,859	13 %
Software	326,327	330,405	48 %	51 %	(4,078)	(1)%
Total	\$ 679,556	\$ 643,775	100 %	100 %	35,781	6 %

Quarter Ended March 31, 2022 Compared to Quarter Ended March 31, 2021

Scores

Scores segment revenues increased \$15.0 million due to an increase of \$5.9 million in our business-to-business scores revenue and \$9.1 million in our business-to-consumer revenue. The increase in business-to-business scores revenue was primarily attributable to a higher unit price across several business-to-business offerings and an increase in unsecured originations volume, partially offset by a decrease in mortgage originations volume during the quarter ended March 31, 2022. The increase in business-to-consumer revenue was attributable to an increase in both royalties derived from scores sold indirectly to consumers through credit reporting agencies and direct sales generated from the myFICO.com website.

Software

	Quarter Ended March 31,		Period-to-Period Change	Period-to-Period Percentage Change
	2022	2021		
	(In thousands)		(In thousands)	
On-premises and SaaS software	\$ 149,088	\$ 125,551	\$ 23,537	19 %
Professional services	24,365	37,091	(12,726)	(34)%
Total	\$ 173,453	\$ 162,642	10,811	7 %

Software segment revenues increased \$10.8 million due to a \$23.5 million increase in our on-premises and SaaS software revenue, partially offset by a \$12.7 million decrease in services revenue. The increase in our on-premises and SaaS software revenue was primarily attributable to an increase in point-in-time recognition due to a large license deal, as well as an increase in over-time recognition due to SaaS growth, partially offset by the C&R business divestiture. The decrease in services revenue was primarily attributable to our strategic shift to emphasize software over services, as well as the C&R business divestiture. The total impact to current quarter revenue from the divestiture was \$15.9 million — an \$8.1 million decrease from on-premises and SaaS software and a \$7.8 million decrease from professional services.

Six Months Ended March 31, 2022 Compared to Six Months Ended March 31, 2021**Scores**

Scores segment revenues increased \$39.9 million due to an increase of \$18.8 million in our business-to-business scores revenue and \$21.1 million in our business-to-consumer revenue. The increase in business-to-business scores revenue was primarily attributable to a higher unit price across several business-to-business offerings, partially offset by a decrease in mortgage originations volume during the six months ended March 31, 2022. The increase in business-to-consumer revenue was attributable to an increase in both royalties derived from scores sold indirectly to consumers through credit reporting agencies and direct sales generated from the myFICO.com website.

Software

	Six Months Ended March 31,		Period-to-Period Change	Period-to-Period Percentage Change
	2022	2021		
	(In thousands)		(In thousands)	
On-premises and SaaS software	\$ 275,426	\$ 252,006	\$ 23,420	9 %
Professional services	50,901	78,399	(27,498)	(35)%
Total	\$ 326,327	\$ 330,405	(4,078)	(1)%

Software segment revenues decreased \$4.1 million due to a \$27.5 million decrease in services revenue, partially offset by a \$23.4 million increase in our on-premises and SaaS software revenue. The decrease in services revenue was primarily attributable to our strategic shift to emphasize software over services, as well as the divestiture of our C&R business in June 2021. The increase in our on-premises and SaaS software revenue was primarily attributable to an increase in our platform software revenue, partially offset by the C&R business divestiture. The total impact to current year-to-date revenue from the divestiture was \$32.2 million — a \$16.4 million decrease from on-premises and SaaS software and a \$15.8 million decrease from professional services.

Operating Expenses and Other Income / Expenses

The following tables set forth certain summary information related to our condensed consolidated statements of income and comprehensive income for the quarters and six-month periods ended March 31, 2022 and 2021:

	Quarter Ended March 31,		Percentage of Revenues		Period-to-Period Change (In thousands, except employees)	Period-to- Period Percentage Change
	2022	2021	2022	2021		
	(In thousands, except employees)					
Revenues	\$ 357,195	\$ 331,361	100 %	100 %	\$ 25,834	8 %
Operating expenses:						
Cost of revenues	71,794	88,333	20 %	27 %	(16,539)	(19)%
Research and development	36,387	43,612	10 %	13 %	(7,225)	(17)%
Selling, general and administrative	96,414	97,272	27 %	29 %	(858)	(1)%
Amortization of intangible assets	543	945	— %	— %	(402)	(43)%
Total operating expenses	205,138	230,162	57 %	69 %	(25,024)	(11)%
Operating income	152,057	101,199	43 %	31 %	50,858	50 %
Interest expense, net	(17,211)	(9,943)	(5)%	(3)%	(7,268)	73 %
Other income (expense), net	(2,361)	568	(1)%	— %	(2,929)	(516)%
Income before income taxes	132,485	91,824	37 %	28 %	40,661	44 %
Provision for income taxes	28,102	23,150	8 %	7 %	4,952	21 %
Net income	\$ 104,383	\$ 68,674	29 %	21 %	35,709	52 %
Number of employees at quarter end	3,460	3,953			(493)	(12)%
	Six Months Ended March 31,		Percentage of Revenues		Period-to-Period Change (In thousands)	Period-to- Period Percentage Change
	2022	2021	2022	2021		
	(In thousands)					
Revenues	\$ 679,556	\$ 643,775	100 %	100 %	\$ 35,781	6 %
Operating expenses:						
Cost of revenues	140,997	177,861	21 %	28 %	(36,864)	(21)%
Research and development	75,367	84,263	11 %	13 %	(8,896)	(11)%
Selling, general and administrative	194,462	191,183	29 %	30 %	3,279	2 %
Amortization of intangible assets	1,087	1,882	— %	— %	(795)	(42)%
Gains on product line asset sales and business divestiture	—	(7,334)	— %	(1)%	7,334	(100)%
Total operating expenses	411,913	447,855	61 %	70 %	(35,942)	(8)%
Operating income	267,643	195,920	39 %	30 %	71,723	37 %
Interest expense, net	(29,406)	(19,584)	(4)%	(3)%	(9,822)	50 %
Other income (expense), net	(932)	3,448	— %	1 %	(4,380)	(127)%
Income before income taxes	237,305	179,784	35 %	28 %	57,521	32 %
Provision for income taxes	47,963	24,618	7 %	4 %	23,345	95 %
Net income	\$ 189,342	\$ 155,166	28 %	24 %	34,176	22 %

Cost of Revenues

Cost of revenues consists primarily of employee salaries and benefits for personnel directly involved in delivering software products, operating SaaS infrastructure, and providing support, implementation and consulting services; allocated overhead, facilities and data center costs; software royalty fees; credit bureau data and processing services; third-party hosting fees related to our SaaS services; travel costs; and outside services.

The quarter-over-prior year quarter decrease in cost of revenues of \$16.5 million was primarily attributable to a \$14.1 million decrease in personnel and labor costs and a \$2.6 million decrease in allocated facilities and infrastructure costs. Both were largely driven by a decrease in our headcount as a result of the divestiture of our C&R business in June 2021, as well as reduced resource requirements associated with decreased services revenue. Cost of revenues as a percentage of revenues decreased to 20% during the quarter ended March 31, 2022 from 27% during the quarter ended March 31, 2021, primarily due to an increase in license revenue recognized at a point in time, increased sales of our higher-margin Scores products and decreased sales of lower-margin professional services.

The year-to-date period over period decrease in cost of revenues of \$36.9 million was primarily attributable to a \$30.7 million decrease in personnel and labor costs and a \$7.1 million decrease in allocated facilities and infrastructure costs. Both were largely driven by a decrease in our headcount as a result of the divestiture of our C&R business in June 2021, as well as reduced resource requirements associated with decreased services revenue. Cost of revenues as a percentage of revenues decreased to 21% during the six months ended March 31, 2022 from 28% during the six months ended March 31, 2021, primarily due to an increase in license revenue recognized at a point in time, increased sales of our higher-margin Scores products and decreased sales of lower-margin professional services.

Research and Development

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

The quarter-over-prior year quarter decrease in research and development expenses of \$7.2 million was primarily attributable to a \$5.0 million decrease in personnel and labor costs as a result of decreased headcount and a \$0.9 million decrease in third-party cloud computing costs. Research and development expenses as a percentage of revenues decreased to 10% during the quarter ended March 31, 2022 from 13% during the quarter ended March 31, 2021.

The year-to-date period over period decrease in research and development expenses of \$8.9 million was primarily attributable to a \$4.7 million decrease in personnel and labor costs as a result of decreased headcount and a \$1.8 million decrease in third-party cloud computing costs. Research and development expenses as a percentage of revenues decreased to 11% during the six months ended March 31, 2022 from 13% during the six months ended March 31, 2021.

Selling, General and Administrative

Selling, general and administrative expenses consist principally of employee salaries, incentives, commissions and benefits; travel costs; overhead costs; advertising and other promotional expenses; corporate facilities expenses; legal expenses; and business development expenses.

The quarter-over-prior year quarter decrease in selling, general and administrative expenses of \$0.9 million was primarily attributable to a \$3.0 million decrease in personnel and labor costs as a result of decreased headcount, partially offset by \$0.9 million increase in insurance costs, and a \$0.7 million increase in travel costs. Selling, general and administrative expenses as a percentage of revenues decreased to 27% during the quarter ended March 31, 2022 from 29% during the quarter ended March 31, 2021.

The year-to-date period over period increase in selling, general and administrative expenses of \$3.3 million was primarily attributable to a \$1.6 million increase in insurance costs, a \$1.4 million increase in facilities and infrastructure costs, a \$1.2 million increase in travel activity, and a \$0.7 million increase in third-party cloud computing costs, partially offset by a \$3.4 million decrease in personnel and labor costs as a result of decreased headcount. Selling, general and administrative expenses as a percentage of revenues decreased to 29% during the six months ended March 31, 2022 from 30% during the six months ended March 31, 2021.

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 acquisition method of accounting. Our finite-lived intangible assets, consisting primarily of completed technology and customer contracts and relationships, are being amortized using the straight-line method over periods ranging from five to ten years.

Amortization expense was \$0.5 million during the quarter ended March 31, 2022 compared to \$0.9 million during the quarter ended March 31, 2021.

Amortization expense was \$1.1 million during the six months ended March 31, 2022 compared to \$1.9 million during the six months ended March 31, 2021. The decrease was primarily attributable to certain assets associated with the divestiture of our C&R business in June 2021.

Gains on Product Line Asset Sales and Business Divestiture

The \$7.3 million gain on product line asset sales and business divestiture during the six months ended March 31, 2021 was attributable to the sale of all assets related to our cyber risk score operations in October 2020 and the sale of certain assets related to our Software operations to an affiliated joint venture in China in December 2020.

Interest Expense, Net

Interest expense includes interest on the senior notes issued in December 2021, December 2019 and May 2018, as well as interest and credit facility fees on the revolving line of credit and term loan. Our condensed consolidated statements of income and comprehensive income include interest expense netted with interest income, which is derived primarily from the investment of funds in excess of our immediate operating requirements.

The quarter-over-prior year quarter increase in interest expense of \$7.3 million was primarily attributable to a higher average outstanding debt balance during the quarter ended March 31, 2022.

The year-to-date period over period increase in interest expense of \$9.8 million was primarily attributable to a higher average outstanding debt balance during the six months ended March 31, 2022.

Other Income (Expense), Net

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

The quarter-over-prior year quarter change in other income (expense), net of \$2.9 million was primarily attributable to a decrease in net unrealized gains on our supplemental retirement and savings plan.

The year-to-date period over period change in other income (expense), net of \$4.4 million was primarily attributable to a decrease in net unrealized gains on our supplemental retirement and savings plan.

Provision for Income Taxes

The effective income tax rate was 21.2% and 25.2% during the quarters ended March 31, 2022 and 2021, respectively, and 20.2% and 13.7% during the six months ended March 31, 2022 and 2021, respectively. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the full fiscal year. The effective tax rate in any quarter can also be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

The effective tax rates for the six months ended March 31, 2022 and 2021 were both favorably impacted by the recording of excess tax benefits relating to stock awards. The impact is dependent upon grants of share-based compensation and the future stock price in relation to the fair value of awards on the grant date. The decrease in stock price for awards that vested in December 2021 has resulted in a decreased net excess tax benefit for the six months ended March 31, 2022, as compared to the six months ended March 31, 2021.

Operating Income

The following tables set forth certain summary information on a segment basis related to our operating income for the quarters and six-month periods ended March 31, 2022 and 2021:

Segment	Quarter Ended March 31,		Period-to-Period Change	Period-to-Period Percentage Change
	2022	2021		
	(In thousands)		(In thousands)	
Scores	\$ 162,716	\$ 146,542	\$ 16,174	11 %
Software	53,500	17,200	36,300	211 %
Unallocated corporate expenses	(35,680)	(33,392)	(2,288)	7 %
Total segment operating income	180,536	130,350	50,186	39 %
Unallocated share-based compensation	(27,936)	(28,206)	270	(1) %
Unallocated amortization expense	(543)	(945)	402	(43) %
Operating income	\$ 152,057	\$ 101,199	50,858	50 %

	Scores				Software			
	Quarter Ended March 31,		Percentage of Revenues		Quarter Ended March 31,		Percentage of Revenues	
	2022	2021	2022	2021	2022	2021	2022	2021
	(In thousands)				(In thousands)			
Segment revenues	\$ 183,742	\$ 168,719	100 %	100 %	\$ 173,453	\$ 162,642	100 %	100 %
Segment operating expense	(21,026)	(22,177)	(11) %	(13) %	(119,953)	(145,442)	(69) %	(89) %
Segment operating income	\$ 162,716	\$ 146,542	89 %	87 %	\$ 53,500	\$ 17,200	31 %	11 %

The quarter-over-prior year quarter \$50.9 million increase in operating income was primarily attributable to a \$26.6 million decrease in segment operating expenses and a \$25.8 million increase in segment revenues, partially offset by a \$2.3 million increase in corporate expenses.

At the segment level, the quarter-over-prior year quarter \$50.2 million increase in segment operating income was the result of a \$36.3 million increase in our Software segment operating income and a \$16.2 million increase in our Scores segment operating income, partially offset by a \$2.3 million increase in corporate expenses.

The quarter-over-prior year quarter \$16.2 million increase in Scores segment operating income was due to a \$15.0 million increase in segment revenue and a \$1.2 million decrease in segment operating expenses. Segment operating income as a percentage of segment revenue for Scores increased to 89% from 87%.

The quarter-over-prior year quarter \$36.3 million increase in Software segment operating income was due to a \$25.5 million decrease in segment operating expenses and a \$10.8 million increase in segment revenue. Segment operating income as a percentage of segment revenue for Software increased to 31% from 11%, primarily attributable to the divestiture of our lower-margin C&R business, an increase in license revenue recognized at a point in time, and a decrease in sales of our lower-margin professional services.

Segment	Six Months Ended March 31,		Period-to-Period Change	Period-to-Period Percentage Change
	2022	2021		
	(In thousands)		(In thousands)	
Scores	\$ 310,219	\$ 269,567	\$ 40,652	15 %
Software	87,793	37,884	49,909	132 %
Unallocated corporate expenses	(71,468)	(63,645)	(7,823)	12 %
Total segment operating income	326,544	243,806	82,738	34 %
Unallocated share-based compensation	(57,814)	(53,338)	(4,476)	8 %
Unallocated amortization expense	(1,087)	(1,882)	795	(42)%
Unallocated gains on product line asset sales and business divestiture	—	7,334	(7,334)	(100)%
Operating income	\$ 267,643	\$ 195,920	71,723	37 %

	Scores				Software			
	Six Months Ended March 31,		Percentage of Revenues		Six Months Ended March 31,		Percentage of Revenues	
	2022	2021	2022	2021	2022	2021	2022	2021
	(In thousands)				(In thousands)			
Segment revenues	\$ 353,229	\$ 313,370	100 %	100 %	\$ 326,327	\$ 330,405	100 %	100 %
Segment operating expense	(43,010)	(43,803)	(12)%	(14)%	(238,534)	(292,521)	(73)%	(89)%
Segment operating income	\$ 310,219	\$ 269,567	88 %	86 %	\$ 87,793	\$ 37,884	27 %	11 %

The year-to-date period over period increase of \$71.7 million in operating income was primarily attributable to a \$54.8 million decrease in segment operating expenses and a \$35.8 million increase in segment revenues, partially offset by a \$7.8 million increase in corporate expenses, a \$7.3 million decrease in gain on sale of product line assets, and a \$4.5 million increase in share-based compensation cost.

At the segment level, the year-to-date period over period increase of \$82.7 million in segment operating income was the result of a \$49.9 million increase in our Software segment operating income and a \$40.6 million increase in our Scores segment operating income, partially offset by a \$7.8 million increase in corporate expenses.

The year-to-date period over period \$40.6 million increase in Scores segment operating income was attributable to a \$39.9 million increase in segment revenue and a \$0.8 million decrease in segment operating expenses. Segment operating income as a percentage of segment revenue for Scores increased to 88% from 86%.

The year-to-date period over period \$49.9 million increase in Software segment operating income was due to a \$54.0 million decrease in segment operating expenses, partially offset by a \$4.1 million decrease in segment revenue. Segment operating income as a percentage of segment revenue for Software increased to 27% from 11%, primarily attributable to the divestiture of our lower-margin C&R business, an increase in license revenue recognized at a point in time, and a decrease in sales of our lower-margin professional services.

CAPITAL RESOURCES AND LIQUIDITY

Outlook

As of March 31, 2022, we had \$174.2 million in cash and cash equivalents, which included \$114.2 million held by our foreign subsidiaries. Our cash position could be affected by various risks and uncertainties, including, but not limited to, the effects of the COVID-19 pandemic and other risks detailed in Part II, Item 1A titled “Risk Factors” of this Quarterly Report on Form 10-Q. However, based on our current business plan and revenue prospects, we believe our cash and cash equivalents balances, as well as available borrowings from our \$600 million revolving line of credit and anticipated cash flows from operating activities, will be sufficient to fund our working and other capital requirements as well as the \$15.0 million principal payments on our term loan over the next twelve months. Under our current financing arrangements, we have no other significant debt obligations maturing over the next twelve months. Our undistributed earnings outside the U.S. are deemed to be permanently reinvested in foreign jurisdictions. We currently do not foresee a need to repatriate cash and cash equivalents held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we may be required to accrue for state income or foreign withholding taxes on the distributed foreign earnings, which we expect to be immaterial.

In the normal course of business, we evaluate the merits of acquiring technology or businesses, or establishing strategic relationships with or investing in these businesses. We may elect to use available cash and cash equivalents to fund such activities in the future. In the event additional needs for cash arise, or if we refinance our existing debt, we may raise additional funds from a combination of sources, including the potential issuance of debt or equity securities. Additional financing might not be available on terms favorable to us, or at all. If adequate funds were not available or were not available on acceptable terms, our ability to take advantage of unanticipated opportunities or respond to competitive pressures could be limited.

Summary of Cash Flows

	Six Months Ended March 31,		Period-to-Period Change
	2022	2021	
(In thousands)			
Cash provided by (used in):			
Operating activities	\$ 247,484	\$ 231,470	\$ 16,014
Investing activities	(3,664)	1,746	(5,410)
Financing activities	(263,162)	(196,795)	(66,367)
Effect of exchange rate changes on cash	(1,793)	4,021	(5,814)
Increase (decrease) in cash and cash equivalents	\$ (21,135)	\$ 40,442	(61,577)

Cash Flows from Operating Activities

Our primary method for funding operations and growth has been through cash flows generated from operating activities. Net cash provided by operating activities increased to \$247.5 million during the six months ended March 31, 2022 from \$231.5 million during the six months ended March 31, 2021. The \$16.0 million increase was primarily attributable to a \$34.2 million increase in net income and an \$18.5 million increase in non-cash items, partially offset by a \$36.7 million decrease that resulted from timing of receipts and payments in our ordinary course of business.

Cash Flows from Investing Activities

Net cash used in investing activities was \$3.7 million for the six months ended March 31, 2022 as compared to net cash provided of \$1.7 million for the six months ended March 31, 2021. The \$5.4 million change was primarily attributable to a \$6.0 million decrease in cash proceeds from the product line asset sales and business divestiture.

Cash Flows from Financing Activities

Net cash used in financing activities increased to \$263.2 million for the six months ended March 31, 2022 from \$196.8 million for the six months ended March 31, 2021. The \$66.4 million increase was primarily attributable to a \$510.5 million increase in repurchases of common stock and a \$136.8 million increase in payments, net of proceeds, on our revolving line of credit, partially offset by a \$550.0 million increase in proceeds from the issuance of senior notes and a \$38.8 million decrease in taxes paid related to net share settlement of equity awards.

Repurchases of Common Stock

In January 2022, our Board of Directors approved a new stock repurchase program following the completion of our previous program. This program is open-ended and authorizes repurchases of shares of our common stock up to an aggregate cost of \$500.0 million in the open market or in negotiated transactions.

Pursuant to our previously-authorized stock repurchase programs and the January 2022 program, we repurchased approximately 579,875 shares and 1,823,494 shares of our common stock at a total repurchase price of \$264.0 million and \$757.6 million during the quarter and six months ended March 31, 2022, respectively. As of March 31, 2022, we had \$400.2 million remaining under the January 2022 program.

Revolving Line of Credit and Term Loan

We have a \$600 million unsecured revolving line of credit with a syndicate of banks that expires on August 19, 2026. Borrowings under the credit facility can be used for working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions and the repurchase of our common stock. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greatest of (a) the prime rate, (b) the Federal Funds rate plus 0.500% and (c) the one-month LIBOR rate plus 1.000%, plus, in each case, an applicable margin, or (ii) an adjusted LIBOR rate plus an applicable margin. The applicable margin for base rate borrowings ranges from 0% to 0.750% and for LIBOR borrowings ranges from 1.000% to 1.750%, and is determined based on our consolidated leverage ratio. In addition, we must pay credit facility fees. The credit facility contains certain restrictive covenants including a maximum consolidated leverage ratio of 3.50, subject to a step up to 4.00 following certain permitted acquisitions; and a minimum interest coverage ratio of 3.00. The credit agreement also contains other covenants typical of unsecured facilities.

In addition, we have a term loan in an initial principal amount of \$300 million. The term loan is subject to the same pricing and covenants as the revolving line of credit and matures at the expiration of the facility on August 19, 2026. The term loan requires principal payments in consecutive quarterly installments of \$3.75 million on the last business day of each quarter.

As of March 31, 2022, we had \$215.0 million in borrowings outstanding under the revolving credit facility at a weighted-average interest rate of 1.932%, and \$296.3 million in outstanding balance of the term loan at an interest rate of 1.955%, of which \$381.3 million was classified as a long-term liability and recorded in long-term debt within the accompanying condensed consolidated balance sheets. We were in compliance with all financial covenants under this credit facility as of March 31, 2022.

Senior Notes

On May 8, 2018, we issued \$400 million of senior notes in a private offering to qualified institutional investors (the “2018 Senior Notes”). The 2018 Senior Notes require interest payments semi-annually at a rate of 5.25% per annum and will mature on May 15, 2026. On December 6, 2019, we issued \$350 million of senior notes in a private offering to qualified institutional investors (the “2019 Senior Notes”). The 2019 Senior Notes require interest payments semi-annually at a rate of 4.00% per annum and will mature on June 15, 2028. On December 17, 2021, we issued \$550 million of additional senior notes of the same class as the 2019 Senior Notes in a private offering to qualified institutional investors (the “2021 Senior Notes,” and collectively with the 2018 Senior Notes and the 2019 Senior Notes, the “Senior Notes”). The 2021 Senior Notes require interest payments semi-annually at a rate of 4.00% per annum and will mature on June 15, 2028, the same date as the 2019 Senior Notes. The indentures for the Senior Notes contain certain covenants typical of unsecured obligations. As of March 31, 2022, the carrying value of the Senior Notes was \$1.30 billion and we were in compliance with all financial covenants under these obligations, and do not believe we are at material risk of not meeting these covenants due to COVID-19.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Revenue Recognition

Contracts with Customers

Our revenue is primarily derived from on-premises software and SaaS subscriptions, professional services, and scoring services. For contracts with customers that contain various combinations of products and services, we evaluate whether the products or services are distinct — distinct products or services will be accounted for as separate performance obligations, while non-distinct products or services are combined with others to form a single performance obligation. For contracts with multiple performance obligations, the transaction price is allocated to each performance obligation on a relative standalone selling price (“SSP”) basis. Revenue is recognized when control of the promised goods or services is transferred to our customers.

Our on-premises software is primarily sold on a subscription basis, which includes a term-based license and post-contract support or maintenance, both of which generally represent distinct performance obligations and are accounted for separately. The transaction price is either a fixed fee, or a usage-based fee — sometimes subject to a guaranteed minimum. When the amount is fixed, including the guaranteed minimum in a usage-based fee, license revenue is recognized at the point in time when the software is made available to the customer. Maintenance revenue is recognized ratably over the contract period as customers simultaneously consume and receive benefits. Any usage-based fees not subject to a guaranteed minimum or earned in excess of the minimum amount are recognized when the subsequent usage occurs. We occasionally sell software arrangements consisting of on-premises perpetual licenses and maintenance. License revenue is recognized at a point in time when the software is made available to the customer and maintenance revenue is recognized ratably over the contract term.

Our SaaS products provide customers with access to and standard support for our software on a subscription basis, delivered through our own infrastructure or third-party cloud services. The SaaS transaction contracts typically include a guaranteed minimum fee per period that allows up to a certain level of usage and a consumption-based variable fee in excess of the minimum threshold; or a consumption-based variable fee not subject to a minimum threshold. The nature of our SaaS arrangements is to provide continuous access to our hosted solutions in the cloud, i.e., a stand-ready obligation that comprises a series of distinct service periods (e.g., a series of distinct daily, monthly or annual periods of service). We estimate the total variable consideration at contract inception — subject to any constraints that may apply — and update the estimates as new information becomes available and recognize the amount ratably over the SaaS service period, unless we determine it is appropriate to allocate the variable amount to each distinct service period and recognize revenue as each distinct service period is performed.

Our professional services include software implementation, consulting, model development and training. Professional services are sold either standalone, or together with other products or services and generally represent distinct performance obligations. The transaction price can be a fixed amount or a variable amount based upon the time and materials expended. Revenue on fixed-price services is recognized using an input method based on labor hours expended, which we believe provides a faithful depiction of the transfer of services. Revenue on services provided on a time and materials basis is recognized by applying the “right-to-invoice” practical expedient as the amount to which we have a right to invoice the customer corresponds directly with the value of our performance to the customer.

Our scoring services include both business-to-business and business-to-consumer offerings. Our business-to-business scoring services typically include a license that grants consumer reporting agencies the right to use our scoring solutions in exchange for a usage-based royalty. Revenue is generally recognized when the usage occurs. Business-to-consumer offerings provide consumers with access to their FICO® Scores and credit reports, as well as other value-add services. These are provided as either a one-time or ongoing subscription service renewed monthly or annually, all with a fixed consideration. The nature of the subscription service is a stand-ready obligation to generate credit reports, provide credit monitoring, and other services for our customers, which comprises a series of distinct service periods (e.g., a series of distinct daily, monthly or annual periods of service). Revenue from one-time or monthly subscription services is recognized during the period when service is performed. Revenue from annual subscription services is recognized ratably over the subscription period.

Significant Judgments

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct and should be accounted for separately may require significant judgment. Specifically, when implementation service is included in the original software or SaaS offerings, judgment is required to determine if the implementation service significantly modifies or customizes the software or SaaS service in such a way that the risks of providing it and the customization service are inseparable. In rare instances, contracts may include significant modification or customization of the software or SaaS service and will result in the combination of software or SaaS service and implementation service as one performance obligation.

We determine the SSPs using data from our historical standalone sales, or, in instances where such information is not available (such as when we do not sell the product or service separately), we consider factors such as the stated contract prices, our overall pricing practices and objectives, go-to-market strategy, size and type of the transactions, and effects of the geographic area on pricing, among others. When the selling price of a product or service is highly variable, we may use the residual approach to determine the SSP of that product or service. Significant judgment may be required to determine the SSP for each distinct performance obligation when it involves the consideration of many market conditions and entity-specific factors discussed above.

Significant judgment may be required to determine the timing of satisfaction of a performance obligation in certain professional services contracts with a fixed consideration, in which we measure progress using an input method based on labor hours expended. In order to estimate the total hours of the project, we make assumptions about labor utilization, efficiency of processes, the customer's specification and IT environment, among others. For certain complex projects, due to the risks and uncertainties inherent with the estimation process and factors relating to the assumptions, actual progress may differ due to the change in estimated total hours. Adjustments to estimates are made in the period in which the facts requiring such revisions become known and, accordingly, recognized revenues are subject to revisions as the contract progresses to completion.

Capitalized Commission Costs

We capitalize incremental commission fees paid as a result of obtaining customer contracts. Capitalized commission costs are amortized on a straight-line basis over ten years — determined using a portfolio approach — based on the transfer of goods or services to which the assets relate, taking into consideration both the initial and future contracts as we do not typically pay a commission on a contract renewal. The amortization costs are included in selling, general, and administrative expenses of our consolidated statements of income and comprehensive income.

We apply a practical expedient to recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that we otherwise would have recognized is one year or less. These costs are recorded within selling, general, and administrative expenses.

Business Combinations

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

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

Examples of critical estimates in valuing certain of the intangible assets we have acquired include but are not limited to: (i) future expected cash flows from software license sales, support agreements, consulting contracts, other customer contracts and acquired developed technologies and patents; (ii) expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed; and (iii) the acquired company's brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results. Historically, there have been no significant changes in our estimates or assumptions. To the extent a significant acquisition is made during a fiscal year, as appropriate we will expand the discussion to include specific assumptions and inputs used to determine the fair value of our acquired intangible assets.

In addition, uncertain tax positions and tax-related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. We reevaluate these items quarterly based upon facts and circumstances that existed as of the acquisition date with any adjustments to our preliminary estimates being recorded to goodwill provided that we are within the measurement period. Subsequent to the measurement period or our final determination of the tax allowance's or contingency's estimated value, whichever comes first, changes to these uncertain tax positions and tax-related valuation allowances will affect our provision for income taxes in our consolidated statements of income and comprehensive income and could have a material impact on our consolidated results of operations and financial position. Historically, there have been no significant changes in our valuation allowances or uncertain tax positions as it relates to business combinations. We do not believe there is a reasonable likelihood there will be a material change in the future estimates.

Goodwill, Acquisition Intangibles and Other Long-Lived Assets - Impairment Assessment

Goodwill represents the excess of cost over the fair value of identifiable assets acquired and liabilities assumed in business combinations. We assess goodwill for impairment for each of our reporting units on an annual basis during our fourth fiscal quarter using a July 1 measurement date unless circumstances require a more frequent measurement.

During the fourth quarter of fiscal 2021, we reevaluated our operating segments to better align with how our CODM evaluates performance and allocates resources, which resulted in a change from three operating segments — Applications, Decision Management Software and Scores — to two operating segments, Software and Scores. As part of this reevaluation, we determined our operating segments continue to represent our reporting units. When evaluating goodwill for impairment, we may first perform an assessment qualitatively whether it is more likely than not that a reporting unit's carrying amount exceeds its fair value, referred to as a "step zero" approach. If, based on the review of the qualitative factors, we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying value, we would bypass the two-step impairment test. Events and circumstances we consider in performing the "step zero" qualitative assessment include macro-economic conditions, market and industry conditions, internal cost factors, share price fluctuations, and the operational stability and overall financial performance of the reporting units. If we conclude that it is more likely than not that a reporting unit's fair value is less than its carrying amount, we would perform the first step ("step one") of the two-step impairment test and calculate the estimated fair value of the reporting unit by using discounted cash flow valuation models and by comparing our reporting units to guideline publicly-traded companies. These methods require estimates of our future revenues, profits, capital expenditures, working capital, and other relevant factors, as well as selecting appropriate guideline publicly-traded companies for each reporting unit. We estimate these amounts by evaluating historical trends, current budgets, operating plans, industry data, and other relevant factors. Alternatively, we may bypass the qualitative assessment described above for any reporting unit in any period and proceed directly to performing step one of the goodwill impairment test.

We performed a step one quantitative impairment test on the Software and Scores reporting units before and immediately following the change in reporting units. There was a substantial excess of fair value over carrying value for the reporting units and we determined goodwill was not impaired for any of our reporting units before or after the change for fiscal 2021. For fiscal 2019 and 2020, we performed a step zero qualitative analysis for our annual assessment of goodwill impairment. After evaluating and weighing all relevant events and circumstances, we concluded that it is not more likely than not that the fair value of any of our reporting units was less their carrying amounts. Consequently, we did not perform a step one quantitative analysis and determined goodwill was not impaired for any of our reporting units for fiscal 2019 and 2020.

Our intangible assets that have finite useful lives and other long-lived assets are assessed for potential impairment when there is evidence that events and circumstances related to our financial performance and economic environment indicate the carrying amount of the assets may not be recoverable. When impairment indicators are identified, we test for impairment using undiscounted cash flows. If such tests indicate impairment, then we measure and record the impairment as the difference between the carrying value of the asset and the fair value of the asset. Significant management judgment is required in forecasting future operating results used in the preparation of the projected cash flows. Should different conditions prevail, material write downs of our intangible assets or other long-lived assets could occur. We review the estimated remaining useful lives of our acquired intangible assets at each reporting period. A reduction in our estimate of remaining useful lives, if any, could result in increased annual amortization expense in future periods. We did not recognize any impairment charges on intangible assets that have finite useful lives or other long-lived assets in fiscal 2021, 2020, and 2019.

As discussed above, while we believe that the assumptions and estimates utilized were appropriate based on the information available to management, different assumptions, judgments and estimates could materially affect our impairment assessments for our goodwill, acquired intangibles with finite lives and other long-lived assets. Historically, there have been no significant changes in our estimates or assumptions that would have had a material impact for our goodwill or intangible assets impairment assessment. We believe our projected operating results and cash flows would need to be significantly less favorable to have a material impact on our impairment assessment. However, based upon our historical experience with operations, we do not believe there is a reasonable likelihood of a significant change in our projections.

Share-Based Compensation

We measure share-based compensation cost at the grant date based on the fair value of the award and recognize it as expense, net of estimated forfeitures, over the vesting or service period, as applicable, of the stock award (generally three to four years). We use the Black-Scholes valuation model to determine the fair value of our stock options and a Monte Carlo valuation model to determine the fair value of our market share units. Our valuation models and generally accepted valuation techniques require us to make assumptions and to apply judgment to determine the fair value of our awards. These assumptions and judgments include estimating the volatility of our stock price, expected dividend yield, employee turnover rates and employee stock option exercise behaviors. Historically, there have been no material changes in our estimates or assumptions. We do not believe there is a reasonable likelihood there will be a material change in the future estimates or assumptions.

Income Taxes

We estimate our income taxes based on the various jurisdictions where we conduct business, which involves significant judgment in determining our income tax provision. We estimate our current tax liability using currently enacted tax rates and laws and assess temporary differences that result from differing treatments of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities recorded on our consolidated balance sheets using the currently enacted tax rates and laws that will apply to taxable income for the years in which those tax assets are expected to be realized or settled. We then assess the likelihood our deferred tax assets will be realized and to the extent we believe realization is not more likely than not, we establish a valuation allowance. When we establish a valuation allowance or increase this allowance in an accounting period, we record a corresponding income tax expense in our consolidated statements of income and comprehensive income. In assessing the need for the valuation allowance, we consider future taxable income in the jurisdictions we operate; our ability to carry back tax attributes to prior years; an analysis of our deferred tax assets and the periods over which they will be realizable; and ongoing prudent and feasible tax planning strategies. An increase in the valuation allowance would have an adverse impact, which could be material, on our income tax provision and net income in the period in which we record the increase.

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

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

Contingencies and Litigation

We are subject to various proceedings, lawsuits and claims relating to products and services, technology, labor, stockholder and other matters. We are required to assess the likelihood of any adverse outcomes and the potential range of probable losses in these matters. If the potential loss is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. If the potential loss is considered less than probable or the amount cannot be reasonably estimated, disclosure of the matter is considered. The amount of loss accrual or disclosure, if any, is determined after analysis of each matter, and is subject to adjustment if warranted by new developments or revised strategies. Due to uncertainties related to these matters, accruals or disclosures are based on the best information available at the time. Significant judgment is required in both the assessment of likelihood and in the determination of a range of potential losses. Revisions in the estimates of the potential liabilities could have a material impact on our consolidated financial position or consolidated results of operations. Historically, there have been no material changes in our estimates or assumptions. We do not believe there is a reasonable likelihood there will be a material change in the future estimates.

New Accounting Pronouncements*Recent Accounting Pronouncements Not Yet Adopted*

In October 2021, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2021-08, “*Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*” (“ASU 2021-08”). ASU 2021-08 requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities from acquired contracts using the revenue recognition guidance under Accounting Standards Codification Topic 606 in order to align the recognition of a contract liability with the definition of a performance obligation. The standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, which means that it will be effective for our fiscal year beginning October 1, 2023. Early adoption is permitted. We do not believe that adoption of ASU 2021-08 will have a significant impact on our consolidated financial statements.

We do not expect that any other recently issued accounting pronouncements will have a significant effect on our financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk**Market Risk Disclosures**

We are exposed to market risk related to changes in interest rates and foreign exchange rates. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate

We maintain an investment portfolio consisting of bank deposits and money market funds. The funds provide daily liquidity and may be subject to interest rate risk and fall in value if market interest rates increase. We do not expect our operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates. The following table presents the principal amounts and related weighted-average yields for our investments with interest rate risk at March 31, 2022 and September 30, 2021:

	March 31, 2022			September 30, 2021		
	Cost Basis	Carrying Amount	Average Yield	Cost Basis	Carrying Amount	Average Yield
(Dollars in thousands)						
Cash and cash equivalents	\$ 174,219	\$ 174,219	0.25 %	\$ 195,354	\$ 195,354	0.04 %

On May 8, 2018, we issued \$400 million of senior notes in a private placement to qualified institutional investors (the “2018 Senior Notes”). On December 6, 2019, we issued \$350 million of senior notes in a private offering to qualified institutional investors (the “2019 Senior Notes”). On December 17, 2021, we issued \$550 million of additional senior notes of the same class as the 2019 Senior Notes in a private placement to qualified institutional investors (the “2021 Senior Notes” and collectively with the 2018 Senior Notes and 2019 Senior Notes, the “Senior Notes”). The fair value of the Senior Notes may increase or decrease due to various factors, including fluctuations in market interest rates and fluctuations in general economic conditions. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Capital Resources and Liquidity” for additional information on the Senior Notes. The following table presents the face values and fair values for the Senior Notes at March 31, 2022 and September 30, 2021:

	March 31, 2022		September 30, 2021	
	Face Value (*)	Fair Value	Face Value (*)	Fair Value
	(In thousands)			
The 2018 Senior Notes	400,000	416,000	400,000	453,000
The 2019 Senior Notes and the 2021 Senior Notes	900,000	871,875	350,000	357,000
Total	\$ 1,300,000	\$ 1,287,875	\$ 750,000	\$ 810,000

(*) The carrying value of the Senior Notes was the face value reduced by the net debt issuance costs of \$15.7 million and \$9.0 million at March 31, 2022 and September 30, 2021, respectively.

We have interest rate risk with respect to our unsecured revolving line of credit and term loan. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greatest of (a) the prime rate, (b) the Federal Funds rate plus 0.500% and (c) the one-month LIBOR rate plus 1.000%, plus, in each case, an applicable margin, or (ii) an adjusted LIBOR rate plus an applicable margin. The applicable margin for base rate borrowings ranges from 0% to 0.750% and for LIBOR borrowings ranges from 1.000% to 1.750%, and is determined based on our consolidated leverage ratio. A change in interest rates on this variable rate debt impacts the interest incurred and cash flows, but does not impact the fair value of the instrument. As of March 31, 2022, we had \$215.0 million in borrowings outstanding under the revolving credit facility at a weighted-average interest rate of 1.932% and \$296.3 million in outstanding balance of the term loan at an interest rate of 1.955%.

Foreign Currency Forward Contracts

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

The following tables summarize our outstanding foreign currency forward contracts, by currency, at March 31, 2022 and September 30, 2021:

	March 31, 2022				
	Contract Amount			Fair Value	
	Foreign Currency		USD	USD	
	(In thousands)				
Sell foreign currency:					
Euro (EUR)	EUR	16,500	\$	18,330	\$ —
Buy foreign currency:					
British pound (GBP)	GBP	9,223	\$	12,100	\$ —
Singapore dollar (SGD)	SGD	7,571	\$	5,600	\$ —

	September 30, 2021				
	Contract Amount			Fair Value	
	Foreign Currency		USD	USD	
	(In thousands)				
Sell foreign currency:					
Euro (EUR)	EUR	17,100	\$	19,829	\$ —
Buy foreign currency:					
British pound (GBP)	GBP	11,467	\$	15,400	\$ —
Singapore dollar (SGD)	SGD	6,650	\$	4,900	\$ —

The foreign currency forward contracts were entered into on March 31, 2022 and September 30, 2021, respectively; therefore, their fair value was \$0 on each of these dates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of FICO's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of FICO's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report. Based on that evaluation, the CEO and CFO have concluded that FICO's disclosure controls and procedures were effective as of March 31, 2022 to ensure that information required to be disclosed by FICO in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. In addition, the disclosure controls and procedures are designed to ensure that information required to be disclosed is accumulated and communicated to management, including the CEO and CFO, allowing timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

No change in FICO's internal control over financial reporting was identified in connection with the evaluation required by Rules 13a-15 or 15d-15 of the Exchange Act that occurred during the period covered by this quarterly report and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. *Legal Proceedings*

Not applicable.

Item 1A. *Risk Factors*

Business, Market and Strategy Risks

The effects of the COVID-19 pandemic have negatively affected how we and our customers are operating our businesses. The duration of these effects, and the extent to which they will impact our future revenues, results of operations and overall financial performance, remain uncertain.

The COVID-19 pandemic has resulted in a widespread health crisis that has adversely affected the global economy, leading to reduced consumer spending and lending activities and disruptions and volatility in the global capital markets. COVID-19 has caused shutdowns to businesses and cities worldwide and has disrupted supply chains, business operations, travel, and consumer confidence.

As a result of the COVID-19 pandemic, we temporarily closed the majority of our offices (including our corporate headquarters in the United States), but are in the process of re-opening them. Although our company-wide voluntary work from home policy expired on March 31, 2022, we continue to allow the majority of our workforce the flexibility to work remotely on an ongoing basis. In addition, we continue to impose certain travel restrictions where applicable. Both of these actions have disrupted how we operate our business. Due in part to anticipated post-pandemic workforce patterns, in late fiscal 2020 and early fiscal 2021, we permanently closed certain non-core offices, reduced certain other office space and reduced our global workforce. Our operations may be further negatively affected by a range of external factors related to the COVID-19 pandemic that are not within our control. For example, many cities, counties, states, and countries may impose or continue to impose requirements and restrictions related to COVID-19 that affect us, including a wide range of restrictions on our employees', partners' and customers' physical movement to limit the spread of COVID-19. We postponed, canceled or shifted certain of our customer, employee or industry events to virtual-only experiences and may decide to do so in the future. If the COVID-19 pandemic has a substantial impact on our employees', partners' or customers' productivity or ability to collaborate, our results of operations and overall financial performance may be harmed.

The situation surrounding the COVID-19 pandemic is constantly evolving and both the short-term and long-term effects remain unknown. Our customers, and therefore our business and revenues, are sensitive to negative changes in general economic conditions and lending activities. The COVID-19 pandemic may affect the rate of spending on our solutions and could adversely affect our customers' ability or willingness to purchase our products and services, cause prospective customers to change product selections or term commitments, delay or cancel their purchasing decisions, extend sales cycles, and potentially increase payment defaults, all of which could adversely affect our future revenues, results of operations and overall financial performance. COVID-19 has adversely affected certain segments and originations volume, which may impact future revenue. We are unable to accurately predict the complete impact that COVID-19 will have on our future results of operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the severity and transmission rate of the virus and its variants, the duration and any resurgence of the outbreak, the extent and effectiveness of containment actions, the effectiveness and acceptance of any medical treatment and prevention options, and the impact of these and other factors on us, our employees, customers, partners and vendors, and on worldwide and U.S. economic conditions. If we are not able to respond to and manage these impacts effectively, our business may be harmed to a material extent.

We may not be successful in executing our business strategy, which could cause our growth prospects and results of operations to suffer.

We have increasingly focused our business strategy on investing significant development resources to enable substantially all of our software to run on FICO® Platform, our modular software offering designed to enable advanced analytics and decisioning use cases. Our business strategy is designed to enable us to increase our business by selling multiple connectable and extensible products to clients, as well as to enable the development of custom client solutions and to allow our clients to more easily expand their usage and the use cases they enable over time. The market may be unreceptive to our general business approach, including being unreceptive to our cloud-based offerings, unreceptive to purchasing multiple products from us, or unreceptive to our customized solutions. As we continue to pursue our business strategy, we may experience volatility in our revenues and operating results caused by various factors, including differences in revenue recognition treatment between our cloud-based offerings and on-premises software licenses, the timing of investments and other expenditures necessary to develop and operate our cloud-based offerings, and the adoption of new sales and delivery methods. If our business strategy is not successful, we may not be able to grow our business, growth may occur more slowly than we anticipate, or our revenues and profits may decline.

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

We expect that revenues derived from our scoring solutions, fraud solutions, customer communication services, customer management solutions and decision management software 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 successfully adopt cloud-based technologies;
- our inability to obtain regulatory approvals for our products and services, including credit score models;
- the increasing availability of free or relatively inexpensive consumer credit, credit score and other information from public or commercial sources;
- failure to execute our selling approach; and
- inability to successfully sell our products in new vertical markets.

Our revenues depend, to a great extent, upon conditions in the banking (including consumer credit) industry. If our clients' industry experiences uncertainty, it will likely harm our business, financial condition or results of operations.

During fiscal 2021, 89% of our revenues were derived from sales of products and services to the banking industry. Periods of global economic uncertainty experienced in the past have produced substantial stress, volatility, illiquidity and disruption of global credit and other financial markets, resulting in the bankruptcy or acquisition of, or government assistance to, several major domestic and international financial institutions. The potential for future stress and disruptions, including in connection with the COVID-19 pandemic, rising inflation and rising interest rates, presents considerable risks to our businesses and operations. These risks include potential bankruptcies or credit deterioration of financial institutions, many of which are our customers. Such disruption would result in a decline in the revenue we receive from financial and other institutions. In addition, if consumer demand for financial services and products and the number of credit applications decrease, the demand for our products and services could also be materially reduced. These types of disruptions could lead to a decline in the volumes of services we provide our customers and could negatively impact our revenue and results of operations.

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

While we are attempting to expand our sales of consumer credit and banking 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.

We rely on relatively few customers, as well as our contracts with the three major consumer reporting agencies, for a significant portion of our revenues and profits. Many of our customers are significantly larger than we are and may have greater bargaining power. The businesses of our largest customers depend, in large part, on favorable macroeconomic conditions. If these customers are negatively impacted by weak global economic conditions, global economic volatility or the terms of these relationships otherwise change, our revenues and operating results could decline.

Most of our customers are relatively large enterprises, such as banks, credit card issuers, insurers, retailers, telecommunications providers, automotive companies, public agencies, and organizations in other industries. As a result, many of our customers and potential customers are significantly larger than we are and may have sufficient bargaining power to demand reduced prices and favorable nonstandard terms.

In addition, the U.S. and other key international economies are experiencing and have experienced in the past a downturn in which economic activity was impacted by falling demand for a variety of goods and services, the level and volatility of interest rates, the level of inflation, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy. The potential for economic disruption presents considerable risks to our business, including potential bankruptcies or credit deterioration of financial institutions with which we have substantial relationships. Such disruption, whether arising in connection with the current COVID-19 pandemic and military conflict or otherwise, could result in a 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 consumer reporting agencies in the U.S., Experian, TransUnion and Equifax, and other parties that distribute our products to certain markets. The loss of or a significant change in a relationship with one of the three consumer reporting agencies with respect to their distribution of our products or with respect to our myFICO® offerings, the loss of or a significant change in a relationship with a major customer, the loss of or a significant change in a relationship with a significant third-party distributor (including payment card processors), or the loss of or delay of significant revenues from these sources, could have a material adverse effect on our revenues and results of operations.

If use of the FICO® Score by Fannie Mae and Freddie Mac were to cease or decline, it could have a material adverse effect on our revenues, results of operations and stock price.

A significant portion of our revenues in our Scores segment is attributable to the U.S. mortgage market, which includes, for mortgages eligible for purchase by The Federal National Mortgage Association (“Fannie Mae”) and The Federal Home Loan Mortgage Corporation (“Freddie Mac”), a requirement by those enterprises that U.S. lenders provide FICO® Scores for each mortgage delivered to them. However, their continued use of the FICO Score is currently subject to validation and approval by those enterprises and the Federal Housing Finance Agency. If other credit score models are approved for use with mortgages delivered to Fannie Mae and Freddie Mac, or the FICO Score is not approved for continued use with those mortgages, it could have a material adverse effect on our revenues, results of operations and stock price.

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 business strategy will be derived from the sale of products and service solutions in industries and markets we do not currently serve. We also expect to grow our business by delivering our solutions through additional distribution channels. If we fail to penetrate these industries and markets to the degree we anticipate utilizing our business 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 business strategy depend upon our ability to develop and sell new products or suites of products, including the development and sale of our cloud-based product offerings. 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 or certain client or other systems. 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.

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.

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 business strategy will rest on our ability to continue to expand into newer markets for our products and services. Such areas are relatively new to our product development and sales and marketing personnel. Products that we plan to market in the future are in various stages of development. We cannot assure you that the marketplace will accept these products. If our current or potential customers are not willing to switch to or adopt our new products and services, either as a result of the quality of these products and services or due to other factors, such as economic conditions, our revenues will decrease.

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

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

- innovate by internally developing new and competitive technologies;
- use leading third-party technologies effectively;
- continue to develop our technical expertise;
- anticipate and effectively respond to changing customer needs;
- initiate new product introductions in a way that minimizes the impact of customers delaying purchases of existing products in anticipation of new product releases; and
- influence and respond to emerging industry standards and other technological changes.

Our product and pricing strategies may not be successful. 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.

Demand for our products and services may be sensitive to product and pricing changes we implement, and our product and pricing strategies may not be accepted by the market. If our customers fail to accept our product and pricing strategies, our revenues, results of operations and business may suffer. In addition, 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 our solutions is intensely competitive and is constantly changing, and we expect competition 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;
- neural network developers and artificial intelligence system builders;
- fraud and compliance solutions providers;
- scoring model builders;
- providers of credit reports and credit scores;
- software companies supplying predictive analytic modeling, rules, or analytic development tools;
- entity resolution and social network analysis solutions providers;
- providers of customer engagement and risk management solutions;
- providers of account/workflow management software;
- business process management and decision rules management providers;
- enterprise resource planning and customer relationship management solutions providers;
- business intelligence solutions providers;
- providers of automated application processing services; and
- third-party professional services and consulting organizations.

We expect to experience additional competition from other established and emerging companies. This could include customers of ours that develop their own scoring models or other products, and as a result no longer purchase or reduce their purchases from us. We also expect to experience competition from other technologies. For example, certain of our fraud solutions products compete against other methods of preventing payment card fraud, such as payment cards that contain the cardholder's photograph; smart cards; cardholder verification and authentication solutions; biometric measures on devices including fingerprint and face matching; and other card authorization techniques and user verification techniques.

Many of our existing and 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, Experian, TransUnion and Equifax 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.

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

Many 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, Experian, TransUnion and Equifax. Failure of our existing and future distributors to generate significant revenues or otherwise perform their expected services or functions, 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, Experian, TransUnion and Equifax have developed a credit scoring product to compete directly with our products and are collectively selling the product. Competition from distributors or other sales and marketing partners could significantly harm sales of our products and services.

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

As part of our management approach, we pursue ongoing reengineering efforts designed to grow revenues through strategic resource allocation and improve profitability through cost reductions. In addition, we have implemented a Remote Work Policy which allows a portion of our workforce to partially or fully work from home. Our reengineering efforts may not be successful over the long term should we fail to reduce expenses at the anticipated level, should we fail to increase revenues to anticipated levels or at all, or should productivity decline or employees' ability to collaborate fall as a result of the Remote Work Policy. If our reengineering efforts are not successful over the long term, our revenues, results of operations and business may suffer.

There can be no assurance that strategic divestitures will provide business benefits.

As part of our strategy, we continuously evaluate our portfolio of businesses. We have previously and may in the future make other changes to our portfolio as well, which may be material. Divestitures involve risks, including:

- disruption of our operations or businesses;
- reductions of our revenues or earnings per share;
- difficulties in the separation of operations, services, products and personnel;
- finding a suitable purchaser;
- disposing of businesses or assets at a price or on terms that are less favorable than we had anticipated, or with purchase price adjustments or the exclusion of assets or liabilities that must be divested, managed or run off separately;
- diversion of management's attention from our other businesses;
- the potential loss of key personnel;
- adverse effects on relationships with our customers, suppliers or their businesses;
- the erosion of employee morale or customer confidence; and
- the retention of contingent liabilities related to the divested business.

If we do not successfully manage the risks associated with divestitures, our business, financial condition, and results of operations could be adversely affected as the potential strategic benefits may not be realized or may take longer to realize than expected.

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

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

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

- an acquisition may not further our business strategy as we expected, we may not integrate acquired operations or technology as successfully as we expected or we may overpay for our investments, or otherwise not realize the expected return, which could adversely affect our business or operating results;
- we may be unable to retain the key employees, customers and other business partners of the acquired operation;
- we may have difficulties entering new markets where we have no or limited direct prior experience or where competitors may have stronger market positions;
- our operating results or financial condition may be adversely impacted by known or unknown claims or liabilities we assume in an acquisition or that are imposed on us as a result of an acquisition, including claims by government agencies or authorities, terminated employees, current or former customers, former stockholders or other third parties;
- we could incur material charges in connection with the impairment of goodwill or other assets that we acquire;
- a company that we acquire may have experienced a security incident that it has yet to discover, investigate and remediate which we might not be identify in a timely manner and which could spread more broadly to other parts of our company during the integration effort;
- we may incur material charges as a result of acquisition costs, costs incurred in combining and/or operating the acquired business, or liabilities assumed in the acquisition that are greater than anticipated;
- we may not realize the anticipated increase in our revenues from an acquisition for a number of reasons, including if a larger than predicted number of customers decline to renew their contracts, if we are unable to incorporate the acquired technologies or products with our existing product lines in a uniform manner, if we are unable to sell the acquired products to our customer base or if contract models of an acquired company or changes in accounting treatment do not allow us to recognize revenues on a timely basis;
- our use of cash to pay for acquisitions may limit other potential uses of our cash, including stock repurchases, dividend payments and retirement of outstanding indebtedness; and
- to the extent we issue a significant amount of equity securities in connection with future acquisitions, existing stockholders may be diluted and earnings per share may decrease.

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

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 U.S. 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.

Operational Risks

If our cybersecurity measures are compromised or unauthorized access to customer or consumer data is otherwise obtained, our products and services may be perceived as not being secure, customers may curtail or cease their use of our products and services, our reputation may be damaged and we could incur significant liabilities.

Because our business requires the storage, transmission and utilization of sensitive consumer and customer information, we will continue to routinely be the target of attempted cybersecurity and other security threats by outside third parties, including technically sophisticated and well-resourced bad actors attempting to access or steal the data we store. Many of our products are provided by us through the Internet. We may be exposed to additional cybersecurity threats as we migrate our data from our legacy systems to cloud-based solutions. We operate in an environment of significant risk of cybersecurity incidents resulting from unintentional events or deliberate attacks by third parties or insiders, which may involve exploiting highly obscure security vulnerabilities or sophisticated attack methods. These threats include phishing attacks on our email systems and other cyber-attacks, including state-sponsored cyber-attacks, industrial espionage, insider threats, denial-of-service attacks, computer viruses, ransomware and other malware, payment fraud or other cyber incidents. As a software and technology vendor, we may incorporate or distribute software or other materials from third parties. Attacks or other threats to our supply chain for such software and materials may render us unable to provide assurances of the origin of such software and materials, and could put us at risk of distributing software or other materials that may cause harm to ourselves, our customers or other third parties.

Cybersecurity breaches could expose us to a risk of loss, the unauthorized disclosure of consumer or customer information, significant litigation, regulatory fines, penalties, loss of customers or reputational damage, indemnity obligations and other liability. If our cybersecurity measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and as a result, someone obtains unauthorized access to our systems or to consumer or customer information, sensitive data may be accessed, stolen, disclosed or lost, our reputation may be damaged, our business may suffer and we could incur significant liability. Because the techniques used to obtain unauthorized access, disable or degrade service or to sabotage systems change frequently and generally are not recognized until launched against a target, or even for some time after, we may be unable to anticipate these techniques, implement adequate preventative measures or remediate any intrusion on a timely or effective basis. Because a successful breach of our computer systems, software, networks or other technology asset could occur and persist for an extended period of time before being detected, we may not be able to immediately address the consequences of a cybersecurity incident.

Malicious third parties may also conduct attacks designed to temporarily deny customers, distributors and vendors access to our systems and services. Cybersecurity breaches experienced by our vendors, by our distributors, by our customers, by companies that we acquire, or by us may trigger governmental notice requirements and public disclosures, which may lead to widespread negative publicity. Any such cybersecurity breach, whether actual or perceived, could harm our reputation, erode customer confidence in the effectiveness of our security measures, negatively impact our ability to attract new customers, cause existing customers to curtail or cease their use of our products and services, cause regulatory or industry changes that impact our products and services, or subject us to third-party lawsuits, regulatory fines or other action or liability, all of which could materially and adversely affect our business and operating results. In addition, the COVID-19 pandemic may cause increased cybersecurity risk, as cybercriminals attempt to capitalize from the disruption, including remote working arrangements. Further, the recent military conflict between Russia and Ukraine could result in cyberattacks that could directly or indirectly impact us, including retaliatory acts of cyberwarfare from Russia against U.S. companies, or the potential proliferation of malware from the conflict into systems unrelated to the conflict.

If we experience business interruptions or failure of our information technology and communication systems, the availability of our products and services could be interrupted which could adversely affect our reputation, business and financial condition.

Our ability to provide reliable service in our businesses depends on the efficient and uninterrupted operation of our data centers, information technology and communication systems, and increasingly those of our external service providers, including Amazon Web Services. As we continue to grow our SaaS business, our dependency on the continuing operation and availability of these systems increases. Our systems and data centers, and those of our external service providers, could be exposed to damage or interruption. These interruptions can include software or hardware malfunctions, communication failures, outages or other failures of third-party environments or service providers, fires, floods, earthquakes, pandemics (including the COVID-19 pandemic), war, terrorist acts or civil unrest, power losses, equipment failures, computer viruses, denial-of-service or other cybersecurity attacks, employee or insider malfeasance, human error and other events beyond our control. Although we have taken steps to prevent system failures and we have installed back-up systems and procedures to prevent or reduce disruption, such steps may not be sufficient to prevent an interruption of services and our disaster recovery planning may not account for all eventualities.

An operational failure or outage in any of these systems, or damage to or destruction of these systems, which causes disruptions in our services, could result in loss of customers, damage to customer relationships, reduced revenues and profits, refunds of customer charges and damage to our brand and reputation and may require us to incur substantial additional expense to repair or replace damaged equipment and recover data loss caused by the interruption. Any one or more of the foregoing occurrences could have a material adverse effect on our reputation, business, financial condition, cash flows and results of operations.

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

Our business 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 personnel for research and development and to assist customers with product installation, deployment, maintenance and support. The labor market for these individuals is very competitive due to the limited number of people available with the necessary technical skills and understanding and may become more competitive with general market and economic improvement. We cannot be certain that our compensation strategies will be perceived as competitive by current or prospective employees. This could impair our ability to recruit and retain personnel. We have experienced difficulty in recruiting qualified personnel, especially technical, sales and consulting personnel, and we may need additional staff to support new customers and/or increased customer needs. We may also recruit skilled technical professionals from other countries to work in the U.S., and from the U.S. and other countries to work abroad. Limitations imposed by immigration laws in the U.S. 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.

Our business requires that we 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 partners provide us with the data we require to analyze transactions, report results and build new models. Our business 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 partners, or if they decline to provide such data due to privacy, security, competition or regulatory concerns, prohibitions or a lack of permission from their customers or partners, we could lose access to required data and our products, and the development of new products, might become less effective. We could also become subject to increased legislative, regulatory or judicial restrictions or mandates on the collection, disclosure, transfer or use of such data, in particular if such data is not collected by our providers in a way that allows us to legally use the data. Third parties have asserted copyright and other intellectual property interests in these data, and these assertions, if successful, could prevent us from using these data. We may not be successful in maintaining our relationships with these external data source providers or in continuing to obtain data from them on acceptable terms or at all. Any interruption of our supply of data could seriously harm our business, financial condition or results of operations.

Global Operational Risks

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. Global economic uncertainty in the past, and currently as a result of the COVID-19 pandemic, has produced substantial stress, volatility, illiquidity and disruption of global credit and other financial markets. The COVID-19 pandemic has adversely affected the global economy, leading to reduced consumer spending and lending activities and disruptions and volatility in the global capital markets. The pandemic has also caused shutdowns to businesses and cities worldwide and has disrupted supply chains, business operations, travel, and consumer confidence. In addition, the consequences of the conflict between Russia and Ukraine, including related sanctions and countermeasures, are difficult to predict, and could adversely impact geopolitical and macroeconomic conditions.

Economic uncertainty has and could continue to negatively affect the businesses and purchasing decisions of companies in the industries we serve. Such disruptions present considerable risks to our businesses and operations. As global economic conditions experience stress and negative volatility, or if there is an escalation in regional or global conflicts, such as that between Russia and Ukraine, 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.

We are subject to risks and uncertainties associated with the United Kingdom's withdrawal from the European Union ("E.U."), commonly referred to as "Brexit," including implications for the free flow of labor and goods in the United Kingdom ("U.K.") and the E.U. and other economic, financial, legal, tax and trade implications. The post-Brexit relationship between the U.K. and the E.U. continues to evolve, which could cause disruptions to and create uncertainty surrounding our business in the U.K., including affecting our relationships with our existing and future customers, suppliers and employees, and could contribute to long-term instability in financial, stock and currency exchange markets, any of which could have an adverse effect on our business, financial results and operations. Further, any continuing legal or economic disruptions resulting from Brexit may negatively impact our clients with operations in the U.K., which may cause them to reduce their spending budget on our products and services.

As a result of these conditions, risks and uncertainties, we may need to modify our strategies, businesses or operations, and we may incur additional costs in order to compete in a changed business environment. Given the volatile nature of the global economic environment and the uncertainties underlying efforts to stabilize it, we may not timely anticipate or manage existing, new or additional risks, as well as contingencies or developments, which may include regulatory developments and trends in new products and services. Our failure to do so could materially and adversely affect our business, financial condition, results of operations and prospects.

In operations outside the U.S., we are subject to additional risks that may harm our business, financial condition or results of operations.

A large portion of our revenues is derived from international sales. During fiscal 2021, 28% of our revenues were derived from business outside the U.S. As part of our growth strategy, we plan to continue to pursue opportunities outside the U.S., including opportunities in countries with economic systems that are in early stages of development and that may not mature sufficiently to result in growth for our business. Accordingly, our future operating results could be negatively affected by a variety of factors arising out of international commerce, some of which are beyond our control. These factors include:

- general economic and political conditions in countries where we sell our products and services;
- difficulty in staffing and efficiently managing our operations in multiple geographic locations and in various countries;
- effects of a variety of foreign laws and regulations, including restrictions on access to personal information;
- data privacy and consumer protection laws and regulations;
- import and export licensing requirements;
- longer payment cycles;
- difficulties in enforcing contracts and collecting accounts receivable;
- reduced protection for intellectual property rights;
- currency fluctuations;
- unfavorable tax rules or changes in tariffs and other trade barriers;
- the presence and acceptance of varying levels of business corruption in international markets;
- terrorism, war, natural disasters and pandemics, including the COVID-19 pandemic; 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. 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.

Legal, Regulatory and Compliance Risks

Laws and regulations in the U.S. and abroad that apply to us or to our customers may expose us to liability, cause us to incur significant expense, affect our ability to compete in certain markets, limit the profitability of or demand for our products, or render our products obsolete. If these laws and regulations require us to change our products and services, it could adversely affect our business and results of operations. New legislation or regulations, or changes to existing laws and regulations, may also negatively impact our business and increase our costs of doing business.

Laws and governmental regulation affect how our business is conducted and, in some cases, subject us to the possibility of government supervision and future lawsuits arising from our products and services. Laws and governmental regulations also influence our current and prospective customers' activities, as well as their expectations and needs in relation to our products and services. Laws and regulations that may affect our business and our current and prospective customers' activities include, but are not limited to, those in the following significant regulatory areas:

- Privacy and security laws and regulations that limit the use and disclosure of personally identifiable information, require security procedures, or otherwise apply to the collection, processing, storage, use and transfer of protected data (e.g., the U.S. Financial Services Modernization Act of 1999, also known as the Gramm Leach Bliley Act; the General Data Protection Regulation (the "GDPR") and country-specific data protection laws enacted to supplement the GDPR; and identity theft, file freezing, security breach notification and similar state privacy laws);

- Laws and regulations relating to the privacy, security and transmission of individually identifiable health information, including the Health Insurance Portability and Accountability Act of 1996, as amended by the American Recovery and Reinvestment Act of 2009 (“HIPAA”) and the Health Information Technology for Economic and Clinical Health Act (“HITECH”) and their respective implementing regulations;
- Financial regulatory reform stemming from the Dodd-Frank Wall Street Reform and Consumer Protection Act and the many regulations mandated by that Act, including regulations issued by, and the supervisory and investigative authority of, the Consumer Financial Protection Bureau;
- The application or extension of consumer protection laws, including implementing regulations (e.g., the Consumer Financial Protection Act, the Federal Trade Commission Act, the Truth In Lending Act and Regulation Z, the Fair Debt Collection Practices Act, the Servicemembers Civil Relief Act, the Military Lending Act, and the Credit Repair Organizations Act);
- Use of data by creditors and consumer reporting agencies (e.g., the U.S. Fair Credit Reporting Act and similar state laws);
- Special requirements that may apply when we provide services directly or indirectly to U.S. federal, state and local government agencies (e.g., the Privacy Act of 1974, the Internal Revenue Service’s Publication 4812 and the Federal Acquisition Regulation);
- Laws and regulations that limit the use of credit scoring models (e.g., state “mortgage trigger” or “inquiries” laws, state insurance restrictions on the use of credit-based insurance scores, and the E.U. Consumer Credit Directive);
- Fair lending laws (e.g., the Equal Credit Opportunity Act and Regulation B, and the Fair Housing Act);
- The Cybersecurity Act of 2015; the U.S. Department of Commerce’s National Institute of Standards and Technology’s Cybersecurity Framework; the Clarifying Lawful Overseas Use of Data Act; and identity theft, file freezing, and similar state privacy laws;
- Laws and regulations related to extension of credit to consumers through the Electronic Fund Transfers Act and Regulation E, as well as non-governmental VISA and MasterCard electronic payment standards;
- Laws and regulations applicable to secondary market participants (e.g., Fannie Mae and Freddie Mac) that could have an impact on our scoring products and revenues, including 12 CFR Part 1254 (Validation and Approval of Credit Score Models) issued by the Federal Housing Finance Agency in accordance with Section 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (Public Law 115-174), and any regulations, standards or criteria established pursuant to such laws or regulations;
- Laws and regulations applicable to our customer communication clients and their use of our products and services (e.g., the Telemarketing Sales Rule, Telephone Consumer Protection Act, the CAN-SPAM Act, the Fair Debt Collection Practices Act, and regulations promulgated thereunder);
- Laws and regulations applicable to our insurance clients and their use of our insurance products and services;
- Laws and regulations governing the use of the Internet and social media, telemarketing, advertising, endorsements and testimonials;
- Anti-money laundering laws and regulations (e.g., the Bank Secrecy Act and the USA PATRIOT Act);
- Laws and regulations restricting transactions with sanctioned parties and regarding export controls as they apply to FICO products delivered in non-U.S. countries (e.g., Office of Foreign Asset Control sanctions and Export Administration Regulations);
- Anti-bribery and corruption laws and regulations (e.g., the Foreign Corrupt Practices Act and the UK Bribery Act 2010);
- Financial regulatory standards (e.g., Sarbanes-Oxley Act requirements to maintain and verify internal process controls, including controls for material event awareness and notification); and
- Regulatory requirements for managing third parties (e.g., vendors, contractors, suppliers and distributors).

In addition, many U.S. and foreign jurisdictions have passed, or are currently contemplating, a variety of consumer protection, privacy, and data security laws and regulations that may relate to our business or affect the demand for our products and services. For example, the U.K and E.U. GDPR impose, among other things, strict obligations and restrictions on the ability to collect, analyze and transfer U.K. and E.U. personal data, a requirement for prompt notice of data breaches in certain circumstances, and possible substantial fines for any violations (including possible fines for certain violations of up to the greater of 20 million Euros or 4% of total worldwide annual revenue under the E.U. GDPR and up to the greater of 17.5 million Pounds or 4% of annual global turnover under the U.K. GDPR). A decision in July 2020 by the Court of Justice of the European Union (*i.e.*, Schrems II), called into question certain data transfer mechanisms between the E.U. and the U.S. In June 2021, the European Commission issued new standard contractual clauses (“SCCs”) governing cross-border data transfers and data exchanges among controllers and processors, which reflect more recent data protection laws, such as the GDPR, and account for the analysis in the Schrems II decision. The European Data Protection Board (the pan-E.U. data protection regulator) has issued authoritative guidance on the requirements for cross-border transfers which, in accordance with Schrems II, include carrying out a data transfer impact assessment in respect of all cross-border data flows to evaluate whether adequate protection will be afforded to the data transferred in the destination territory. The U.K. Information Commissioner’s Office has also issued its own set of SCCs and authoritative guidance to account for the decision in Schrems II. Our transition to the new SCCs, which may involve interpretive issues and may have an adverse impact on cross-border transfers of personal data, may subject us to additional scrutiny from E.U. or U.K. regulators or may increase our costs of compliance.

Brazil, India, South Africa, Japan, China, Israel, Canada, and several other countries have introduced and, in some cases, enacted, similar privacy and data security laws.

The California Consumer Privacy Act of 2018 (“CCPA”) gives California residents certain privacy rights in the collection and disclosure of their personal information and requires businesses to make certain disclosures and take certain other acts in furtherance of those rights. Additionally, effective starting January 1, 2023, the California Privacy Rights Act (the “CPRA”) will revise and significantly expand the scope of the CCPA. The CPRA also creates a new California data protection agency authorized to implement and enforce the CCPA and the CPRA, which could result in increased privacy and information security enforcement. Other U.S. states have considered and/or enacted similar privacy laws, including Virginia and Colorado, which passed new consumer privacy laws in 2021.

The costs and other burdens of compliance with privacy and data security laws and regulations could negatively impact the use and adoption of our solutions and reduce overall demand for them. Additionally, concerns regarding data privacy may cause our customers, or their customers and potential customers, to resist providing the data necessary to allow us to deliver our solutions effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of our solutions and any failure to comply with such laws and regulations could lead to significant fines, penalties or other liabilities. Any such decrease in demand or incurred fines, penalties or other liabilities could have a material adverse effect on our business, results of operations, and financial condition.

In addition to existing laws and regulations, changes in the U.S. or foreign legislative, judicial, regulatory or consumer environments could harm our business, financial condition or results of operations. The laws and regulations above, and changes to them or their interpretation by the courts, could affect the demand for or profitability of our products, including scoring and consumer products. New laws and regulations pertaining to our customers could cause them to pursue new strategies, reducing the demand for our products.

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.

Moreover, in recent years, individuals and groups that are non-practicing entities, commonly referred to as “patent trolls,” have purchased patents and other intellectual property assets for the purpose of making claims of infringement in order to extract settlements. From time to time, we may receive threatening letters or notices or may be the subject of claims that our solutions and underlying technology infringe or violate the intellectual property rights of others. Responding to such claims, regardless of their merit, can be time consuming, costly to defend in litigation, divert management’s attention and resources, damage our reputation and brand, and cause us to incur significant expenses.

Financial Risks

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

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

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 customer 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.

Our financial results and key metrics fluctuate within each quarter and from quarter to quarter, making our future revenue, annual recurring revenue (“ARR”), and financial results difficult to predict, which may cause us to miss analyst expectations and may cause the price of our common stock to decline.

Our quarterly financial results and key metrics have fluctuated in the past and will continue to do so in the future, and therefore period-to-period comparisons should not be relied upon as an indication of future performance. These fluctuations could cause our stock price to change significantly or experience declines. We also may provide investors with quarterly and annual financial forward-looking guidance that could prove to be inaccurate as a result of these fluctuations and other factors. In addition to the other risks described in these risk factors, some of the factors that could cause our financial results and key metrics to fluctuate include:

- 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 or customer 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 demand and competitive and other conditions in the consumer credit, banking and insurance industries;

- the level and volatility of interest rates and the level of inflation;
- fluctuations in domestic and international economic conditions, such as those which have occurred as a result of the COVID-19 pandemic;
- our ability to complete large installations, and to adopt and configure cloud-based deployments, on schedule and within budget;
- announcements relating to litigation or regulatory matters;
- changes in senior management or key personnel;
- acquisition-related expenses and charges; and
- timing of orders for and deliveries of software systems.

Our operating expenses are based in part on our expectations for future revenue and many are fixed and cannot be quickly adjusted as revenue changes. Accordingly, any revenue shortfall below expectations has had, and in the future could have, an immediate and significant adverse effect on our operating results and profitability. Greater than anticipated expenses or a failure to maintain rigorous cost controls would also negatively affect profitability.

General Risk Factors

Our stock price has been subject to fluctuations, and will likely continue to be subject to fluctuations, or may decline, regardless of our operating performance.

Our stock price has been subject to fluctuations due to a number of factors, including variations in our revenues and operating results. The financial markets have at various times experienced significant price and volume fluctuations that have particularly affected the stock prices of many technology companies and financial services companies, and these fluctuations sometimes have been unrelated to the operating performance of these companies. Broad market fluctuations, as well as industry-specific and general economic conditions, may negatively affect our business and require us to record an impairment charge related to goodwill, which could adversely affect our results of operations, stock price and business.

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

Certain provisions of our Restated Certificate of Incorporation, as amended, could make a merger, tender offer or proxy contest involving us difficult, even if such events would be beneficial to the interests of our stockholders. These provisions include giving our board the ability to issue preferred stock and determine the rights and designations of the preferred stock at any time without stockholder approval. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third-party to acquire, or discouraging a third-party from acquiring, a majority of our outstanding voting stock. These factors and certain provisions of the Delaware General Corporation Law may have the effect of deterring hostile takeovers or otherwise delaying or preventing changes in control or changes in our management, including transactions in which our stockholders might otherwise receive a premium over the fair market value of our common stock.

If we experience changes in tax laws or adverse outcomes resulting from examination of our income tax returns, it could adversely affect our results of operations.

We are subject to federal and state income taxes in the U.S. 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 (including any changes that result from the comprehensive corporate tax reform proposed by the current administration), by our ability to generate taxable income in foreign jurisdictions in order to utilize foreign tax losses, and by the valuation of our deferred tax assets. In addition, we are subject to the examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from such examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from such examinations will not have an adverse effect on our operating results and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

<u>Period</u>	<u>Total Number of Shares Purchased ⁽¹⁾</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾</u>	<u>Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾</u>
January 1, 2022 through January 31, 2022	375,539	\$ 437.96	374,875	\$ 3,342,333
February 1, 2022 through February 28, 2022	90,540	\$ 499.14	90,000	\$ 455,078,570
March 1, 2022 through March 31, 2022	115,498	\$ 477.35	115,000	\$ 400,185,950
	<u>581,577</u>	\$ 455.31	<u>579,875</u>	\$ 400,185,950

- (1) Includes 1,702 shares delivered in satisfaction of the tax withholding obligations resulting from the vesting of restricted stock units held by employees during the quarter ended March 31, 2022.
- (2) In January 2022, our Board of Directors approved a stock repurchase program following the completion of our previous program. This program is open-ended and authorizes repurchases of shares of our common stock up to an aggregate cost of \$500.0 million in the open market or in negotiated transactions.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit Number	Description
3.1	Composite Restated Certificate of Incorporation of Fair Isaac Corporation. (Incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q for the quarter ended December 31, 2009).
3.2	By-laws of Fair Isaac Corporation. (Incorporated by reference to Exhibit 3.1 to the Company's Form 10-Q for the quarter ended December 31, 2009).
10.1	Letter Agreement dated January 6, 2022 by and between the Company and Claus Moldt (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on January 10, 2022).
31.1 *	Rule 13a-14(a)/15d-14(a) Certifications of CEO.
31.2 *	Rule 13a-14(a)/15d-14(a) Certifications of CFO.
32.1 *	Section 1350 Certification of CEO.
32.2 *	Section 1350 Certification of CFO.
101.INS *	Inline XBRL Instance Document.
101.SCH *	Inline XBRL Taxonomy Extension Schema Document.
101.CAL *	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF *	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB *	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE *	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104 *	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* Filed herewith.

CERTIFICATIONS

I, William J. Lansing, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fair Isaac Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2022

/s/ WILLIAM J. LANSING

William J. Lansing

Chief Executive Officer

CERTIFICATIONS

I, Michael I. McLaughlin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fair Isaac Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2022

/s/ MICHAEL I. MCLAUGHLIN

Michael I. McLaughlin
Chief Financial Officer

**CERTIFICATION UNDER SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Fair Isaac Corporation.

Date: April 27, 2022

/s/ WILLIAM J. LANSING

William J. Lansing

Chief Executive Officer

**CERTIFICATION UNDER SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Fair Isaac Corporation.

Date: April 27, 2022

/s/ MICHAEL I. MCLAUGHLIN

Michael I. McLaughlin
Chief Financial Officer