

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2023

☐ **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. ☐

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

Yes ☐ No ☒

The number of shares of common stock outstanding on January 17, 2024 was 24,852,057 (excluding 64,004,726 shares held by us as treasury stock).

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PART I – FINANCIAL INFORMATION
Item 1. Unaudited Financial Statements

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2023	September 30, 2023
	(In thousands, except par value data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 160,421	\$ 136,778
Accounts receivable, net	367,478	387,947
Prepaid expenses and other current assets	37,364	31,723
Total current assets	565,263	556,448
Marketable securities	36,955	33,014
Other investments	1,258	1,223
Property and equipment, net	10,406	10,966
Operating lease right-of-use assets	18,916	25,703
Goodwill	777,195	773,327
Intangible assets, net	642	917
Deferred income taxes	63,725	59,136
Other assets	119,158	114,547
Total assets	\$ 1,593,518	\$ 1,575,281
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 18,584	\$ 19,009
Accrued compensation and employee benefits	68,216	102,471
Other accrued liabilities	46,487	59,478
Deferred revenue	146,822	136,730
Current maturities on debt	153,000	50,000
Total current liabilities	433,109	367,688
Long-term debt	1,808,655	1,811,658
Operating lease liabilities	11,899	23,903
Other liabilities	65,620	60,022
Total liabilities	2,319,283	2,263,271
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 24,879 and 24,770 shares outstanding at December 31, 2023 and September 30, 2023, respectively)	249	248
Additional paid-in-capital	1,239,131	1,350,713
Treasury stock, at cost (63,978 and 64,087 shares at December 31, 2023 and September 30, 2023, respectively)	(5,380,827)	(5,324,865)
Retained earnings	3,509,124	3,388,059
Accumulated other comprehensive loss	(93,442)	(102,145)
Total stockholders' deficit	(725,765)	(687,990)
Total liabilities and stockholders' deficit	\$ 1,593,518	\$ 1,575,281

See accompanying notes.

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

	Quarter Ended December 31,	
	2023	2022
	(In thousands, except per share data)	
Revenues:		
On-premises and SaaS software	\$ 168,668	\$ 144,560
Professional services	21,279	22,322
Scores	192,112	177,988
Total revenues	382,059	344,870
Operating expenses:		
Cost of revenues	83,461	76,569
Research and development	42,635	36,633
Selling, general and administrative	104,329	92,995
Amortization of intangible assets	275	275
Gain on product line asset sale	—	(1,941)
Total operating expenses	230,700	204,531
Operating income	151,359	140,339
Interest expense, net	(24,162)	(22,800)
Other income, net	3,393	364
Income before income taxes	130,590	117,903
Provision for income taxes	9,525	20,260
Net income	121,065	97,643
Other comprehensive income:		
Foreign currency translation adjustments	8,703	18,381
Comprehensive income	\$ 129,768	\$ 116,024
Earnings per share:		
Basic	\$ 4.89	\$ 3.90
Diluted	\$ 4.80	\$ 3.84
Shares used in computing earnings per share:		
Basic	24,764	25,045
Diluted	25,219	25,443

See accompanying notes.

FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' 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 September 30, 2023	24,770	\$ 248	\$ 1,350,713	\$ (5,324,865)	\$ 3,388,059	\$ (102,145)	\$ (687,990)
Share-based compensation	—	—	31,574	—	—	—	31,574
Issuance of treasury stock under employee stock plans	187	2	(143,156)	15,741	—	—	(127,413)
Repurchases of common stock	(78)	(1)	—	(71,703)	—	—	(71,704)
Net income	—	—	—	—	121,065	—	121,065
Foreign currency translation adjustments	—	—	—	—	—	8,703	8,703
Balance at December 31, 2023	24,879	\$ 249	\$ 1,239,131	\$ (5,380,827)	\$ 3,509,124	\$ (93,442)	\$ (725,765)

(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, 2022	25,154	\$ 252	\$ 1,299,588	\$ (4,935,769)	\$ 2,958,684	\$ (124,702)	\$ (801,947)
Share-based compensation	—	—	29,702	—	—	—	29,702
Issuance of treasury stock under employee stock plans	180	2	(85,019)	14,147	—	—	(70,870)
Repurchases of common stock	(179)	(2)	—	(75,002)	—	—	(75,004)
Net income	—	—	—	—	97,643	—	97,643
Foreign currency translation adjustments	—	—	—	—	—	18,381	18,381
Balance at December 31, 2022	25,155	\$ 252	\$ 1,244,271	\$ (4,996,624)	\$ 3,056,327	\$ (106,321)	\$ (802,095)

See accompanying notes.

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

	Quarter Ended December 31,	
	2023	2022
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 121,065	\$ 97,643
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,824	4,280
Share-based compensation	31,574	29,702
Deferred income taxes	(4,435)	(8,507)
Net (gain) loss on marketable securities	(2,884)	348
Non-cash operating lease costs	3,500	3,779
Provision for doubtful accounts	419	369
Gain on product line asset sale	—	(1,941)
Net loss on sales and abandonment of property and equipment	400	16
Changes in operating assets and liabilities:		
Accounts receivable	27,399	8,704
Prepaid expenses and other assets	(13,457)	(5,823)
Accounts payable	(642)	168
Accrued compensation and employee benefits	(35,141)	(37,883)
Other liabilities	(16,490)	(7,955)
Deferred revenue	7,988	9,540
Net cash provided by operating activities	122,120	92,440
Cash flows from investing activities:		
Purchases of property and equipment	(1,361)	(850)
Proceeds from sales of marketable securities	13,167	2,393
Purchases of marketable securities	(14,224)	(4,558)
Cash transferred, net of proceeds, from product line asset sale	—	(7,575)
Net cash used in investing activities	(2,418)	(10,590)
Cash flows from financing activities:		
Proceeds from revolving line of credit and term loan	170,000	169,000
Payments on revolving line of credit and term loan	(70,750)	(102,750)
Proceeds from issuance of treasury stock under employee stock plans	4,499	1,995
Taxes paid related to net share settlement of equity awards	(131,911)	(72,865)
Repurchases of common stock	(71,704)	(75,004)
Net cash used in financing activities	(99,866)	(79,624)
Effect of exchange rate changes on cash	3,807	4,428
Increase in cash and cash equivalents	23,643	6,654
Cash and cash equivalents, beginning of period	136,778	133,202
Cash and cash equivalents, end of period	\$ 160,421	\$ 139,856
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net of refunds of \$ 10 and \$8 during the quarters ended December 31, 2023 and 2022, respectively	\$ 4,926	\$ 13,412
Cash paid for interest	\$ 38,236	\$ 37,730
Supplemental disclosures of non-cash investing activities:		
Purchase of property and equipment included in accounts payable	\$ 178	\$ 37

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 more than 100 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 lenders, consumer reporting agencies, 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, 2023. The interim financial information contained in this report is not necessarily indicative of the results to be expected for any other interim period or for the entire fiscal year.

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

Use of Estimates

We make estimates and assumptions that affect the amounts reported in the condensed consolidated 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.

New Accounting Pronouncements

Recent Accounting Pronouncements 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, *Revenue from Contracts with Customers*, in order to align the recognition of a contract liability with the definition of a performance obligation. We adopted ASU 2021-08 in the first quarter of fiscal 2024 and the adoption did not have a significant impact on our condensed consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In November 2023, the FASB issued ASU No. 2023-07, “ *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* ” (“ASU 2023-07”). ASU 2023-07 expands annual and interim disclosure requirements for reportable segments, primarily through enhanced disclosures about significant segment expenses. The standard is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, which means that it will be effective for our annual periods beginning October 1, 2024, and our interim periods beginning October 1, 2025. Early adoption is permitted. We are currently evaluating the impact that the updated standard will have on our disclosures within our consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09, “ *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* ” (“ASU 2023-09”). ASU 2023-09 requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as disaggregated information on income tax paid. The standard is effective for fiscal years beginning after December 15, 2024, which means that it will be effective for our fiscal years beginning October 1, 2025. Early adoption is permitted. We are currently evaluating the impact that the updated standard will have on our disclosures within our consolidated financial statements.

We do not expect that any other recently issued accounting pronouncements will have a significant effect on our consolidated 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 December 31, 2023 and September 30, 2023.
- 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 December 31, 2023 and September 30, 2023.
- 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 December 31, 2023 and September 30, 2023.

The following tables represent financial assets that we measured at fair value on a recurring basis at December 31, 2023 and September 30, 2023:

December 31, 2023	Active Markets for Identical Instruments (Level 1)		Fair Value as of December 31, 2023
	(In thousands)		
	Assets:		
Cash equivalents ⁽¹⁾	\$	40,253	\$ 40,253
Marketable securities ⁽²⁾		36,955	36,955
Total	\$	77,208	\$ 77,208
September 30, 2023	Active Markets for Identical Instruments (Level 1)		Fair Value as of September 30, 2023
	(In thousands)		
	Assets:		
Cash equivalents ⁽¹⁾	\$	23,621	\$ 23,621
Marketable securities ⁽²⁾		33,014	33,014
Total	\$	56,635	\$ 56,635

(1) Included in cash and cash equivalents on our condensed consolidated balance sheets at December 31, 2023 and September 30, 2023. Not included in these tables are cash deposits of \$120.2 million and \$113.2 million at December 31, 2023 and September 30, 2023, 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 December 31, 2023 and September 30, 2023.

See Note 6 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 ended December 31, 2023 and 2022.

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, net. The forward contracts are not designated as hedges and are marked to market through other income, 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 December 31, 2023 and September 30, 2023:

December 31, 2023					
Contract Amount				Fair Value	
Foreign Currency		USD		USD	
(In thousands)					
Sell foreign currency:					
Euro (EUR)	EUR	9,900	\$	10,941	\$ —
Buy foreign currency:					
British pound (GBP)	GBP	9,911	\$	12,600	\$ —
Singapore dollar (SGD)	SGD	10,400	\$	7,900	\$ —

September 30, 2023					
Contract Amount				Fair Value	
Foreign Currency		USD		USD	
(In thousands)					
Sell foreign currency:					
Euro (EUR)	EUR	12,900	\$	13,621	\$ —
Buy foreign currency:					
British pound (GBP)	GBP	10,700	\$	13,100	\$ —
Singapore dollar (SGD)	SGD	8,569	\$	6,300	\$ —

The foreign currency forward contracts were entered into on December 31, 2023 and September 30, 2023; therefore, their fair value was \$ 0 on each of these dates.

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

	Quarter Ended December 31,	
	2023	2022
	(In thousands)	
Gains on foreign currency forward contracts	\$ 541	\$ 1,304

4. Goodwill

The following table summarizes changes to goodwill during the quarter ended December 31, 2023, both in total and as allocated to our segments. As of December 31, 2023, there was no accumulated goodwill impairment loss.

	Scores	Software	Total
(In thousands)			
Balance at September 30, 2023	\$ 146,648	\$ 626,679	\$ 773,327
Foreign currency translation adjustment	—	3,868	3,868
Balance at December 31, 2023	\$ 146,648	\$ 630,547	\$ 777,195

5. Composition of Certain Financial Statement Captions

The following table presents the composition of property and equipment, net and other accrued liabilities at December 31, 2023 and September 30, 2023:

	December 31, 2023	September 30, 2023
(In thousands)		
Property and equipment, net:		
Property and equipment	\$ 97,699	\$ 98,967
Less: accumulated depreciation and amortization	(87,293)	(88,001)
Total	<u>\$ 10,406</u>	<u>\$ 10,966</u>
Other accrued liabilities:		
Interest payable	\$ 7,056	\$ 20,770
Current operating leases	15,641	16,336
Other	23,790	22,372
Total	<u>\$ 46,487</u>	<u>\$ 59,478</u>

6. Debt

The following table represents our debt at carrying value at December 31, 2023 and September 30, 2023:

	December 31, 2023	September 30, 2023
(In thousands)		
Current maturities on debt:		
Revolving line of credit	\$ 138,000	\$ 35,000
Term loan	15,000	15,000
Current maturities on debt	<u>153,000</u>	<u>50,000</u>
Long-term debt:		
Revolving line of credit	265,000	265,000
Term loan	255,000	258,750
The 2018 Senior Notes	400,000	400,000
The 2019 Senior Notes and the 2021 Senior Notes	900,000	900,000
Less: debt issuance costs	(11,345)	(12,092)
Long-term debt	<u>1,808,655</u>	<u>1,811,658</u>
Total debt	<u>\$ 1,961,655</u>	<u>\$ 1,861,658</u>

Revolving Line of Credit and Term Loan

We have a \$600 million unsecured revolving line of credit and a \$ 300 million unsecured term loan with a syndicate of banks that mature on August 19, 2026. Borrowings under the revolving line of credit and term loan 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. The term loan requires principal payments in consecutive quarterly installments of \$3.75 million on the last business day of each quarter. Interest rates on amounts borrowed under the revolving line of credit and term loan are based on (i) an adjusted base rate, which is the greatest of (a) the prime rate, (b) the Federal Funds rate plus 0.5%, and (c) one-month adjusted term Secured Overnight Financing Rate ("SOFR") rate plus 1%, plus, in each case, an applicable margin, or (ii) an adjusted term SOFR rate plus an applicable margin. The applicable margin for base rate borrowings and for SOFR borrowings is determined based on our consolidated leverage ratio. The applicable margin for base rate borrowings ranges from 0% to 0.75% per annum and for SOFR borrowings ranges from 1% to 1.75% per annum. In addition, we must pay certain credit facility fees. The revolving line of credit and term loan contain certain restrictive covenants including a maximum consolidated leverage ratio of 3.5 to 1.0, subject to a step up to 4.0 to 1.0 following certain permitted acquisitions and subject to certain conditions, and a minimum interest coverage ratio of 3.0 to 1.0. The credit agreement also contains other covenants typical of unsecured credit facilities.

As of December 31, 2023, we had \$ 403.0 million in borrowings outstanding under the revolving line of credit at a weighted-average interest rate of 6.708%, and \$270.0 million in outstanding balance of the term loan at an interest rate of 6.713%. We were in compliance with all financial covenants under this credit agreement as of December 31, 2023.

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 and we were in compliance as of December 31, 2023.

The following table presents the face values and fair values for the Senior Notes at December 31, 2023 and September 30, 2023:

	December 31, 2023		September 30, 2023	
	Face Value	Fair Value	Face Value	Fair Value
(In thousands)				
The 2018 Senior Notes	\$ 400,000	\$ 396,000	\$ 400,000	\$ 386,000
The 2019 Senior Notes and the 2021 Senior Notes	900,000	846,000	900,000	803,250
Total	<u>\$ 1,300,000</u>	<u>\$ 1,242,000</u>	<u>\$ 1,300,000</u>	<u>\$ 1,189,250</u>

7. Revenue from Contracts with Customers

Disaggregation of Revenue

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

	Quarter Ended December 31, 2023							
	Scores		Software	Total	Percentage			
	(Dollars in thousands)							
Americas	\$	184,948	\$	133,562	\$	318,510	83	%
Europe, Middle East and Africa		1,308		35,060		36,368	10	%
Asia Pacific		5,856		21,325		27,181	7	%
Total	\$	192,112	\$	189,947	\$	382,059	100	%

	Quarter Ended December 31, 2022				
	Scores	Software	Total	Percentage	
	(Dollars in thousands)				
Americas	\$ 173,297	\$ 117,830	\$ 291,127	85	%
Europe, Middle East and Africa	1,348	30,992	32,340	9	%
Asia Pacific	3,343	18,060	21,403	6	%
Total	\$ 177,988	\$ 166,882	\$ 344,870	100	%

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

	Quarter Ended December 31,		Percentage of revenues	
	2023	2022	2023	2022
(Dollars in thousands)				
On-premises software	\$ 72,472	\$ 64,922	43 %	45 %
SaaS software	96,196	79,638	57 %	55 %
Total on-premises and SaaS software	<u>\$ 168,668</u>	<u>\$ 144,560</u>	<u>100 %</u>	<u>100 %</u>

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

	Quarter Ended December 31,		Percentage of revenues	
	2023	2022	2023	2022
(Dollars in thousands)				
Platform software	\$ 45,173	\$ 30,828	27 %	21 %
Non-platform software	123,495	113,732	73 %	79 %
Total on-premises and SaaS software	<u>\$ 168,668</u>	<u>\$ 144,560</u>	<u>100 %</u>	<u>100 %</u>

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

	Quarter Ended December 31,		Percentage of revenues	
	2023	2022	2023	2022
(Dollars in thousands)				
Software recognized at a point in time ⁽¹⁾	\$ 13,782	\$ 11,803	8 %	8 %
Software recognized over contract term ⁽²⁾	154,886	132,757	92 %	92 %
Total on-premises and SaaS software	<u>\$ 168,668</u>	<u>\$ 144,560</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 December 31,		Percentage of revenues	
	2023	2022	2023	2022
(Dollars in thousands)				
Business-to-business Scores	\$ 140,442	\$ 124,905	73 %	70 %
Business-to-consumer Scores	51,670	53,083	27 %	30 %
Total	<u>\$ 192,112</u>	<u>\$ 177,988</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% and 36% of our total revenues in the quarters ended December 31, 2023 and 2022, respectively, with three and two consumer reporting agencies each contributing more than 10% of our total revenues in the quarters ended December 31, 2023 and 2022, respectively. At December 31, 2023 and September 30, 2023, one individual customer accounted for 10% or more of total consolidated receivables.

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 December 31, 2023 and September 30, 2023 consisted of the following:

	December 31, 2023	September 30, 2023
	(In thousands)	
Billed	\$ 225,447	\$ 234,745
Unbilled	189,930	203,896
	<u>415,377</u>	<u>438,641</u>
Less: allowance for doubtful accounts	(5,406)	(4,978)
Net receivables	<u>409,971</u>	<u>433,663</u>
Less: long-term receivables (*)	(42,493)	(45,716)
Short-term receivables (*)	<u>\$ 367,478</u>	<u>\$ 387,947</u>

(*) 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:

	Quarter Ended December 31, 2023
	(In thousands)
Deferred revenues, beginning balance (*)	\$ 143,235
Revenue recognized that was included in the deferred revenues balance at the beginning of the period	(67,037)
Increases due to billings, excluding amounts recognized as revenue during the period	77,207
Deferred revenues, ending balance (*)	\$ 153,405

(*) Deferred revenues at December 31, 2023 included current portion of \$ 146.8 million and long-term portion of \$ 6.6 million that were recorded in deferred revenue and other liabilities, respectively, within the condensed consolidated balance sheets. Deferred revenues at September 30, 2023 included current portion of \$136.7 million and long-term portion of \$ 6.5 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 \$ 470.8 million as of December 31, 2023, approximately 50% of which we expect to recognize over the next 16 months and the remainder thereafter. Revenue allocated to remaining performance obligations was \$ 470.5 million as of September 30, 2023.

8. Income Taxes

Effective Tax Rate

The effective income tax rate was 7.3% and 17.2% during the quarters ended December 31, 2023 and 2022, 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.

A provision enacted as part of the 2022 Inflation Reduction Act imposes a 15% corporate minimum tax. The provision is effective for tax years beginning after December 31, 2022, which means that it was effective for our fiscal year beginning October 1, 2023. We do not expect any impact to our fiscal 2024 effective tax rate from the corporate minimum tax provision.

The total unrecognized tax benefit for uncertain tax positions was estimated to be \$14.8 million and \$13.8 million at December 31, 2023 and September 30, 2023, 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 \$1.2 million and \$0.9 million related to unrecognized tax benefits as of December 31, 2023 and September 30, 2023, respectively.

9. Share-Based Employee Benefit Plans

We maintain the 2021 Long-Term Incentive Plan (the “2021 Plan”) under which we grant equity awards, including stock options, stock appreciation rights, restricted stock awards, stock unit awards and other share-based awards. All employees, consultants and advisors of FICO or any subsidiary, as well as all non-employee directors, are eligible to receive awards under the 2021 Plan. Stock option awards have a maximum term of ten years. In general, stock option awards and stock unit awards not subject to market or performance conditions vest annually over four years. Stock unit awards subject to market or performance conditions generally vest annually over three years based on the achievement of specified criteria.

We also maintain the 2019 Employee Stock Purchase Plan (the “2019 Purchase Plan”) under which we are authorized to issue up to 1,000,000 shares of our common stock to eligible employees. Eligible employees may elect to have up to 15% of their eligible pay withheld through payroll deductions to purchase FICO common stock during semi-annual offering periods. The purchase price of the stock is 85% of the closing sales price of FICO common stock on the last trading day of each offering period. Offering period means the approximately six-month periods commencing (a) on the first trading day on or after September 1 and terminating on the last trading day in the following February, and (b) on the first trading day on or after March 1 and terminating on the last trading day in the following August. No shares were purchased under the 2019 Purchase Plan during the quarter ended December 31, 2023.

Restricted Stock Units

The following table summarizes restricted stock unit activity during the quarter ended December 31, 2023:

	Shares	Weighted-average Grant-date Fair Value
	(In thousands)	
Outstanding at September 30, 2023	376	\$ 508.23
Granted	91	1,129.77
Released	(132)	470.22
Forfeited	(11)	504.43
Outstanding at December 31, 2023	<u>324</u>	<u>\$ 698.48</u>

Performance Share Units

The following table summarizes performance share unit activity during the quarter ended December 31, 2023:

	Shares	Weighted-average Grant-date Fair Value
	(In thousands)	
Outstanding at September 30, 2023	115	\$ 519.54
Granted	18	1,134.39
Released	(58)	502.66
Forfeited	(8)	529.92
Outstanding at December 31, 2023	<u>67</u>	<u>\$ 695.06</u>

Market Share Units

The following table summarizes market share unit activity during the quarter ended December 31, 2023:

	Shares	Weighted-average Grant-date Fair Value
	(In thousands)	
Outstanding at September 30, 2023	87	\$ 844.24
Granted	64	1,014.75
Released	(84)	737.77
Forfeited	(5)	845.67
Outstanding at December 31, 2023	62	\$ 1,161.62

Stock Options

The following table summarizes option activity during the quarter ended December 31, 2023:

	Shares	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands)		(In years)	(In thousands)
Outstanding at September 30, 2023	227	\$ 387.95		
Granted	6	1,133.87		
Exercised	(31)	146.68		
Outstanding at December 31, 2023	202	\$ 444.55	3.83	\$ 145,366
Exercisable at December 31, 2023	132	\$ 271.79	2.56	\$ 117,720
Vested or expected to vest at December 31, 2023	196	\$ 432.79	3.75	\$ 143,106

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 ended December 31, 2023 and 2022:

	Quarter Ended December 31,	
	2023	2022
	(In thousands, except per share data)	
Numerator for diluted and basic earnings per share:		
Net income	\$ 121,065	\$ 97,643
Denominator — share:		
Basic weighted-average shares	24,764	25,045
Effect of dilutive securities	455	398
Diluted weighted-average shares	25,219	25,443
Earnings per share:		
Basic	\$ 4.89	\$ 3.90
Diluted	\$ 4.80	\$ 3.84

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

11. Segment Information

We are organized into two reportable segments: Scores and Software. Although we sell solutions and services to 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.

- **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, 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 chief operating decision maker (“CODM”), who is our Chief Executive Officer, 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 ended December 31, 2023 and 2022:

	Quarter Ended December 31, 2023			
	Scores	Software	Unallocated Corporate Expenses	Total
	(In thousands)			
Segment revenues:				
On-premises and SaaS software	\$ —	\$ 168,668	\$ —	\$ 168,668
Professional services	—	21,279	—	21,279
Scores	192,112	—	—	192,112
Total segment revenues	192,112	189,947	—	382,059
Segment operating expense	(23,458)	(134,825)	(40,568)	(198,851)
Segment operating income	\$ 168,654	\$ 55,122	\$ (40,568)	183,208
Unallocated share-based compensation expense				(31,574)
Unallocated amortization expense				(275)
Operating income				151,359
Unallocated interest expense, net				(24,162)
Unallocated other income, net				3,393
Income before income taxes				\$ 130,590
Depreciation expense	\$ 81	\$ 1,598	\$ 12	\$ 1,691

Quarter Ended December 31, 2022				
	Scores	Software	Unallocated Corporate Expenses	Total
(In thousands)				
Segment revenues:				
On-premises and SaaS software	\$ —	\$ 144,560	\$ —	\$ 144,560
Professional services	—	22,322	—	22,322
Scores	177,988	—	—	177,988
Total segment revenues	177,988	166,882	—	344,870
Segment operating expense	(21,296)	(121,117)	(34,082)	(176,495)
Segment operating income	\$ 156,692	\$ 45,765	\$ (34,082)	168,375
Unallocated share-based compensation expense				(29,702)
Unallocated amortization expense				(275)
Unallocated gain on product line asset sale				1,941
Operating income				140,339
Unallocated interest expense, net				(22,800)
Unallocated other income, net				364
Income before income taxes				\$ 117,903
Depreciation expense	\$ 151	\$ 2,974	\$ 22	\$ 3,147

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 a material exposure, either individually or in the aggregate.

13. Subsequent Events

In January 2024, our Board of Directors approved a new stock repurchase program, which replaced the previous stock repurchase program. The new program is open-ended and authorizes repurchases of shares of our common stock from time to time, up to an aggregate cost of \$500.0 million in the open market or in negotiated transactions. The new stock repurchase program became effective on January 23, 2024, and will remain in effect until the total authorized amount is expended or until further action by our Board of Directors.

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 and services, their characteristics, performance, sales potential or effect in use by 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 I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 and in subsequent filings with the SEC. 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 more than 100 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 lenders, consumer reporting agencies, 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 streams 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, 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.

Highlights from the quarter ended December 31, 2023

- Total revenue was \$382.1 million during the quarter ended December 31, 2023, an 11% increase from the quarter ended December 31, 2022.
- Total revenue for our Scores segment was \$192.1 million during the quarter ended December 31, 2023, an 8% increase from the quarter ended December 31, 2022.
- Annual Recurring Revenue for our Software segment as of December 31, 2023 was \$687.7 million, an 18% increase from December 31, 2022.
- Dollar-Based Net Retention Rate for our Software segment was 114% during the quarter ended December 31, 2023.
- Operating income was \$151.4 million during the quarter ended December 31, 2023, an 8% increase from the quarter ended December 31, 2022.
- Net income was \$121.1 million during the quarter ended December 31, 2023, a 24% increase from the quarter ended December 31, 2022.
- Diluted EPS was \$4.80 during the quarter ended December 31, 2023, a 25% increase from the quarter ended December 31, 2022.
- Cash flows from operating activities were \$122.1 million during the quarter ended December 31, 2023, compared with \$92.4 million during the quarter ended December 31, 2022.
- Cash and cash equivalents were \$160.4 million as of December 31, 2023, compared with \$136.8 million as of September 30, 2023.
- Total debt balance was \$2.0 billion as of December 31, 2023, compared with \$1.9 billion as of September 30, 2023.
- Total share repurchases during the quarter ended December 31, 2023 were \$71.7 million, compared with \$75.0 million during the quarter ended December 31, 2022.

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 U.S. generally accepted accounting principles ("U.S. 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 software 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, if any — 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 7 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 7, 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 December 31,	
	2023	2022 ^(*)
	(In millions)	
Total on-premises and SaaS software	\$ 18.3	\$ 21.5

(*) During the quarter ended December 31, 2022, we sold certain assets related to our Siron compliance business and the amount above excludes this product line.

Annual Recurring Revenue (“ARR”)

Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, 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 for on-premises and SaaS software at each of the dates presented:

	March 31, 2022		June 30, 2022		September 30, 2022		December 31, 2022		March 31, 2023		June 30, 2023		September 30, 2023		December 31, 2023	
ARR (*)	(In millions)															
Platform	\$	95.4	\$	107.2	\$	113.1	\$	132.8	\$	152.5	\$	164.1	\$	173.2	\$	190.3
Non-platform		430.6		432.3		437.0		450.1		461.0		481.8		496.2		497.4
Total	\$	526.0	\$	539.5	\$	550.1	\$	582.9	\$	613.5	\$	645.9	\$	669.4	\$	687.7
Percentage																
Platform	18	%	20	%	21	%	23	%	25	%	25	%	26	%	28	%
Non-platform	82	%	80	%	79	%	77	%	75	%	75	%	74	%	72	%
Total	100	%	100	%	100	%	100	%	100	%	100	%	100	%	100	%
YoY Change																
Platform	64	%	62	%	54	%	46	%	60	%	53	%	53	%	43	%
Non-platform	3	%	2	%	2	%	4	%	7	%	11	%	14	%	11	%
Total	10	%	10	%	10	%	11	%	17	%	20	%	22	%	18	%

(*) During the quarter ended December 31, 2022, we sold certain assets related to our Siron compliance business. The amounts and percentages above exclude this product line at all dates presented.

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 on-premises and SaaS software for each of the periods presented:

	Quarter Ended							
	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022	March 31, 2023	June 30, 2023	September 30, 2023	December 31, 2023
DBNRR ^(*)								
Platform	144 %	137 %	129 %	130 %	146 %	142 %	145 %	136 %
Non-platform	102 %	101 %	101 %	103 %	105 %	109 %	111 %	108 %
Total	109 %	109 %	109 %	110 %	114 %	117 %	120 %	114 %

(*) During the quarter ended December 31, 2022, we sold certain assets related to our Siron compliance business. The percentages above exclude this product line for all periods presented.

RESULTS OF OPERATIONS

We are organized into 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 7 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 ended December 31, 2023 and 2022:

Segment	Quarter Ended December 31,		Percentage of Revenues		Period-to-Period	Period-to-Period
	2023	2022	2023	2022	Change	Percentage Change
	(In thousands)				(In thousands)	
Scores	\$ 192,112	\$ 177,988	50 %	52 %	\$ 14,124	8 %
Software	189,947	166,882	50 %	48 %	23,065	14 %
Total	\$ 382,059	\$ 344,870	100 %	100 %	37,189	11 %

Scores

Scores segment revenues increased \$14.1 million due to an increase of \$15.5 million in our business-to-business scores revenue, partially offset by a decrease of \$1.4 million in our business-to-consumer revenue. The increase in business-to-business scores revenue was primarily attributable to a higher unit price. The decrease in business-to-consumer revenue was primarily attributable to a decrease in direct sales generated from the myFICO.com website.

Software

	Quarter Ended December 31,		Period-to-Period	Period-to-Period
	2023	2022	Change	Percentage Change
	(In thousands)		(In thousands)	
On-premises and SaaS software	\$ 168,668	\$ 144,560	\$ 24,108	17 %
Professional services	21,279	22,322	(1,043)	(5) %
Total	\$ 189,947	\$ 166,882	23,065	14 %

Software segment revenues increased \$23.1 million due to a \$24.1 million increase in our on-premises and SaaS software revenue, partially offset by a \$1.0 million decrease in services revenue. The increase in our on-premises and SaaS software revenue was primarily attributable to an increase in over-time recognition largely driven by SaaS growth.

Operating Expenses and Other Income (Expense), Net

The following tables set forth certain summary information related to our condensed consolidated statements of income and comprehensive income for the quarters ended December 31, 2023 and 2022:

	Quarter Ended December 31,		Percentage of Revenues			Period-to-Period Percentage Change
	2023	2022	2023	2022	Period-to-Period Change	
	(In thousands, except employees)				(In thousands, except employees)	
Revenues	\$ 382,059	\$ 344,870	100 %	100 %	\$ 37,189	11 %
Operating expenses:						
Cost of revenues	83,461	76,569	22 %	22 %	6,892	9 %
Research and development	42,635	36,633	11 %	11 %	6,002	16 %
Selling, general and administrative	104,329	92,995	27 %	27 %	11,334	12 %
Amortization of intangible assets	275	275	— %	— %	—	— %
Gain on product line asset sale	—	(1,941)	— %	(1) %	1,941	(100) %
Total operating expenses	230,700	204,531	60 %	59 %	26,169	13 %
Operating income	151,359	140,339	40 %	41 %	11,020	8 %
Interest expense, net	(24,162)	(22,800)	(7) %	(7) %	(1,362)	6 %
Other income, net	3,393	364	1 %	— %	3,029	832 %
Income before income taxes	130,590	117,903	34 %	34 %	12,687	11 %
Provision for income taxes	9,525	20,260	2 %	6 %	(10,735)	(53) %
Net income	\$ 121,065	\$ 97,643	32 %	28 %	23,422	24 %
Number of employees at quarter end	3,485	3,305			180	5 %

Cost of Revenues

Cost of revenues consists primarily of employee salaries, incentives, and benefits for personnel directly involved in delivering software products, operating SaaS infrastructure, and providing support, implementation and consulting services; 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 increase in cost of revenues of \$6.9 million was primarily attributable to a \$3.9 million increase in personnel and labor costs, a \$1.4 million increase in infrastructure and facilities costs, and a \$0.9 million increase in direct materials costs. The increase in personnel and labor costs was primarily attributable to increased headcount and increased share-based compensation expense. The increase in infrastructure and facilities costs was primarily attributable to increased third-party data center hosting fees. The increase in direct materials costs was primarily attributable to increased telecommunications expenses to support FICO® Customer Communications Services revenue, partially offset by decreased software royalty fees. Cost of revenues as a percentage of revenues remained consistent at 22% during the quarters ended December 31, 2023 and 2022.

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 increase in research and development expenses of \$6.0 million was primarily attributable to an increase in personnel and labor costs as a result of increased headcount, increased employee time allocated to research and development activities, and increased share-based compensation expense. Research and development expenses as a percentage of revenues remained consistent at 11% during the quarters ended December 31, 2023 and 2022.

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 increase in selling, general and administrative expenses of \$11.3 million was primarily attributable to a \$7.4 million increase in personnel and labor costs, a \$1.8 million increase in infrastructure and facilities costs, a \$1.1 million increase in travel costs, and a \$0.8 million increase in marketing and business development costs. The increase in personnel and labor costs was primarily attributable to increased headcount, increased fringe benefit costs related to our supplemental retirement and savings plan, and increased commission expense. The increase in infrastructure and facilities costs was primarily attributable to the impact of a favorable adjustment in the prior year quarter from the termination of an office lease. The increases in travel, marketing and business development costs were primarily attributable to increased advertising and other promotional expenses and increased corporate event costs. Selling, general and administrative expenses as a percentage of revenues remained consistent at 27% during the quarters ended December 31, 2023 and 2022.

Amortization of Intangible Assets

Amortization of intangible assets consists of expense related to intangible assets recorded in connection with our acquisitions. Our finite-lived intangible assets, consisting primarily of completed technology and customer contracts and relationships, are amortized using the straight-line method over five years.

Amortization expense was \$0.3 million during each of the quarters ended December 31, 2023 and 2022.

Gain on Product Line Asset Sale

The \$1.9 million gain on product line asset sale during the quarter ended December 31, 2022 was attributable to the sale of certain assets related to our Siron compliance business.

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 agreement fees on the revolving line of credit and term loan. On our condensed consolidated statements of income and comprehensive income, interest expense is 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 \$1.4 million was primarily attributable to a higher average interest rate on our revolving line of credit and term loan, and a higher average outstanding balance on our revolving line of credit during the quarter ended December 31, 2023.

Other Income, Net

Other income, net consists primarily of unrealized investment gains/losses and realized gains/losses on certain investments classified as trading securities, exchange rate gains/losses resulting from remeasurement of foreign-currency-denominated receivable and cash balances held by our various reporting entities 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 increase in other income, net of \$3.0 million was primarily attributable to an increase in net realized and unrealized gains on investments classified as trading securities in our supplemental retirement and savings plan, and a decrease in foreign currency exchange losses.

Provision for Income Taxes

The effective income tax rate was 7.3% and 17.2% during the quarters ended December 31, 2023 and 2022, 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 rate for the quarter ended December 31, 2023 was favorably impacted by the excess tax benefit relating to stock awards.

Operating Income

The following tables set forth certain summary information on a segment basis related to our operating income for the quarters ended December 31, 2023 and 2022.

Segment	Quarter Ended December 31,		Period-to-Period	Period-to-Period
	2023	2022	Change	Percentage Change
	(In thousands)		(In thousands)	
Scores	\$ 168,654	\$ 156,692	\$ 11,962	8 %
Software	55,122	45,765	9,357	20 %
Unallocated corporate expenses	(40,568)	(34,082)	(6,486)	19 %
Total segment operating income	183,208	168,375	14,833	9 %
Unallocated share-based compensation	(31,574)	(29,702)	(1,872)	6 %
Unallocated amortization expense	(275)	(275)	—	— %
Unallocated gain on product line asset sale	—	1,941	(1,941)	(100) %
Operating income	\$ 151,359	\$ 140,339	11,020	8 %

	Scores				Software			
	Quarter Ended December 31,		Percentage of Revenues		Quarter Ended December 31,		Percentage of Revenues	
	2023	2022	2023	2022	2023	2022	2023	2022
	(In thousands)				(In thousands)			
Segment revenues	\$ 192,112	\$ 177,988	100 %	100 %	\$ 189,947	\$ 166,882	100 %	100 %
Segment operating expense	(23,458)	(21,296)	(12)%	(12)%	(134,825)	(121,117)	(71)%	(73)%
Segment operating income	\$ 168,654	\$ 156,692	88 %	88 %	\$ 55,122	\$ 45,765	29 %	27 %

The quarter-over-prior year quarter increase in operating income of \$11.0 million was attributable to a \$37.2 million increase in segment revenues, partially offset by a \$15.9 million increase in segment operating expenses, a \$6.5 million increase in corporate expenses, a \$1.9 million decrease in gain on product line asset sale, and a \$1.9 million increase in share-based compensation cost.

At the segment level, the quarter-over-prior year quarter increase in segment operating income of \$14.8 million was the result of a \$12.0 million increase in our Scores segment operating income and a \$9.4 million increase in our Software segment operating income, partially offset by a \$6.5 million increase in corporate expenses.

The quarter-over-prior year quarter increase in Scores segment operating income of \$12.0 million was due to a \$14.1 million increase in segment revenue, partially offset by a \$2.1 million increase in segment operating expenses. Segment operating income as a percentage of segment revenue for Scores for the quarter ended December 31, 2023 was 88%, consistent with the quarter ended December 31, 2022.

The quarter-over-prior year quarter increase in Software segment operating income of \$9.4 million was due to a \$23.1 million increase in segment revenue, partially offset by a \$13.7 million increase in segment operating expenses. Segment operating income as a percentage of segment revenue for Software increased to 29% from 27%, primarily attributable to an increase in higher-margin 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 December 31, 2023, we had \$160.4 million in cash and cash equivalents, which included \$114.5 million held by our foreign subsidiaries. We believe our cash and cash equivalents balances, including those held by our foreign subsidiaries, 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 for at least the next 12 months and thereafter for the foreseeable future, including the \$15.0 million principal payments on our term loan due over the next 12 months. Under our current financing arrangements, we have no other significant debt obligations maturing over the next 12 months. For jurisdictions outside the U.S. where cash may be repatriated in the future, the Company expects the net impact of any repatriations to be immaterial to the Company's overall tax liability.

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

	Quarter Ended December 31,		Period-to-Period
	2023	2022	Change
(In thousands)			
Cash provided by (used in):			
Operating activities	\$ 122,120	\$ 92,440	\$ 29,680
Investing activities	(2,418)	(10,590)	8,172
Financing activities	(99,866)	(79,624)	(20,242)
Effect of exchange rate changes on cash	3,807	4,428	(621)
Increase in cash and cash equivalents	\$ 23,643	\$ 6,654	16,989

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 \$122.1 million during the quarter ended December 31, 2023 from \$92.4 million during the quarter ended December 31, 2022. The \$29.7 million increase was attributable to a \$23.4 million increase in net income, a \$3.4 million increase in non-cash items, and a \$2.9 million increase due to the timing of receipts and payments in our ordinary course of business.

Cash Flows from Investing Activities

Net cash used in investing activities decreased to \$2.4 million for the quarter ended December 31, 2023 from \$10.6 million for the quarter ended December 31, 2022. The \$8.2 million decrease was primarily attributable to a \$7.6 million decrease in cash transferred, net of proceeds, from the product line asset sale.

Cash Flows from Financing Activities

Net cash used in financing activities increased to \$99.9 million for the quarter ended December 31, 2023 from \$79.6 million for the quarter ended December 31, 2022. The \$20.2 million increase was primarily attributable to a \$59.0 million increase in taxes paid related to net share settlement of equity awards, partially offset by a \$32.0 million decrease in payments on our revolving line of credit and term loan.

Repurchases of Common Stock

In October 2022, our Board of Directors approved a new stock repurchase program replacing our previously authorized program. This program was open-ended and authorized repurchases of shares of our common stock up to an aggregate cost of \$500.0 million in the open market or in negotiated transactions. As of December 31, 2023, we had \$48.8 million remaining under our then current stock repurchase program. During the quarters ended December 31, 2023 and 2022, we expended \$71.7 million and \$75.0 million, respectively, under our then current and previously authorized stock repurchase programs.

In January 2024, our Board of Directors approved a new stock repurchase program, replacing the October 2022 stock repurchase program which was terminated. The new program is open-ended and authorizes repurchases of shares of our common stock from time to time, up to an aggregate cost of \$500.0 million in the open market or in negotiated transactions. The new stock repurchase program became effective on January 23, 2024, and will remain in effect until the total authorized amount is expended or until further action by our Board of Directors.

Revolving Line of Credit and Term Loan

We have a \$600 million unsecured revolving line of credit and a \$300 million unsecured term loan with a syndicate of banks that mature on August 19, 2026. Borrowings under the revolving line of credit and term loan 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. The term loan requires principal payments in consecutive quarterly installments of \$3.75 million on the last business day of each quarter. Interest rates on amounts borrowed under the revolving line of credit and term loan are based on (i) an adjusted base rate, which is the greatest of (a) the prime rate, (b) the Federal Funds rate plus 0.5%, and (c) one-month adjusted term Secured Overnight Financing Rate ("SOFR") rate plus 1%, plus, in each case, an applicable margin, or (ii) an adjusted term SOFR rate plus an applicable margin. The applicable margin for base rate borrowings and for SOFR borrowings is determined based on our consolidated leverage ratio. The applicable margin for base rate borrowings ranges from 0% to 0.75% per annum and for SOFR borrowings ranges from 1% to 1.75% per annum. In addition, we must pay certain credit facility fees. The revolving line of credit and term loan contain certain restrictive covenants including a maximum consolidated leverage ratio of 3.5 to 1.0, subject to a step up to 4.0 to 1.0 following certain permitted acquisitions and subject to certain conditions, and a minimum interest coverage ratio of 3.0 to 1.0. The credit agreement also contains other covenants typical of unsecured credit facilities.

As of December 31, 2023, we had \$403.0 million in borrowings outstanding under the revolving line of credit at a weighted-average interest rate of 6.708%, and \$270.0 million in outstanding balance of the term loan at an interest rate of 6.713%. We were in compliance with all financial covenants under this credit agreement as of December 31, 2023.

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 December 31, 2023, the carrying value of the Senior Notes was \$1.3 billion and we were in compliance with all financial covenants under these obligations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our condensed consolidated financial statements in conformity with U.S. GAAP. 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 condensed consolidated 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 resulting from business combinations and other long-lived assets — impairment assessment, 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 and such differences could be material to our financial condition and results of operations. Critical accounting estimates are those that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition and results of operations.

You should carefully consider the critical accounting estimates disclosed in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended September 30, 2023 ("Annual Report on Form 10-K"). There have been no significant changes from the critical accounting estimates disclosed in our Annual Report on Form 10-K.

New Accounting Pronouncements

For information about recent accounting pronouncements recently adopted and not yet adopted and the impact on our consolidated financial statements, refer to Part I, Item 1, “Unaudited Financial Statements,” Note 1, “Nature of Business” in our accompanying Notes to Condensed Consolidated 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 December 31, 2023 and September 30, 2023:

	December 31, 2023			September 30, 2023		
	Cost Basis	Carrying Amount	Average Yield	Cost Basis	Carrying Amount	Average Yield
	(Dollars in thousands)					
Cash and cash equivalents	\$ 160,421	\$ 160,421	3.32 %	\$ 136,778	\$ 136,778	3.05 %

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 December 31, 2023 and September 30, 2023:

	December 31, 2023		September 30, 2023	
	Face Value	Fair Value	Face Value	Fair Value
(In thousands)				
The 2018 Senior Notes	400,000	396,000	400,000	386,000
The 2019 Senior Notes and the 2021 Senior Notes	900,000	846,000	900,000	803,250
Total	\$ 1,300,000	\$ 1,242,000	\$ 1,300,000	\$ 1,189,250

We have interest rate risk with respect to our unsecured revolving line of credit and term loan. Interest rates on amounts borrowed under the revolving line of credit and term loan are based on (i) an adjusted base rate, which is the greatest of (a) the prime rate, (b) the Federal Funds rate plus 0.5%, and (c) one-month adjusted term SOFR rate plus 1%, plus, in each case, an applicable margin, or (ii) an adjusted term SOFR rate plus an applicable margin. The applicable margin for base rate borrowings and for SOFR borrowings is determined based on our consolidated leverage ratio. The applicable margin for base rate borrowings ranges from 0% to 0.75% per annum and for SOFR borrowings ranges from 1% to 1.75% per annum. 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 December 31, 2023, we had \$403.0 million in borrowings outstanding under the revolving line of credit at a weighted-average interest rate of 6.708%, and \$270.0 million in outstanding balance of the term loan at an interest rate of 6.713%.

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 December 31, 2023 and September 30, 2023:

December 31, 2023						
Contract Amount				Fair Value		
Foreign Currency		USD		USD		
(In thousands)						
Sell foreign currency:						
Euro (EUR)	EUR	9,900	\$	10,941	\$	—
Buy foreign currency:						
British pound (GBP)	GBP	9,911	\$	12,600	\$	—
Singapore dollar (SGD)	SGD	10,400	\$	7,900	\$	—

September 30, 2023						
Contract Amount				Fair Value		
Foreign Currency		USD		USD		
(In thousands)						
Sell foreign currency:						
Euro (EUR)	EUR	12,900	\$	13,621	\$	—
Buy foreign currency:						
British pound (GBP)	GBP	10,700	\$	13,100	\$	—
Singapore dollar (SGD)	SGD	8,569	\$	6,300	\$	—

The foreign currency forward contracts were entered into on December 31, 2023 and September 30, 2023; 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 December 31, 2023 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

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for our fiscal year ended September 30, 2023 (our “Annual Report on Form 10-K”). The risks discussed in our Annual Report on Form 10-K could materially affect our business, financial condition and future results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may materially and adversely affect our business, financial condition or operating results in the future. There have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
October 1, 2023 through October 31, 2023	64,039	\$ 873.57	63,365	\$ 65,186,375
November 1, 2023 through November 30, 2023	12,134	\$ 1,081.35	12,000	\$ 52,190,244
December 1, 2023 through December 31, 2023	118,663	\$ 1,133.89	3,000	\$ 48,845,152
	<u>194,836</u>	<u>\$ 1,045.06</u>	<u>78,365</u>	<u>\$ 48,845,152</u>

(1) Includes 116,471 shares delivered in satisfaction of the tax withholding obligations resulting from the vesting of restricted stock units held by employees during the quarter ended December 31, 2023.

(2) In October 2022, our Board of Directors approved a stock repurchase program replacing our previously authorized program. This program was open-ended and authorized repurchases of shares of our common stock up to an aggregate cost of \$500.0 million in the open market or in negotiated transactions. In January 2024, our Board of Directors approved a new stock repurchase program, replacing the October 2022 stock repurchase program which was terminated. The new program is open-ended and authorizes repurchases of shares of our common stock from time to time, up to an aggregate cost of \$500.0 million in the open market or in negotiated transactions. The new stock repurchase program became effective on January 23, 2024, and will remain in effect until the total authorized amount is expended or until further action by our Board of Directors.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Trading Arrangements

On November 13, 2023, William Lansing, our Chief Executive Officer and a member of our Board of Directors, entered into a pre-arranged trading plan that is intended to satisfy the affirmative defense of Rule 10b5-1(c) of the Securities Exchange Act of 1934, as amended. This plan provides for the sale of up to 24,000 shares of our common stock in the aggregate, and terminates on the earlier of the close of business on August 15, 2024 or the date all shares are sold thereunder.

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 November 2, 2023, between Stephanie Covert and the Company. (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on November 8, 2023).
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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FAIR ISAAC CORPORATION

DATE: January 25, 2024

By /s/ STEVEN P. WEBER
Steven P. Weber
Executive Vice President and Chief Financial Officer
(for Registrant as duly authorized officer and
as Principal Financial Officer)

DATE: January 25, 2024

By /s/ MICHAEL S. LEONARD
Michael S. Leonard
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

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: January 25, 2024

/s/ WILLIAM J. LANSING

William J. Lansing

Chief Executive Officer

CERTIFICATIONS

I, Steven P. Weber, 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: January 25, 2024

/s/ STEVEN P. WEBER

Steven P. Weber

Executive Vice President and 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: January 25, 2024

/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: January 25, 2024

/s/ STEVEN P. WEBER

Steven P. Weber

Executive Vice President and Chief Financial Officer