FAIR ISAAC CORP
Form 10-Q
January 29, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2014
o 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)	94-1499887 (I.R.S. Employer Identification No.)
181 Metro Drive, Suite 700 San Jose, California (Address of principal executive offices)	95110-1346 (Zip Code)

Registrant’s telephone number, including area code: 408-535-1500

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 ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	ý	Accelerated Filer	o

Non-Accelerated Filer o Smaller Reporting Company o

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

The number of shares of common stock outstanding on January 16, 2015 was 31,425,871 (excluding 57,430,912 shares held by us as treasury stock).

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2014	September 30, 2014
	(In thousands, except par value data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 94,651	$ 105,075
Accounts receivable, net	147,123	155,295
Prepaid expenses and other current assets	38,096	28,157
Total current assets	279,870	288,527
Marketable securities available for sale	9,530	8,751
Other investments	10,958	11,033
Property and equipment, net	36,791	36,677
Goodwill	774,107	779,928
Intangible assets, net	44,218	47,914
Deferred income taxes	4,927	13,061
Other assets	7,521	6,407
Total assets	$ 1,167,922	$ 1,192,298
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 25,559	$ 22,000
Accrued compensation and employee benefits	30,081	56,650
Other accrued liabilities	21,752	36,235
Deferred revenue	57,331	56,519
Current maturities on debt	231,000	170,000
Total current liabilities	365,723	341,404
Senior notes	376,000	376,000
Other liabilities	22,978	20,280
Total liabilities	764,701	737,684
Commitments and contingencies		
Stockholders' equity:		
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 31,724 and 32,047 shares outstanding at December 31, 2014 and September 30, 2014, respectively]	317	320
Paid-in-capital	1,118,285	1,129,317
Treasury stock, at cost [57,133 and 56,810 shares at December 31, 2014 and September 30, 2014, respectively]	(1,978,774)	(1,936,095)
Retained earnings	1,298,033	1,284,261
Accumulated other comprehensive loss	(34,640)	(23,189)
Total stockholders' equity	403,221	454,614
Total liabilities and stockholders' equity	$ 1,167,922	$ 1,192,298

See accompanying notes to condensed consolidated financial statements.

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

	Quarter Ended December 31,	
	2014	2013
	(In thousands, except per share data)	
Revenues:		
Transactional and maintenance	$131,410	$129,655
Professional services	35,198	34,286
License	22,942	20,402
Total revenues	189,550	184,343
Operating expenses:		
Cost of revenues *	66,300	57,319
Research and development	22,637	18,092
Selling, general and administrative *	72,801	66,989
Amortization of intangible assets *	2,932	3,013
Restructuring and acquisition-related	—	3,660
Total operating expenses	164,670	149,073
Operating income	24,880	35,270
Interest expense, net	(7,205)	(7,126)
Other income (expense), net	649	(961)
Income before income taxes	18,324	27,183
Provision for income taxes	3,917	10,206
Net income	14,407	16,977
Other comprehensive income (loss):		
Foreign currency translation adjustments	(11,451)	4,005
Comprehensive income	$2,956	$20,982
Earnings per share:		
Basic	$0.45	$0.49
Diluted	$0.43	$0.47
Shares used in computing earnings per share:		
Basic	31,936	34,699
Diluted	33,128	35,820

* Cost of revenues and selling, general and administrative expenses exclude the amortization of intangible assets. See Note 4 to the condensed consolidated financial statements.
See accompanying notes to condensed consolidated financial statements.

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FAIR ISAAC CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except per share data)

	Common Stock						
	Shares	Par Value	Paid-in-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at September 30, 2014	32,047	$320	$ 1,129,317	$ (1,936,095)	$1,284,261	$ (23,189)	$ 454,614
Share-based compensation	—	—	8,794	—	—	—	8,794
Issuance of treasury stock under employee stock plans	521	5	(26,205)	17,906	—	—	(8,294)
Tax effect from share-based payment arrangements	—	—	6,379	—	—	—	6,379
Repurchases of common stock	(844)	(8)	—	(60,585)	—	—	(60,593)
Dividends paid	—	—	—	—	(635)	—	(635)
Net income	—	—	—	—	14,407	—	14,407
Foreign currency translation adjustments	—	—	—	—	—	(11,451)	(11,451)
Balance at December 31, 2014	31,724	$317	$ 1,118,285	$ (1,978,774)	$1,298,033	$ (34,640)	$ 403,221

See accompanying notes to condensed consolidated financial statements.

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

	Quarter Ended December 31,	
	2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net income	$14,407	$16,977
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,107	8,167
Share-based compensation	8,794	7,235
Deferred income taxes	5,676	(1,576)
Tax effect from share-based payment arrangements	6,379	4,196
Excess tax benefits from share-based payment arrangements	(6,485)	(4,551)
Provision for doubtful accounts, net	—	278
Changes in operating assets and liabilities:		
Accounts receivable	5,863	2,755
Prepaid expenses and other assets	(8,843)	1,344
Accounts payable	3,886	1,848
Accrued compensation and employee benefits	(26,046)	(10,880)
Other liabilities	(13,850)	4,686
Deferred revenue	3,472	(2,101)
Net cash provided by operating activities	1,360	28,378
Cash flows from investing activities:		
Purchases of property and equipment	(5,667)	(2,154)
Distribution from cost method investees	75	—
Net cash used in investing activities	(5,592)	(2,154)
Cash flows from financing activities:		
Proceeds from revolving line of credit	81,000	8,000
Payments on revolving line of credit	(20,000)	—
Proceeds from issuance of treasury stock under employee stock plans	6,713	10,832
Taxes paid related to net share settlement of equity awards	(15,007)	(8,821)
Dividends paid	(635)	(694)
Repurchases of common stock	(60,593)	(27,125)
Excess tax benefits from share-based payment arrangements	6,485	4,551
Net cash used in financing activities	(2,037)	(13,257)
Effect of exchange rate changes on cash	(4,155)	(208)
Increase (decrease) in cash and cash equivalents	(10,424)	12,759
Cash and cash equivalents, beginning of period	105,075	83,178
Cash and cash equivalents, end of period	$94,651	$95,937
Supplemental disclosures of cash flow information:		
Cash paid for income taxes, net of refunds	$8,844	$1,285
Cash paid for interest	$7,539	$7,472
Supplemental disclosures of non-cash investing and financing activities:		
Purchase of property and equipment included in accounts payable	$296	$521

See accompanying notes to condensed consolidated financial statements.

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FAIR ISAAC CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
1. Nature of Business
Fair Isaac Corporation
Incorporated under the laws of the State of Delaware, Fair Isaac Corporation (“FICO”) is a provider of analytic, software and data management products and services that enable businesses to automate, improve and connect decisions. FICO provides a range of analytical solutions, credit scoring and credit account management products and services to banks, credit reporting agencies, credit card processing agencies, insurers, retailers, telecommunications providers, pharmaceutical companies, healthcare organizations, public agencies and organizations in other industries.
In these condensed consolidated financial statements, Fair Isaac Corporation is referred to as “FICO,” “we,” “us,” “our,” or “th Company.”
Principles of Consolidation and Basis of Presentation
We have prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with the instructions to Form 10-Q and the applicable accounting guidance. Consequently, we have not necessarily included in this Form 10-Q all information and footnotes required for audited financial statements. In our opinion, the accompanying unaudited interim condensed consolidated financial statements in this Form 10-Q reflect all adjustments (consisting only of normal recurring adjustments, except as otherwise indicated) necessary for a fair presentation of our financial position and results of operations. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with our audited consolidated financial statements and notes thereto presented in our Annual Report on Form 10-K for the year ended September 30, 2014. 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 financial statements and the disclosures made in the accompanying notes. For example, we use estimates in determining the collectibility of accounts receivable; the appropriate levels of various accruals; 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 Recently Issued or Adopted

In May 2014, the Financial Accounting Standards Board issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. Generally Accepted Accounting Principles when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. Early adoption is not permitted. ASU 2014-09 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2016, which means it will be effective for our fiscal year beginning October 1, 2017. We have not yet selected a transition method and we are currently evaluating the impact that the updated standard will have 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

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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 are comprised of money market funds and certain equity securities.
- 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 do not have any assets that are valued using inputs identified under a Level 2 hierarchy as of December 31, 2014 and September 30, 2014.
- 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 do not have any assets or liabilities that are valued using inputs identified under a Level 3 hierarchy as of December 31, 2014 and September 30, 2014.

The following table represents financial assets that we measured at fair value on a recurring basis at December 31, 2014 and September 30, 2014:

December 31, 2014	Active Markets for Identical Instruments (Level 1)	Fair Value as of December 31, 2014
Assets:		
Cash equivalents (1)	$ 439	$439
Marketable securities (2)	9,530	9,530
Total	$ 9,969	$9,969

September 30, 2014	Active Markets for Identical Instruments (Level 1)	Fair Value as of September 30, 2014
Assets:		
Cash equivalents (1)	$ 10,326	$10,326
Marketable securities (2)	8,751	8,751
Total	$ 19,077	$19,077

(1) Included in cash and cash equivalents on our condensed consolidated balance sheet at December 31, 2014 and September 30, 2014. Not included in this table are cash deposits of $94.2 million and $94.7 million at December 31, 2014 and September 30, 2014, respectively.

(2) Represents securities held under a supplemental retirement and savings plan for senior management employees, which are distributed upon termination or retirement of the employees. Included in marketable securities available for sale on our condensed consolidated balance sheet at December 31, 2014 and September 30, 2014.

Where applicable, we use quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing applies to our Level 1 investments. To the extent quoted prices in active markets for assets or liabilities are not available, the valuation techniques used to measure the fair values of our financial assets incorporate market inputs, which include reported trades, broker/dealer quotes, benchmark yields, issuer spreads, benchmark securities and other inputs derived from or corroborated by observable market data. This methodology would apply to our Level 2 investments. We have not changed our valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

For the fair value of our derivative instruments and senior notes, see Note 3 and Note 7 to the condensed consolidated financial statements, respectively.

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

The following tables summarize our outstanding foreign currency forward contracts, by currency, at December 31, 2014 and September 30, 2014:

	December 31, 2014		
	Contract Amount		Fair Value
	Foreign Currency	US$	US$
	(In thousands)		
Sell foreign currency:			
Canadian dollar (CAD)	CAD 2,400	$2,072	$—
Euro (EUR)	EUR 4,550	$5,536	$—
Buy foreign currency:			
British pound (GBP)	GBP 6,643	$10,350	$—

	September 30, 2014		
	Contract Amount		Fair Value
	Foreign Currency	US$	US$
	(In thousands)		
Sell foreign currency:			
Canadian dollar (CAD)	CAD 3,300	$2,960	$—
Euro (EUR)	EUR 3,800	$4,790	$—
Buy foreign currency:			
British pound (GBP)	GBP 6,795	$11,000	$—

The foreign currency forward contracts were entered into on December 31, 2014 and September 30, 2014, respectively; therefore, their fair value was $0 on each of these dates.

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

	Quarter Ended December 31,	
	2014	2013
	(In thousands)	
Gains (losses) on Foreign currency forward contracts	$(329)	$338

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4. Goodwill and Intangible Assets

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

	Quarter Ended December 31,	
	2014	2013
	(In thousands)	
Cost of revenues	$1,836	$1,799
Selling, general and administrative expenses	1,096	1,214
	$2,932	$3,013

Cost of revenues reflects our amortization of completed technology and selling, general and administrative expenses reflects our amortization of other intangible assets. Intangible assets, gross were $140.8 million and $142.2 million as of December 31, 2014 and September 30, 2014, respectively.

Estimated future intangible asset amortization expense associated with intangible assets existing at December 31, 2014, was as follows (in thousands):

Year Ended September 30,	
2015 [excluding the quarter ended December 31, 2014]	$8,727
2016	11,407
2017	10,284
2018	3,238
2019	2,776
Thereafter	7,786
	$44,218

The following table summarizes changes to goodwill during the quarter ended December 31, 2014, both in total and as allocated to our segments:

	Applications	Scores	Tools	Total
	(In thousands)			
Balance at September 30, 2014	$560,295	$146,648	$72,985	$779,928
Foreign currency translation adjustment	(4,835)	—	(986)	(5,821)
Balance at December 31, 2014	$555,460	$146,648	$71,999	$774,107

5. Composition of Certain Financial Statement Captions

The following table summarizes property and equipment, and the related accumulated depreciation and amortization at December 31, 2014 and September 30, 2014:

	December 31, 2014	September 30, 2014
	(In thousands)	
Property and equipment	$167,872	$164,548
Less: accumulated depreciation and amortization	(131,081)	(127,871)
	$36,791	$36,677

6. Revolving Line of Credit

In December 2014 we refinanced our $200 million unsecured revolving line of credit, increasing our borrowing capacity to $400 million with a syndicate of banks that expires on December 30, 2019. Proceeds from the credit facility can be used for

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working capital and general corporate purposes and may also be used for the refinancing of existing debt, acquisitions and the repurchase of our common stock. Interest on amounts borrowed under the credit facility is based on (i) a base rate, which is the greater of (a) the prime rate, (b) the Federal Funds rate plus 0.500% and (c) the one-month LIBOR rate plus 1.000%, plus, in each case, an applicable margin, or (ii) an adjusted LIBOR rate plus an applicable margin. The applicable margin for base rate borrowings ranges from 0% to 0.875% and for LIBOR borrowings ranges from 1.000% to 1.875%, and is determined based on our consolidated leverage ratio. In addition, we must pay credit facility fees. The credit facility contains certain restrictive covenants including maintaining a minimum fixed charge ratio of 2.5 and a maximum consolidated leverage ratio of 3.0, subject to a step up to 3.5 following certain permitted acquisitions. The credit agreement also contains other covenants typical of unsecured facilities. As of December 31, 2014, we had $160.0 million in borrowings outstanding at a weighted average interest rate of 1.295% and were in compliance with all financial covenants under this credit facility.

7. Senior Notes

On May 7, 2008, we issued $275 million of senior notes in a private placement to a group of institutional investors (the “2008 Senior Notes”). The 2008 Senior Notes were issued in four series with maturities ranging from 5 to 10 years. The outstanding 2008 Senior Notes’ weighted average interest rate is 7.0% and the weighted average maturity is 9.0 years. On July 14, 2010, we issued $245 million of senior notes in a private placement to a group of institutional investors (the “2010 Senior Notes” and, with the 2008 Senior Notes, the “Senior Notes”). The 2010 Senior Notes were issued in four series with maturities ranging from 6 to 10 years. The 2010 Senior Notes’ weighted average interest rate is 5.2% and the weighted average maturity is 8.0 years. The Senior Notes require interest payments semi-annually and also include certain restrictive covenants. As of December 31, 2014, we were in compliance with all financial covenants which include the maintenance of consolidated net debt to consolidated EBITDA ratio and a fixed charge coverage ratio. The issuance of the Senior Notes also required us to make certain covenants typical of unsecured facilities. The carrying value of the Senior Notes was $447.0 million as of December 31, 2014 and September 30, 2014. The fair value of the Senior Notes was $464.5 million and $462.7 million as of December 31, 2014 and September 30, 2014, respectively. We measure the fair value of the Senior Notes based on Level 2 inputs, which include quoted market prices and interest rate spreads of similar securities.

8. Restructuring Expenses

The following table summarizes our restructuring accruals and certain FICO facility closures. These balances, which are expected to be paid by the end of the second quarter of our fiscal 2015, are recorded in other accrued current liabilities within the accompanying condensed consolidated balance sheets.

	Accrual at September 30, 2014	Cash Payments	Accrual at December 31, 2014
	(In thousands)		
Facilities charges	$92	$(46)	$46
Employee separation	170	(162)	8
	$262	$(208)	$54

9. Income Taxes

Effective Tax Rate

The effective income tax rate was 21.4% and 37.5% during the quarters ended December 31, 2014 and 2013, respectively. The provision for income taxes during interim quarterly reporting periods is based on our estimates of the effective tax rates for the respective 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 decrease in our effective tax rate year over year was primarily due to the retroactive extension of the U.S. Federal Research and Development Credit through 2014, which was enacted during the quarter ended December 31, 2014. The total unrecognized tax benefit for uncertain tax positions is estimated to be approximately $5.3 million and $4.6 million at December 31, 2014 and September 30, 2014, 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 have accrued interest of $0.6 million and $0.5 million, related to unrecognized tax benefits as of December 31, 2014 and September 30, 2014, respectively.

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10. Share-Based Payments

We maintain the 2012 Long-Term Incentive Plan (the “2012 Plan”) under which we could grant equity awards, including stock options, stock appreciation rights, restricted stock awards, stock unit awards and other stock-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 2012 Plan. We also have two other long-term incentive plans under which awards are currently outstanding: the 1992 Long-term Incentive Plan, which was adopted in February 1992 and expired in February 2012, and the 2003 Employment Inducement Award Plan, which was adopted in November 2003 and terminated in February 2012. Stock option awards granted after September 30, 2005 have a maximum term of seven years, and stock option awards granted prior to October 1, 2005 have a maximum term of ten years. Stock option awards and restricted stock unit awards not subject to market conditions vest ratably over three or four years. Restricted stock unit awards subject to market conditions vest annually over a period of three years based on achievement of specified criteria.

Stock Options

The following table summarizes option activity during the quarter ended December 31, 2014:

	Shares	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands)		(In years)	(In thousands)
Outstanding at October 1, 2014	2,089	$ 36.24		
Granted	493	72.06		
Exercised	(217)	30.92		
Forfeited	(35)	39.49		
Outstanding at December 31, 2014	2,330	$ 44.27	4.72	$65,330
Options exercisable at December 31, 2014	1,103	$ 33.79	3.80	$42,477
Vested and expected to vest at December 31, 2014	2,151	$ 43.17	4.68	$62,664

Restricted Stock Units

The following table summarizes restricted stock unit activity during the quarter ended December 31, 2014:

	Shares	Weighted- average Grant-date Fair Value
	(In thousands)	
Outstanding at October 1, 2014	1,440	$46.68
Granted	389	70.33
Released	(356)	43.11
Forfeited	(54)	45.53
Outstanding at December 31, 2014	1,419	$54.11

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Performance Stock Units

The following table summarizes performance stock unit activity during the quarter ended December 31, 2014:

	Shares	Weighted- average Grant-date Fair Value
	(In thousands)	
Outstanding at October 1, 2014	381	$47.19
Granted	83	71.86
Released	(135)	45.58
Forfeited	(29)	50.36
Outstanding at December 31, 2014	300	$54.46

Market Stock Units

The following table summarizes market stock unit activity during the quarter ended December 31, 2014:

	Shares	Weighted- average Grant-date Fair Value
	(In thousands)	
Outstanding at October 1, 2014	88	$68.47
Granted	83	101.85
Released	(24)	58.07
Forfeited	(11)	66.37
Outstanding at December 31, 2014	136	$90.89

11. 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, 2014 and 2013:

	Quarter Ended December 31,	
	2014	2013
	(In thousands, except per share data)	
Numerator for diluted and basic earnings per share:		
Net Income	$14,407	$16,977
Denominator - share:		
Basic weighted-average shares	31,936	34,699
Effect of dilutive securities	1,192	1,121
Diluted weighted-average shares	33,128	35,820
Earnings per share:		
Basic	$0.45	$0.49
Diluted	$0.43	$0.47

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We exclude the options to purchase shares of common stock in the computation of the diluted EPS where the options' exercise price exceeds the average market price of our common stock as their inclusion would be antidilutive. There were approximately 493,000 options excluded for the quarter ended December 31, 2014. There were no options excluded for the quarter ended December 31, 2013.

12. Segment Information

We are organized into the following three reportable segments to align with internal management of our worldwide business operations based on product offerings.

- Applications. Our Applications products are pre-configured decision management applications and associated professional services, designed for a specific type of business problem or process, such as marketing, account origination, customer management, fraud and insurance claims management.
- Scores. This segment includes our business-to-business scoring solutions, our myFICO® solutions for consumers and associated professional services. Our scoring solutions give our clients access to analytics that can be easily integrated into their transaction streams and decision-making processes. Our scoring solutions are distributed through major credit reporting agencies, as well as services through which we provide our scores to clients directly.
- Tools. The Tools segment is composed of software tools and associated professional services that clients can use to create their own custom decision management applications.

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, 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 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 Chief Executive Officer 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, 2014 and 2013:

	Quarter Ended December 31, 2014				
	Applications	Scores	Tools	Unallocated Corporate Expenses	Total
	(In thousands)				
Segment revenues:					
Transactional and maintenance	$78,551	$42,937	$9,922	$—	$131,410
Professional services	28,499	788	5,911	—	35,198
License	8,448	216	14,278	—	22,942
Total segment revenues	115,498	43,941	30,111	—	189,550
Segment operating expense	(88,894)	(12,892)	(29,539)	(21,619)	(152,944)
Segment operating income	$26,604	$31,049	$572	$(21,619)	36,606
Unallocated share-based compensation expense					(8,794)
Unallocated amortization expense					(2,932)
Operating income					24,880
Unallocated interest expense, net					(7,205)
Unallocated other income, net					649
Income before income taxes					$18,324
Depreciation expense	$3,508	$217	$783	$667	$5,175

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	Quarter Ended December 31, 2013				
	Applications	Scores	Tools	Unallocated Corporate Expenses	Total
	(In thousands)				
Segment revenues:					
Transactional and maintenance	$77,779				