

FACTSET RESEARCH SYSTEMS INC

Form 10-Q

July 11, 2011

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the fiscal quarter ended May 31, 2011

OR

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

Commission File Number: 1-11869

FactSet Research Systems Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

Delaware
(State or other jurisdiction of

incorporation or organization)

13-3362547
(I.R.S. Employer

Identification No.)

601 Merritt 7, Norwalk, Connecticut
(Address of principal executive office)

06851
(Zip Code)

Registrant's telephone number, including area code: (203) 810-1000

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 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** ☒ **No** ☐

Indicate by check mark 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.

Large accelerated filer ☒

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☐

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

The number of shares outstanding of the registrant's common stock, \$.01 par value, on May 31, 2011 was 45,830,400.

Table of Contents

FactSet Research Systems Inc.

Form 10-Q

For the Quarter Ended May 31, 2011

Index

	Page
Part I <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited)</u>	
<u>Consolidated Statements of Income for the three and nine months ended May 31, 2011 and 2010</u>	3
<u>Consolidated Statements of Financial Condition at May 31, 2011 and August 31, 2010</u>	4
<u>Consolidated Statements of Cash Flows for the nine months ended May 31, 2011 and 2010</u>	5
<u>Notes to the Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
Item 4. <u>Controls and Procedures</u>	44
Part II <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	45
Item 1A. <u>Risk Factors</u>	45
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
Item 6. <u>Exhibits</u>	45
<u>Signatures</u>	46

For additional information about FactSet Research Systems Inc. and access to its Annual Reports to Stockholders and Securities and Exchange Commission filings, free of charge, please visit the website at <http://investor.factset.com>. Any information on or linked from the website is not incorporated by reference into this Form 10-Q.

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****FactSet Research Systems Inc.****CONSOLIDATED STATEMENTS OF INCOME Unaudited**

	Three Months Ended		Nine Months Ended	
	May 31,		May 31,	
(In thousands, except per share data)	2011	2010	2011	2010
Revenues	\$ 183,647	\$ 160,301	\$ 534,571	\$ 472,825
Operating expenses				
Cost of services	62,224	51,355	179,146	152,632
Selling, general and administrative	59,600	53,262	176,080	155,989
Total operating expenses	121,824	104,617	355,226	308,621
Operating income	61,823	55,684	179,345	164,204
Other income	172	86	429	475
Income before income taxes	61,995	55,770	179,774	164,679
Provision for income taxes	18,684	17,112	49,608	53,759
Net income	\$ 43,311	\$ 38,658	\$ 130,166	\$ 110,920
Basic earnings per common share	\$ 0.94	\$ 0.83	\$ 2.82	\$ 2.37
Diluted earnings per common share	\$ 0.92	\$ 0.81	\$ 2.75	\$ 2.30
Weighted average common shares (Basic)	45,969	46,544	46,145	46,872
Weighted average common shares (Diluted)	47,154	47,725	47,418	48,183

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**FactSet Research Systems Inc.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION Unaudited**

(In thousands, except share data)	May 31, 2011	August 31, 2010
ASSETS		
Cash and cash equivalents	\$ 208,668	\$ 195,741
Accounts receivable, net of reserves of \$1,903 at May 31, 2011 and \$1,862 at August 31, 2010	67,537	59,693
Deferred taxes	4,156	2,812
Prepaid taxes	6,776	0
Other current assets	11,353	6,899
<i>Total current assets</i>	298,490	265,145
Property, equipment and leasehold improvements, at cost	175,883	160,952
Less accumulated depreciation and amortization	(94,096)	(81,457)
Property, equipment and leasehold improvements, net	81,787	79,495
Goodwill	228,559	221,991
Intangible assets, net	48,578	52,179
Deferred taxes	18,821	19,601
Other assets	8,396	6,197
TOTAL ASSETS	\$ 684,631	\$ 644,608
LIABILITIES		
Accounts payable and accrued expenses	\$ 22,744	\$ 23,976
Accrued compensation	32,138	48,607
Deferred fees	30,021	25,034
Taxes payable	0	1,073
Dividends payable	12,374	10,586
<i>Total current liabilities</i>	97,277	109,276
Deferred taxes	3,835	3,731
Taxes payable	6,795	7,346
Deferred rent and other non-current liabilities	22,287	21,849
TOTAL LIABILITIES	\$ 130,194	\$ 142,202
Commitments and contingencies (See Note 16)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued	\$ 0	\$ 0
Common stock, \$.01 par value, 100,000,000 shares authorized, 61,312,572 and 60,142,905 shares issued; 45,830,400 and 46,024,137 shares outstanding at May 31, 2011 and August 31, 2010, respectively	613	601
Additional paid-in capital	415,047	344,144
Treasury stock, at cost: 15,482,172 and 14,118,768 shares at May 31, 2011 and August 31, 2010, respectively	(740,749)	(607,798)
Retained earnings	883,365	786,844
Accumulated other comprehensive loss	(3,839)	(21,385)
TOTAL STOCKHOLDERS' EQUITY	554,437	502,406

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 684,631	\$ 644,608
--	------------	------------

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**FactSet Research Systems Inc.****CONSOLIDATED STATEMENTS OF CASH FLOWS Unaudited**

	Nine Months Ended	
	May 31,	
(In thousands)	2011	2010
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>		
Net income	\$ 130,166	\$ 110,920
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	27,950	27,424
Stock-based compensation expense	15,352	10,239
Deferred income taxes	(483)	(5,617)
Gain on sale of assets	(3)	(123)
Tax benefits from share-based payment arrangements	(17,073)	(22,065)
Changes in assets and liabilities		
Accounts receivable, net of reserves	(7,844)	4,359
Accounts payable and accrued expenses	(1,671)	(580)
Accrued compensation	(17,179)	(8,022)
Deferred fees	4,987	(5,459)
Taxes payable, net of prepaid taxes	8,919	30,303
Prepaid expenses and other assets	(6,039)	(156)
Landlord contributions	1,354	483
Other working capital accounts, net	(1,440)	(877)
Net cash provided by operating activities	136,996	140,829
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>		
Purchases of property, equipment and leasehold improvements, net of proceeds from dispositions	(22,806)	(13,676)
Net cash used in investing activities	(22,806)	(13,676)
<i>CASH FLOWS FROM FINANCING ACTIVITIES</i>		
Dividend payments	(31,655)	(27,908)
Repurchase of common stock	(132,951)	(153,489)
Proceeds from employee stock plans	37,936	47,180
Tax benefits from share-based payment arrangements	17,073	22,065
Net cash used in financing activities	(109,597)	(112,152)
Effect of exchange rate changes on cash and cash equivalents	8,334	(6,608)
Net increase in cash and cash equivalents	12,927	8,393
Cash and cash equivalents at beginning of period	195,741	216,320
Cash and cash equivalents at end of period	\$ 208,668	\$ 224,713

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FactSet Research Systems Inc.

May 31, 2011

(Unaudited)

1. ORGANIZATION AND NATURE OF BUSINESS

FactSet Research Systems Inc. (the Company or FactSet) is a leading provider of integrated financial information and analytical applications to the global investment community. By consolidating content from hundreds of databases with powerful analytics on a single platform, FactSet supports the investment process from initial research to published results for buy and sell-side professionals. These professionals include portfolio managers, research and performance analysts, risk managers, marketing professionals, sell-side equity research professionals, investment bankers and fixed income professionals. The Company's applications provide users access to company analysis, multicompany comparisons, industry analysis, company screening, portfolio analysis, predictive risk measurements, alphas testing, portfolio optimization and simulation, real-time news and quotes and tools to value and analyze fixed income securities and portfolios.

FactSet combines hundreds of data sets, including content regarding tens of thousands of companies and securities from major markets all over the globe, into a single online platform of information and analytics. Clients have simultaneous access to content from an array of sources, which they can combine and utilize in nearly all of the Company's applications. With Microsoft Office integration, wireless access and customizable options, FactSet offers a complete financial workflow solution. The Company's revenues are derived from subscriptions to services, databases and financial applications.

As of May 31, 2011, the Company employed 4,805 employees, an increase of 37 over the past three months and up 32% or 1,174 employees from a year ago. Of these employees, 1,555 were located in the U.S., 570 in Europe and the remaining 2,680 in Asia Pacific. Approximately 56% of employees are involved with content collection, 19% conduct sales and consulting services, another 21% are involved in product development, software and systems engineering and the remaining 4% provide administrative support.

2. BASIS OF PRESENTATION

FactSet conducts business globally and is managed on a geographic basis. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany activity and balances have been eliminated from the consolidated financial statements. The presentation of prior year segment operating profit for each of the Company's reportable segments in Note 7 to the Consolidated Statements of Financial Condition has been adjusted to conform to the current year's presentation. These reclassifications between the U.S., Europe and Asia Pacific reportable segments had no effect on the Company's previously reported total operating profit.

The accompanying financial data as of May 31, 2011 and for the three and nine months ended May 31, 2011 and 2010 has been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The August 31, 2010 Consolidated Statement of Financial Condition was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes to them included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2010.

In the opinion of management, the accompanying statements of financial condition and related interim statements of income and cash flows include all normal adjustments in order to present fairly the results of the Company's operations for the periods presented in conformity with accounting principles generally accepted in the United States.

FactSet has performed an evaluation of subsequent events occurring subsequent to the end of the Company's fiscal 2011 third quarter and through the date the consolidated financial statements were issued based on the accounting guidance for subsequent events.

Table of Contents

3. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Guidance

Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance on revenue recognition that was effective for the Company beginning September 1, 2010. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The adoption of this new guidance did not have an impact on the Company's financial position and results of operations.

Recent Accounting Guidance Not Yet Adopted

In January 2010, the FASB issued authoritative guidance to require disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective beginning September 1, 2011. Other than requiring additional fair value disclosures, adoption of this new guidance will not have an impact on the Company's financial position and results of operations.

Other Recent Accounting Guidance FASB Accounting Standards Updates

During fiscal 2011, the FASB issued several ASU's ASU No. 2010-25 through ASU No. 2010-29 and ASU No. 2011-01 through ASU No. 2011-04. The ASU's entail technical corrections to existing guidance or affect guidance related to specialized industries or entities and do not have a material impact on the Company's financial position and results of operations.

4. FAIR VALUE MEASURES

Pursuant to the accounting guidance for fair value measurements, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the use of various valuation methodologies, including market, income and cost approaches is permissible. The Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability.

(a) Fair Value Hierarchy

The accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value based on the reliability of inputs. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect their placement within the fair value hierarchy levels. FactSet has categorized its cash equivalents and derivatives within the hierarchy as follows:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities. These Level 1 assets and liabilities include FactSet's investments in corporate money market funds that are classified as cash equivalents.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data. The Company's derivative instruments are classified as Level 2 as they are valued using pricing models that use observable market inputs.

Table of Contents**Level 3**

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities. Certain assets would be classified within Level 3 of the fair value hierarchy because they trade infrequently and, therefore, have little or no transparency. There were no Level 3 assets or liabilities held by FactSet as of May 31, 2011 or August 31, 2010.

(b) Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables shows by level within the fair value hierarchy the Company's assets and liabilities that are measured at fair value on a recurring basis at May 31, 2011 and August 31, 2010 (in thousands):

May 31, 2011	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Corporate money market funds	\$ 180,461	\$ 0	\$ 0	\$ 180,461
Derivative instruments	\$ 0	\$ 1,768	\$ 0	\$ 1,768
<i>Total assets measured at fair value</i>	\$ 180,461	\$ 1,768	\$ 0	\$ 182,229
<u>Liabilities</u>				
Derivative instruments	\$ 0	\$ 0	\$ 0	\$ 0
<i>Total liabilities measured at fair value</i>	\$ 0	\$ 0	\$ 0	\$ 0

August 31, 2010	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Corporate money market funds	\$ 172,218	\$ 0	\$ 0	\$ 172,218
Derivative instruments	0	879	0	879
<i>Total assets measured at fair value</i>	\$ 172,218	\$ 879	\$ 0	\$ 173,097
<u>Liabilities</u>				
Derivative instruments	\$ 0	\$ 1,220	\$ 0	\$ 1,220
<i>Total liabilities measured at fair value</i>	\$ 0	\$ 1,220	\$ 0	\$ 1,220
<i>Cash Equivalents</i>				

The Company's corporate money market funds are traded in an active market and the net asset value of each fund on the last day of the quarter is used to determine its fair value. As such, the Company's cash equivalents are classified as Level 1.

Derivative Instruments

The Company utilizes the income approach to measure fair value for its derivative instruments (foreign exchange forward contracts). The income approach uses pricing models that rely on market observable inputs such as spot, forward and interest rates, as well as credit default swap spreads and therefore are classified as Level 2.

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's Consolidated Statements of Financial Condition at May 31, 2011 and August 31, 2010 as follows (in thousands):

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

May 31, 2011	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 180,461	\$ 0	\$ 0	\$ 180,461
Other current assets (derivative assets)	\$ 0	\$ 1,768	\$ 0	\$ 1,768
<i>Total assets measured at fair value</i>	\$ 180,461	\$ 1,768	\$ 0	\$ 182,229
Accounts payable and accrued liabilities	\$ 0	\$ 0	\$ 0	\$ 0
<i>Total liabilities measured at fair value</i>	\$ 0	\$ 0	\$ 0	\$ 0

Table of Contents

August 31, 2010	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 172,218	\$ 0	\$ 0	\$ 172,218
Other current assets (derivative assets)	0	879	0	879
<i>Total assets measured at fair value</i>	\$ 172,218	\$ 879	\$ 0	\$ 173,097
Accounts payable and accrued liabilities (derivative liabilities)	\$ 0	\$ 1,027	\$ 0	\$ 1,027
Deferred rent and other non-current liabilities (derivative liabilities)	0	193	0	193
<i>Total liabilities measured at fair value</i>	\$ 0	\$ 1,220	\$ 0	\$ 1,220
<i>(c) Assets and Liabilities Measured at Fair Value on a Non-recurring Basis</i>				

Certain assets, including goodwill and intangible assets, and liabilities, are measured at fair value on a non-recurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances such as when they are deemed to be other-than-temporarily impaired. The fair values of these non-financial assets and liabilities are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost exceeds its fair value and this condition is determined to be other-than-temporary. During the three and nine months ended May 31, 2011, no fair value adjustments or material fair value measurements were required for the Company's non-financial assets or liabilities.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits and corporate money market funds with maturities of three months or less at the date of acquisition and are reported at fair value.

The following table summarizes the Company's cash and cash equivalents at May 31, 2011 (in thousands):

	Amortized Cost	Gross Unrealized Gain	Fair Value
Cash on hand	\$ 28,207	\$	\$ 28,207
Corporate money market funds	180,461		180,461
Total cash and cash equivalents	\$ 208,668	\$	\$ 208,668

The following table summarizes the Company's cash and cash equivalents at August 31, 2010 (in thousands):

	Amortized Cost	Gross Unrealized Gain	Fair Value
Cash on hand	\$ 23,523	\$	\$ 23,523
Corporate money market funds	172,218		172,218
Total cash and cash equivalents	\$ 195,741	\$	\$ 195,741

The Company did not hold any investments at May 31, 2011 or August 31, 2010. The Company's cash and cash equivalents portfolio did not experience any realized or unrealized losses as a result of counterparty credit risk or ratings change during fiscal 2011 and 2010.

6. DERIVATIVE INSTRUMENTSForeign Exchange Risk Management

FactSet conducts business outside the U.S. in several currencies including the British Pound Sterling, Euro, Japanese Yen, Indian Rupee and Philippine Peso. As such, it is exposed to movements in foreign currency exchange rates compared to the U.S. dollar. To manage the exposures

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

related to the effects of foreign exchange rate fluctuations, the Company utilizes derivative instruments (foreign currency forward contracts). The Company's primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency. The Company does not enter into foreign exchange forward contracts for trading or speculative purposes.

Table of Contents**Cash Flow Hedges**

FactSet enters into foreign currency forward contracts to reduce the effects of foreign currency fluctuations. These hedging programs are not designed to provide long-term foreign currency protection as the contracts have maturities of less than two years. In designing a specific hedging approach, FactSet considered several factors, including offsetting exposures, significance of exposures, forecasting risk and potential effectiveness of the hedge. These transactions are designated and accounted for as cash flow hedges in accordance with applicable accounting guidance. The changes in fair value for these foreign currency forward contracts are initially reported as a component of accumulated other comprehensive income (AOCI) and subsequently reclassified into operating expenses when the hedged exposure affects earnings. The gains and losses on foreign currency forward contracts mitigate the variability in operating expenses associated with currency movements. All components of each derivative's gain or loss were included in the assessment of hedge effectiveness. No amount of ineffectiveness was recorded in the Consolidated Statements of Income for the Company's designated cash flow hedges. There was no discontinuance of cash flow hedges during fiscal 2011 or fiscal 2010 and as such, no corresponding gains or losses were reclassified into earnings.

During the first quarter of fiscal 2011, FactSet entered into foreign currency forward contracts to hedge approximately 95% of its net Japanese Yen exposure through the end of the fourth quarter of fiscal 2011. In the second half of fiscal 2010, FactSet entered into foreign currency forward contracts to hedge approximately 95% of its net Euro exposure through the end of the first quarter of fiscal 2012 and 95% of its net British Pound Sterling exposure through the end of the third quarter of fiscal 2011.

At May 31, 2011 the notional principal and fair value of foreign exchange contracts to purchase Japanese Yen with U.S. dollars were ¥115.5 million and less than \$0.1 million, respectively. At May 31, 2011, the notional principal and fair value of foreign exchange contracts to purchase Euros with U.S. dollars were 13.0 million and \$1.8 million, respectively. At May 31, 2011, there were no outstanding foreign exchange forward contracts to purchase British Pound Sterling with U.S. dollars.

The following is a summary of all hedging positions and corresponding fair values (in thousands):

Currency Hedged (Buy/Sell)	Gross Notional Value		Fair Value Asset (Liability)	
	May 31, 2011	Aug 31, 2010	May 31, 2011	Aug 31, 2010
Euro / U.S. Dollar	\$ 16,835	\$ 42,367	\$ 1,813	\$ (1,220)
British Pound Sterling / U.S. Dollar	0	30,978	0	879
Japanese Yen / U.S. Dollar	1,373	0	(45)	0
Total	\$ 18,208	\$ 73,345	\$ 1,768	\$ (341)

Counterparty Credit Risk

As a result of the use of derivative instruments, the Company is exposed to counterparty credit risk. FactSet has incorporated counterparty risk into the fair value of its derivative assets and its own credit risk into the value of the Company's derivative liabilities. FactSet calculates credit risk from observable data related to credit default swaps (CDS) as quoted by publicly available information. Counterparty risk is represented by CDS spreads related to the senior secured debt of the respective bank with whom FactSet has executed these derivative transactions. Because CDS spread information is not available for FactSet, the Company's credit risk is determined based on using a simple average of CDS spreads for peer companies as determined by FactSet.

To mitigate counterparty credit risk, FactSet enters into contracts with large financial institutions (JPMorgan Chase and Bank of America). The Company regularly reviews its credit exposure balances as well as the creditworthiness of the counterparties. The Company does not expect any losses as a result of default of its counterparties.

Fair Value of Derivative Instruments

The following tables provide a summary of the fair value amounts of derivative instruments and gains and losses on derivative instruments (in thousands):

Designation of Derivatives

Balance Sheet Location

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

		May 31, 2011	Aug 31, 2010
Derivatives designated as hedging instruments	Assets: Foreign Currency Forward Contracts		
	Other current assets	\$ 1,768	\$ 879
	Liabilities: Foreign Currency Forward Contracts		
	Accounts payable and accrued expenses	\$	\$ (1,027)
	Deferred rent and other non-current liabilities		(193)
	Total liabilities	\$	\$ (1,220)
Derivatives not designated as hedging instruments	None	\$	\$ 0
	Net Derivative Assets (Liabilities)	\$ 1,768	\$ (341)

Table of ContentsDerivatives in Cash Flow Hedging Relationships for the three months ended May 31, 2011 and 2010 (in thousands):

	Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)		Location of Gain Reclassified from AOCI into Income (Effective Portion)	Gain Reclassified from AOCI to Income (Effective Portion)	
	2011	2010		2011	2010
Derivatives in Cash Flow Hedging Relationships					
Foreign currency forward contracts	\$ 1,411	\$ (2,873)	SG&A	\$ 1,887	\$ (208)

Derivatives in Cash Flow Hedging Relationships for the nine months ended May 31, 2011 and 2010 (in thousands):

	Gain Recognized in AOCI on Derivatives (Effective Portion)		Location of Gain Reclassified from AOCI into Income (Effective Portion)	Gain Reclassified from AOCI to Income (Effective Portion)	
	2011	2010		2011	2010
Derivatives in Cash Flow Hedging Relationships					
Foreign currency forward contracts	\$ 4,695	\$ (2,176)	SG&A	\$ 3,261	\$ 1,340

Note: No amount of ineffectiveness was recorded in the Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness.

Accumulated Other Comprehensive Income

The following table provides a summary of the activity associated with all of the Company's designated cash flow hedges reflected in AOCI (in thousands):

	Nine Months Ended May 31,	
	2011	2010
Beginning balance, net of tax	\$ (238)	\$ 851
Changes in fair value	4,695	(2,176)
Gain reclassified to earnings	(3,261)	(1,340)
Ending balance, net of tax	\$ 1,196	\$ (2,665)

7. SEGMENT REPORTING

Operating segments are defined as components of an enterprise that engage in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. FactSet's CODM is its Chief Executive Officer, who is responsible for making decisions about resources allocated amongst the operating segments based on actual results.

FactSet's reportable segments are aligned with how the Company, including its CODM, manages the business and the demographic markets in which FactSet serves. The Company's internal financial reporting structure is based on three reportable segments; U.S., Europe and Asia Pacific. FactSet believes this alignment helps it better manage the business and view the markets the Company serves, which are centered on providing integrated global financial and economic information. Sales, consulting, data collection and software engineering are the primary functional groups within the U.S., Europe and Asia Pacific segments that provide global financial and economic information to investment managers, investment banks and other financial services professionals. The U.S. segment services finance professionals including financial institutions throughout North America, while the European and Asia Pacific segments service investment professionals located throughout Europe and Asia.

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

The European segment is headquartered in London, England and maintains office locations in France, Germany, the Netherlands, Dubai and Italy. The Asia Pacific segment is headquartered in Tokyo, Japan with office locations in Hong Kong, Australia, India and the Philippines. Segment revenues reflect direct sales to clients based in their respective geographic locations. There are no intersegment or intercompany sales of the FactSet service. Each segment records compensation, including stock-based compensation, data collection costs, amortization of intangible assets, depreciation of furniture and fixtures, amortization of leasehold improvements, communication costs, professional fees, rent expense, travel, marketing, office and other direct expenses. Expenditures associated with the Company's data centers and corporate headquarters charges are recorded by the U.S. segment and are not allocated to the other segments. Of the total \$229 million of goodwill reported by the Company at May 31, 2011, 64% was recorded in the U.S. segment, 34% in the European segment and the remaining 2% in the Asia Pacific segment.

Table of Contents

The following reflects the results of operations of the segments consistent with the Company's management system. These results are used, in part, by management, both in evaluating the performance of, and in allocating resources to, each of the segments (in thousands).

For the three months ended May 31, 2011	U.S.	Europe	Asia Pacific	Total
Revenues from clients	125,963	44,944	12,740	183,647
Segment operating profit	35,218	20,659	5,946	61,823
Total assets	385,885	270,070	28,676	684,631
Capital expenditures	4,296	1,073	2,004	7,373

For the three months ended May 31, 2010	U.S.	Europe	Asia Pacific	Total
Revenues from clients	108,593	40,694	11,014	160,301
Segment operating profit	29,926	19,716	6,042	55,684
Total assets	398,931	180,661	25,123	604,715
Capital expenditures	3,528	198	899	4,625

For the nine months ended May 31, 2011	U.S.	Europe	Asia Pacific	Total
Revenues from clients	365,737	132,000	36,834	534,571
Segment operating profit	102,832	59,377	17,136	179,345
Capital expenditures	16,425	1,418	4,963	22,806

For the nine months ended May 31, 2010	U.S.	Europe	Asia Pacific	Total
Revenues from clients	320,681	119,561	32,583	472,825
Segment operating profit	92,640	53,433	18,131	164,204
Capital expenditures	8,400	544	4,732	13,676

8. GOODWILL

On an ongoing basis, the Company evaluates goodwill at the reporting unit level for indications of potential impairment. Goodwill is tested for impairment based on the present value of discounted cash flows, and, if impaired, written down to fair value based on discounted cash flows. The Company has three reporting units, which are consistent with the operating segments reported because there is no discrete financial information available for the subsidiaries within each operating segment. The Company's reporting units evaluated for potential impairment were U.S., Europe and Asia Pacific, which reflects the level of internal reporting the Company uses to manage its business and operations. The Company performed an annual goodwill impairment test during the fourth quarter of fiscal years 2010, 2009, and 2008 and determined that there were no reporting units that were deemed at risk and there had been no impairment.

There was no goodwill acquired during fiscal 2011. Changes in the carrying amount of goodwill by segment for the nine months ended May 31, 2011 are as follows (in thousands):

	U.S.	Europe	Asia Pacific	Total
Balance at August 31, 2010	\$ 145,826	\$ 72,278	\$ 3,887	\$ 221,991
Goodwill acquired during the period	0	0	0	0
Foreign currency translations	0	6,438	130	6,568
Balance at May 31, 2011	\$ 145,826	\$ 78,716	\$ 4,017	\$ 228,559

9. INTANGIBLE ASSETS

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

The Company's identifiable intangible assets consist of acquired content databases, client relationships, software technology, non-compete agreements and trade names resulting from previous acquisitions, which have been fully integrated into the Company's operations. The weighted average useful life of all acquired intangible assets is 12.1 years at May 31, 2011.

The Company amortizes intangible assets over their estimated useful lives. Amortizable intangible assets are tested for impairment based on undiscounted cash flows, and, if impaired, written down to fair value based on either discounted cash flows or appraised values. No impairment of intangible assets has been identified during any of the periods presented. These intangible assets have no assigned residual values.

Table of Contents

The gross carrying amounts and accumulated amortization totals related to the Company's identifiable intangible assets are as follows (in thousands):

At May 31, 2011	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Data content	\$ 52,670	\$ 15,877	\$ 36,793
Client relationships	21,129	12,221	8,908
Software technology	19,127	17,919	1,208
Non-compete agreements	1,750	350	1,400
Trade names	571	302	269
Total	\$ 95,247	\$ 46,669	\$ 48,578

At August 31, 2010	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Data content	\$ 49,278	\$ 11,907	\$ 37,371
Client relationships	20,348	9,776	10,572
Software technology	18,575	16,386	2,189
Non-compete agreements	1,813	150	1,663
Trade names	571	187	384
Total	\$ 90,585	\$ 38,406	\$ 52,179

There were no intangible assets acquired during fiscal 2011. The increase in the gross carrying amount of intangible assets at May 31, 2011 as compared to August 31, 2010 was due to foreign currency translations.

Amortization expense recorded for intangible assets was \$2.1 million and \$1.9 million for the three months ended May 31, 2011 and 2010, respectively. Amortization expense recorded for intangible assets was \$6.4 million and \$6.0 million for the nine months ended May 31, 2011 and 2010, respectively. As of May 31, 2011, estimated intangible asset amortization expense for each of the next five years and thereafter are as follows (in thousands):

Fiscal Year	Estimated Amortization Expense
2011 (remaining three months)	\$ 2,072
2012	7,450
2013	5,931
2014	4,850
2015	4,137
Thereafter	24,138
Total	\$ 48,578

10. COMMON STOCK AND EARNINGS PER SHARE

On May 9, 2011, the Company's Board of Directors approved a 17% increase in the regular quarterly dividend, beginning with the Company's dividend payment in June 2011 of \$0.27 per share, or \$1.08 per share per annum. The cash dividend of \$12.3 million was paid on June 21, 2011, to common stockholders of record on May 31, 2011. Shares of common stock outstanding were as follows (in thousands):

Nine Months Ended
May 31,

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

	2011	2010
Balance at September 1	46,024	46,740
Common stock issued for employee stock plans	1,168	1,829
Repurchase of common stock	(1,362)	(2,243)
Balance at May 31	45,830	46,326

Earnings per Share

Basic EPS is computed by dividing net income by the number of weighted average common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the number of weighted average common shares outstanding during the period increased by the dilutive effect of potential common shares outstanding during the period.

The number of potential common shares outstanding has been determined in accordance with the treasury stock method to the extent they are dilutive. Common share equivalents consist of common shares issuable upon the exercise of outstanding share-based compensation awards, including employee stock options and restricted stock.

Table of Contents

A reconciliation of the weighted average shares outstanding used in the basic and diluted earnings per share computations is as follows (in thousands, except per share data):

	Net Income (Numerator)	Weighted Average Common Shares (Denominator)	Per Share Amount
For the three months ended May 31, 2011			
Basic EPS			
Income available to common stockholders	\$ 43,311	45,969	\$ 0.94
Diluted EPS			
Dilutive effect of stock options and restricted stock		1,185	
Income available to common stockholders plus assumed conversions	\$ 43,311	47,154	\$ 0.92
For the three months ended May 31, 2010			
Basic EPS			
Income available to common stockholders	\$ 38,658	46,544	\$ 0.83
Diluted EPS			
Dilutive effect of stock options and restricted stock		1,181	
Income available to common stockholders plus assumed conversions	\$ 38,658	47,725	\$ 0.81
For the nine months ended May 31, 2011			
Basic EPS			
Income available to common stockholders	\$ 130,166	46,145	\$ 2.82
Diluted EPS			
Dilutive effect of stock options and restricted stock		1,273	
Income available to common stockholders plus assumed conversions	\$ 130,166	47,418	\$ 2.75
For the nine months ended May 31, 2010			
Basic EPS			
Income available to common stockholders	\$ 110,920	46,872	\$ 2.37
Diluted EPS			
Dilutive effect of stock options and restricted stock		1,311	
Income available to common stockholders plus assumed conversions	\$ 110,920	48,183	\$ 2.30

Dilutive potential common shares consist of stock options and unvested restricted stock awards. No stock options were excluded from the calculation of diluted earnings per share for the three months ended May 31, 2011 and for the three and nine months ended May 31, 2010. However, for the nine months ended May 31, 2011, there were 1,424 stock options excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. No restricted stock awards were excluded from the calculation of diluted earnings per share for the three months ended May 31, 2011 and for the three and nine months ended May 31, 2010. However, for the nine months ended May 31, 2011, there were 5,015 restricted stock awards excluded from the calculation of diluted earnings per share.

For the three and nine months ended May 31, 2011, the number of performance-based stock option grants excluded from the calculation of diluted earnings per share was 2,514,891. Similarly, 1,878,408 performance-based stock option grants were excluded from the calculation of diluted earnings per share for the three and nine months ended May 31, 2010. Performance-based stock options should be omitted from the calculation of diluted earnings per share until the performance criteria have been met. The criteria had not yet been met at May 31, 2011 and 2010 for performance-based stock options granted in fiscal 2011 and 2010.

11. STOCKHOLDERS' EQUITY

Share Repurchase Program

On June 13, 2011, the Company's Board of Directors approved a \$200 million expansion to the existing share repurchase program. During the first nine months of fiscal 2011, the Company repurchased 1,362,236 shares for \$133 million under the existing share repurchase program. Including the \$200 million expansion, \$226 million remains authorized for future share repurchases. Repurchases will be made from time to time in the open market and privately negotiated transactions, subject to market conditions. No minimum number of shares to be repurchased has been fixed. There is no timeframe to complete the

Table of Contents

repurchase program and it is expected that share repurchases will be paid using existing and future cash generated by operations.

Preferred Stock

At May 31, 2011 and August 31, 2010, there were 10,000,000 shares of preferred stock (\$.01 par value per share) authorized, of which no shares were issued and outstanding. FactSet's Board of Directors may from time to time authorize the issuance of one or more series of preferred stock and, in connection with the creation of such series, determine the characteristics of each such series including, without limitation, the preference and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions of the series.

Dividends

The Company's Board of Directors declared the following dividends during the periods presented:

Declaration Date	Dividends Per Share of Common Stock	Type	Record Date	Total \$ Amount (in thousands)	Payment Date
May 9, 2011	\$ 0.27	Regular (cash)	May 31, 2011	\$ 12,374	June 21, 2011
February 9, 2011	\$ 0.23	Regular (cash)	February 28, 2011	\$ 10,612	March 15, 2011
November 10, 2010	\$ 0.23	Regular (cash)	November 30, 2010	\$ 10,660	December 21, 2010
August 10, 2010	\$ 0.23	Regular (cash)	August 31, 2010	\$ 10,586	September 21, 2010
May 14, 2010	\$ 0.23	Regular (cash)	May 28, 2010	\$ 10,655	June 15, 2010
February 9, 2010	\$ 0.20	Regular (cash)	February 26, 2010	\$ 9,329	March 16, 2010
November 10, 2009	\$ 0.20	Regular (cash)	November 30, 2009	\$ 9,423	December 15, 2009

All of the above cash dividends were paid from existing cash resources. Future dividend payments will depend on the Company's earnings, capital requirements, financial condition and other factors considered relevant by the Company and is subject to final determination by the Company's Board of Directors.

Restricted Stock Awards

During the first nine months of fiscal 2011, the Company granted 153,189 restricted stock awards which entitle the holder to shares of common stock as the awards vest over time. The Company's restricted stock awards granted in fiscal 2011 vest between three and six years and are amortized to stock-based compensation expense over the vesting period.

12. COMPREHENSIVE INCOME*Comprehensive Income*

The components of comprehensive income were as follows for the periods presented (in thousands):

	Three Months Ended		Nine Months Ended	
	May 31,		May 31,	
	2011	2010	2011	2010
Net income	\$ 43,311	\$ 38,658	\$ 130,166	\$ 110,920
Other comprehensive income, net of tax:				
Net unrealized (loss) gain on cash flow hedges	(473)	(2,665)	1,434	(3,516)
Foreign currency translation adjustments	4,379	(9,548)	16,112	(18,579)
Comprehensive income	\$ 47,217	\$ 26,445	\$ 147,712	\$ 88,825

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows (in thousands):

	May 31, 2011	August 31, 2010
Accumulated unrealized gain (loss) on cash flow hedges, net of tax	\$ 1,196	\$ (238)
Accumulated foreign currency translation adjustments	(5,035)	(21,147)
Total accumulated other comprehensive loss	\$ (3,839)	\$ (21,385)

Table of Contents**13. EMPLOYEE STOCK OPTION AND RETIREMENT PLANS**

At the Company's annual meeting of stockholders held on December 14, 2010, the stockholders of FactSet voted on and approved the Amended and Restated FactSet Research Systems Inc. 2004 Stock Option and Award Plan (the "Plan"), including the reservation of an additional 4,000,000 shares of common stock for issuance thereunder. The terms and conditions of the Plan are more fully described in FactSet's revised proxy statement filed December 6, 2010.

Stock Options*Stock Option Awards*

Options granted without performance conditions under the Company's stock option plans expire either seven or ten years from the date of grant and the majority vest at a rate of 20% after the first year and 1.67% per month thereafter for years two through five. Options become vested and exercisable provided the employee continues employment with the Company through the applicable vesting date and remain exercisable until expiration or cancellation. The majority of the options granted with performance conditions expire seven years from the date of grant and vest at a rate of 40% after the first two years and 1.67% per month thereafter for years three through five. Options generally are not transferable or assignable other than by will or the laws of descent and distribution. During the grantee's lifetime, they may be exercised only by the grantee.

General Stock Option Activity

In the first nine months of fiscal 2011, FactSet granted 965,682 stock options at a weighted average exercise price of \$89.27 to existing employees of the Company.

A summary of stock option activity is as follows (in thousands, except per share data):

	Number Outstanding	Weighted Average Exercise Price Per Share
Balance at August 31, 2010	6,451	\$ 47.73
Granted non performance-based	85	88.40
Granted performance-based	809	88.40
Exercised	(605)	31.54
Forfeited	(22)	60.07
Balance at November 30, 2010	6,718	\$ 54.56
Granted non performance-based	0	0
Granted performance-based	65	99.78
Granted non-employee Directors grant	15	95.05
Exercised	(283)	31.15
Forfeited	(36)	65.91
Balance at February 28, 2011	6,479	\$ 56.07
Granted non performance-based	6	103.30
Exercised	(224)	36.46
Forfeited	(27)	70.75
Balance at May 31, 2011	6,234	56.76

The total number of in-the-money options exercisable as of May 31, 2011 was 2.6 million with a weighted average exercise price of \$37.99. As of August 31, 2010, 3.3 million in-the-money outstanding options were exercisable with a weighted average exercise price of \$34.49. The aggregate intrinsic value of in-the-money stock options exercisable at May 31, 2011 and August 31, 2010 was \$190.4 million and \$130.1 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price of \$110.86 at May 31, 2011 and the exercise price multiplied by the number of options exercisable as of that date. The total pre-tax intrinsic value of stock options exercised during the three months ended May 31, 2011 and 2010 was \$15.5 million and \$12.4 million, respectively. The total pre-tax intrinsic value of stock options exercised during the nine months ended May 31, 2011 and 2010 was \$65.0 million and \$74.2 million, respectively.

Performance-based Stock Options

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

Performance-based stock options require management to make assumptions regarding the likelihood of achieving Company performance targets. The number of performance-based options that vest will be predicated on the Company achieving performance levels for both organic ASV and diluted earnings per share during the two fiscal years subsequent to the date of grant. Dependent on the financial performance levels attained by FactSet during the two subsequent fiscal years, 0%, 20%, 60% or 100% of the performance-based stock options will vest to the grantees of those stock options. However, there is no current guarantee that such options will vest in whole or in part.

Table of Contents*October 2009 Annual Employee Performance-based Option Grant Review*

In October 2009, the Company granted 900,665 performance-based employee stock options. The number of performance-based options that vest is based on the Company achieving performance levels for both organic ASV and diluted earnings per share during the two fiscal years ended August 31, 2011. At May 31, 2011, FactSet estimated that it was probable the Company would achieve ASV and diluted earnings per share growth of between 8% - 10% on a compounded annual basis for the two years ended August 31, 2011. As such, at May 31, 2011, the Company has estimated that 60% or 540,399 of the performance-based stock options will vest.

However, a change from the current expected outcome of the October 2009 performance-based stock options due to accelerating ASV and diluted EPS growth rates during the fourth quarter of fiscal 2011 would require the Company to record an incremental \$3.4 million of stock-based compensation during the fourth quarter (equal to approximately \$0.05 per diluted share). A change in the expected outcome would only result if the Company's ASV and diluted EPS growth rates during the two fiscal years ended August 31, 2011 exceeded 10%. The amount of additional stock-based compensation equal to \$3.4 million represents the one-time cumulative adjustment to be recorded if there had been a change in the vesting percentage from 60% to 100% as of May 31, 2011. The one-time cumulative adjustment would also increase the total unamortized stock-based compensation expense to be recognized over the remaining vesting period from \$4.1 million to \$6.8 million.

November 2010 Annual Employee Performance-based Option Grant Review

In November 2010, the Company granted 734,334 performance-based employee stock options. The number of performance-based options that vest is based on the Company achieving performance levels for both organic ASV and diluted earnings per share during the two fiscal years ended August 31, 2012. At May 31, 2011, the Company estimated that 20% or 146,867 of the performance-based stock options will vest which results in unamortized stock-based compensation expense of \$2.5 million to be recognized over the remaining vesting period.

A change in the actual financial performance levels achieved by FactSet could result in the following changes to the Company's current estimate of the vesting percentage and related expense (in thousands):

Vesting	Total Unamortized		Average Remaining Quarterly
Percentage	Stock-based	One-time	Expense to be
	Compensation Expense at May 31, 2011	Adjustment*	Recognized
0%	\$ 0	\$ (532)	\$ 0
20%	\$ 2,495	\$ 0	\$ 141
60%	\$ 7,487	\$ 1,064	\$ 423
100%	\$ 12,478	\$ 2,128	\$ 705

* Amounts represent the one-time cumulative adjustment to be recorded if there had been a change in the vesting percentage as of May 31, 2011. The one-time cumulative adjustment increments each quarter by approximately the amount stated in the average remaining quarterly expense to be recognized column.

Other Performance-based Option Grants

Between June 2010 and January 2011, the Company granted 960,331 performance-based employee stock options that vest based on FactSet achieving certain ASV targets over a six year period. At May 31, 2011, the Company estimated that 194,306 of the performance-based stock options will vest which results in unamortized stock-based compensation expense of \$3.4 million to be recognized over the remaining vesting period.

A change from the current expected outcome of these performance-based stock options due to accelerating ASV growth rates during the fourth quarter of fiscal 2011 would require the Company to record an incremental \$1.3 million of stock-based compensation during the fourth quarter (equal to approximately \$0.02 per diluted share). The amount of additional stock-based compensation represents the one-time cumulative adjustment to be recorded if there had been a change in the vesting period based on achieving ASV targets earlier than estimated. If 100% of the 960,331 performance-based stock options granted between June 2010 and January 2011 were to vest, the Company would incur an incremental \$16.0 million of stock-based compensation over the vesting period of six years.

Table of Contents**Restricted Stock and Stock Unit Awards**

The Company's option plan permits the issuance of restricted stock and restricted stock units. Restricted stock awards are subject to continued employment over a specified period. A summary of restricted stock award activity is as follows (in thousands, except per award data): During the first six months of fiscal 2011, the following restricted stock awards were granted.

	Number Outstanding	Weighted Average Grant Date Fair Value Per Award
Balance at August 31, 2010	261	\$ 61.65
Granted (restricted stock and stock units)	121	\$ 84.36
Vested	0	\$ 0
Canceled/forfeited	(1)	\$ 67.04
Balance at November 30, 2010	381	\$ 68.85
Granted (restricted stock and stock units)	2	\$ 94.63
Vested	0	\$ 0
Canceled/forfeited	(2)	\$ 69.51
Balance at February 28, 2011	381	\$ 69.00
Granted (restricted stock and stock units)	30	\$ 99.75
Vested	0	\$ 0
Canceled/forfeited	(2)	\$ 73.01
Balance at May 31, 2011	409	\$ 71.24

November 2010 Employee Restricted Stock Award

In November 2010, the Company granted 117,723 restricted stock awards which entitle the holder to shares of common stock as the awards vest over time. The Company's restricted stock awards cliff vest 60% after three years and the remaining 40% after five years. Restricted stock grants are amortized to expense over the vesting period using the straight-line attribution method. Employees granted restricted stock awards in November 2010 are not entitled to dividends declared on the underlying shares while the restricted stock is unvested. As such, the grant date fair value of the award was measured by reducing the grant date price of FactSet's share by the present value of the dividends expected to be paid on the underlying shares during the requisite service period, discounted at the appropriate risk-free interest rate. The closing price of FactSet common stock on the grant date of \$88.40 was reduced to reflect the loss of future dividends (non-dividend protection right). The resulting fair value of the restricted stock awards granted on November 8, 2010 was \$84.38. As of May 31, 2011, unamortized stock-based compensation expense of \$7.3 million is to be amortized to compensation expense over the remaining vesting period.

April 2011 Employee Restricted Stock Award

On April 14, 2011, the Company granted 30,090 restricted stock awards to employees which entitle the holder to shares of common stock as the award vests over time, but are not entitled to dividends declared on the underlying shares while the restricted stock is unvested. The restricted stock awards cliff vest 100% after three years and are amortized to expense over the vesting period using the straight-line attribution method. The grant date fair value of the awards were measured by reducing the grant date price of FactSet's share by the present value of the dividends expected to be paid on the underlying shares during the requisite service period, discounted at the appropriate risk-free interest rate. As such, the closing price of FactSet common stock on the grant date of \$103.30 was reduced to reflect the loss of future dividends (non-dividend protection right). The resulting weighted average fair value of the restricted stock awards granted on April 14, 2011 was \$99.75. As of May 31, 2011, unamortized stock-based compensation expense of \$2.9 million is to be amortized to compensation expense over the remaining vesting period.

January 2011 Employee Restricted Stock Award

In January 2011, the Company granted 366 shares of restricted stock with a fair value of \$95.24, which entitle the holder to shares of common stock as the awards vest over time. The Company's restricted stock awards cliff vest 60% after three years and the remaining 40% after five years. Restricted stock grants are amortized to expense over the vesting period using the straight-line attribution method. And are not entitled to dividends declared on the underlying shares while the restricted stock is unvested. As of May 31, 2011, unamortized stock-based compensation

expense of less than \$0.1 million is to be amortized ratably to compensation expense over the remaining vesting period.

Table of Contents*Other Employee Restricted Stock Units Granted (Performance-based)*

Between June 2010 and January 2011, the Company granted 20,010 restricted stock units which entitle the holder to shares of common stock as the awards vest over time. A restricted stock unit is a promise to deliver shares to the employee at a future date if certain vesting conditions are met. The primary difference between a restricted stock unit and restricted stock is the timing of the delivery of the underlying shares. FactSet is not required to deliver the shares to the employees until the vesting conditions are met. The Company's restricted stock units are performance-based and cliff vest 25% when serviced ASV targets are achieved during a six year period. Restricted stock units are amortized to expense based on a graded-vesting attribution approach over the vesting period. The closing price of FactSet common stock on the grant date was reduced to reflect the loss of future dividends with the resulting fair value of \$68.69. As of May 31, 2011, unamortized stock-based compensation expense of \$1.0 million is to be amortized to compensation expense over the remaining vesting period.

A change from the current expected outcome of these performance-based restricted stock units due to accelerating ASV growth rates during the fourth quarter of fiscal 2011 would require the Company to record an incremental \$0.4 million of stock-based compensation during the fourth quarter (equal to approximately \$0.01 per diluted share). The amount of additional stock-based compensation represents the one-time cumulative adjustment to be recorded if there had been a change in the vesting period based on achieving ASV targets earlier than estimated.

Share-based Awards Available for Grant

A summary of share-based awards available for grant is as follows (in thousands):

	Share-based Awards Available for Grant under the Employee Option Plan	Share-based Awards Available for Grant under the Non-Employee Directors Plan
Balance at August 31, 2010	2,216	162
Granted non performance-based options	(85)	0
Granted performance-based options	(809)	0
Restricted stock awards granted*	(303)	0
Share-based awards canceled/forfeited	25	0
Share-based awards expired	0	0
Balance at November 30, 2010	1,044	162
Amendment to the 2004 Stock Option and Award Plan to increase the number of shares available for issuance**	4,000	0
Granted non performance-based options	0	0
Granted performance-based options	(65)	0
Granted non-employee Directors grant	0	(15)
Restricted stock awards granted*	(5)	0
Share-based awards canceled/forfeited	41	0
Share-based awards expired	0	0
Balance at February 28, 2011	5,015	147
Granted non performance-based options	(6)	0
Granted performance-based options	0	0
Restricted stock awards granted*	(75)	0
Share-based awards canceled/forfeited	32	0
Share-based awards expired	0	0
Balance at May 31, 2011	4,966	147

* As reflected in the preceding table, for each share awarded as restricted stock under the Company's option plan, an equivalent of 2.5 shares were deducted from the available share-based awards balance.

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

** As of November 30, 2010, 1.0 million shares remained available for future grant of share-based awards under the Company's 2004 Stock Option and Award Plan, a number that the Company believed to be insufficient to meet its anticipated needs over the next 12 to 18 months. Therefore, the Company's Board of Directors approved, subject to stockholder approval, an amendment to increase the maximum number of shares of FactSet common stock issuable under the 2004 Stock Option and Award Plan by 4,000,000 shares. The stockholders of FactSet voted on and approved the Amended and Restated 2004 Stock Option and Award Plan at the Company's annual meeting held on December 14, 2010, including the reservation of an additional 4,000,000 shares of common stock for issuance thereunder.

Table of Contents**Employee Stock Purchase Plan**

On December 16, 2008, the Company's stockholders ratified the adoption of the FactSet Research Systems Inc. 2008 Employee Stock Purchase Plan (the "Purchase Plan"). A total of 500,000 shares have been reserved for issuance under the Purchase Plan. There is no expiration date for the Purchase Plan. Shares of FactSet common stock may be purchased by eligible employees under the Purchase Plan in three-month intervals at a purchase price equal to at least 85% of the lesser of the fair market value of the Company's common stock on either the first day or the last day of each three-month offering period. Employee purchases may not exceed 10% of their gross compensation during an offering period.

Employees purchased 56,659 shares at a price of \$75.58 during the first nine months of fiscal 2011. During the three months ended May 31, 2011, employees purchased 18,053 shares at a weighted average price of \$87.02 as compared to 22,510 shares at a weighted average price of \$57.46 in the same period a year ago. At May 31, 2011, 299,597 shares were reserved for future issuance under the Purchase Plan.

401(k) Plan

The Company established a 401(k) Plan (the "401(k) Plan") in fiscal 1993. The 401(k) Plan is a defined contribution plan covering all full-time, U.S. employees of the Company and is subject to the provisions of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986. Each year, participants may contribute up to 60% of their eligible annual compensation, subject to annual limitations established by the Internal Revenue Code. The Company matches up to 4% of employees' earnings, capped at the IRS annual maximum. Company matching contributions are subject to a five year graduated vesting schedule. All full-time, U.S. employees are eligible for the matching contribution by the Company. The Company contributed \$4.3 million and \$3.8 million in matching contributions to employee 401(k) accounts during the nine months ended May 31, 2011 and 2010, respectively.

14. STOCK-BASED COMPENSATION

Accounting guidance requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including stock options, restricted stock and common shares acquired under employee stock purchases based on estimated fair values of the share awards that are scheduled to vest during the period. As stock-based compensation expense recognized is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based primarily on historical experience.

The following table summarizes stock-based compensation expense for the three and nine months ended May 31, 2011 and 2010 (in thousands):

	Three Months Ended		Nine Months Ended	
	<u>May 31,</u>		<u>May 31,</u>	
	2011	2010	2011	2010
Stock-based compensation	\$ 4,975	\$ 4,142	\$ 15,352	\$ 10,239
Tax impact of stock-based compensation	(1,542)	(1,389)	(4,811)	(3,442)
Stock-based compensation, net of tax	\$ 3,433	\$ 2,753	\$ 10,541	\$ 6,797

As of May 31, 2011, \$47.6 million of total unrecognized compensation expense related to non-vested awards is expected to be recognized over a weighted average period of 3.6 years. There was no stock-based compensation capitalized as of May 31, 2011 or August 31, 2010, respectively.

Employee Stock Option Fair Value Determinations

The Company utilizes the lattice-binomial option-pricing model ("binomial model") to estimate the fair value of new employee stock option grants. The Company's determination of fair value of stock option awards on the date of grant using the binomial model is affected by the Company's stock price as well as assumptions regarding a number of variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, interest rates, option forfeitures and employee stock option exercise behaviors.

Fiscal 2011

Q1 2011 84,811 non performance-based employee stock options and 809,239 performance-based employee stock options were granted at a weighted average exercise price of \$88.40 and a weighted average estimated fair value of \$24.42 per share.

Q2 2011 65,224 performance-based employee stock options were granted at a weighted average exercise price of \$99.78 and a weighted average estimated fair value of \$29.07 per share.

Table of Contents

Q3 2011 6,408 non performance-based employee stock options were granted at a weighted average exercise price of \$103.30 and a weighted average estimated fair value of \$23.41 per share.

Fiscal 2010

Q1 2010 32,476 non performance-based employee stock options and 900,665 performance-based employee stock options were granted at a weighted average exercise price of \$66.46 and a weighted average estimated fair value of \$19.99 per share.

Q2 2010 297,483 non performance-based employee stock options were granted at a weighted average exercise price of \$63.09 and a weighted average estimated fair value of \$21.01 per share.

Q3 2010 there were no stock options granted during the third quarter of fiscal 2010.

The weighted average estimated fair value of employee stock options granted was determined using the binomial model with the following weighted average assumptions:

	Three Months Ended May 31, 2011	Nine Months Ended May 31, 2011 2010	
Term structure of risk-free interest rate	0.19% - 1.00%	0.18% - 1.88%	0.15% - 3.30%
Expected life	4.0 years	4.0 - 6.5 years	4.0 - 6.7 years
Term structure of volatility	23% - 35%	23% - 35%	27% - 36%
Dividend yield	1.07%	1.25%	1.58%
Weighted average estimated fair value	\$23.41	\$24.72	\$20.24

The risk-free interest rate assumption for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on a combination of historical volatility of the Company's stock and implied volatilities of publicly traded options to buy FactSet common stock with contractual terms closest to the expected life of options granted to employees. The approach to utilize a mix of historical and implied volatility was based upon the availability of actively traded options on the Company's stock and the Company's assessment that a combination of implied volatility and historical volatility is best representative of future stock price trends. The Company uses historical data to estimate option exercises and employee termination within the valuation model. The dividend yield assumption is based on the Company's history and expectation of dividend payouts. The expected life of employee stock options represents the weighted average period the stock options are expected to remain outstanding and is a derived output of the binomial model. The binomial model estimates employees exercise behavior is based on the option's remaining vested life and the extent to which the option is in-the-money. The binomial model estimates the probability of exercise as a function of these two variables based on the entire history of exercises and cancellations of all past option grants made by the Company.

Non-Employee Director Stock Option Fair Value Determinations

On December 16, 2008, the Company's stockholders approved the 2008 Non-Employee Directors' Stock Option Plan (the "Directors' Plan") that provides for the grant of share-based awards, including stock options, to non-employee directors of FactSet. The ratification of the Directors' Plan replaced the FactSet 1998 Non-Employee Directors' Stock Option Plan, which had expired on November 1, 2007, except with respect to outstanding options previously granted thereunder. A total of 250,000 shares of FactSet common stock have been reserved for issuance under the Directors' Plan. The expiration date of the Directors' Plan is December 1, 2018. The shares of common stock to be issued may be either authorized and unissued shares or shares held by the Company in its treasury.

The Company utilizes the Black-Scholes model to estimate the fair value of new non-employee Director stock option grants. The Company's determination of fair value of share-based payment awards on the date of grant is affected by the Company's stock price as well as assumptions regarding a number of variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, interest rates, option forfeitures and employee stock option exercise behaviors.

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

Fiscal 2011

On January 14, 2011, 14,514 stock options were granted to the Company's non-employee Directors with a weighted average estimated fair value of \$26.87 per share, using the Black-Scholes option-pricing model with the following weighted average assumptions:

Risk-free interest rate	2.13%
Expected life	5.43 years
Expected volatility	31.1%
Dividend yield	1.18%

Table of Contents*Fiscal 2010*

On January 15, 2010, 18,510 stock options were granted to the Company's non-employee Directors with a weighted average estimated fair value of \$21.06 per share, using the Black-Scholes option-pricing model with the following weighted average assumptions:

Risk-free interest rate	2.54%
Expected life	5.43 years
Expected volatility	35.4%
Dividend yield	1.42%

The risk-free interest rate assumption for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on the historical volatility of the Company's stock. The Company uses historical data to estimate option exercises and non-employee director terminations within the valuation model. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

Restricted Stock Fair Value Determinations

Restricted stock granted to employees entitle the holder to shares of common stock as the award vests over time, but not to dividends declared on the underlying shares while the restricted stock is unvested. The grant date fair value of restricted stock awards are measured by reducing the grant date price of FactSet's share by the present value of the dividends expected to be paid on the underlying stock during the requisite service period, discounted at the appropriate risk-free interest rate. Restricted stock awards are amortized to expense over the vesting period.

Fiscal 2011

117,723 shares of restricted stock with a fair value of \$84.38 were granted on November 8, 2010.

366 shares of restricted stock with a fair value of \$95.24 were granted on January 27, 2011.

3,291 restricted stock units with a fair value of \$83.49 were granted on November 8, 2010.

1,719 restricted stock units with a fair value of \$94.50 were granted on January 27, 2011.

30,090 restricted stock units with a fair value of \$99.75 were granted on April 14, 2011.

Fiscal 2010

161,794 shares of restricted stock with a fair value of \$62.85 were granted on October 23, 2009.

90,030 restricted stock awards with a fair value of \$59.42 were granted on February 9, 2010. Of the total number of restricted stock awards granted, 55,572 cliff vest 100% after three years. The remaining 34,458 restricted stock awards cliff vest 50% after four years and the other 50% after six years.

Employee Stock Purchase Plan Fair Value Determinations

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

Employees purchased 56,659 shares at a price of \$75.58 during the first nine months of fiscal 2011. During the three months ended May 31, 2011, employees purchased 18,053 shares at a weighted average price of \$87.02 as compared to 22,510 shares at a weighted average price of \$57.46 in the same period a year ago.

The Company uses the Black-Scholes model to calculate the estimated fair value for the employee stock purchase plan. The weighted average estimated fair value of employee stock purchase plan grants during the three months ended May 31, 2011 and 2010 were \$16.97 and \$11.50 per share, respectively, with the following weighted average assumptions:

	Three Months Ended	
	May 31, 2011	2010
Risk-free interest rate	0.07%	0.17%
Expected life	3 months	3 months
Expected volatility	9.8%	12.6%
Dividend yield	0.9%	1.4%

The weighted average estimated fair value of employee stock purchase plan grants during the nine months ended May 31, 2011 and 2010 were \$14.71 and \$11.14 per share, respectively, with the following weighted average assumptions:

	Nine Months Ended	
	May 31, 2011	2010
Risk-free interest rate	0.12%	0.11%
Expected life	3 months	3 months
Expected volatility	9.7%	14.2%
Dividend yield	1.0%	1.3%

Table of Contents***Accuracy of Fair Value Estimates***

The Company is responsible for determining the assumptions used in estimating the fair value of its share-based payment awards. The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, interest rates, option forfeiture rates and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable.

15. INCOME TAXES

Income tax expense is based on taxable income determined in accordance with current enacted laws and tax rates. Deferred income taxes are recorded for the temporary differences between the financial statement and tax bases of assets and liabilities using currently enacted tax rates.

Provision for Income Taxes

The provision for income taxes by geographic operations is as follows (in thousands):

	Three months ended May 31,			Nine months ended May 31,		
	2011	2010	Change	2011	2010	Change
U.S. operations	\$ 52,172	\$ 47,961	8.8%	\$ 151,743	\$ 145,626	4.2%
Non-U.S. operations	9,823	7,809	25.8%	28,031	19,053	47.1%
Income before income taxes	\$ 61,995	\$ 55,770	11.2%	\$ 179,774	\$ 164,679	9.2%
U.S. operations*	\$ 16,519	\$ 14,915	10.8%	\$ 42,945	\$ 48,947	(12.3)%
Non-U.S. operations	2,165	2,197	(1.5)%	6,663	4,812	38.4%
Total provision for income taxes*	\$ 18,684	\$ 17,112	9.2%	\$ 49,608	\$ 53,759	(7.7)%
Effective tax rate**	30.1%	30.7%		27.6%	32.6%	

* Included in the provision for income taxes during the nine months ended May 31, 2011 were income tax benefits of \$4.9 million from the reenactment of the U.S. Federal R&D credit in December 2010. The Company's effective tax rate is based on current enacted tax laws and as such, prior to the second quarter of fiscal 2011, it did not reflect the R&D tax credit in any months of fiscal 2011 as the R&D credit expired on December 31, 2009. The reenactment of the credit was retroactive to January 1, 2010.

** The Company's projected annual effective tax rate before discrete items for fiscal 2011 is 31.0%. As mentioned above, during fiscal 2011, the Company recorded \$4.9 million of income tax benefits from the reenactment of the R&D credit, which resulted in an actual effective tax rate for the nine months ended May 31, 2011 of 27.6%.

The components of the provision for income taxes consist of the following (in thousands):

Nine months ended May 31, 2011	2011	2010
Current:		
U.S. federal	\$ 38,876	\$ 49,131
U.S. state and local	3,670	3,846
Non-U.S.	7,314	5,469

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

Total current taxes	\$ 49,860	\$ 58,446
Deferred:		
U.S. federal	\$ (359)	\$ 3,715
U.S. state and local	(40)	315
Non-U.S.	651	657
Total deferred taxes	252	4,687
Total tax provision	\$ 49,608	\$ 53,759

Table of Contents

In the normal course of business, the Company's tax filings are subject to audit by federal, state and foreign tax authorities. At May 31, 2011, the Company remained subject to examination in the following major tax jurisdictions for the tax years as indicated below:

Major Tax Jurisdictions	Open Tax Years
U.S.	
Federal	2009 through 2011
State (various)	2003 through 2011
Europe	
France	2010 through 2011
United Kingdom	2008 through 2011

Unrecognized Tax Positions

Applicable accounting guidance prescribes a comprehensive model for the financial statement recognition, measurement, classification and disclosure of uncertain tax positions that a company has taken or expects to take on a tax return. A company can recognize the financial effect of an income tax position only if it is more likely than not (greater than 50%) that the tax position will prevail upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit or expense can be recognized in the consolidated financial statements. The tax benefits recognized are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Additionally, companies are required to accrue interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws.

As of May 31, 2011, the Company had gross unrecognized tax benefits totaling \$6.8 million, including \$0.8 million of accrued interest, recorded as non-current taxes payable in the Statement of Financial Condition. Unrecognized tax benefits represent tax positions taken on tax returns but not yet recognized in the consolidated financial statements. When applicable, the Company adjusts the previously recorded tax expense to reflect examination results when the position is effectively settled. The Company regularly engages in discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. It is reasonably possible that certain federal, foreign, and state tax matters may be concluded in the next 12 months. However, FactSet has no reason to believe that such audits will result in the payment of additional taxes and/or penalties that would have a material adverse effect on the Company's results of operations or financial position, beyond current estimates. Any changes in accounting estimates resulting from new developments with respect to uncertain tax positions will be recorded as appropriate. The Company does not currently anticipate that the total amounts of unrecognized tax benefits will significantly change within the next 12 months.

The following table summarizes the changes in the balance of gross unrecognized tax benefits during the first nine months of fiscal 2011 (in thousands):

Unrecognized tax benefits at August 31, 2010	\$ 7,346
Additions based on tax positions related to the current year	943
Additions for tax positions of prior years (includes \$0.3 million for the payment of interest)	1,399
Reductions for tax positions of prior years	0
Lapse of statute of limitations	(964)
Reductions from settlements with taxing authorities	(1,929)
Unrecognized income tax benefits at May 31, 2011	\$ 6,795

Deferred Tax Assets and Liabilities

The significant components of deferred tax assets that are recorded in the Consolidated Statements of Financial Condition were as follows (in thousands):

May 31,	Aug 31,
2011	2010

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

Deferred tax assets		
Current		
Allowance for doubtful accounts	\$ 717	\$ 700
Deferred rent	3,439	3,397
Other	0	(1,285)
Net current deferred taxes	\$ 4,156	\$ 2,812

Table of Contents

Non-current		
Depreciation on property, equipment and leasehold improvements	2,924	5,078
Deferred rent	2,793	2,788
Stock-based compensation	14,676	13,087
Purchased intangible assets, including acquired technology	(2,981)	(3,293)
Other	1,409	1,941
Net non-current deferred taxes	18,821	19,601

Total deferred tax assets \$ 22,977 \$ 22,413

The significant components of deferred tax liabilities that are recorded in the Consolidated Statements of Financial Condition were as follows (in thousands):

	May 31, 2011	Aug 31, 2010
Deferred tax liabilities (non-current)		
Purchased intangible assets, including acquired technology	\$ 3,835	\$ 3,731
Total deferred tax liabilities (non-current)	\$ 3,835	\$ 3,731

A provision has not been made for additional U.S. Federal or foreign taxes as of May 31, 2011 on undistributed earnings of foreign subsidiaries, except for the United Kingdom and France, because the Company intends to reinvest these funds indefinitely to support foreign growth opportunities. The amount of such undistributed earnings of foreign subsidiaries included in consolidated retained earnings was immaterial at May 31, 2011 and August 31, 2010. It is not practicable to estimate the unrecognized deferred tax liability on these undistributed earnings. These earnings could become subject to additional tax if they are remitted as dividends, loaned to FactSet, or upon sale of the subsidiary's stock.

16. COMMITMENTS AND CONTINGENCIES

Commitments represent obligations, such as those for future purchases of goods or services that are not yet recorded on the balance sheet as liabilities. FactSet records liabilities for commitments when incurred (*i.e.*, when the goods or services are received).

Lease Commitments

At May 31, 2011, the Company leases approximately 169,000 square feet of office space at its headquarters in Norwalk, Connecticut. In addition, FactSet leases office space in the U.S. in New York, New York; Boston, Massachusetts; Chicago, Illinois; San Mateo, California; Austin, Texas; Tuscaloosa, Alabama; Newark and Piscataway, New Jersey; Manchester, New Hampshire; and Reston, Virginia. Outside the U.S., the Company's operations are conducted in leased office space in London, England; Paris and Avon, France; Amsterdam, the Netherlands; Frankfurt, Germany; Milan, Italy; Tokyo, Japan; Hong Kong; Dubai, United Arab Emirates; Hyderabad and Mumbai, India; Sydney, Australia; and Manila, the Philippines. The leases expire on various dates through March 2021. Total minimum rental payments associated with the leases are recorded as rent (a component of selling, general and administrative expenses) on a straight-line basis over the periods of the respective non-cancelable lease terms. The Company believes that its leased office space is adequate for its current needs and that additional space is available for lease to meet any future needs.

During the first nine months of fiscal 2011, FactSet entered into the following new lease agreements:

Piscataway, New Jersey: In connection with the relocation of the Company's New Hampshire data center to a new, state of the art facility. The new lease for space in New Jersey will result in incremental future minimum rental payments of \$15.8 million over the non-cancelable lease term of ten years.

Paris, France: A new lease agreement for office space was entered into in order to relocate the Company's JCF operations within Paris. The new lease will result in incremental future minimum rental payments of \$3.2 million over the non-cancelable lease term of six years.

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

In May 2011, the offices of the Company's JCF operations were relocated within Paris, resulting in a reduction of rentable office space of approximately 10,000 square feet. A charge of \$0.1 million was recorded in May 2011 to reflect the remaining lease payments due under the vacated office space.

Hyderabad, India: New lease agreements for additional space to support the Company's expanding content collection operations in India were entered into, which will result in incremental future minimum rental payments of \$2.6 million over the non-cancelable lease term of five years.

Manila, the Philippines: A new lease agreement for space to support the Company's expanding content collection operations in the Philippines was entered into, which will result in incremental future minimum rental payments of \$1.3 million over the non-cancelable lease term of five years.

Table of Contents

Dubai, United Arab Emirates: The Company's global presence expanded with the opening of a Dubai office in December 2010, joining FactSet's network of more than 24 offices around the world. The new lease will result in incremental future minimum rental payments of \$0.2 million over the non-cancelable lease term of one year.

Including the new lease agreements entered into during fiscal 2011, the Company's worldwide leased office space increased to approximately 724,000 square feet, up 13.1% from August 31, 2010 and 13.4% from a year ago.

At May 31, 2011, the Company's lease commitments for office space provide for the following future minimum rental payments under non-cancelable operating leases with remaining terms in excess of one year (in thousands):

Years Ended August 31,	Minimum Lease Payments
2011 (remaining three months)	\$ 6,128
2012	25,558
2013	25,132
2014	20,507
2015	17,639
Thereafter	60,852
Total	\$ 155,816

During the three months ended May 31, 2011 and 2010, rent expense for all operating leases amounted to \$8.7 million and \$7.2 million, respectively. Rent expense for all operating leases for the first nine months of fiscal 2011 and 2010 amounted to \$24.3 million and \$22.3 million, respectively. Approximately \$4.5 million of standby letters of credit have been issued during the ordinary course of business in connection with the Company's current leased office space as of May 31, 2011. These standby letters of credit contain covenants that, among other things, require the Company to maintain minimum levels of consolidated net worth and certain leverage and fixed charge ratios. As of May 31, 2011, FactSet was in compliance with all covenants contained in the standby letters of credit.

Purchase Commitments with Suppliers

Purchase obligations represent payment due in future periods in respect of commitments to the Company's various data vendors as well as commitments to purchase goods and services such as telecommunication and computer maintenance services. These purchase commitments are agreements that are enforceable and legally binding on FactSet and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. As of August 31, 2010, the Company had total purchase commitments of \$45.6 million. There were no material changes in FactSet's purchase commitments during the first nine months of fiscal 2011.

Contingencies**Legal Matters**

FactSet accrues non income-tax liabilities for contingencies when management believes that a loss is probable and the amounts can be reasonably estimated, while contingent gains are recognized only when realized. The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business, including intellectual property litigation. These matters are subject to inherent uncertainties and management's view of these matters may change in the future. While the outcome of these matters is currently not determinable, management currently believes that the ultimate cost to resolve these matters against the Company, individually or in the aggregate, will not have a material adverse impact on its consolidated financial position, results of operations or cash flows.

Income Taxes

Uncertain income tax positions are accounted for in accordance with applicable accounting guidance (see Note 15). FactSet is currently under audit by multiple tax authorities. The Company has reserved for potential adjustments to its provision for income taxes that may result from examinations by, or any negotiated agreements with, these tax authorities, and the Company believes that the final outcome of these examinations or agreements will not have a material effect on its results of operations. If events occur which indicate payment of these amounts is unnecessary, the reversal of the liabilities would result in the recognition of tax benefits in the period FactSet determines the liabilities are no longer necessary. If the Company's estimates of the federal, state, and foreign income tax liabilities are less than the ultimate assessment, a

further charge to expense would result.

Table of Contents

Indemnifications

As permitted or required under Delaware law and to the maximum extent allowable under that law, FactSet has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at FactSet's request in such capacity. These indemnification obligations are valid as long as the director or officer acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the Company, and with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The maximum potential amount of future payments FactSet could be required to make under these indemnification obligations is unlimited; however, FactSet has a director and officer insurance policy that mitigates FactSet's exposure and enables FactSet to recover a portion of any future amounts paid. The Company believes the estimated fair value of these indemnification obligations is minimal.

Financial Instruments

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade accounts receivable and derivative instruments. FactSet performs ongoing credit evaluations of its clients and does not require collateral from its clients. The Company calculates its receivable reserve through analyzing aged client receivables and reviewing the recent history of client receivable write-offs. At May 31, 2011, the Company's largest individual client accounted for 2% of total subscriptions and annual subscriptions from the ten largest clients did not surpass 16% of total client subscriptions, consistent with August 31, 2010. At May 31, 2011 and August 31, 2010, the receivable reserve was \$1.9 million, respectively.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is designed to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in the following sections:

Executive Overview

Results of Operations

Performance-based Equity Awards

Foreign Currency

Liquidity

Capital Resources

Off-Balance Sheet Arrangements

Contractual Obligations

Share Repurchase Program

Dividends

Significant Accounting Policies and Critical Accounting Estimates

New Accounting Pronouncements

Recent Market Trends

Forward-Looking Factors

Executive Overview

FactSet is a leading provider of integrated financial information and analytical applications to the global investment community. By consolidating content from hundreds of databases with powerful analytics on a single platform, FactSet supports the investment process from initial research to published results for buy and sell-side professionals. These professionals include portfolio managers, research and

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

performance analysts, risk managers, marketing professionals, sell-side equity research professionals, investment bankers and fixed income professionals. Our applications provide users access to company analysis, multicompany comparisons, industry analysis, company screening, portfolio analysis, predictive risk measurements, alphas testing, portfolio optimization and simulation, real-time news and quotes and tools to value and analyze fixed income securities and portfolios.

We combine hundreds of data sets, including content regarding tens of thousands of companies and securities from major markets all over the globe, into a single online platform of information and analytics. Clients have simultaneous access to content from an array of sources, which they can combine and utilize in nearly all of our applications. With Microsoft Office integration, wireless access and customizable options, we offer the most complete financial workflow solution. Our revenues are primarily derived from month-to-month subscriptions to services, databases and financial applications. We generate 82% of our revenues from our buy-side clients and the remainder is from the sell-side firms who perform M&A advisory work and equity research.

As of May 31, 2011, the Company employed 4,805 employees, an increase of 37 over the past three months and up 32% or 1,174 employees from a year ago. Of these employees, 1,555 were located in the U.S., 570 in Europe and the remaining 2,680 in Asia Pacific. The increase in headcount during fiscal 2011 was driven by the expansion of our proprietary content operations in India and the Philippines, as well as the hiring of consultants and software engineers. Approximately 56% of our employees are involved with content collection, 19% conduct sales and consulting services, another 21% are involved in product development, software and systems engineering and the remaining 4% of employees provide administrative support.

We continued our strong performance during the third quarter of fiscal 2011 as key operating metrics experienced healthy growth. Our standard formula of providing broad, global content through powerful applications accompanied by excellent client service resulted in double digit growth rates in both our ASV and diluted earnings per share. The subscription growth rate accelerated to 12%, while diluted earnings per share rose 14% year over year. We continued to hire more employees both in our content operations as well as in other groups, including engineering and sales and consulting around the world as our total headcount rose to 4,805 at May 31, 2011, up 32% compared to a year ago. During the third quarter, our regular quarterly dividend was increased 17% to \$0.27 per share. Aggregating dividends with share repurchases, we returned \$215 million to stockholders over the past 12 months. Lastly, FactSet was recognized as one of the UK's 50 Best Workplaces, marking our third consecutive appearance on the list.

Table of Contents**Results of Operations**

For an understanding of the significant factors that influenced our performance during the three and nine months ended May 31, 2011 and 2010, respectively, the following discussion should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements presented in this Quarterly Report on Form 10-Q.

(in thousands, except per share data)	Three months ended			Nine months ended		
	2011	May 31, 2010	Change	2011	May 31, 2010	Change
Revenues	\$ 183,647	\$ 160,301	14.6%	\$ 534,571	\$ 472,825	13.1%
Cost of services	62,224	51,355	21.2%	179,146	152,632	17.4%
Selling, general and administrative	59,600	53,262	11.9%	176,080	155,989	12.9%
Operating income	61,823	55,684	11.0%	179,345	164,204	9.2%
Net income	43,311	38,658	12.0%	130,166	110,920	17.4%
Diluted earnings per common share	0.92	0.81	13.6%	2.75	2.30	19.6%
Diluted weighted average common shares	47,154	47,725		47,418	48,183	

Revenues

Revenues for the three months ended May 31, 2011 were \$183.6 million, up 14.6% from \$160.3 million for the same period a year ago. For the first nine months of fiscal 2011, revenues increased 13.1% to \$534.6 million from \$472.8 million in the prior year period. During the third quarter of fiscal 2011, our user count increased by 800, net new clients rose by 26 and annual subscriptions increased by \$17 million. Excluding \$4.2 million of revenues from the Market Metrics business acquired on June 1, 2010, revenues grew by 11.9% in the third quarter of fiscal 2011 as compared to the same period a year ago.

Increased revenues were from successes across our product suite and in all geographic locations. Our revenue growth drivers during fiscal 2011 included broad-based growth across our geographical segments, clients continuing to license our advanced applications such as Portfolio Analysis (PA), growth in the number of clients and users, the expanded deployment of our proprietary data and an increase in the client retention rate.

Broad-based growth across all geographies

Our sales and consulting staff continued to sell our broad range of products across each geographic region. We gained new clients at traditional money managers, regional broker dealers and among research and sales departments both in the U.S. and internationally. Our U.S. investment management clients continued to experience strong growth across all geographies, which led to our strong results. Our buy-clients represented 82% of our total revenues in the third quarter of fiscal 2011, consistent with the prior year.

Clients continue to license our advanced applications

Equity portfolio analysis, SPAR, Fixed Income in PA and quantitative tools have been among the many value-added applications that continue to be in demand by our clients as sales of our quantitative products accelerated and led to revenue growth in fiscal 2011. This suite is comprehensive and includes the applications for portfolio attribution, risk, quantitative analysis portfolio publishing and returns based, style analysis. Beginning in fiscal 2011, the expanded PA suite included Axioma models and our Single Name Security Exposures application. This expanded PA suite of products registered its best quarterly performance of the fiscal year during the third quarter as we continue to increase the PA workstation count, the number of clients using fixed income in PA, and the number of quantitative users who take advantage of our PA offerings.

Growth in the number of clients and users of FactSet

For the sixth consecutive quarter since the recent economic downturn, we experienced net new client growth as we continue to provide users with improved features and functionality within virtually every report and chart on FactSet. We continue to see strong user and client growth as our client count expanded with 112 net new clients and 5,200 net new users in the past 12 months. At May 31, 2011, client count was 2,187, a net increase of 26 clients during the past three months. Professionals using FactSet increased to 45,600 as of May 31, 2011, up 800 users in the last three months and up 2,800 users since the beginning of the year. At May 31, 2011, the average ASV per client was \$339,000, up from \$324,000 at August 31, 2010 and \$311,000 at May 31, 2010. Gaining new clients and users enables us to begin a cycle of introducing them to

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

our suite of products so that we can then show users our value-added applications and content in future periods. User count growth of 13% over the past 12 months derived from both investment management and global banking and brokerage clients and driven by the combination of advanced FactSet applications including real-time news and quotes with a vast array of data supported by FactSet client service. The latest version of our real-time news and quotes application provides information from more than 100 exchanges and news sources.

Table of Contents

Expanded deployment of our proprietary data

Timeliness and reliability of data is our priority. We are pleased by the growing returns from our investment in proprietary content. In fiscal 2011, FactSet Fundamentals was enhanced to deliver high quality standardized data within hours of public filings by U.S. companies. FactSet Fundamentals and FactSet Estimates have been strong performers and we continue to invest in those and in our other proprietary databases, such as FactSet Economics, Corporate Events and Transcripts and Ownership. We offer proprietary datasets that generally include the latest, most accurate information available such as fundamentals, estimates, ownership, corporate new issues, people, private equity and venture capital, mergers and acquisitions, corporate events and transcripts, fixed income, global filings and benchmark data.

Increase in the client retention rate

At May 31, 2011, annual client retention remained at greater than 95% of ASV, consistent with last year. However, our annual client retention rate, on a client basis, improved to 92% of clients at May 31, 2011 as compared to 89% a year ago. This improvement suggests that despite concerns over the global economy, our clients are using and purchasing FactSet services as they continue to derive value from them. During the second quarter of fiscal 2011 we were concerned, along with our clients, about the impact of the natural disasters and their aftermath in Japan coupled with unrest in the Middle East. While those regions continue to work through the events of the last three months, our clients have been conducting business as usual and using FactSet services to do it.

Revenues by Geographic Region

(in thousands)	Three months ended			Nine months ended		
	2011	May 31, 2010	Change	2011	May 31, 2010	Change
U.S.	\$ 125,963	\$ 108,593	16.0%	\$ 365,737	\$ 320,681	14.1%
% of revenues	68.6%	67.7%		68.4%	67.8%	
Europe	\$ 44,944	\$ 40,694	10.4%	132,000	\$ 119,561	10.4%
Asia Pacific	12,740	11,014	15.7%	36,834	32,583	13.0%
International	\$ 57,684	\$ 51,708	11.6%	168,834	\$ 152,144	11.0%
% of revenues	31.4%	32.3%		31.6%	32.2%	
Consolidated	\$ 183,647	\$ 160,301	14.6%	\$ 534,571	\$ 472,825	13.1%

Three months ended May 31, 2011 (Quarter-to-date)

Revenues from our U.S. segment increased 16.0% to \$126.0 million during the three months ended May 31, 2011 compared to \$108.6 million in the same period a year ago. Our revenue growth rates in the U.S. reflect strong client and user growth, expanding the number of PA users, \$4.2 million from Market Metrics and a reduction in client cancellations. Excluding the acquisition of Market Metrics on June 1, 2010, U.S. organic revenues grew 12.1% in the third quarter of fiscal 2011 as compared to the same period a year ago.

International revenues in the third quarter of fiscal 2011 were \$57.7 million, an increase of 11.6% from \$51.7 million in the prior year period. The impact from foreign currency increased international revenues by \$0.4 million year over year. European revenues advanced 10.4% to \$44.9 million due to increases in user and client counts, offering a broader selection of global proprietary content, clients licensing our advanced applications and growth in our real-time news and quotes. Asia Pacific revenues grew to \$12.7 million, up 15.7% from the same period a year ago. Excluding the impact of foreign currency attributable to the change in the value of the Japanese Yen compared to the U.S. dollar, Asia Pacific revenue growth was 12.0% year over year largely due to our ability to sell additional services to existing clients, the ability to bring on new clients and users over the last 12 months, growth in our global content offering and the expansion of our real-time news and quotes that services the needs of a global investor. Revenues from international operations accounted for 31.4% of our consolidated revenues in the third quarter of fiscal 2011, as compared to 32.3% in the year ago quarter.

Nine months ended May 31, 2011 (Year-to-date)

Our U.S. segment revenue increased 14.1% to \$365.7 million during the first nine months of fiscal 2011 as compared to \$320.7 million in the same period a year ago. International revenues increased 11.0% to \$168.8 million during the nine months ended May 31, 2011 compared to \$152.1 million in the prior year period. The impact from foreign currency increased international revenues by \$1.0 million year over year. European revenues advanced 10.4% to \$132.0 million due to user and client growth. Asia Pacific revenues grew to \$36.8 million, up 13.0%

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

from the same period a year ago. Excluding the impact of foreign currency attributable to the change in the value of the Japanese Yen compared to the U.S. dollar, Asia Pacific revenue growth was 9.9% year over year. The recent natural disasters in Japan did not have a material impact on our

Table of Contents

consolidated results of operations during the third quarter of fiscal 2011. Revenues from international operations accounted for 31.6% of our consolidated revenues in the first nine months of fiscal 2011 as compared to 32.2% in fiscal 2010.

Annual Subscription Value (ASV)

ASV at any given point in time represents the forward-looking revenues for the next 12 months from all subscription services being supplied to our clients. With proper notice to us, our clients are generally able to add to, delete portions of, or terminate service at any time. Excluding \$16 million from the acquisition of Market Metrics on June 1, 2010, ASV increased 12% over the last 12 months. At May 31, 2011, ASV was \$741 million, up from the prior year total of \$646 million. Of this total, 82% of ASV derives from buy-side clients and the remainder from the sell-side firms who perform M&A advisory work and equity research. ASV from our U.S. operations was \$507 million, up \$70 million from a year ago. ASV from international operations increased from \$210 million at May 31, 2010 to \$234 million at May 31, 2011, representing 32% of our Company-wide total.

ASV advanced \$17 million during the third quarter of fiscal 2011, driven by purchases of advanced applications, growth in the number of clients and users, the expanded deployment of proprietary data, an increase in the client retention rate and an annual price increase for our non-U.S. investment management clients. We believe that our continued growth at healthy levels highlights the stability of our subscription business model and the improving health of a global client base. We continue to combine our analytic applications, best-of breed global content, and industry leading client service to foster growth and the expansion of our business. For the sixth consecutive quarter since the recent economic downturn, we had ASV and user growth in both buy-side and sell-side clients. In March 2011, we issued our annual price increase which impacted the majority of our non-U.S. investment management clients. This price increase resulted in ASV growth during the third quarter of fiscal 2011 of \$2.0 million, as compared to the prior year price increase of \$1.3 million.

As of May 31, 2011, our largest individual client accounted for 2% of total ASV. Subscriptions from our ten largest clients did not surpass 16% of total ASV as of May 31, 2011, consistent with August 31, 2010 and May 31, 2010.

Operating Expenses

(in thousands)	Three months ended			Nine months ended		
	2011	May 31, 2010	Change	2011	May 31, 2010	Change
Cost of services	\$ 62,224	\$ 51,355	21.2%	\$ 179,146	\$ 152,632	17.4%
Selling, general and administrative (SG&A)	59,600	53,262	11.9%	176,080	155,989	12.9%
Total operating expenses*	\$ 121,824	\$ 104,617	16.4%	\$ 355,226	\$ 308,621	15.1%
Operating income	\$ 61,823	\$ 55,684	11.0%	\$ 179,345	\$ 164,204	9.2%
Operating Margin*	33.7%	34.7%		33.5%	34.7%	

* Included in operating expenses for the nine months ended May 31, 2011 was an incremental \$2.5 million of stock-based compensation from a change in the expected outcome of performance-based stock options. During the second quarter of fiscal 2011, we estimated that it was probable that the Company would achieve ASV and diluted earnings per share growth of at least 8% on a compounded annual basis for the two years ended August 31, 2011 due to our accelerating ASV and diluted EPS growth rates. This revised estimate reflects a higher performance level than previously estimated and accordingly, increased the number of performance-based options that are estimated to vest at the end of fiscal 2011. The charge related to stock-based compensation reduced generally accepted accounting principles (GAAP) operating margin by 50 basis points from 34.0% to 33.5% for the nine months ended May 31, 2011.

Cost of Services***Three months ended May 31, 2011 (Quarter-to-date)***

For the three months ended May 31, 2011, cost of services increased 21.2% to \$62.2 million as compared to \$51.4 million in the same period a year ago. Cost of services expressed as a percentage of revenues was 33.9% during the third quarter of fiscal 2011, a rise of 185 basis points from a year ago. The increase year over year was driven by higher employee compensation expense partially offset by lower levels of third party data costs and computer-related expenses.

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

Employee compensation, expressed as a percentage of revenues, increased 350 basis points for the three months ended May 31, 2011 compared to the same period a year ago due to the hiring of new classes of software engineers and consultants around the world, the continued expansion of our proprietary content collection operations in Hyderabad and Manila and increased variable compensation. Over the last 12 months, we have hired over 160 net new software engineers and 130 net new consultants as we continue to improve our applications and service our existing client base. In addition, we increased our content collection headcount by approximately 825 employees in the past year, primarily at our facilities in India and the

Table of Contents

Philippines. At May 31, 2011, approximately 56% of our employees were involved with content collection as compared to 51% at May 31, 2010.

Lower levels of third party data costs and computer-related expenses partially offset the overall increase to cost of services expressed as a percentage of revenues during the third quarter of fiscal 2011 compared to the same period a year ago.

Data costs, expressed as a percentage of revenues, decreased 85 basis points for the three months ended May 31, 2011 compared to the same period in fiscal 2010 as a result of lower variable fees payable to data vendors based on deployment of their content over the FactSet platform from increased client usage of our proprietary content. Annual third-party royalty payments were reduced in the third quarter of fiscal 2011 due to the deployment of our own proprietary content over the FactSet platform including FactSet Fundamentals, FactSet Estimates and FactSet Economics. Computer-related expenses, including depreciation and computer maintenance costs, decreased 75 basis points in the third quarter of fiscal 2011 as compared to a year ago due to the transition to more efficient and cost-effective servers in our data centers in addition to the continued use of fully depreciated servers. Our global technology infrastructure supports our ability to process rapidly and efficiently substantial volumes of data and transactions. The cost per server and related architecture continues to decline as we have become more efficient in our data centers.

Nine months ended May 31, 2011 (Year-to-date)

Cost of services increased 17.4% to \$179.1 million for the nine months ended May 31, 2011, as compared to \$152.6 million in the same period a year ago. Expressed as a percentage of revenues, cost of services was 33.5% during the first nine months of fiscal 2011, an increase of 120 basis points from fiscal 2010. The increase was driven by higher employee compensation and performance-based stock option expense partially offset by lower levels of third party data costs, computer-related expenses and communication costs.

During fiscal 2011, employee compensation increased 270 basis points, expressed as a percentage of revenues, as we increased headcount and incurred higher variable compensation. Since June 1, 2010, we have hired an additional 800 employees for our content collection operations and more than 290 net new software engineers and consultants as we continue to improve our applications and service our existing client base. The increase year over year in stock-based compensation reflects a \$2.5 million incremental charge from performance-based stock options, as recorded in the second quarter of fiscal 2011.

Partially offsetting the growth in cost of services during fiscal 2011 were declines in third party data costs, computer-related expenses and communication costs. Data costs decreased 90 basis points for the nine months ended May 31, 2011 as we incurred lower variable fees payable to data vendors in addition to the end of our Thomson Reuters transition services agreement. Computer-related expenses decreased 55 basis points in fiscal 2011 as compared to a year ago due to the transition to more efficient and cost-effective servers in our data centers over the past 12 months. Communication costs decreased 25 basis points in fiscal 2011 due to implementing more cost effective means to connect client to our data centers.

Selling, General and Administrative

Three months ended May 31, 2011 (Quarter-to-date)

For the three months ended May 31, 2011, SG&A expenses increased 11.9% to \$59.6 million from \$53.3 million in the same period a year ago. However, SG&A expenses, expressed as a percentage of revenues, was 32.5% during the third quarter of fiscal 2011, a decrease of 75 basis points from the same period a year ago. Lower SG&A expenses, expressed as a percentage of revenues, was due to lower employee compensation, favorable currency movements and accelerating ASV growth rates partially offset by a rise in travel and entertainment (T&E) expenses and a full quarter of expense from the acquisition of Market Metrics.

Expressed as a percentage of revenues, employee compensation declined 85 basis points in fiscal 2011 due to favorable currency rates and our accelerating ASV. We hedged approximately 95% of our fiscal 2011 third quarter exposure to movements in the Euro and British Pound Sterling against the U.S. dollar during the 2010 calendar year. Since the date the forward contracts were entered into during 2010, the U.S. dollar has weakened against both the Euro and British Pound Sterling. As a result of these contracts to hedge our Euro and British Pound Sterling currency risk, we recorded a gain on derivatives of \$1.9 million in SG&A during the third quarter of fiscal 2011 as compared to a loss of \$0.2 million in the prior year quarter. In addition, the percentage of employees providing administrative support has declined from 5% to 4%, year over year.

Partially offsetting the decrease in SG&A expenses, expressed as a percentage of revenues, were higher T&E expenses. T&E costs increased 100 basis points for the three months ended May 31, 2011, compared to the same period in fiscal 2010 primarily due to more client visits, more U.S. employees traveling overseas and a 30% overall increase in air fares and hotel fees. In addition, during the third quarter of fiscal 2011, we

held an internal sales conference as well as two large scale client

Table of Contents

conferences in both the U.S. and Europe. In the past year, travel has increased to enable us to manage our Hyderabad and Manila operations, as we continue to expand our proprietary content collection. Total T&E costs related to air travel and hotel stays by U.S. employees rose by 30% year over year. Market Metrics was acquired on June 1, 2010 resulting in incremental SG&A expenses year over year, primarily in higher compensation, office expenses and T&E.

Nine months ended May 31, 2011 (Year-to-date)

SG&A expenses were \$176.1 million for the nine months ended May 31, 2011, up 12.9% from \$156.0 million in the same period a year ago. However, SG&A expenses, expressed as a percentage of revenues, decreased 5 basis points from fiscal 2010, driven by lower employee compensation, hedging gains in the current year and a temporary decline in occupancy costs partially offset by higher T&E, increased stock-based compensation from performance-based stock options and three quarters of expense from the acquisition of Market Metrics.

Expressed as a percentage of revenues, employee compensation declined 90 basis points in fiscal 2011 due to our accelerating ASV and a favorable currency rates. Occupancy costs, including rent and depreciation of furniture and fixtures, expressed as a percentage of revenues, decreased by 10 basis points in fiscal 2011 compared to the same period a year ago. However, lower occupancy costs are temporary and are being driven by the timing of acquiring new space to support a growing employee base.

T&E expenses increased 85 basis points in fiscal 2011 compared to the same period in fiscal 2010 primarily due to more client visits and additional employees traveling overseas to manage our Hyderabad and Manila operations. Market Metrics was acquired on June 1, 2010, resulting in incremental SG&A expenses year over year. The increase year over year in stock-based compensation reflects an incremental charge recorded in the second quarter of fiscal 2011 from performance-based stock options.

Operating Income and Operating Margin

Three months ended May 31, 2011 (Quarter-to-date)

Operating income advanced 11.0% to \$61.8 million for the three months ended May 31, 2011 compared to the prior year period. Our operating margin during the third quarter of fiscal 2011 was 33.7%, down from 34.7% a year ago.

The decrease in operating margin in the third quarter of fiscal 2011 as compared to the same period a year ago was primarily due to expanding the number of employees in all areas throughout the world, including within our content operations, product development and consulting groups in addition to a rise in T&E expense. The continued investment in our personnel resulted in employee count growth of 32% to 4,805 as of May 31, 2011 and was driven by hiring for our operations in India and the Philippines, as well as the hiring of consultants and software engineers in each geographic region. Similar to the second quarter of fiscal 2011 when we were named to Fortune's 100 Best Companies to Work For, we were recognized in the third quarter of fiscal 2011 as one of the UK's 50 Best Workplaces. This accolade is a repeat performance for us as we make our third consecutive appearance on this list. We believe that FactSet offers our employees a great place to work and to progress in their careers as we grow as a company.

Nine months ended May 31, 2011 (Year-to-date)

During the first nine months of fiscal 2011 operating income advanced 9.2% to \$179.3 million compared to the prior year period. Included in fiscal 2011 was an incremental \$2.5 million of stock-based compensation from a change in the expected outcome of performance-based stock options. This charge reduced GAAP operating income by \$2.5 million and GAAP operating margin by increased by 50 basis points from 34.0% to 33.5%. Our operating margin during fiscal 2011 was down 120 basis points to 33.5% due to growth in our employee headcount, a rise in T&E and higher performance-based stock option expense partially offset by lower data costs and hedging gains.

Operating Income by Segment

(in thousands)	Three months ended			Nine months ended		
	2011	May 31, 2010	Change	2011	May 31, 2010	Change
U.S.	\$ 35,218	\$ 29,926	17.7%	\$ 102,832	\$ 92,640	11.0%
Europe	20,659	19,716	4.8%	59,377	53,433	11.1%

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

Asia Pacific	5,946	6,042	(1.6)%	17,136	18,131	(5.5)%
--------------	-------	-------	--------	--------	--------	--------

Consolidated \$ 61,823 \$ 55,684 11.0% \$ 179,345 \$ 164,204 9.2%

Our reportable segments are aligned with how we, including our CODM, manage the business and the demographic markets in which we serve.

Our internal financial reporting structure is based on three reportable segments; U.S., Europe and Asia

Table of Contents

Pacific, which we believe helps us better manage the business and view the markets we serve. Sales, consulting, data collection and software engineering are the primary functional groups within each segment. Each segment records compensation, including stock-based compensation, data collection costs, amortization of intangible assets, depreciation of furniture and fixtures, amortization of leasehold improvements, communication costs, professional fees, rent expense, travel, marketing, office and other direct expenses. Expenditures associated with the Company's data centers and corporate headquarters charges are recorded by the U.S. segment and are not allocated to the other segments.

Operating income from our U.S. business increased 17.7% to \$35.2 million during the three months ended May 31, 2011 compared to \$29.9 million in the same period a year ago. For the nine months ended May 31, 2011, U.S. operating income advanced 11.0% to \$102.8 million compared to \$92.6 million in the year ago period. The increase in operating income was primarily due to \$17.4 million of incremental revenues and lower data and computer-related expenses partially offset by higher employee compensation and a rise in T&E expenses. Our revenue growth in the U.S. reflects client and user growth, \$4.2 million from Market Metrics, expanding the number of PA users and an increase in the client retention rate. Variable fees payable to data vendors based on deployment of their content over the FactSet platform declined as the result of increased client usage of our proprietary content, including FactSet Fundamentals, FactSet Estimates and FactSet Economics. Computer-related expenses, including depreciation and computer maintenance costs decreased due to the transition to more efficient and cost-effective servers in our data centers in addition to the continued use of fully depreciated servers.

European operating income increased 4.8% to \$20.7 million during the three months ended May 31, 2011 compared to \$19.7 million in the same period a year ago. For the nine months ended May 31, 2011, European operating income advanced 11.1% to \$59.4 million compared to \$53.4 million a year ago. The increase in European operating income is due to a \$4.3 million increase in revenues and lower variable fees payable to data vendors partially offset by higher T&E expenses. The increase in European revenues was due to increases in user and client counts, a broader offering of global proprietary content, increased licenses to clients for our advanced applications, and growth in our real-time news and quotes.

Asia Pacific operating income decreased 1.6% to \$5.9 million during the three months ended May 31, 2011 compared to \$6.0 million in the same period a year ago. For the nine months ended May 31, 2011, Asia Pacific operating income decreased 5.5% to \$17.1 million compared to \$18.1 million a year ago. The decrease in Asia Pacific operating income was primarily driven by higher employee compensation due to headcount growth, increased occupancy costs for our office expansions in Japan, Hong Kong, India and the Philippines, and higher T&E expense, partially offset by \$1.7 million of incremental revenues year over year.

Other Income, Income Taxes, Net Income and Diluted Earnings per Share

(in thousands, except per share data)	Three months ended			Nine months ended		
	2011	May 31, 2010	Change	2011	May 31, 2010	Change
Other income	\$ 172	\$ 86	100.0%	\$ 429	\$ 475	(9.7)%
Provision for income taxes*	\$ 18,684	\$ 17,112	9.2%	\$ 49,608	\$ 53,759	(7.7)%
Net income	\$ 43,311	\$ 38,658	12.0%	\$ 130,166	\$ 110,920	17.4%
Diluted earnings per common share	\$ 0.92	\$ 0.81	13.6%	\$ 2.75	\$ 2.30	19.6%
Effective tax rate**	30.1%	30.7%		27.6%	32.6%	

* Included in the provision for income taxes during the nine months ended May 31, 2011 were income tax benefits of \$4.9 million from the reenactment of the U.S. Federal R&D credit in December 2010. Our effective tax rate is based on current enacted tax laws and as such, prior to the second quarter of fiscal 2011, it did not reflect the R&D tax credit in any months of fiscal 2011 as the R&D credit expired on December 31, 2009. The reenactment of the credit was retroactive to January 1, 2010.

** Our projected annual effective tax rate before discrete items for fiscal 2011 is 31.0%. As mentioned above, during the second quarter of fiscal 2011, we recorded \$4.9 million of income tax benefits from the reenactment of the R&D credit, which resulted in an actual effective tax rate for the third quarter of 30.1%.

Other Income

Other income during fiscal 2011 remained immaterial and was consistent with fiscal 2010 levels as the Federal Reserve maintained low U.S. interest rates which kept returns on our cash and cash equivalents low. Other income was \$0.2 million and \$0.4 million, respectively for the three and nine months ended May 31, 2011 compared to \$0.1 million and \$0.5 million in the same periods a year ago. Our average annualized return on cash and cash equivalents was 33 basis points during fiscal 2011 as compared to 18 basis points in the same period a year ago. At no

time during fiscal 2011 and 2010 did a component

Table of Contents

of our cash and cash equivalents portfolio experience a decline in value due to a ratings change, default or increase in counterparty credit risk.

Income Taxes

For the three months ended May 31, 2011, the provision for income taxes increased 9.2% to \$18.7 million as compared to the same period a year ago primarily due to an 11.2% increase in income before income taxes and \$1.6 million of income tax benefits recorded in the prior year. During the third quarter of fiscal 2010, we recorded income tax benefits of \$1.6 million associated with the finalization of our fiscal 2009 tax return and adjustments to certain reserves to reflect the lapse of statute of limitations. For the first nine months of fiscal 2011, the provision for income taxes was \$49.6 million, down 7.7% from \$53.8 million in fiscal 2010 due to \$4.9 million of income tax benefits recorded in the second quarter of fiscal 2011 from the reenactment of the U.S. Federal R&D credit in December 2010.

The effective tax rate for the third quarter of fiscal 2011 was 30.1% as compared to 30.7% a year ago. Our projected annual effective tax rate before discrete items for fiscal 2011 is 31.0%.

Net Income and Earnings per Share

Net income rose 12.0% to \$43.3 million and diluted earnings per share increased 13.6% to \$0.92 for the three months ended May 31, 2011. During the first nine months of fiscal 2011, net income rose 17.4% to \$130.2 million and diluted earnings per share increased 19.6% to \$2.75 compared to the same period a year ago. Drivers of net income and diluted earnings per share growth were higher levels of revenue, lower data costs, internal system efficiencies to better manage expenses, a lower effective tax rate and a reduction in the diluted weighted average shares outstanding partially offset by higher compensation and T&E expenses.

Performance-based Equity Awards

Performance-based equity awards (stock options and restricted stock units) require us to make assumptions regarding the likelihood of achieving our performance targets. The number of performance-based awards that vest will be predicated on us achieving performance levels for both ASV and diluted earnings per share subsequent to the date of grant. Dependent on the financial performance levels attained by us, a percentage of the performance-based awards granted will vest. There is no current guarantee however that such awards will vest in whole or in part.

October 2009 Performance-based Option Grant

In October 2009, we granted 900,665 performance-based employee stock options. The number of performance-based options that vest is based on us achieving performance levels for both organic ASV and diluted earnings per share during the two fiscal years ended August 31, 2011. At May 31, 2011, we estimated that it was probable we would achieve ASV and diluted earnings per share growth of between 8% - 10% on a compounded annual basis for the two years ended August 31, 2011. As such, at May 31, 2011, we estimated that 60% or 540,399 of the performance-based stock options will vest. However, a change from the current expected outcome of the October 2009 performance-based stock options due to accelerating ASV and diluted EPS growth rates during the fourth quarter of fiscal 2011 would require us to record an incremental \$3.4 million of stock-based compensation during the fourth quarter (equal to approximately \$0.05 per diluted share). A change in the expected outcome would only result if our ASV and diluted EPS growth rates during the two fiscal years ended August 31, 2011 exceeded 10%. The amount of additional stock-based compensation equal to \$3.4 million represents the one-time cumulative adjustment to be recorded if there had been a change in the vesting percentage from 60% to 100% as of May 31, 2011. The one-time cumulative adjustment would also increase the total unamortized stock-based compensation expense to be recognized over the remaining vesting period from \$4.1 million to \$6.8 million.

November 2010 Performance-based Option Grant

In November 2010, we granted 734,334 performance-based employee stock options. The number of performance-based options that vest is based on us achieving performance levels for both organic ASV and diluted earnings per share during the two fiscal years ended August 31, 2012. At May 31, 2011, we estimated that 20% or 146,867 of the performance-based stock options will vest which results in unamortized stock-based compensation expense of \$2.5 million to be recognized over the remaining vesting period. A change in the actual financial performance levels achieved by us could result in the following changes to our current estimate of the vesting percentage and related expense (in thousands):

Vesting

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

Percentage	Total Unamortized Stock-based Compensation Expense at May 31, 2011	One-time Adjustment	Average Remaining Quarterly Expense to be Recognized
0%	\$ 0	\$ (532)	\$ 0
20%	\$ 2,495	\$ 0	\$ 141
60%	\$ 7,487	\$ 1,064	\$ 423
100%	\$ 12,478	\$ 2,128	\$ 705

Table of Contents*Other Performance-based Option Grants*

Between June 2010 and January 2011, we granted 960,331 performance-based employee stock options that vest based on us achieving certain ASV targets over a six year period. At May 31, 2011, we estimated that 194,306 of the performance-based stock options will vest which results in unamortized stock-based compensation expense of \$3.4 million to be recognized over the remaining vesting period. A change from the current expected outcome of these performance-based stock options due to accelerating ASV growth rates during the fourth quarter of fiscal 2011 would require us to record an incremental \$1.3 million of stock-based compensation during the fourth quarter (equal to approximately \$0.02 per diluted share). The amount of additional stock-based compensation represents the one-time cumulative adjustment to be recorded if there had been a change in the vesting period based on achieving ASV targets earlier than estimated. If 100% of the 960,331 performance-based stock options granted between June 2010 and January 2011 were to vest, we would incur an incremental \$16.0 million of stock-based compensation over the vesting period of six years.

Performance-based Restricted Stock Unit Grants

Between June 2010 and January 2011, we granted 20,010 restricted stock units which entitle the holder to shares of common stock as the awards vest over time. A restricted stock unit is a promise to deliver shares to the employee at a future date if certain vesting conditions are met. Our restricted stock units are performance-based and cliff vest 25% when serviced ASV targets are achieved during a six year period. Restricted stock units are amortized to expense based on a graded-vesting attribution approach over the vesting period. As of May 31, 2011, unamortized stock-based compensation expense of \$1.0 million is to be amortized to compensation expense over the remaining vesting period. A change from the current expected outcome of these performance-based restricted stock units due to accelerating ASV growth rates during the fourth quarter of fiscal 2011 would require us to record an incremental \$0.4 million of stock-based compensation during the fourth quarter (equal to approximately \$0.01 per diluted share). The amount of additional stock-based compensation represents the one-time cumulative adjustment to be recorded if there had been a change in the vesting period based on achieving ASV targets earlier than estimated.

Foreign Currency

Certain wholly owned subsidiaries within the European and Asia Pacific segments operate under a functional currency different from the U.S. dollar. The financial statements of these foreign subsidiaries are translated into U.S. dollars using period-end rates of exchange for assets and liabilities and average rates for the period for revenues and expenses. Translation gains and losses that arise from translating assets, liabilities, revenues and expenses of foreign operations are recorded in accumulated other comprehensive income as a component of stockholders' equity. Transaction gains and losses that arise from the effect of exchange rate changes on transactions denominated in currencies other than the functional currency are included in determining net income for the period in which exchange rates change.

Our non-U.S. dollar denominated revenues expected to be recognized over the next twelve months are estimated to be \$15 million while our non-U.S. dollar denominated expenses are \$159 million, which translates into a net foreign currency exposure of \$144 million per year. Our primary foreign currency exchange exposures are related to our operating expense base in countries outside the U.S., where approximately 68% of our employees are located. For the three months ended May 31, 2011, foreign currency movements had no impact on operating income or diluted earnings per share. For the nine months ended May 31, 2011, foreign currency movements increased operating income by \$1.2 million and diluted earnings per share by \$0.02 when holding currencies constant from the respective year ago periods.

To reduce variability from foreign currency fluctuations in operating expenses denominated in British Pound Sterling, Euro and Japanese Yen, we entered into foreign currency forward contracts. During the first quarter of fiscal 2011, we entered into foreign currency forward contracts to hedge approximately 95% of our net Japanese Yen exposure through the end of the fourth quarter of fiscal 2011. In the second half of fiscal 2010, we entered into foreign currency forward contracts to hedge approximately 95% of our net Euro exposure through the end of the first quarter of fiscal 2012 and 95% of our net British Pound Sterling exposure through the end of the third quarter of fiscal 2011. In designing a specific hedging approach, we considered several factors, including offsetting exposures, significance of exposures, forecasting risk and potential ineffectiveness of the hedge. The gains and losses on foreign currency forward contracts mitigate the variability in operating expenses associated with currency movements. These transactions are designated and accounted for as cash flow hedges in accordance with applicable accounting guidance. The changes in fair value for these foreign currency forward contracts are initially reported as a component of accumulated other comprehensive income and subsequently reclassified into operating expenses when the hedged exposure affects earnings.

At May 31, 2011, the notional principal and fair value of foreign exchange contracts to purchase Japanese Yen with U.S. dollars were ¥115.5 million and less than \$0.1 million, respectively. At May 31, 2011, the notional principal and fair value of foreign exchange contracts to purchase Euros with U.S. dollars were 13.0 million and \$1.8 million, respectively. At May 31, 2011, there were no outstanding foreign exchange forward contracts to purchase British Pound Sterling with U.S. dollars. A

Table of Contents

gain on derivatives for the three months ended May 31, 2011 of \$1.9 million was recorded into operating income in our Consolidated Statements of Income as compared to a loss of \$0.2 million in the same period a year ago. During the first nine months of fiscal 2011, a gain on derivatives of \$3.3 million was recorded into operating income compared to a gain of \$1.3 million in the same period a year ago.

Liquidity

The table below, for the periods indicated, provides selected cash flow information (in thousands):

For the nine months ended May 31,	2011	2010
Net cash provided by operating activities	\$ 136,996	\$ 140,829
Capital expenditures (1)	(22,806)	(13,676)
Free cash flow (2)	\$ 114,190	\$ 127,153
Net cash used in investing activities	\$ (22,806)	\$ (13,676)
Net cash used in financing activities	\$ (109,597)	\$ (112,152)
Cash and cash equivalents at end of period (May 31 st)	\$ 208,668	\$ 224,713

(1) Included in net cash used in investing activities during each fiscal year reported above.

(2) We define free cash flow as cash provided by operating activities, which includes the cash cost for taxes and changes in working capital, less capital expenditures. The presentation of free cash flow is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. The GAAP financial measure, cash flows provided by operating activities, has been adjusted to report non-GAAP free cash flow that includes the cash cost for taxes and changes in working capital, less capital expenditures. We use this financial measure, both in presenting our results to stockholders and the investment community, and in our internal evaluation and management of the business. Management believes that this financial measure and the information we provide are useful to investors because they permit investors to view our performance using the same tools that management uses to gauge progress in achieving our goals. We believe this measure is also useful to investors because it is an indication of cash flow that may be available to fund further investments in future growth initiatives.

Cash and cash equivalents aggregated to \$208.7 million or 30% of our total assets at May 31, 2011, compared with \$224.7 million or 37% of our total assets at May 31, 2010 and \$195.7 million at August 31, 2010 or 30% of our total assets. All of our operating and capital expense requirements were financed entirely from cash generated from our operations. Our cash and cash equivalents increased \$12.9 million since August 31, 2010 as a result of cash provided by operations of \$137.0 million, \$37.9 million from the exercise of employee stock options, \$17.1 million of tax benefits from share-based payment arrangements and \$8.3 million from the effect of exchange rate changes on our foreign cash balances partially offset by cash outflows of \$133.0 million related to stock repurchases, dividend payments of \$31.7 million and capital expenditures of \$22.9 million.

Free cash flow generated over the last twelve months was \$177 million and exceeded net income by 5%. Free cash flow in the third quarter of fiscal 2011 was \$57 million compared to \$66 million in the year ago period. During fiscal 2011, free cash flow was driven by record levels of net income partially offset by increased capital expenditures and a decline in working capital from higher estimated income tax payments, an increase in accounts receivable and mid-year variable compensation payments.

Our accounts receivable balance, net of reserves, increased \$7.8 million since August 31, 2010 due to the billing of Market Metrics clients in the first quarter of fiscal 2011 and the invoicing a small percentage of our of clients annually in advance during the second quarter of fiscal 2011, which totaled \$15 million. When our annual invoices are generated and issued for services to be provided over the next twelve months, our accounts receivable and deferred revenues rise. While our accounts receivable balance has increased \$7.8 million since August 31, 2010, our ASV is up \$57 million over the same period. At May 31, 2011 our days sales outstanding (DSO) was 33 days, consistent with a year ago, but down from 36 days at February 28, 2011. We have seen DSOs decrease substantially over the past several years as a result of increased investment in our highly motivated collection and information systems teams.

During the first nine months of fiscal 2011 we remitted estimated tax payments totaling \$28.3 million, of which \$7.7 million represented our estimated tax payment for the just completed third quarter. Estimated tax payments remitted in the first nine months of fiscal 2010 approximated \$23.4 million.

Table of Contents

Net cash used in financing activities was \$2.6 million lower in fiscal 2011 as compared to the same period a year ago due to lower share repurchases and proceeds from employee stock plans partially offset by higher dividend payments. During the nine months ended May 31, 2011, we repurchased 1,362,236 shares for \$133 million under the program as compared to 2,242,604 shares for \$153 million a year ago. Proceeds from employee stock exercises decreased from \$47.2 million in the first nine months of fiscal 2010 to \$37.9 million in the current year as the number of employee stock option exercises decreased by 646,118 options. Through quarterly cash dividends and share repurchases, we have returned \$215 million to our stockholders over the past 12 months.

Capital Resources

Capital Expenditures

Capital expenditures were \$7.4 million for the quarter ended May 31, 2011, up from \$4.6 million in the same period a year ago. Approximately \$5.0 million or 68% of capital expenditures were for computer equipment and the remainder for office expansions. In the third quarter of fiscal 2011 we purchased additional Hewlett Packard server equipment for our Virginia and New Jersey data centers in addition to buying Dell laptop computers and peripherals for our growing employee base. The remaining 32% or \$2.4 million of capital expenditures was for the fit-out of new office space in Paris as well as the continued expansion of leased office space in India and the Philippines.

During the first nine months of fiscal 2011 capital expenditures were \$22.8 million compared to \$13.7 million in the comparable prior year period. Capital spending increased by \$9.1 million in the first nine months of fiscal 2011 compared to the prior year due to the purchase of additional server equipment for the data centers, new laptop computers and peripherals for the employee base and the build out of new office space in Paris, New York, India, Japan and the Philippines. We continue to expand aggressively to house and grow our proprietary content operations and other functions that can be run efficiently in remote office locations. Including the new lease agreements entered into during fiscal 2011, our worldwide leased office space increased to approximately 724,000 square feet at May 31, 2011, up 13.1% from August 31, 2010 and 13.4% from a year ago.

Capital Needs

We currently have no outstanding indebtedness, other than the letters of credit issued in the ordinary course of business, as discussed below.

Approximately \$4.5 million of standby letters of credit have been issued during the ordinary course of business in connection with our current leased office space as of May 31, 2011. These standby letters of credit contain covenants that, among other things, require us to maintain minimum levels of consolidated net worth and certain leverage and fixed charge ratios. At May 31, 2011, we were in compliance with all covenants contained in the standby letters of credit.

As of May 31, 2011 and August 31, 2010, we maintained a zero debt balance and were in compliance with all associated covenants.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K as of May 31, 2011 and August 31, 2010.

Contractual Obligations

Fluctuations in our operating results, the degree of success of our accounts receivable collection efforts, the timing of tax and other payments as well as necessary capital expenditures to support growth of our operations will impact our liquidity and cash flows in future periods. The effect of our contractual obligations on our liquidity and capital resources in future periods should be considered in conjunction with the factors mentioned here. As of August 31, 2010, we had total purchase commitments of \$45.6 million. There were no material changes in our purchase commitments during the first nine months of fiscal 2011.

During fiscal 2011, we entered into new lease agreements for office space in the ordinary course of business to support our existing operations. These new lease agreements increased our worldwide leased office space by 13% since the beginning of the fiscal year. As such, commitments under our operating leases increased 11% from \$140.8 million at August 31, 2010 to \$155.8 million at May 31, 2011.

With the exception of the new leases entered into in the ordinary course of business, there were no other significant changes to our contractual obligations during the nine months ended May 31, 2011.

Table of Contents

Share Repurchase Program

During the first nine months of fiscal 2011, we repurchased 1,362,236 shares for \$133 million under the existing share repurchase program. On June 13, 2011, our Board of Directors approved a \$200 million expansion of the existing share repurchase program. Including the expansion, \$226 million remains authorized for future share repurchases. Repurchases will be made from time to time in the open market and privately negotiated transactions, subject to market conditions. No minimum number of shares to be repurchased has been fixed. There is no timeframe to complete the repurchase program and it is expected that share repurchases will be paid using existing and future cash generated by operations.

We expect that for at least the next 12 months, our operating expenses will continue to constitute a significant use of cash flow. In addition, we may use cash to fund other acquisitions, repurchase additional common stock, or invest in other businesses when opportunities arise. Based upon the predominance of our revenues from recurring sources and current expectations, we believe that our cash and cash equivalents, cash generated from operations and availability under our credit facility will be sufficient to satisfy our working capital needs, capital expenditures, dividend payments, stock repurchases and financing activities for the next year.

Dividends

On May 9, 2011, our Board of Directors approved a 17% increase in the regular quarterly dividend, beginning with our dividend payment in June 2011 of \$0.27 per share, or \$1.08 per share per annum. The cash dividend of \$12.3 million was paid on June 21, 2011, to common stockholders of record on May 31, 2011. Future cash dividends will be paid using our existing and future cash generated by operations.

Significant Accounting Policies and Critical Accounting Estimates

We describe our significant accounting policies in Note 2, *Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2010.

We discuss our critical accounting estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended August 31, 2010. There were no significant changes in our accounting policies or critical accounting estimates since the end of fiscal 2010.

New Accounting Pronouncements

See Note 3 to the consolidated financial statements for a full description of recent accounting pronouncements, including the expected dates of adoption, which we include here by reference.

Market Trends

In the ordinary course of business, we are exposed to financial risks involving foreign currency and interest rate fluctuations. Major equity indices (*e.g.*, Dow Jones Industrials, Russell 1000, MSCI EAFE, S&P 500 and NASDAQ Composite) continue to experience volatility. Approximately 82% of our annual subscription value is derived from our investment management clients. The prosperity of these clients is tied to equity assets under management. An equity market decline not only depresses assets under management but could cause a significant increase in redemption requests to move money out of equities and into other asset classes. Moreover, extended declines in the equity markets may reduce new fund or client creation, resulting in lower demand for services from investment managers.

Our sell-side clients who perform M&A advisory work and equity research account for approximately 18% of our annual subscription value. A significant portion of these revenues relate to services deployed by large, bulge bracket banks. The credit crisis that began in August 2007 continues to impact many of the large banking clients due to the amount of leverage deployed in past operations. Clients could encounter similar problems. A lack of confidence in the global banking system could cause declines in merger and acquisitions funded by debt. Additional uncertainty, consolidation and business failures in the global investment banking sector could adversely affect our financial results and future growth.

We service equity research and M&A departments. These are low risk businesses that do not deploy leverage and will likely continue to operate far into the future and should represent a larger percentage of the overall revenues of our clients. Regardless, the size of banks in general is shrinking as they deleverage their balance sheets and adjust their expense bases to future revenue opportunities. Our revenues may decline if banks including those involved in recent merger activity significantly reduce headcount in the areas of corporate M&A and equity research to compensate for the issues created by other departments.

Table of Contents

Forward-Looking Factors

Forward-Looking Statements

In addition to current and historical information, this Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are based on management's current expectations, estimates, forecast and projections about the industries in which we operate and the beliefs and assumptions of our management. All statements, other than statements of historical facts, are statements that could be deemed forward-looking statements. These include statements about our strategy for growth, product development, market position, subscriptions and expected expenditures and financial results. Forward-looking statements may be identified by words like expects, anticipates, plans, intends, projects, should, indicates, continues, ASV, subscriptions, believes, estimates, may and similar expressions. In addition, any statements that projections of our future financial performance, our anticipated growth, trends in our business and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Therefore, actual results may differ materially from what is expressed or forecasted in such forward-looking statements. We will publicly update forward-looking statements as a result of new information or future events in accordance with applicable Securities and Exchange Commission regulations.

We intend that all forward-looking statements we make will be subject to safe harbor protection of the federal securities laws as found in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

These statements involve certain known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those listed below. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this Quarterly Report to reflect actual results or future events or circumstances.

Risk Factors

Set forth below and elsewhere in this report and in other documents we file with the SEC are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. Investors should carefully consider the risks described below before making an investment decision. Additional risks we are not presently aware of or that we currently believe are immaterial may also impair our business operations. Our business could be harmed by any of these risks. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q filed with the SEC, including the Company's consolidated financial statements and related notes thereto.

Our operating results are subject to quarterly and annual fluctuations as a result of numerous factors. As a consequence, operating results for a particular future period are difficult to predict and, therefore, prior results are not necessarily indicative of results to be expected in future periods. Any of the following factors, or any other factors discussed elsewhere herein, could have a material adverse effect on our business, results of operations, and financial condition that could adversely affect our stock price.

Risk factors which could cause future financial performance to differ materially from the expectations as expressed in any of our forward-looking statements made by or on our behalf include, without limitation:

Continued uncertainty, consolidation, and business failures in the global investment banking industry may cause us to lose additional clients and users

A global economic downturn and related market uncertainty, including the recent European economic and financial turmoil related to sovereign debt issues may affect our revenues and liquidity

Natural disasters in a specific country or region, such as the recent earthquakes and tsunamis in Japan, may disrupt our operations and negatively impact our revenues

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

Continued uncertainty in the Middle East and Africa could impact oil prices and the global economy, which may affect our operating results

Maintenance of our leading technological position through the introduction of new products and product enhancements

Our ability to integrate and market FactSet proprietary data as a high quality asset and win new clients

The protection and privacy of our client data

A prolonged or recurring outage at one of our data centers may result in reduced service and the loss of clients

Malicious, ignorant or illegal employee acts regarding insider information

Man-made problems such as computer viruses or terrorism may disrupt our operations

Our ability to integrate newly acquired companies

Table of Contents

The negotiation of contract terms supporting new and existing data sets or products

Exposure to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows

Third parties may claim infringement of their intellectual property rights

Unauthorized parties may attempt to copy aspects of our products or to obtain and use information that the Company regards as proprietary

Risks associated with doing business internationally

Our ability to hire and retain key qualified personnel

Resolution of ongoing and other probable audits by tax authorities

Adverse resolution of litigation or governmental investigations may harm our operating results

Changes in accounting may affect our reported earnings and operating income

Internal controls may be ineffective

Business Outlook

The following forward-looking statements reflect our expectations as of June 14, 2011. Given the number of risk factors, uncertainties and assumptions discussed above, actual results may differ materially. We do not intend to update our forward-looking statements until our next quarterly results announcement, other than in publicly available statements.

Fourth Quarter Fiscal 2011 Expectations

Revenues are expected to range between \$187 million and \$191 million.

EPS should range between \$0.93 and \$0.95.

Full Year Fiscal 2011

The 2011 guidance for capital expenditures, net of landlord contributions, is \$24 million to \$30 million.

The projected annual effective tax rate is 31.0%.

Financial Risk Management

Edgar Filing: FACTSET RESEARCH SYSTEMS INC - Form 10-Q

In the normal course of business, we are exposed to foreign currency exchange risk and interest rate risk that could impact our financial position and results of operations.

Foreign Currency Exchange Risk

We are exposed to market risk from changes in foreign currency exchange rates, which could affect operating results, financial position and cash flows. We manage our exposure to foreign currency exchange risk through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge currency exposures as well as to reduce earnings volatility resulting from shifts in market rates. We only enter into foreign currency forward contracts to manage foreign currency exposures. Our primary foreign currency market exposures include the Euro, British Pound Sterling, Japanese Yen, Indian Rupee and Philippine Peso. The fair market values of all our derivative contracts change with fluctuations in currency rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes.

We are required to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. The level of volatility will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency markets during the period. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

By their nature, all derivative instruments involve, to varying degrees, elements of market and credit risk. The market risk associated with these instruments resulting from currency exchange movements is expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. We do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with these instruments because these transactions are executed with two major financial institutions. Further, our policy is to deal with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

Our non-U.S. dollar denominated revenues expected to be recognized over the next twelve months are estimated to be \$15 million while our non-U.S. dollar denominated expenses are \$159 million, which translates into a net foreign currency exposure of \$144 million per year. To the extent that our international activities recorded in local currencies increase in the future, our exposure to fluctuations in currency exchange rates will correspondingly increase. To limit our exposure related to

Table of Contents

the effects of foreign exchange rate fluctuations, we may continue to utilize foreign currency forward contracts. See Note 6 to the Consolidated Financial Statements for additional analysis of our foreign currency exchange rate risk.

Interest Rate Risk

The fair market value of our cash and cash equivalents at May 31, 2011 was \$209 million. Our cash and cash equivalents consist of demand deposits and money market funds with maturities of three months or less at the date of acquisition and are reported at fair value. It is anticipated that the fair market value of our portfolio will continue to be immaterially affected by fluctuations in interest rates. Preservation of principal is the primary goal of our cash and investments policy. Pursuant to our established investment guidelines, we try to achieve high levels of credit quality, liquidity and diversification. Our investment guidelines do not permit us to invest in puts, calls, strips, short sales, straddles, options, commodities, precious metals, futures or investments on margin. Because we have a restrictive investment policy, our financial exposure to fluctuations in interest rates is expected to remain low. We do not believe that the value or liquidity of our cash and cash equivalents have been significantly impacted by the recent credit crisis.

Current market events have not required us to materially modify or change our financial risk management strategies with respect to our exposures to foreign currency exchange risk and interest rate risk.

Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

In the normal course of business, we are exposed to foreign currency exchange risk and interest rate risk that could impact our financial position and results of operations.

Foreign Currency Exchange Risk

We conduct business outside the U.S. in several currencies including the British Pound Sterling, Euro, Japanese Yen, Indian Rupee and Philippine Peso. The financial statements of these foreign subsidiaries are translated into U.S. dollars using period-end rates of exchange for assets and liabilities and average rates for the period for revenues and expenses. Our non-U.S. dollar denominated revenues expected to be recognized over the next twelve months are estimated to be \$15 million while our non-U.S. dollar denominated expenses are \$159 million, which translates into a net foreign currency exposure of \$144 million per year. To the extent that our international activities recorded in local currencies increase in the future, our exposure to fluctuations in currency exchange rates will correspondingly increase. To manage the exposures related to the effects of foreign exchange rate fluctuations, we utilize derivative instruments (foreign currency forward contracts). Our primary objective in holding derivatives is to reduce the volatility of earnings associated with changes in foreign currency. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes.

During the first quarter of fiscal 2011, we entered into foreign currency forward contracts to hedge approximately 95% of our net Japanese Yen exposure through the end of the fourth quarter of fiscal 2011. In the second half of fiscal 2010, we entered into foreign currency forward contracts to hedge approximately 95% of our net Euro exposure through the end of the first quarter of fiscal 2012 and 95% of our net British Pound Sterling exposure through the end of the third quarter of fiscal 2011. The gains and losses on foreign currency forward contracts mitigate the variability in operating expenses associated with currency movements. These transactions are designated and accounted for as cash flow hedges in accordance with applicable accounting guidance. The changes in fair value for these foreign currency forward contracts are initially reported as a component of accumulated other comprehensive income and subsequently reclassified into operating expenses when the hedged exposure affects earnings.

At May 31, 2011, the notional principal and fair value of foreign exchange contracts to purchase Japanese Yen with U.S. dollars were ¥115.5 million and less than \$0.1 million, respectively. At May 31, 2011, the notional principal and fair value of foreign exchange contracts to purchase Euros with U.S. dollars were 13.0 million and \$1.8 million, respectively. At May 31, 2011, there were no outstanding foreign exchange forward contracts to purchase British Pound Sterling with U.S. dollars.

A sensitivity analysis was performed based on the estimated fair value of all foreign currency forward contracts outstanding at May 31, 2011. If the U.S. dollar had been 10% weaker, the fair value of outstanding foreign currency forward contracts would have increased \$3.9 million, which would have had an immaterial impact on our consolidated balance sheet. Such a change in fair value of our financial instruments would be substantially offset by changes in our Euro, British Pound Sterling and Japanese Yen expense base. Had we not had any hedges in place as of May 31, 2011, a hypothetical 10% weaker U.S. dollar against all foreign currencies from the quoted foreign currency exchange rates at May 31, 2011, would result in a decrease in operating income by \$12.8 million over the next twelve months. A hypothetical 10% weaker U.S. dollar against all foreign currencies at May 31, 2011 would increase the fair value of total assets by \$27 million and equity by \$20 million.

Interest Rate Risk

The fair market value of our cash and cash equivalents at May 31, 2011 was \$209 million. Our cash and cash equivalents consist of demand deposits and money market funds with maturities of three months or less at the date of acquisition and are reported at fair value. It is anticipated that the fair market value of our portfolio will continue to be immaterially affected by fluctuations in interest rates. Preservation of principal is the primary goal of our cash and investment policy. Pursuant to our established investment guidelines, we try to achieve high levels of credit quality, liquidity and diversification. Our investment guidelines do not permit us to invest in puts, calls, strips, short sales, straddles, options, commodities, precious metals, futures or investments on margin. Because we have a restrictive investment policy, our financial exposure to fluctuations in interest rates is expected to remain low. We do not believe that the value or liquidity of our cash and cash equivalents have been significantly impacted by the recent credit crisis.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the principal executive officer and principal financial officer, the Company has evaluated the effectiveness of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on that evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's third quarter of fiscal 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

The information set forth under Note 16, *Commitments and Contingencies*, contained in the Notes to the Consolidated Financial Statements of this Quarterly Report on Form 10-Q is incorporated by reference in answer to this Item.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, *Item 1A. Risk Factors* in our 2010 Annual Report on Form 10-K. There were no material changes during the first nine months of fiscal 2011 to this information included in the Company's 2010 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Items 2(a) and (b) are not applicable as there have been no unregistered sales of equity securities.

(c) Issuer Purchases of Equity Securities (in thousands, except per share data)

The following table provides a month-to-month summary of the share repurchase activity under the current stock repurchase program during the three months ended May 31, 2011:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	(1) Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs (in thousands)
March 2011	142,193	\$ 100.29	142,193	\$ 69,659
April 2011	231,871	\$ 104.33	231,871	\$ 45,467
May 2011*	178,800	\$ 108.24	178,800	\$ 26,114
	552,864	\$ 104.56	552,864	\$ 26,114

* On June 13, 2011, the Company's Board of Directors approved a \$200 million expansion to the existing share repurchase program. At that time, the Company had \$26 million remaining under the program. Including the \$200 million expansion, \$226 million remains authorized for future share repurchases. Repurchases will be made from time to time in the open market and privately negotiated transactions, subject to market conditions. No minimum number of shares to be repurchased has been fixed. There is no timeframe to complete the repurchase program and it is expected that share repurchases will be paid using existing and future cash generated by operations.

ITEM 6. EXHIBITS

(a) EXHIBITS:

EXHIBIT NUMBER	DESCRIPTION
31.1	Section 302 Certification of Principal Executive Officer
31.2	Section 302 Certification of Principal Financial Officer
32.1	Section 906 Certification of Principal Executive Officer
32.2	Section 906 Certification of Principal Financial Officer
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Table of Contents

SIGNATURES

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

FACTSET RESEARCH SYSTEMS INC.
(Registrant)

Date: July 11, 2011

/s/ MAURIZIO NICOLELLI
Maurizio Nicoelli
Senior Vice President and Director of Finance
(Principal Financial Officer)

/s/ MATTHEW J. MCNULTY
Matthew J. McNulty
Vice President and Controller
(Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
31.1	Section 302 Certification of Principal Executive Officer
31.2	Section 302 Certification of Principal Financial Officer
32.1	Section 906 Certification of Principal Executive Officer
32.2	Section 906 Certification of Principal Financial Officer
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.