

FACTSET RESEARCH SYSTEMS INC  
Form 10-Q  
July 10, 2017

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**Form 10-Q**

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

For the quarterly period ended May 31, 2017

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number: 1-11869**

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**FACTSET RESEARCH SYSTEMS INC.**



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

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

**Yes**   **No**

The number of shares outstanding of the registrant's common stock, \$.01 par value, as of June 30, 2017 was 39,228,289.

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**FactSet Research Systems Inc.**

**Form 10-Q**

**For the Quarter Ended May 31, 2017**

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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.



**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,	May 31,	May 31,
	2017	2016	2017	2016
<i>(In thousands, except per share data)</i>				
Revenues	\$312,120	\$287,501	\$894,537	\$839,801
Operating expenses				
Cost of services	146,426	124,602	405,311	363,249
Selling, general and administrative	78,052	73,609	219,519	214,610
Total operating expenses	224,478	198,211	624,830	577,859
Operating income	87,642	89,290	269,707	261,942
Other expense				
Loss on sale of business	—	—	(1,223 )	—
Interest expense, net of interest income	(2,413 )	(433 )	(3,945 )	(765 )
Total other expense	(2,413 )	(433 )	(5,168 )	(765 )
Income before income taxes	85,229	88,857	264,539	261,177
Provision for income taxes	19,815	22,076	65,832	66,669
Net income	\$65,414	\$66,781	\$198,707	\$194,508
Basic earnings per common share	\$1.66	\$1.64	\$5.03	\$4.73
Diluted earnings per common share	\$1.66	\$1.62	\$5.00	\$4.68
Basic weighted average common shares	39,317	40,779	39,528	41,094
Diluted weighted average common shares	39,457	41,189	39,736	41,596

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





**FactSet Research Systems Inc.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – Unaudited**

	Three Months Ended		Nine Months Ended	
	May 31,	May 31,	May 31,	May 31,
<i>(In thousands)</i>	2017	2016	2017	2016
Net income	\$65,414	\$66,781	\$198,707	\$194,508
Other comprehensive income (loss), net of tax				
Net unrealized gain on cash flow hedges*	2,385	2,464	4,233	229
Foreign currency translation adjustments	21,316	8,883	10,680	(7,867 )
Other comprehensive income (loss)	23,701	11,347	14,913	(7,638 )
Comprehensive income	\$89,115	\$78,128	\$213,620	\$186,870

\* For the three and nine months ended May 31, 2017, the unrealized gain on cash flow hedges was net of tax expense of \$1,485 and \$2,561, respectively. For the three and nine months ended May 31, 2016, the unrealized gain on cash flow hedges was net of tax expense of \$1,448 and \$135, respectively.

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

## FactSet Research Systems Inc.

## CONSOLIDATED BALANCE SHEETS

	May 31, 2017 <i>(Unaudited)</i>	August 31, 2016
<i>(In thousands, except share data)</i>		
<b>ASSETS</b>		
Cash and cash equivalents	\$ 161,758	\$ 228,407
Investments	31,927	24,217
Accounts receivable, net of reserves of \$1,691 at May 31, 2017 and \$1,521 at August 31, 2016	147,455	97,797
Prepaid taxes	5,344	—
Deferred taxes	2,623	3,158
Prepaid expenses and other current assets	24,076	15,697
Total current assets	373,183	369,276
Property, equipment and leasehold improvements, net	97,442	84,622
Goodwill	695,667	452,915
Intangible assets, net	175,534	93,161
Deferred taxes	5,099	13,406
Other assets	11,089	5,781
<b>TOTAL ASSETS</b>	<b>\$1,358,014</b>	<b>\$1,019,161</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 63,611	\$ 45,836
Accrued compensation	36,722	51,036
Deferred fees	51,210	33,247
Deferred taxes	1,781	291
Taxes payable	6,856	7,781
Dividends payable	21,951	20,019
Total current liabilities	182,131	158,210
Long-term debt	575,000	300,000
Deferred Fees	2,476	—
Deferred taxes	23,039	1,708
Taxes payable	10,780	8,782
Deferred rent and other non-current liabilities	37,035	33,080
<b>TOTAL LIABILITIES</b>	<b>\$ 830,461</b>	<b>501,780</b>
Commitments and contingencies (See Note 18)		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued	\$—	\$—
Common stock, \$.01 par value, 150,000,000 shares authorized, 51,737,696 and 51,150,978 shares issued; 39,198,325 and 40,038,225 shares outstanding at May 31, 2017 and August 31, 2016, respectively	517	512
Additional paid-in capital	720,020	623,195

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Treasury stock, at cost: 12,539,371 and 11,112,753 shares at May 31, 2017 and August 31, 2016, respectively	(1,560,466)	(1,321,700)
Retained earnings	1,421,122	1,283,927
Accumulated other comprehensive loss	(53,640 )	(68,553 )
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>\$527,553</b>	<b>\$517,381</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$1,358,014</b>	<b>\$1,019,161</b>

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

**FactSet Research Systems Inc.****CONSOLIDATED STATEMENTS OF CASH FLOWS – Unaudited**

	Nine months Ended	
	May 31,	May 31,
<i>(in thousands)</i>	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 198,707	\$ 194,508
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	33,770	28,222
Stock-based compensation expense	20,873	22,433
Loss on sale of business	1,223	—
Deferred income taxes	8,829	3,015
Loss on disposition of assets	33	2
Tax benefits from share-based payment arrangements	(9,798 )	(13,327 )
Changes in assets and liabilities, net of effects of acquisitions		
Accounts receivable, net of reserves	(29,310 )	(11,316 )
Accounts payable and accrued expenses	1,548	3,474
Accrued compensation	(17,299 )	(1,809 )
Deferred fees	2,638	3,696
Taxes payable, net of prepaid taxes	6,081	20,313
Prepaid expenses and other assets	440	1,250
Deferred rent and other non-current liabilities	2,766	10,812
Other working capital accounts, net	(189 )	(169 )
<b>Net cash provided by operating activities</b>	<b>220,312</b>	<b>261,104</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of businesses, net of cash acquired	(301,843)	(264,087)
Purchases of investments	(29,982 )	(12,934 )
Proceeds from sales of investments	23,399	12,423
Purchases of property, equipment and leasehold improvements	(25,981 )	(34,671 )
<b>Net cash used in investing activities</b>	<b>(334,407)</b>	<b>(299,269)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend payments	(59,124 )	(54,042 )
Repurchases of common stock	(214,766)	(192,823)
Proceeds from debt	575,000	265,000
Repayment of Debt	(300,000)	—
Sale of business	(1,223 )	—
Debt issuance costs	(437 )	(12 )
Proceeds from employee stock plans	42,159	38,845
Tax benefits from share-based payment arrangements	9,798	13,327
<b>Net cash provided by financing activities</b>	<b>51,407</b>	<b>70,295</b>

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Effect of exchange rate changes on cash and cash equivalents	(3,961 )	(3,608 )
Net (decrease) increase in cash and cash equivalents	(66,649 )	28,522
Cash and cash equivalents at beginning of period	228,407	158,914
Cash and cash equivalents at end of period	\$161,758	\$187,436

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

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FactSet Research Systems Inc.

May 31, 2017

(Unaudited)

### **1. ORGANIZATION AND NATURE OF BUSINESS**

FactSet Research Systems Inc. (the “Company” or “FactSet”) is a global provider of integrated financial information, analytical applications and industry-leading service for the global investment community. The Company delivers insight and information to investment professionals through its analytics, service, content, and technology. By integrating comprehensive datasets and analytics across asset classes with client data, FactSet supports the workflow of both the buy-side and sell-side. These professionals include portfolio managers, wealth managers, research and performance analysts, risk managers, sell-side equity research professionals, investment bankers, and fixed income professionals. From streaming real-time data to historical information, including quotes, estimates, news and commentary, FactSet offers unique and third-party content through desktop, wireless and off-platform solutions. The Company’s wide application suite offers tools and resources including company and industry analyses, full screening tools, portfolio analysis, risk profiles, alpha-testing, portfolio optimization and research management solutions. The Company’s revenues are derived from subscriptions to products and services such as workstations, analytics, enterprise data, research management, and trade execution.

### **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 unaudited condensed consolidated financial statements of FactSet and the accompanying notes included in this Quarterly Report on Form 10-Q are prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). In the opinion of management, the accompanying condensed consolidated financial statements include all normal recurring adjustments, transactions or events discretely impacting the interim periods considered necessary to fairly state our results of operations, financial position and cash flows. The information in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended August 31, 2016.

The Company has evaluated subsequent events through the date that the financial statements were issued.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

As of the beginning of fiscal 2017, FactSet implemented all applicable new accounting standards and updates issued by the Financial Accounting Standards Board (“FASB”) that were in effect. There were no new standards or updates adopted during the first nine months of fiscal 2017 that had a material impact on the consolidated financial statements.

#### *Revenue Recognition*

In May 2014 and July 2015, the FASB issued accounting standard updates which provide clarified principles for recognizing revenue arising from contracts with clients and supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to clients in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. These accounting standard updates will be effective for FactSet beginning in the first quarter of fiscal 2019, with early adoption in fiscal 2018 permitted and allow for either full retrospective or modified retrospective adoption. The Company is currently evaluating the impact of these accounting standard updates on its consolidated financial statements and the method of adoption.

### *Balance Sheet Classification of Deferred Taxes*

In November 2015, the FASB issued an accounting standard update to simplify the presentation of deferred taxes on the balance sheet. The accounting standard update will require an entity to present all deferred tax assets and deferred tax liabilities as non-current on the balance sheet. Under the current guidance, entities are required to separately present deferred taxes as current or non-current. Netting deferred tax assets and deferred tax liabilities by tax jurisdiction will still be required under the new guidance. This guidance will be effective for FactSet beginning in the first quarter of fiscal 2018, with early adoption in fiscal 2017 permitted. The accounting standard update is a change in balance sheet presentation only and, as such, the Company does not believe this new accounting standard update will have a material impact on its consolidated financial statements.

### *Recognition and Measurement of Financial Assets and Financial Liabilities*

In January 2016, the FASB issued an accounting standard update to amend its current guidance on the classification and measurement of certain financial instruments. The accounting standard update significantly revises an entity's accounting related to the presentation of certain fair value changes for financial liabilities measured at fair value. This guidance also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance will be effective for FactSet beginning in the first quarter of fiscal 2019. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

### *Leases*

In February 2016, the FASB issued an accounting standard update related to accounting for leases. The guidance introduces a lessee model that requires most leases to be reported on the balance sheet. The accounting standard update aligns many of the underlying principles of the new lessor model with those in the FASB's new revenue recognition standard. The guidance also eliminates the requirement in current U.S. GAAP for an entity to use bright-line tests in determining lease classification. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2020, with early adoption in fiscal 2019 permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

### *Share-Based Payments*

In March 2016, the FASB issued an accounting standard update which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flow. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2018. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

On May 2017, the FASB issued an accounting standard updated, which amends the scope of modification accounting for share-based payment arrangements. The guidance focuses on changes to the terms or conditions of share-based



payment awards that would require the application of modification accounting and specifies that an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2019, with early adoption permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements

#### *Cash Flow Simplification*

In August 2016, the FASB issued an accounting standard update which simplifies how certain transactions are classified in the statement of cash flows. This includes revised guidance on the cash flow classification of debt prepayments and debt extinguishment costs, contingent consideration payments made after a business combination and distributions received from equity method investments. The guidance is intended to reduce diversity in practice across all industries. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2019. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

#### *Income Taxes on Intra-Entity Transfers of Assets*

In October 2016, the FASB issued an accounting standard update which removes the prohibition against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The guidance is intended to reduce diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2019. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

### *Goodwill Impairment Test*

In January 2017, the FASB issued an accounting standard update which removes the requirement for companies to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2021, with early adoption permitted for any impairment tests performed after January 1, 2017. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

No other new accounting pronouncements issued or effective as of May 31, 2017 have had or are expected to have an impact on the Company's consolidated financial statements.

## **4. FAIR VALUE MEASURES**

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.

### **Fair Value Hierarchy**

The accounting guidance for fair value measurements 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, investments and derivatives within the fair value hierarchy as follows:

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 the Company's corporate money market funds that are classified as cash equivalents.

Level 2 – applies to assets or liabilities for which there are inputs other than quoted prices 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 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 certificates of deposit, mutual funds and derivative instruments are classified as Level 2.

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. There were no Level 3 assets or liabilities held by the Company as of May 31, 2017 or August 31, 2016.

***(a) 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, 2017 and August 31, 2016:

<i>(in thousands)</i>	Fair Value Measurements at May 31, 2017			
	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Corporate money market funds <sup>(1)</sup>	\$22,106	\$—	\$ —	\$22,106
Mutual funds <sup>(2)</sup>	—	15,542	—	15,542
Certificates of deposit <sup>(3)</sup>	—	16,385	—	16,385
Derivative instruments <sup>(4)</sup>	—	5,468	—	5,468
<i>Total assets measured at fair value</i>	\$22,106	\$37,396	\$ —	\$59,502
<u>Liabilities</u>				
Derivative instruments <sup>(4)</sup>	\$—	\$596	\$ —	\$596
<i>Total liabilities measured at fair value</i>	\$—	\$596	\$ —	\$596

<i>(in thousands)</i>	Fair Value Measurements at August 31, 2016			
	Level 1	Level 2	Level 3	Total
<u>Assets</u>				
Corporate money market funds <sup>(1)</sup>	\$92,765	\$—	\$ —	\$92,765
Certificates of deposit <sup>(3)</sup>	—	24,217	—	24,217
Derivative instruments <sup>(4)</sup>	—	869	—	869
<i>Total assets measured at fair value</i>				