

FACTSET RESEARCH SYSTEMS INC  
Form 10-Q  
July 11, 2016

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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, 2016

**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.**



The number of shares outstanding of the registrant's common stock, \$.01 par value, as of June 30, 2016 was 40,651,578.



**FactSet Research Systems Inc.**

**Form 10-Q**

**For the Quarter Ended May 31, 2016**

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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,           |           |
| <i>(In thousands, except per share data)</i> | 2016               | 2015      | 2016              | 2015      |
| Revenues                                     | \$287,501          | \$254,522 | \$839,801         | \$744,990 |
| Operating expenses                           |                    |           |                   |           |
| Cost of services                             | 124,602            | 100,686   | 363,249           | 297,745   |
| Selling, general and administrative          | 73,609             | 68,480    | 214,610           | 200,980   |
| Total operating expenses                     | 198,211            | 169,166   | 577,859           | 498,725   |
| Operating income                             | 89,290             | 85,356    | 261,942           | 246,265   |
| Other (expense) income                       | (433 )             | 482       | (765 )            | 1,445     |
| Income before income taxes                   | 88,857             | 85,838    | 261,177           | 247,710   |
| Provision for income taxes                   | 22,076             | 24,429    | 66,669            | 68,843    |
| Net income                                   | \$66,781           | \$61,409  | \$194,508         | \$178,867 |
| Basic earnings per common share              | \$1.64             | \$1.48    | \$4.73            | \$4.29    |
| Diluted earnings per common share            | \$1.62             | \$1.45    | \$4.68            | \$4.23    |
| Basic weighted average common shares         | 40,779             | 41,628    | 41,094            | 41,648    |
| Diluted weighted average common shares       | 41,189             | 42,297    | 41,596            | 42,317    |

*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,           |           |
|   | 2016               | 2015     | 2016              | 2015      |
| <i>(In thousands)</i>                           |                    |          |                   |           |
| Net income                                      | \$66,781           | \$61,409 | \$194,508         | \$178,867 |
| Other comprehensive income (loss), net of tax   |                    |          |                   |           |
| Net unrealized gain (loss) on cash flow hedges* | 2,464              | (1,020 ) | 229               | (289 )    |
| Foreign currency translation adjustments        | 8,883              | (4,187 ) | (7,867 )          | (25,753 ) |
| Other comprehensive income (loss)               | 11,347             | (5,207 ) | (7,638 )          | (26,042 ) |
| Comprehensive income                            | \$78,128           | \$56,202 | \$186,870         | \$152,825 |

\* 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 unrealized loss on cash flow hedges disclosed above for the three and nine months ended May 31, 2015, was net of tax benefits of \$606 and \$172, respectively.

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

**FactSet Research Systems Inc.****CONSOLIDATED BALANCE SHEETS**

|  | May 31,<br>2016<br><i>(Unaudited)</i> | August 31,<br>2015 |
|--|---------------------------------------|--------------------|
| <i>(In thousands, except share data)</i>   |                                       |                    |
| <b>ASSETS</b>  |                                       |                    |
| Cash and cash equivalents  | \$187,436                             | \$158,914          |
| Investments  | 23,720                                | 23,497             |
| Accounts receivable, net of reserves of \$1,482 at May 31, 2016 and \$1,580 at August 31, 2015 | 104,666                               | 95,064             |
| Prepaid taxes  | —                                     | 4,808              |
| Deferred taxes   | 2,521                                 | 2,105              |
| Prepaid expenses and other current assets  | 15,736                                | 19,786             |
| Assets held for sale   | 48,940                                | —                  |
| Total current assets   | 383,019                               | 304,174            |
| Property, equipment and leasehold improvements, at cost  | 241,351                               | 213,279            |
| Less accumulated depreciation and amortization   | (163,269 )                            | (154,015 )         |
| Property, equipment and leasehold improvements, net  | 78,082                                | 59,264             |
| Goodwill   | 460,393                               | 308,287            |
| Intangible assets, net   | 97,978                                | 40,052             |
| Deferred taxes   | 14,257                                | 20,599             |
| Other assets   | 5,246                                 | 4,295              |
| <b>TOTAL ASSETS</b>  | <b>\$1,038,975</b>                    | <b>\$736,671</b>   |
| <b>LIABILITIES</b>   |                                       |                    |
| Accounts payable and accrued expenses  | \$38,033                              | \$33,880           |
| Accrued compensation   | 43,393                                | 44,916             |
| Deferred fees  | 34,076                                | 38,488             |
| Deferred taxes   | 425                                   | 562                |
| Taxes payable  | 4,333                                 | 3,755              |
| Dividends payable  | 20,328                                | 18,179             |
| Liabilities held for sale  | 14,110                                | —                  |
| Total current liabilities  | 154,698                               | 139,780            |
| Long-term debt   | 300,000                               | 35,000             |
| Deferred taxes   | 1,543                                 | 1,697              |
| Taxes payable  | 8,200                                 | 6,776              |
| Deferred rent and other non-current liabilities  | 30,877                                | 21,834             |
| <b>TOTAL LIABILITIES</b>   | <b>\$495,318</b>                      | <b>\$205,087</b>   |
| Commitments and contingencies (See Note 18)  |                                       |                    |

**STOCKHOLDERS' EQUITY**

|   |                        |                      |
|---|------------------------|----------------------|
| Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued   | \$—                    | \$—                  |
| Common stock, \$.01 par value, 150,000,000 shares authorized, 50,907,581 and 50,328,423 shares issued; 40,656,168 and 41,316,902 shares outstanding at May 31, 2016 and August 31, 2015, respectively | 509                    | 503                  |
| Additional paid-in capital  | 616,954                | 542,355              |
| Treasury stock, at cost: 10,251,413 and 9,011,521 shares at May 31, 2016 and August 31, 2015, respectively  | (1,181,695)            | (988,873 )           |
| Retained earnings   | 1,159,579              | 1,021,651            |
| Accumulated other comprehensive loss  | (51,690 )              | (44,052 )            |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>   | <b>\$543,657</b>       | <b>\$531,584</b>     |
| <br><b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <br><b>\$1,038,975</b> | <br><b>\$736,671</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 |                  |
|--|-------------------|------------------|
| <i>(in thousands)</i>  | May 31,           |                  |
|  | 2016              | 2015             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                   |                  |
| Net income   | \$ 194,508        | \$ 178,867       |
| Adjustments to reconcile net income to net cash provided by operating activities               |                   |                  |
| Depreciation and amortization  | 28,222            | 24,229           |
| Stock-based compensation expense   | 22,433            | 17,112           |
| Deferred income taxes  | 3,015             | 3,041            |
| Loss (gain) on sale of assets  | 2                 | (17 )            |
| Tax benefits from share-based payment arrangements   | (13,327 )         | (23,926 )        |
| Changes in assets and liabilities, net of effects of acquisitions                              |                   |                  |
| Accounts receivable, net of reserves   | (11,316 )         | (1,159 )         |
| Accounts payable and accrued expenses  | 3,474             | 5,973            |
| Accrued compensation   | (1,809 )          | (5,496 )         |
| Deferred fees  | 3,696             | 5,951            |
| Taxes payable, net of prepaid taxes  | 20,313            | 16,213           |
| Prepaid expenses and other assets  | 1,250             | 78               |
| Deferred rent and other non-current liabilities  | 10,812            | 1,873            |
| Other working capital accounts, net  | (169 )            | 103              |
| <b>Net cash provided by operating activities</b>   | <b>261,104</b>    | <b>222,842</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                   |                  |
| Acquisition of businesses, net of cash acquired  | (264,087)         | (33,556 )        |
| Purchases of investments   | (12,934 )         | (12,437 )        |
| Proceeds from sales of investments   | 12,423            | 7,535            |
| Purchases of property, equipment and leasehold improvements, net of proceeds from dispositions | (34,671 )         | (15,391 )        |
| <b>Net cash used in investing activities</b>   | <b>(299,269)</b>  | <b>(53,849 )</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                   |                  |
| Dividend payments  | (54,042 )         | (48,404 )        |
| Repurchase of common stock   | (192,823)         | (177,556)        |
| Proceeds from debt   | 265,000           | 35,000           |
| Debt issuance costs  | (12 )             | (32 )            |
| Proceeds from employee stock plans   | 38,845            | 51,852           |
| Tax benefits from share-based payment arrangements   | 13,327            | 23,926           |
| <b>Net cash provided by (used in) financing activities</b>                                     | <b>70,295</b>     | <b>(115,214)</b> |
| Effect of exchange rate changes on cash and cash equivalents                                   | (3,608 )          | (12,262 )        |
| Net increase in cash and cash equivalents  | 28,522            | 41,517           |

|  |           |           |
|--|-----------|-----------|
| Cash and cash equivalents at beginning of period | 158,914   | 116,378   |
| Cash and cash equivalents at end of period       | \$187,436 | \$157,895 |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FactSet Research Systems Inc.

May 31, 2016

(Unaudited)

### 1. ORGANIZATION AND NATURE OF BUSINESS

FactSet Research Systems Inc. (the “Company” or “FactSet”) is a provider of integrated financial information and analytical applications for the global investment community. FactSet 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. Recent additions to FactSet’s offering include a complete services solution focused on verifying, cleaning and loading portfolio data across asset classes, and an execution management system through its acquisition of Portware. 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 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 accompanying financial data as of May 31, 2016 and for the three and nine months ended May 31, 2016 and 2015 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 generally accepted accounting principles in the United States (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. The August 31, 2015 Consolidated Balance Sheet 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. 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, 2015.

In the opinion of management, the accompanying balance sheets and related interim statements of income, comprehensive 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.

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 2016, 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 2016 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.

*Going Concern*

In August 2014, the FASB issued an accounting standard update that requires management to evaluate and disclose whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern within one year after financial statements are issued. The evaluation and disclosure will be required to be made for both annual and interim reporting periods, if applicable, along with an evaluation as to whether management's plans alleviate that doubt. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2017. The Company does not believe this new accounting standard update will have a material impact on its consolidated financial statements.

*Income Statement Presentation – Extraordinary and Unusual Items*

In January 2015, the FASB issued an accounting standard update that eliminates from GAAP the concept of extraordinary items. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2017. The standard primarily involves presentation and disclosure and, therefore, is not expected to have a material impact on the Company's financial condition, results of operations or its cash flows.

*Simplification Guidance on Debt Issuance Costs*

In April 2015, the FASB issued an accounting standard update which changes the presentation of debt issuance costs in the applicable financial statements. Under the accounting standard update, an entity should present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2017, with early adoption in fiscal 2016 permitted. The Company does not believe this new accounting standard update will have a material impact on its consolidated financial statements.

In August 2015, the FASB issued an accounting standard update to amend the previous guidance issued in April 2015 and address debt issuance costs related to line-of-credit arrangements. The accounting standard update allows an entity to present debt issuance costs related to a line-of-credit as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the arrangement. This accounting standard update did not impact the effective date of the previously issued guidance and the Company does not believe it will have a material impact on its consolidated financial statements.

*Customers' Accounting for Cloud Computing Costs*

In April 2015, the FASB issued an accounting standard update to provide guidance on a customer's accounting for cloud computing costs. Under the accounting standard update, a customer must determine whether a cloud computing arrangement contains a software license. If so, the customer would account for the fees related to the software license element in a manner consistent with internal-use software guidance. This new guidance will be effective for FactSet



beginning in the first quarter of fiscal 2017. The Company does not believe this new accounting standard update will have a material impact on its consolidated financial statements.

*Simplification of the Accounting for Measurement-Period Adjustments*

In September 2015, the FASB issued an accounting standard update to simplify the accounting for measurement-period adjustments related to a business combination. Under the accounting standard update, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The accounting standard update also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance will be effective for FactSet beginning in the first quarter of fiscal 2017. The Company does not believe this new accounting standard update will have a material impact on its consolidated financial statements.

*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.

No other new accounting pronouncements issued or effective as of May 31, 2016 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 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, 2016 or August 31, 2015.

*(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, 2016 and August 31, 2015:

| <i>(in thousands)</i>                       | Fair Value Measurements at May 31, 2016 |          |         |           |
|---|---|----------|---------|-----------|
|   | Level 1                                 | Level 2  | Level 3 | Total     |
| <u>Assets</u>                               |   |          |         |           |
| Corporate money market funds <sup>(1)</sup> | \$83,989                                | \$—      | \$ —    | \$83,989  |
| Certificates of deposit <sup>(2)</sup>      | —                                       | 23,720   | —       | 23,720    |
| Derivative instruments <sup>(3)</sup>       | —                                       | 330      | —       | 330       |
| <i>Total assets measured at fair value</i>  | \$83,989                                | \$24,050 | \$ —    | \$108,039 |

|   |     |       |      |       |
|---|-----|-------|------|-------|
| <u>Liabilities</u>                              |     |       |      |       |
| Derivative instruments <sup>(3)</sup>           | \$— | \$532 | \$ — | \$532 |
| <i>Total liabilities measured at fair value</i> | \$— | \$532 | \$ — | \$532 |

| <i>(in thousands)</i>                       | Fair Value Measurements at August 31, 2015 |          |         |           |
|---|--|----------|---------|-----------|
|   | Level 1                                    | Level 2  | Level 3 | Total     |
| <u>Assets</u>                               |  |          |         |           |
| Corporate money market funds <sup>(1)</sup> | \$89,443                                   | \$—      | \$ —    | \$89,443  |
| Certificates of deposit <sup>(2)</sup>      | —  | 23,497   | —       | 23,497    |
| Derivative instruments <sup>(3)</sup>       | —  | 1,035    | —       | 1,035     |
| <i>Total assets measured at fair value</i>  | \$89,443                                   | \$24,532 | \$ —    | \$113,975 |

|   |     |         |      |         |
|---|-----|---------|------|---------|
| <u>Liabilities</u>                              |     |         |      |         |
| Derivative instruments <sup>(3)</sup>           | \$— | \$1,602 | \$ — | \$1,602 |
| <i>Total liabilities measured at fair value</i> | \$— | \$1,602 | \$ — | \$1,602 |

(1)

*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 corporate money market funds are classified as Level 1 and included in cash and cash equivalents on the Consolidated Balance Sheets.*

*The Company's certificates of deposit held for investment are not debt securities and are classified as Level 2. (2) These certificates of deposit have original maturities greater than three months, but less than one year and, as such, are classified as investments (short-term) on the Consolidated Balance Sheets.*

*The Company utilizes the income approach to measure fair value for its derivative instruments (foreign currency (3) 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.*

The Company did not have any transfers between Level 1 and Level 2 fair value measurements during the periods presented.

***(b) Assets and Liabilities Measured at Fair Value on a Non-recurring Basis***

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, based upon the results of such valuations. During the three and nine months ended May 31, 2016, no fair value adjustments or material fair value measurements were required for the Company's non-financial assets or liabilities.

*(c) Assets and Liabilities Measured at Fair Value for Disclosure Purposes only*

As of May 31, 2016 and August 31, 2015, the fair value of the Company's long-term debt was \$300.0 million and \$35.0 million, respectively, which approximated its carrying amount given its floating interest rate basis. The fair value of the Company's long-term debt was determined based on quoted market prices for debt with a similar maturity, and thus categorized as Level 2 in the fair value hierarchy.

## 5. DERIVATIVE INSTRUMENTS

### Cash Flow Hedges

FactSet conducts business outside the U.S. in several currencies including the British Pound Sterling, Euro, Indian Rupee, Japanese Yen and Philippine Peso. As such, it is exposed to movements in foreign currency exchange rates compared to the U.S. dollar. The Company utilizes derivative instruments (foreign currency forward contracts) to manage the exposures related to the effects of foreign exchange rate fluctuations and reduce the volatility of earnings and cash flows associated with changes in foreign currency. The Company does not enter into foreign currency forward contracts for trading or speculative purposes. In designing a specific hedging approach, FactSet considered several factors, including offsetting exposures, the significance of exposures, the forecasting of risk and the potential effectiveness of the hedge. The gains and losses on foreign currency forward contracts offset the variability in operating expenses associated with currency movements. The changes in fair value for these foreign currency forward contracts are initially reported as a component of accumulated other comprehensive loss ("AOCL") and subsequently reclassified into operating expenses when the hedged exposure affects earnings. There was no discontinuance of cash flow hedges during the first nine months of fiscal 2016 and 2015, and as such, no corresponding gains or losses related to changes in the value of the Company's contracts were reclassified into earnings prior to settlement.

As of May 31, 2016, FactSet maintained the following foreign currency forward contracts to hedge its British Pound Sterling, Euro and Indian Rupee exposures:

*British Pound Sterling* - foreign currency forward contracts to hedge approximately 50% of its British Pound Sterling exposure through the fourth quarter of fiscal 2017.

*Euro* - foreign currency forward contracts to hedge approximately 50% of its Euro exposure through the fourth quarter of fiscal 2016.

*Indian Rupee* - foreign currency forward contracts to hedge approximately 75% of its Indian Rupee exposure through the fourth quarter of fiscal 2018.

The following is a summary of all hedging positions and corresponding fair values:

| <i>(in thousands)</i>             | Gross Notional Value |                 | Fair Value (Liability) Asset |                 |
|-----------------------------------|----------------------|-----------------|------------------------------|-----------------|
|                                   | May 31, 2016         | August 31, 2015 | May 31, 2016                 | August 31, 2015 |
| Currency Hedged (in U.S. dollars) |                      |                 |                              |                 |
| British Pound Sterling            | \$41,071             | \$15,831        | \$(234)                      | \$280           |
| Euro                              | 4,975                | 20,263          | 64                           | 143             |
| Indian Rupee                      | 55,510               | 56,320          | (32 )                        | (990 )          |
| <i>Total</i>                      | \$101,556            | \$92,414        | \$(202)                      | \$(567 )        |

As of May 31, 2016, the gross notional value of foreign currency forward contracts to purchase British Pound Sterling with U.S. dollars was £28.3 million. The gross notional value of foreign currency forward contracts to purchase Euros with U.S. dollars was €4.5 million. The gross notional value of foreign currency forward contracts to purchase Indian Rupees with U.S. dollars was Rs. 4.0 billion.

### 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. To mitigate counterparty credit risk, FactSet enters into contracts with large financial institutions and 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:

| <i>(in thousands)</i>                         | Balance Sheet Location                          | May<br>31, | August<br>31, |
|---|---|------------|---------------|
| Designation of Derivatives                    |   | 2016       | 2015          |
| Derivatives designated as hedging instruments | Assets: Foreign Currency Forward Contracts      |            |               |
|   | Prepaid expenses and other current assets       | \$76       | \$1,035       |
|   | Other assets                                    | \$254      | \$—           |
|   | Liabilities: Foreign Currency Forward Contracts |            |               |
|   | Accounts payable and accrued expenses           | \$488      | \$—           |
|   | Deferred rent and other non-current liabilities | \$44       | \$1,602       |

All derivatives were designated as hedging instruments as of May 31, 2016 and August 31, 2015, respectively.

**Derivatives in Cash Flow Hedging Relationships**

The following table provides the pre-tax effect of derivative instruments in cash flow hedging relationships for the three months ended May 31, 2016 and 2015:

| <i>(in thousands)</i>                          | Gain (Loss)<br>Recognized                           | Location of<br>Loss                         | Loss<br>Reclassified                               |        |         |
|--|---|---|--|--------|---------|
|  | in AOCL on<br>Derivatives<br>(Effective<br>Portion) | Reclassified<br>from<br>AOCL into<br>Income | from AOCL<br>into Income<br>(Effective<br>Portion) | 2016   | 2015    |
| Derivatives in Cash Flow Hedging Relationships | 2016  | 2015  | (Effective<br>Portion)                             | 2016   | 2015    |
| Foreign currency forward contracts             | \$3,900   | \$(1,903)                                   | SG&A   | \$(12) | \$(277) |



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The following table provides the pre-tax effect of derivative instruments in cash flow hedging relationships for the nine months ended May 31, 2016 and 2015:

| <i>(in thousands)</i>                          | Gain (Loss)<br>Recognized |         | Location of<br>Gain (Loss)<br>Reclassified<br>from<br>AOCL into<br>Income<br>(Effective<br>Portion) | Gain (Loss)<br>Reclassified<br>from AOCL<br>into Income<br>(Effective<br>Portion) |         |
|--|---------------------------|---------|---|---|---------|
|  | 2016                      | 2015    |   | 2016  | 2015    |
| Derivatives in Cash Flow Hedging Relationships |                           |         | (Effective<br>Portion)  |   |         |
| Foreign currency forward contracts             | \$404                     | \$(929) | SG&A  | \$40  | \$(468) |

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. As of May 31, 2016, FactSet estimates that approximately \$0.4 million of net derivative losses related to its cash flow hedges included in AOCL will be reclassified into earnings within the next 12 months.

### Offsetting of Derivative Instruments

FactSet's master netting and other similar arrangements with its respective counterparties allow for net settlement under certain conditions. As of May 31, 2016 and August 31, 2015, information related to these offsetting arrangements was as follows:

| <i>(in thousands)</i>     | Derivatives Offset in<br>Consolidated Balance Sheets |                      |                |
|---------------------------|--|----------------------|----------------|
|                           | Gross<br>Derivative<br>Amounts                       | Offset in<br>Amounts | Net<br>Amounts |
| May 31, 2016              |  |                      |                |
| Fair value of assets      | \$1,094  | \$ (764 )            | \$ 330         |
| Fair value of liabilities | (1,296)  | 764                  | (532 )         |
| <i>Total</i>              | \$(202 )   | \$ —                 | \$ (202 )      |

*(in thousands)*

Derivatives Offset in  
Consolidated Balance Sheets

|                           | Gross<br>Derivative<br>Amounts |         | Net        |
|---------------------------|--------------------------------|---------|------------|
| August 31, 2015           | Offset in<br>Amounts           |         | Amounts    |
|                           | Balance<br>Sheet               |         |            |
| Fair value of assets      | \$1,040                        | \$ (5 ) | ) \$ 1,035 |
| Fair value of liabilities | (1,607)                        | 5       | (1,602 )   |
| <i>Total</i>              | \$(567 )                       | \$ —    | \$ (567 )  |

## 6. OTHER COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of other comprehensive income (loss) and amounts reclassified out of AOCL into earnings during the three months ended May 31, 2016 and 2015 are as follows:

| <i>(in thousands)</i>   | May 31, 2016 |            | May 31, 2015 |            |
|---|--------------|------------|--------------|------------|
|   | Pre-tax      | Net of tax | Pre-tax      | Net of tax |
| Foreign currency translation adjustments                                  | \$8,883      | \$8,883    | \$(4,187)    | \$(4,187)  |
| Realized loss on cash flow hedges reclassified to earnings <sup>(1)</sup> | 12           | 7          | 277          | 174        |
| Unrealized gain (loss) on cash flow hedges recognized in AOCL             | 3,900        | 2,457      | (1,903)      | (1,194)    |
| <i>Other comprehensive income (loss)</i>                                  | \$12,795     | \$11,347   | \$(5,813)    | \$(5,207)  |

*(1) Reclassified to Selling, General and Administrative Expenses*

The components of other comprehensive loss and amounts reclassified out of AOCL into earnings during the nine months ended May 31, 2016 and 2015 are as follows:

| <i>(in thousands)</i>  | May 31, 2016 |            | May 31, 2015 |            |
|--|--------------|------------|--------------|------------|
|  | Pre-tax      | Net of tax | Pre-tax      | Net of tax |
| Foreign currency translation adjustments   | \$(7,867)    | \$(7,867)  | \$(25,753)   | \$(25,753) |
| Realized (gain) loss on cash flow hedges reclassified to earnings <sup>(1)</sup> | (40 )        | (25 )      | 468          | 294        |
| Unrealized gain (loss) on cash flow hedges recognized in AOCL                    | 404          | 254        | (929 )       | (583 )     |
| <i>Other comprehensive loss</i>  | \$(7,503)    | \$(7,638)  | \$(26,214)   | \$(26,042) |

*(1) Reclassified to Selling, General and Administrative Expenses*

The components of AOCL are as follows:

| <i>(in thousands)</i>   | May 31, 2016 | August 31, 2015 |
|---|--------------|-----------------|
| Accumulated unrealized losses on cash flow hedges, net of tax | \$(129 )     | \$(358 )        |
| Accumulated foreign currency translation adjustments          | (51,561)     | (43,694)        |
| <i>Total accumulated other comprehensive loss</i>             | \$(51,690)   | \$(44,052)      |

## 7. SEGMENT INFORMATION

Operating segments are defined as components of an enterprise that engage in business activities from which they 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 operating 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 segments; the 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, product development 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 the Americas, while the European and Asia Pacific segments service investment professionals located throughout Europe and the Asia Pacific region, respectively.

The European segment is headquartered in London, England and maintains office locations in France, Germany, Ireland, Italy, Latvia, Luxembourg, the Netherlands, Spain, South Africa, Sweden and Dubai. The Asia Pacific segment is headquartered in Tokyo, Japan with office locations in Australia, Hong Kong, Singapore and India. Segment revenues reflect direct sales to clients based in their respective geographic locations. There are no intersegment or intercompany sales of FactSet services. Each segment records compensation expense, including stock-based compensation, 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, third party data costs and corporate headquarters charges are recorded by the U.S. segment and are not allocated to the other segments. The content collection centers located in India and the Philippines benefit all of the Company's operating segments and thus the expenses incurred at these locations are allocated to each segment based on a percentage of revenues. Of the total \$460.4 million of goodwill reported by the Company at May 31, 2016, 80% was recorded in the U.S. segment, 19% in the European segment and the remaining 1% in the Asia Pacific segment.

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

(in thousands)

|   | U.S.      | Europe   | Asia<br>Pacific | Total     |
|---|-----------|----------|-----------------|-----------|
| For the three months ended May 31, 2016 |           |          |                 |           |
| Revenues from clients                   | \$193,166 | \$70,243 | \$24,092        | \$287,501 |
| Segment operating profit                | 42,020    | 33,304   | 13,966          | 89,290    |
| Total assets                            | 696,832   | 264,910  | 77,233          | 1,038,975 |
| Capital expenditures                    | 6,060     | 913      | 1,260           | 8,233     |

|   | U.S.      | Europe   | Asia<br>Pacific | Total     |
|---|-----------|----------|-----------------|-----------|
| For the three months ended May 31, 2015 |           |          |                 |           |
| Revenues from clients                   | \$172,070 | \$63,156 | \$19,296        | \$254,522 |
| Segment operating profit                | 43,332    | 31,187   | 10,837          | 85,356    |
| Total assets                            | 433,177   | 232,171  | 62,728          | 728,076   |
| Capital expenditures                    | 2,977     | 142      | 508             | 3,627     |

|  | U.S.      | Europe    | Asia<br>Pacific | Total     |
|--|-----------|-----------|-----------------|-----------|
| For the nine months ended May 31, 2016 |           |           |                 |           |
| Revenues from clients                  | \$565,063 | \$206,198 | \$68,540        | \$839,801 |
| Segment operating profit               | 127,479   | 95,536    | 38,927          | 261,942   |
| Capital expenditures                   | 29,133    | 2,181     | 3,357           | 34,671    |

|  | U.S.      | Europe    | Asia<br>Pacific | Total     |
|--|-----------|-----------|-----------------|-----------|
| For the nine months ended May 31, 2015 |           |           |                 |           |
| Revenues from clients                  | \$502,271 | \$186,320 | \$56,399        | \$744,990 |
| Segment operating profit               | 130,271   | 85,675    | 30,319          | 246,265   |
| Capital expenditures                   | 13,808    | 350       | 1,233           | 15,391    |

## 8. BUSINESS COMBINATIONS

### Portware LLC

On October 16, 2015, FactSet acquired Portware LLC ("Portware") for a total purchase price of \$264.8 million. At the time of acquisition, Portware employed 166 individuals in its New York, London, Hong Kong, and Hyderabad, India offices. Portware is a global provider of multi-asset trade automation solutions for mega and large asset managers.

With the acquisition of Portware, FactSet now offers a platform that it expects will increase value to global asset managers by expanding its capabilities to include multi-asset trade automation. This factor contributed to a purchase price in excess of fair value of Portware's net tangible and intangible assets, leading to the recognition of goodwill. Total transaction costs related to the acquisition were \$0.7 million for the nine months ended May 31, 2016. These transaction expenses were recorded within Selling, General and Administrative ("SG&A") expenses in the Consolidated Statement of Income.

Allocation of the purchase price to the assets acquired and liabilities assumed was not yet finalized as of May 31, 2016 as it is subject to finalizing certain acquired assets and liabilities in addition to working capital adjustments. The preliminary purchase price was allocated to Portware's net tangible and intangible assets based upon their estimated fair value as of the date of acquisition. Based upon the purchase price and preliminary valuation, the allocation is as follows:

*(in thousands)*

|                               |                  |
|-------------------------------|------------------|
| Tangible assets acquired      | \$9,656          |
| Amortizable intangible assets |                  |
| Software technology           | 43,000           |
| Client relationships          | 27,000           |
| Non-compete agreements        | 3,500            |
| Trade name                    | 2,000            |
| Goodwill                      | 188,417          |
| <i>Total assets acquired</i>  | <i>\$273,573</i> |
| Liabilities assumed           | 8,812            |
| <i>Net assets acquired</i>    | <i>\$264,761</i> |

Intangible assets of \$75.5 million have been allocated to amortizable intangible assets consisting of client relationships, amortized over 16 years using an accelerated amortization method; software technology, amortized over eight years using a straight-line amortization method; non-compete agreements, amortized over seven years using a straight-line amortization method; and a trade name, amortized over five years using a straight-line amortization method.

Goodwill totaling \$188.4 million represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is included in the U.S. segment. Approximately 95% of the total goodwill generated from the Portware acquisition is deductible for income tax purposes. The results of operations of Portware have been included in the Company's Consolidated Statements of Income since the completion of the acquisition on October 16, 2015. Pro forma information has not been presented because the effect of the Portware acquisition is not material to the Company's consolidated financial results.

### **Code Red, Inc.**

On February 6, 2015, FactSet acquired Code Red, Inc. ("Code Red") for \$36.0 million. At the time of acquisition, Code Red employed 32 individuals in its Boston, New York and London offices. Code Red provides research management technologies to the investment community, including endowments and foundations, institutional asset managers, sovereign wealth funds, pensions, and hedge funds. With the addition of Code Red to FactSet's existing Research Management Solutions ("RMS"), FactSet now offers an RMS for all its clients' workflows, which is consistent with the Company's strategy of offering software and tools to make client workflows more efficient. This factor contributed to a purchase price in excess of fair value of Code Red's net tangible and intangible assets, leading to the recognition of goodwill.

The total purchase price of Code Red is as follows:

*(in thousands)*

|                                    |                 |
|------------------------------------|-----------------|
| Cash consideration                 | \$32,962        |
| Fair value of FactSet stock issued | 2,991           |
| <i>Total purchase price</i>        | <i>\$35,953</i> |

Allocation of the purchase price to the assets acquired and liabilities assumed was finalized during the second quarter of fiscal 2016. There were no significant adjustments between the preliminary and final allocation. The total purchase price was allocated to Code Red's net tangible and intangible assets based upon their estimated fair value as of the date of acquisition.

Based upon the purchase price and the valuation, the allocation is as follows:

*(in thousands)*

|                               |          |
|-------------------------------|----------|
| Tangible assets acquired      | \$3,090  |
| Amortizable intangible assets |          |
| Software technology           | 4,359    |
| Client relationships          | 3,546    |
| Non-compete agreements        | 201      |
| Trade name                    | 155      |
| Goodwill                      | 29,602   |
| <i>Total assets acquired</i>  | \$40,953 |
| Liabilities assumed           | (5,000 ) |
| <i>Net assets acquired</i>    | \$35,953 |

Intangible assets of \$8.3 million have been allocated to amortizable intangible assets consisting of software technology, amortized over six years using a straight-line amortization method; client relationships, amortized over eight years using an accelerated amortization method; non-compete agreements, amortized over four years using a straight-line amortization method; and a trade name, amortized over three years using a straight-line amortization method.

Goodwill totaling \$29.6 million represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. Goodwill generated from the Code Red acquisition is included in the U.S. segment and is not deductible for income tax purposes. The results of operations of Code Red have been included in the Company's Consolidated Statements of Income since the completion of the acquisition on February 6, 2015 and the results did not have a material impact on the third quarter of fiscal 2016. Pro forma information has not been presented because the effect of the Code Red acquisition was not material to the Company's consolidated financial results.



## 9. ASSETS HELD FOR SALE

During the third quarter of fiscal 2016, the Company entered into a definitive stock purchase agreement (the “Purchase Agreement”) pursuant to which the Company agreed to sell its market research business, consisting of Market Metrics LLC and Matrix-Data Limited (collectively the “disposal group”) and associated assets (the “Transaction”). The total purchase price was approximately \$165.0 million less certain adjustments set forth in the Purchase Agreement with an additional earn-out of \$10.0 million based upon the achievement of certain growth targets over the next two years by the market research business that has been sold. The Purchase Agreement and the Transaction contemplated thereby were approved by the Board of Directors of FactSet on May 19, 2016. The Transaction subsequently closed on July 1, 2016 as further described in Note 19, *Subsequent Events*.

As of May 31, 2016, the Company classified the disposal group’s assets and liabilities as held for sale in the Consolidated Balance Sheet. The Company assessed the Transaction and the disposal group and determined that the sale does not represent a strategic shift in its business nor will it have a major effect on its consolidated results of operations, financial position or cash flows. Accordingly, the disposal group is not presented in the consolidated financial statements as a discontinued operation. The results of the disposal group are reported within the U.S. segment (for Market Metrics LLC) and the European segment (for Matrix-Data Limited).

The following table summarizes the carrying value of the assets and liabilities held for sale as of May 31, 2016:

|   |                 |
|---|-----------------|
| <i>(in thousands)</i>                               |                 |
| Accounts receivable                                 | \$7,034         |
| Prepaid expenses and other current assets           | 2,670           |
| Property, equipment and leasehold improvements, net | 224             |
| Goodwill  | 32,406          |
| Intangible assets, net                              | 5,509           |
| Deferred taxes                                      | 866             |
| Other assets  | 231             |
| <i>Total assets held for sale</i>                   | <i>\$48,940</i> |
| Accounts payable and accrued expenses               | 792             |
| Accrued compensation                                | 289             |
| Deferred fees                                       | 12,928          |
| Deferred rent and other non-current liabilities     | 101             |
| <i>Total liabilities held for sale</i>              | <i>\$14,110</i> |

## 10. GOODWILL

Changes in the carrying amount of goodwill by segment for the nine months ended May 31, 2016 are as follows:

| <i>(in thousands)</i>               | U.S.      | Europe   | Asia<br>Pacific | Total     |
|-------------------------------------|-----------|----------|-----------------|-----------|
| Balance at August 31, 2015          | \$211,869 | \$93,725 | \$2,693         | \$308,287 |
| Goodwill acquired during the period | 188,417   | —        | —               | 188,417   |
| Foreign currency translations       | —         | (4,129 ) | 249             | (3,880 )  |
| Assets held for sale                | (31,741 ) | (665 )   | —               | (32,406 ) |
| Other adjustments                   | (25 )     | —        | —               | (25 )     |
| Balance at May 31, 2016             | \$368,520 | \$88,931 | \$2,942         | \$460,393 |

Goodwill is not amortized as it is estimated to have an indefinite life. At least annually, the Company is required to test goodwill at the reporting unit level for potential impairment, and, if impaired, write down to fair value based on the present value of discounted cash flows. The Company's reporting units evaluated for potential impairment were the U.S., Europe and Asia Pacific, which reflect the level of internal reporting the Company uses to manage its business and operations. The three reporting units are consistent with the operating segments reported as there is no discrete financial information available for the subsidiaries within each operating segment. The Company performed its annual goodwill impairment test during the fourth quarter of fiscal 2015, consistent with the timing of previous years, at which time it was determined that there were no indications of impairment, with the fair value of each of the Company's reporting units significantly exceeding carrying value. Goodwill acquired during the first nine months of fiscal 2016 of \$188.4 million represents the excess of the preliminary purchase price over the fair value of the net tangible and intangible assets from the Portware acquisition completed in October 2015.

## 11. INTANGIBLE ASSETS

FactSet's identifiable intangible assets consist of acquired content databases, client relationships, software technology, non-compete agreements and trade names resulting from acquisitions, which have been fully integrated into the Company's operations. The weighted average useful life of FactSet's acquired identifiable intangible assets at May 31, 2016 was 11.4 years. The Company amortizes intangible assets over their estimated useful lives, which are evaluated quarterly to determine whether events and circumstances warrant a revision to the remaining period of amortization. There have been no changes to the estimate of the remaining useful lives during the first nine months of fiscal 2016. Amortizable intangible assets are tested for impairment based on undiscounted cash flows, and, if impaired, written down to fair value based on discounted cash flows. No impairment of intangible assets has been identified during any of the periods presented. The intangible assets have no assigned residual values.

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

| At May 31, 2016 ( <i>in thousands</i> ) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
|---|-----------------------------|-----------------------------|---------------------------|
| Data content                            | \$36,218                    | \$ 16,996                   | \$ 19,222                 |
| Client relationships                    | 45,532                      | 15,791                      | 29,741                    |
| Software technology                     | 62,596                      | 18,905                      | 43,691                    |
| Non-compete agreements                  | 4,344                       | 969                         | 3,375                     |
| Trade names                             | 2,739                       | 790                         | 1,949                     |
| <i>Total</i>                            | \$ 151,429                  | \$ 53,451                   | \$ 97,978                 |

| At August 31, 2015 ( <i>in thousands</i> ) | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
|--|-----------------------------|-----------------------------|---------------------------|
| Data content                               | \$ 39,911                   | \$ 16,667                   | \$ 23,244                 |
| Client relationships                       | 27,873                      | 18,241                      | 9,632                     |
| Software technology                        | 21,203                      | 15,042                      | 6,161                     |
| Non-compete agreements                     | 1,058                       | 637                         | 421                       |
| Trade names                                | 1,614                       | 1,020                       | 594                       |
| <i>Total</i>                               | \$ 91,659                   | \$ 51,607                   | \$ 40,052                 |

During the nine months ended May 31, 2016, \$75.5 million of intangible assets were acquired with a weighted average useful life of 10.7 years.

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Amortization expense recorded for intangible assets was \$4.1 million and \$2.3 million for the three months ended May 31, 2016 and 2015, respectively. Amortization expense recorded for intangible assets was \$11.1 million and \$6.4 million for the nine months ended May 31, 2016 and 2015, respectively. As of May 31, 2016, estimated intangible asset amortization expense for each of the next five years and thereafter is as follows:

| Fiscal Year ( <i>in thousands</i> ) | Estimated<br>Amortization<br>Expense |
|-------------------------------------|--------------------------------------|
| 2016 (remaining three months)       | \$ 3,699                             |
| 2017                                | 14,024                               |
| 2018                                | 13,264                               |
| 2019                                | 12,295                               |
| 2020                                | 12,327                               |
| Thereafter                          | 42,369                               |
| <i>Total</i>                        | \$ 97,978                            |

**12. COMMON STOCK AND EARNINGS PER SHARE**

On May 6, 2016, FactSet's Board of Directors approved a regular quarterly dividend of \$0.50 per share, or \$2.00 per share per annum. The cash dividend of \$20.2 million was paid on June 21, 2016 to common stockholders of record at the close of business on May 31, 2016.

Shares of common stock outstanding were as follows:

|   | Nine Months<br>ended |          |
|---|----------------------|----------|
|   | May 31,              |          |
| <i>(in thousands)</i>   | 2016                 | 2015     |
| Balance at September 1  | 41,317               | 41,793   |
| Common stock issued for employee stock plans                  | 579                  | 951      |
| Stock issued for acquisition of a business                    | —                    | 20       |
| Repurchase of common stock from employees <sup>(1)</sup>      | (20 )                | (23 )    |
| Repurchase of common stock under the share repurchase program | (1,220 )             | (1,210 ) |
| Balance at May 31, 2016 and 2015, respectively                | 40,656               | 41,531   |

*For the nine months ended May 31, 2016 and 2015, the Company repurchased 19,892 and 23,192 shares, or \$3.3 million and \$3.1 million, of common stock, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock.*

A reconciliation of the weighted average shares outstanding used in the basic and diluted earnings per share ("EPS") computations is as follows:

|  | Net Income  | Weighted<br>Average<br>Common<br>Shares | Per<br>Share<br>Amount |
|--|-------------|---|------------------------|
| <i>(in thousands, except per share data)</i> | (Numerator) | (Denominator)                           |                        |
| For the three months ended May 31, 2016      |             |   |                        |
| Basic EPS                                    |             |   |                        |
| Income available to common stockholders      | \$ 66,781   | 40,779                                  | \$ 1.64                |

|  |            |        |         |
|--|------------|--------|---------|
| Diluted EPS  |            |        |         |
| Dilutive effect of stock options and restricted stock            |            | 410    |         |
| Income available to common stockholders plus assumed conversions | \$ 66,781  | 41,189 | \$ 1.62 |
| For the three months ended May 31, 2015                          |            |        |         |
| Basic EPS  |            |        |         |
| Income available to common stockholders                          | \$ 61,409  | 41,628 | \$ 1.48 |
| Diluted EPS  |            |        |         |
| Dilutive effect of stock options and restricted stock            |            | 669    |         |
| Income available to common stockholders plus assumed conversions | \$ 61,409  | 42,297 | \$ 1.45 |
| For the nine months ended May 31, 2016                           |            |        |         |
| Basic EPS  |            |        |         |
| Income available to common stockholders                          | \$ 194,508 | 41,094 | \$ 4.73 |
| Diluted EPS  |            |        |         |
| Dilutive effect of stock options and restricted stock            |            | 502    |         |
| Income available to common stockholders plus assumed conversions | \$ 194,508 | 41,596 | \$ 4.68 |
| For the nine months ended May 31, 2015                           |            |        |         |
| Basic EPS  |            |        |         |
| Income available to common stockholders                          | \$ 178,867 | 41,648 | \$ 4.29 |
| Diluted EPS  |            |        |         |
| Dilutive effect of stock options and restricted stock            |            | 669    |         |
| Income available to common stockholders plus assumed conversions | \$ 178,867 | 42,317 | \$ 4.23 |

Dilutive potential common shares consist of stock options and unvested restricted stock awards. The number of stock options excluded from the calculation of diluted earnings per share for the three and nine months ended May 31, 2016 was 688,538 because their inclusion would have been anti-dilutive. No stock options were excluded from the calculation of diluted earnings per share for the three and nine months ended May 31, 2015.

For the three and nine months ended May 31, 2016, the number of performance-based stock option grants excluded from the calculation of diluted earnings per share was 937,089. For the three and nine months ended May 31, 2015, the number of performance-based stock option grants excluded from the calculation of diluted earnings per share was 485,129. Performance-based stock options are omitted from the calculation of diluted earnings per share until the performance criteria are probable of being achieved. The criterion was not yet probable of being achieved as of May 31, 2016 and 2015 for these performance-based stock options.

### **13. STOCKHOLDERS' EQUITY**

#### **Preferred Stock**

At May 31, 2016 and August 31, 2015, 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.

#### **Common Stock**

At May 31, 2016 and August 31, 2015, there were 150,000,000 shares of common stock (\$.01 par value per share) authorized, of which 50,907,581 and 50,328,423 shares were issued, respectively. The authorized shares of common stock are issuable for any proper corporate purpose, including future stock splits, stock dividends, acquisitions, raising equity capital or to adopt additional employee benefit plans.

#### **Treasury Stock**

At May 31, 2016 and August 31, 2015, there were 10,251,413 and 9,011,521 shares of treasury stock (at cost) outstanding, respectively. As a result, 40,656,168 and 41,316,902 shares of FactSet common stock were outstanding at May 31, 2016 and August 31, 2015, respectively.

#### **Share Repurchase Program**

Repurchases will be made from time to time in the open market and privately negotiated transactions, subject to market conditions. During the first nine months of fiscal 2016, the Company repurchased 1,220,000 shares for \$189.5 million. On May 19, 2016, the Company's Board of Directors approved a \$165.0 million expansion of the existing share repurchase program. Including this expansion, \$359.7 million remains authorized for future share repurchases. 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.

## Restricted Stock

Restricted stock awards entitle the holder to shares of common stock as the awards vest over time. During the first nine months of fiscal 2016, 51,762 of previously granted restricted stock awards vested and were included in common stock outstanding as of May 31, 2016 (less 19,892 shares repurchased from employees to cover their cost of taxes upon vesting of the restricted stock). During the same period a year ago, 68,178 of previously granted restricted stock awards vested and were included in common stock outstanding as of May 31, 2015 (less 23,192 shares repurchased from employees to cover their cost of taxes upon vesting of the restricted stock).

## Dividends

The Company's Board of Directors declared the following historical dividends:

| Declaration Date  | Dividends Per Share of Common Stock | Type           | Record Date       | Total \$ Amount (in thousands) | Payment Date       |
|-------------------|-------------------------------------|----------------|-------------------|--------------------------------|--------------------|
| May 6, 2016       | \$ 0.50                             | Regular (cash) | May 31, 2016      | \$ 20,171                      | June 21, 2016      |
| February 5, 2016  | \$ 0.44                             | Regular (cash) | February 29, 2016 | \$ 18,044                      | March 15, 2016     |
| November 6, 2015  | \$ 0.44                             | Regular (cash) | November 30, 2015 | \$ 18,208                      | December 15, 2015  |
| August 10, 2015   | \$ 0.44                             | Regular (cash) | August 31, 2015   | \$ 18,179                      | September 15, 2015 |
| May 12, 2015      | \$ 0.44                             | Regular (cash) | May 29, 2015      | \$ 18,274                      | June 16, 2015      |
| February 11, 2015 | \$ 0.39                             | Regular (cash) | February 27, 2015 | \$ 16,236                      | March 17, 2015     |
| November 12, 2014 | \$ 0.39                             | Regular (cash) | November 28, 2014 | \$ 16,216                      | December 16, 2014  |
| August 14, 2014   | \$ 0.39                             | Regular (cash) | August 29, 2014   | \$ 16,299                      | September 16, 2014 |

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.





## 14. EMPLOYEE STOCK OPTION AND RETIREMENT PLANS

### Stock Option Awards

The FactSet Research Systems Inc. 2004 Stock Option and Award Plan, as Amended and Restated (the “Option Plan”) provides for the grant of share-based awards, including stock options and restricted stock awards to employees of FactSet. The expiration date of the Option Plan is December 14, 2020. Stock options granted under the Option Plan expire either seven or ten years from the date of grant and the majority vest ratably over a period of five years. 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. Options are not transferable or assignable other than by will or the laws of descent and distribution. During the grantee’s lifetime, the options may be exercised only by the grantee.

### Stock Option Activity

During the first nine months of fiscal 2016, FactSet granted 1,152,179 stock options at a weighted average exercise price of \$168.51 to existing employees of the Company. As of May 31, 2016, a total of 3,753,264 stock options were outstanding at a weighted average exercise price of \$125.52. Unamortized stock-based compensation of \$54.2 million is expected to be recognized as stock-based compensation expense over the remaining vesting period of 3.3 years.

A summary of stock option activity is as follows:

| <i>(in thousands, except per share data)</i> | Number<br>Outstanding | Weighted<br>Average<br>Exercise<br>Price<br><br>Per Share |
|--|-----------------------|---|
| Balance at August 31, 2015                   | 3,117                 | \$ 100.71   |
| Granted – non performance-based              | 514                   | \$ 175.20   |
| Granted – performance-based                  | 530                   | \$ 165.37   |
| Exercised                                    | (277)                 | ) \$ 63.72  |
| Forfeited                                    | (8)                   | ) \$ 108.32   |
| Balance at November 30, 2015                 | 3,876                 | \$ 122.06   |
| Granted – non performance-based              | 4                     | \$ 150.81   |

|  |       |             |
|--|-------|-------------|
| Granted – non-employee Directors grant | 23    | \$ 146.82   |
| Exercised                              | (70)  | ) \$ 63.77  |
| Forfeited                              | (45)  | ) \$ 127.82 |
| Balance at February 29, 2016           | 3,788 | \$ 123.24   |
| Granted – non performance-based        | 104   | \$ 152.10   |
| Exercised                              | (127) | ) \$ 78.63  |
| Forfeited                              | (12)  | ) \$ 132.68 |
| Balance at May 31, 2016                | 3,753 | \$ 125.52   |

The total number of in-the-money options exercisable as of May 31, 2016 was 1.1 million with a weighted average exercise price of \$86.61. As of August 31, 2015, 1.4 million in-the-money outstanding options were exercisable with a weighted average exercise price of \$78.70. The aggregate intrinsic value of in-the-money stock options exercisable at May 31, 2016 and August 31, 2015 was \$80.8 million and \$107.1 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price of \$159.07 on May 31, 2016 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, 2016 and 2015 was \$9.3 million and \$32.1 million, respectively. The total pre-tax intrinsic value of stock options exercised during the nine months ended May 31, 2016 and 2015 was \$43.0 million and \$70.9 million, respectively.

#### *Performance-based Stock Options*

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 during the measurement period subsequent to the date of grant. Dependent on the financial performance levels attained by FactSet, a percentage 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.

*July 2012 Performance-based Option Grant Review*

In July 2012, FactSet granted 241,546 performance-based employee stock options, which are eligible to vest in 20% tranches depending upon future StreetAccount user growth through August 31, 2017. Through the third quarter of fiscal 2016, three of the growth targets as outlined within the terms of the grant were achieved. As such, 60%, or 144,942, of the options granted have vested. As of May 31, 2016, the fourth tranche is expected to vest on August 31, 2016 while the fifth tranche is expected to vest on August 31, 2017, resulting in unamortized stock-based compensation expense of \$0.5 million to be recognized over the remaining vesting period of 1.2 years. A change in the actual financial performance levels achieved by StreetAccount in future fiscal years could result in the following changes to the current estimate of the vesting percentage and related expense:

| <i>(in thousands)</i>           | Cumulative  | Remaining  |
|---------------------------------|-------------|------------|
| Vesting                         | Catch-up    | Expense    |
| Percentage                      | Adjustment* | to be      |
|                                 |             | Recognized |
| Fourth 20%                      | \$ (1,213 ) | \$ 96      |
| Fifth 20% (current expectation) | \$ —        | \$ 483     |

\* Amounts represent the cumulative catch-up adjustment to be recorded if there was a change in the vesting percentage as of May 31, 2016.

*February 2015 Performance-based Option Grant Review*

In connection with the acquisition of Code Red during the second quarter of fiscal 2015, FactSet granted 137,522 performance-based stock options. These performance-based options are eligible to vest four years from date of grant if certain Code Red ASV and operating margin targets are achieved over the measurement period. The option holders must also remain employed by FactSet to be eligible to vest. Of the total grant, 68,761 performance-based options are eligible for vesting based on achieving the growth targets over a two year measurement period ending February 28, 2017 and the remaining 68,761 options are eligible to cliff vest based on a four year measurement period ending February 28, 2019. As of May 31, 2016, total unamortized stock-based compensation of \$1.6 million will be recognized as expense over the remaining vesting period of 2.7 years. A change, up or down, in the actual financial performance levels achieved by Code Red in future fiscal years could result in the following changes to the current estimate of the vesting percentage and related expense:

| <i>(in thousands)</i> | Cumulative  | Remaining  |
|-----------------------|-------------|------------|
| Vesting               | Catch-up    | Expense    |
| Percentage            | Adjustment* | to be      |
|                       |             | Recognized |
| 0%                    | \$ (788 )   | \$ —       |

|                           |          |          |
|---------------------------|----------|----------|
| 10%                       | \$ (591  | ) \$ 403 |
| 40% (current expectation) | \$ —     | \$ 1,612 |
| 70%                       | \$ 591   | \$ 2,821 |
| 100%                      | \$ 1,182 | \$ 4,030 |

\* Amounts represent the cumulative catch-up adjustment to be recorded if there was a change in the vesting percentage as of May 31, 2016.

#### *October 2015 Performance-based Option Grant Review*

In connection with the acquisition of Portware during the first quarter of fiscal 2016, FactSet granted 530,418 performance-based stock options. These performance-based options will vest 40% on the second anniversary date of the grant and 20% on each subsequent anniversary date if certain Portware revenue and operating income targets are achieved by October 16, 2017. The option holders must also remain employed by FactSet to be eligible to vest. As of May 31, 2016, FactSet does not believe these growth targets are probable of being achieved, and as such, no stock-based compensation expense is expected to be recognized in connection with these performance-based options. A change in the actual financial performance levels achieved by Portware in future fiscal years could result in the following changes to the current estimate of the vesting percentage and related expense:

| <i>(in thousands)</i>    | Cumulative  | Remaining  |
|--------------------------|-------------|------------|
| Vesting                  | Catch-up    | Expense    |
| Percentage               | Adjustment* | to be      |
|                          |             | Recognized |
| 0% (current expectation) | \$ —        | \$ —       |
| 50%                      | \$ 1,531    | \$ 10,719  |
| 70%                      | \$ 2,143    | \$ 15,007  |
| 100%                     | \$ 3,062    | \$ 21,438  |

\* Amounts represent the cumulative catch-up adjustment to be recorded if there was a change in the vesting percentage as of May 31, 2016.

#### **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.

#### *Restricted Stock and Stock Unit Awards Activity*

During the first nine months of fiscal 2016, FactSet granted 93,375 restricted stock awards to employees of the Company at a weighted average grant date fair value of \$159.42. These restricted stock awards vest over a weighted average period of 4.9 years from grant date.

As of May 31, 2016, a total of 341,333 shares of restricted stock and restricted stock units were unvested and outstanding, which results in unamortized stock-based compensation of \$28.4 million to be recognized as stock-based compensation expense over the remaining vesting period of 3.4 years.

A summary of restricted stock award activity is as follows:

| <i>(in thousands, except per award data)</i> | Number<br>Outstanding | Weighted<br>Average<br>Grant<br>Date Fair<br>Value<br>Per<br>Award |
|--|-----------------------|--|
| Balance at August 31, 2015                   | 313                   | \$ 103.34  |
| Granted                                      | 93                    | \$ 159.46  |
| Vested <sup>(1)</sup>                        | (37)                  | ) \$ 84.38   |
| Canceled/forfeited                           | (1)                   | ) \$ 97.92   |
| Balance at November 30, 2015                 | 368                   | \$ 119.44  |
| Canceled/forfeited                           | (10)                  | ) \$ 115.03  |
| Balance at February 29, 2016                 | 358                   | \$ 119.55  |
| Vested                                       | (15)                  | ) \$ 85.80   |
| Canceled/forfeited                           | (2)                   | ) \$ 121.43  |
| Balance at May 31, 2016                      | 341                   | \$ 121.01  |

*All of the 37,079 restricted stock awards that vested during the first quarter of fiscal 2016 related to awards granted on November 8, 2010. The remaining 40% of these restricted stock awards cliff vested after five years on <sup>(1)</sup>November 8, 2015 and were amortized to expense over the vesting period using the straight-line attribution method.*

### Share-based Awards Available for Grant

A summary of share-based awards available for grant is as follows:

| <i>(in thousands)</i> | Share-based<br>Awards<br>Available<br>for Grant<br>under | Share-based<br>Awards<br>Available<br>for Grant under |
|-----------------------|--|---|
|-----------------------|--|---|

|  | the<br>Employee<br>Option Plan |   | the<br>Non-Employee<br>Directors Plan |
|--|--------------------------------|---|---------------------------------------|
| Balance at August 31, 2015                           | 2,441                          |   | 88                                    |
| Granted – non performance-based options              | (514                           | ) | —                                     |
| Granted – performance-based options                  | (530                           | ) | —                                     |
| Restricted stock awards granted <sup>(1)</sup>       | (232                           | ) | —                                     |
| Share-based awards canceled/forfeited <sup>(2)</sup> | 11                             |   | —                                     |
| Balance at November 30, 2015                         | 1,176                          |   | 88                                    |
| Granted – non performance-based options              | (4                             | ) | (22                                   |
| Share-based awards canceled/forfeited <sup>(2)</sup> | 71                             |   | —                                     |
| Balance at February 29, 2016                         | 1,243                          |   | 66                                    |
| Granted – non performance-based options              | (104                           | ) | —                                     |
| Share-based awards canceled/forfeited <sup>(2)</sup> | 16                             |   | —                                     |
| Balance at May 31, 2016                              | 1,155                          |   | 66                                    |

<sup>(1)</sup>Each restricted stock award granted is equivalent to 2.5 shares granted under the Company's Option Plan.

<sup>(2)</sup>Under the Company's Option Plan, for each restricted stock award canceled/forfeited, an equivalent of 2.5 shares is added back to the available share-based awards balance.

### Employee Stock Purchase Plan

Shares of FactSet common stock may be purchased by eligible employees under the Amended and Restated FactSet Research Systems Inc. 2008 Employee Stock Purchase Plan (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.

During the three months ended May 31, 2016, employees purchased 17,538 shares at a weighted average price of \$131.57 as compared to 13,877 shares at a weighted average price of \$132.48 for the three months ended May 31, 2015. During the nine months ended May 31, 2016, employees purchased 53,711 shares at a weighted average price of \$129.83 as compared to 47,085 shares at a weighted average price of \$118.82 in the same period a year ago. At May 31, 2016, 427,905 shares were reserved for future issuance under the Purchase Plan.



**401(k) Plan**

The Company established its 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 (“IRC”). Each year, participants may contribute up to 60% of their eligible annual compensation, subject to annual limitations established by the IRC. The Company matches up to 4% of employees’ earnings, capped at the Internal Revenue Service 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 \$7.1 million and \$6.3 million in matching contributions to employee 401(k) accounts during the nine months ended May 31, 2016 and 2015, respectively.

**15. STOCK-BASED COMPENSATION**

The Company recognized total stock-based compensation expense of \$7.4 million and \$22.4 million during the three and nine months ended May 31, 2016, respectively. Similarly, the Company recognized total stock-based compensation expense of \$6.1 million and \$17.1 million during the three and nine months ended May 31, 2015, respectively. As of May 31, 2016, \$82.5 million of total unrecognized compensation expense related to non-vested equity awards is expected to be recognized over a weighted average period of 3.3 years. There was no stock-based compensation capitalized as of May 31, 2016 or August 31, 2015, 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.

|            |   |
|------------|---|
| Q1<br>2016 | 513,785 non performance-based employee stock options and 530,418 performance-based employee stock options were granted at a weighted average exercise price of \$170.21 and a weighted average estimated fair value of \$46.62 per share. |
| Q2<br>2016 | 4,073 non performance-based employee stock options were granted at an exercise price of \$150.81 and an estimated fair value of \$40.51 per share.  |
| Q3<br>2016 | 103,903 non performance-based employee stock options were granted at an exercise price of \$152.10 and an estimated fair value of \$40.57 per share.  |

- Q1 462,913 non performance-based employee stock options were granted at a weighted average exercise price of  
2015 \$131.31 and a weighted average estimated fair value of \$37.67 per share.
- Q2 25,075 non performance-based employee stock options and 137,522 performance-based employee stock  
2015 options were granted at a weighted average exercise price of \$147.05 and a weighted average estimated fair  
value of \$43.05 per share.
- Q3 61,210 non performance-based employee stock options were granted at a weighted average exercise price of  
2015 \$159.14 and a weighted average estimated fair value of \$44.95 per share.

The weighted average estimated fair value of employee stock options granted during the three and nine months ended May 31, 2016 and 2015 was determined using the binomial model with the following weighted average assumptions:

|  |          |       |          |       |
|--|----------|-------|----------|-------|
| Three months ended May 31,                   | 2016     |       | 2015     |       |
| Term structure of risk-free interest rate    | 0.40% -  | 1.90% | 0.01% -  | 2.12% |
| Expected life (years)                        | 7.5      |       | 8.2      |       |
| Term structure of volatility                 | 24% -    | 30%   | 21% -    | 31%   |
| Dividend yield                               | 1.33%    |       | 1.16%    |       |
| Weighted average estimated fair value        | \$40.57  |       | \$44.95  |       |
| Weighted average exercise price              | \$152.10 |       | \$159.14 |       |
| Fair value as a percentage of exercise price | 26.7%    |       | 28.2%    |       |
|  |          |       |          |       |
| Nine months ended May 31,                    | 2016     |       | 2015     |       |
| Term structure of risk-free interest rate    | 0.07% -  | 2.12% | 0.01% -  | 2.34% |
| Expected life (years)                        | 7.7      |       | 8.2      |       |
| Term structure of volatility                 | 21% -    | 30%   | 21% -    | 31%   |
| Dividend yield                               | 1.09%    |       | 1.33%    |       |
| Weighted average estimated fair value        | \$46.05  |       | \$39.59  |       |
| Weighted average exercise price              | \$168.51 |       | \$137.52 |       |
| Fair value as a percentage of exercise price | 27.3%    |       | 28.8%    |       |

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 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

The 2008 Non-Employee Directors' Stock Option Plan (the "Directors' Plan") provides for the grant of share-based awards, including stock options, to non-employee directors of FactSet. An initial 250,000 shares of FactSet common stock were reserved for issuance under the Directors' Plan, of which 66,031 remain available for future grant as of May 31, 2016. The expiration date of the Directors' Plan is December 1, 2018.

The Company utilizes the Black-Scholes model to estimate the fair value of 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.

### ***Fiscal 2016***

On January 15, 2016, FactSet granted 22,559 stock options to the Company's non-employee Directors, including a one-time new Director grant of 2,417 for Laurie Siegel, who was elected to FactSet's Board of Directors on December 15, 2015. All of the options granted on January 15, 2016 have a weighted average estimated fair value of \$31.03 per share, using the Black-Scholes option-pricing model with the following weighted average assumptions:

|                         |       |
|-------------------------|-------|
| Risk-free interest rate | 1.62% |
| Expected life (years)   | 5.4   |
| Expected volatility     | 23.0% |
| Dividend yield          | 1.05% |

***Fiscal 2015***

On January 15, 2015, FactSet granted 13,842 stock options to the Company's non-employee Directors. All of the options granted on January 15, 2015 have a weighted average estimated fair value of \$28.18 per share, using the Black-Scholes option-pricing model with the following weighted average assumptions:

|                         |        |
|-------------------------|--------|
| Risk-free interest rate | 1.45 % |
| Expected life (years)   | 5.4    |
| Expected volatility     | 23.5 % |
| Dividend yield          | 1.30 % |

**Restricted Stock Fair Value Determinations**

Restricted stock granted to employees entitles 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 is 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. During the first nine months of fiscal 2016, there were 93,375 restricted stock awards granted with a weighted average grant date fair value of \$159.42. During the first nine months of fiscal 2015, FactSet granted 49,158 restricted stock awards at a weighted average grant date fair value of \$135.96.

**Employee Stock Purchase Plan Fair Value Determinations**

During the three months ended May 31, 2016, employees purchased 17,538 shares at a weighted average price of \$131.57 as compared to 13,877 shares at a weighted average price of \$132.48 for the three months ended May 31, 2015. During the nine months ended May 31, 2016, employees purchased 53,711 shares at a weighted average price of \$129.83 as compared to 47,085 shares at a weighted average price of \$118.82 for the nine months ended May 31, 2015. Stock-based compensation expense recorded for each of the three months ended May 31, 2016 and 2015, relating to the employee stock purchase plan (the "ESPP") was \$0.4 million. Stock-based compensation expense recorded for the nine months ended May 31, 2016 and 2015, relating to the ESPP was \$1.4 million and \$1.1 million, respectively.

The Company uses the Black-Scholes model to calculate the estimated fair value for the ESPP. The weighted average estimated fair value of ESPP grants during the three months ended May 31, 2016 and 2015 were \$26.07 and \$25.11

per share, respectively, with the following assumptions:

| Three months ended May 31, | 2016    | 2015   |
|----------------------------|---------|--------|
| Risk-free interest rate    | 0.27 %  | 0.02 % |
| Expected life (months)     | 3       | 3      |
| Expected volatility        | 11.53 % | 7.2 %  |
| Dividend yield             | 1.29 %  | 1.13 % |

The weighted average estimated fair value of ESPP grants during the nine months ended May 31, 2016 and 2015 were \$27.19 and \$22.68 per share, respectively, with the following assumptions:

| Nine months ended May 31, | 2016    | 2015   |
|---------------------------|---------|--------|
| Risk-free interest rate   | 0.20 %  | 0.02 % |
| Expected life (months)    | 3       | 3      |
| Expected volatility       | 11.42 % | 8.0 %  |
| Dividend yield            | 1.15 %  | 1.16 % |

### 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.

**16. 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 is as follows:

|   | Three months ended |          | Nine months ended    |                      |
|---|--------------------|----------|----------------------|----------------------|
|   | May 31,            |          | May 31,              |                      |
|   | 2016               | 2015     | 2016                 | 2015                 |
| <i>(in thousands)</i>                   |                    |          |                      |                      |
| U.S. operations                         | \$68,550           | \$72,816 | \$205,824            | \$203,655            |
| Non-U.S. operations                     | 20,307             | 13,022   | 55,353               | 44,055               |
| <i>Income before income taxes</i>       | \$88,857           | \$85,838 | \$261,177            | \$247,710            |
| U.S. operations                         | \$18,131           | \$22,842 | \$55,907             | \$63,659             |
| Non-U.S. operations                     | 3,945              | 1,587    | 10,762               | 5,184                |
| <i>Total provision for income taxes</i> | \$22,076           | \$24,429 | \$66,669             | \$68,843             |
| Effective tax rate                      | 24.8 %             | 28.5 %   | 25.5% <sup>(1)</sup> | 27.8% <sup>(2)</sup> |

*In December 2015, the Consolidated Appropriations Act, 2016 (the "2016 ACT") was signed into law. The ACT reinstated and made permanent the U.S. Federal R&D tax credit (the "R&D tax credit"), which had previously expired on December 31, 2014. The reenactment of the R&D tax credit was retroactive to January 1, 2015 and by <sup>(1)</sup>providing for a permanent R&D tax credit, the 2016 ACT eliminates the yearly uncertainty surrounding the extension of the credit. Prior to the reenactment of the R&D tax credit, FactSet had not been permitted to factor it into its effective tax rate as it was not currently enacted tax law. The reenactment resulted in a discrete income tax benefit of \$7.3 million during the second quarter of fiscal 2016.*

*In December 2014, the Tax Increase Prevention Act of 2014 (the "2014 ACT") was signed into law. The 2014 ACT reinstated the U.S. Federal R&D tax credit, which had previously expired on December 31, 2013. The reenactment <sup>(2)</sup>of the credit was retroactive to January 1, 2014 and extended through the end of the 2014 calendar year. Prior to the reenactment of the tax credit, FactSet had not been permitted to factor it into its effective tax rate because it was not currently enacted tax law. The reenactment resulted in a discrete income tax benefit of \$5.1 million during the second quarter of fiscal 2015.*

FactSet's effective tax rate is based on recurring factors and nonrecurring events, including the taxation of foreign income. The Company's effective tax rate will vary based on, among other things, changes in levels of foreign income, as well as discrete and other nonrecurring events that may not be predictable. The effective tax rate was lower than the U.S. statutory rate of 35.0% in both periods presented above primarily due to foreign income, which is subject to lower statutory tax rates than in the U.S., benefits from foreign tax credits and deductions due to U.S. production activities partially offset by additional state and local income taxes.

### Deferred Tax Assets and Liabilities

The significant components of deferred tax assets that are recorded in the Consolidated Balance Sheets were as follows:

| <i>(in thousands)</i>  | May 31,<br>2016 | August<br>31, 2015 |
|--|-----------------|--------------------|
| Current  |                 |                    |
| Receivable reserve   | \$536           | \$541              |
| Deferred rent  | 1,028           | 794                |
| Other  | 957             | 770                |
| Net current deferred tax assets                                | \$2,521         | \$2,105            |
| Non-current  |                 |                    |
| Depreciation on property, equipment and leasehold improvements | \$5,655         | \$10,880           |
| Deferred rent  | 8,877           | 5,108              |
| Stock-based compensation                                       | 19,885          | 17,562             |
| Purchased intangible assets, including acquired technology     | (22,048)        | (17,533)           |
| Other  | 1,888           | 4,582              |
| Net non-current deferred tax assets                            | \$14,257        | \$20,599           |
|  | \$16,778        | \$22,704           |



*Total deferred  
tax assets*

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The significant components of deferred tax liabilities that are recorded in the Consolidated Balance Sheets were as follows:

| <i>(in thousands)</i>                                      | May<br>31,<br>2016 | August<br>31,<br>2015 |
|--|--------------------|-----------------------|
| Current  |                    |                       |
| Other  | \$425              | \$562                 |
| Net current deferred tax liabilities                       | \$425              | \$562                 |
| Non-current  |                    |                       |
| Purchased intangible assets, including acquired technology | \$1,717            | \$1,886               |
| Stock-based compensation                                   | (60 )              | —                     |
| Other  | (114 )             | (189 )                |
| Net non-current deferred tax liabilities                   | \$1,543            | \$1,697               |
| <i>Total deferred tax liabilities</i>                      | \$1,968            | \$2,259               |

A provision has not been made for additional U.S. Federal taxes as all undistributed earnings of foreign subsidiaries are considered to be invested indefinitely or will be repatriated free of additional tax. The amount of such undistributed earnings of these foreign subsidiaries included in consolidated retained earnings was immaterial at May 31, 2016 and August 31, 2015. As such, the unrecognized deferred tax liability on those undistributed earnings was immaterial. 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.

### 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 on all tax exposures for which reserves have been established consistent with jurisdictional tax laws.

As of May 31, 2016, the Company had gross unrecognized tax benefits totaling \$8.2 million, including \$1.2 million of accrued interest, recorded as *Non-current taxes payable* within the Consolidated Balance Sheet. 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 ultimately 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 could 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 2016:

*(in thousands)*

|  |         |
|--|---------|
| Unrecognized income tax benefits at August 31, 2015          | \$6,776 |
| Additions based on tax positions related to the current year | 1,334   |
| Additions for tax positions of prior years                   | 1,298   |
| Statute of limitations lapse                                 | (1,208) |
| Unrecognized income tax benefits at May 31, 2016             | \$8,200 |

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, 2016, the Company remained subject to examination in the following major tax jurisdictions:

| Major Tax Jurisdictions | Open Tax Years    |
|-------------------------|-------------------|
| U.S.                    |                   |
| Federal                 | 2013 through 2016 |
| State (various)         | 2010 through 2016 |
| Europe                  |                   |
| France                  | 2013 through 2016 |
| United Kingdom          | 2012 through 2016 |

## 17. LONG-TERM DEBT

FactSet's debt obligations consisted of the following:

| <i>(in thousands)</i>   | May 31,<br>2016 | August<br>31,<br>2015 |
|---|-----------------|-----------------------|
| 2015 Revolving Credit Facility ( <i>maturity date of September 21, 2018</i> ) | \$ 300,000      | \$ 35,000             |
| <i>Total Outstanding Debt</i>   | \$ 300,000      | \$ 35,000             |

On February 6, 2015, the Company entered into a Credit Agreement (the "Credit Agreement") between FactSet, as the borrower, and Bank of America, N.A., as the lender (the "Lender"). At that date, the Credit Agreement provided for a \$35.0 million revolving credit facility (the "Revolving Credit Facility"), under which the Company could request borrowings. The Credit Agreement also allowed FactSet to arrange for additional borrowings for an aggregate amount of up to \$265.0 million provided that any such request for additional borrowings was in a minimum amount of \$25.0 million. For purposes of funding its acquisition of Code Red on February 6, 2015, FactSet borrowed \$35.0 million in the form of a Eurodollar rate loan (the "Loan") under the Revolving Credit Facility. The proceeds of the Loan made under the Credit Agreement could be used for permitted acquisitions and general corporate purposes. The Loan bears interest on the outstanding principal amount at a rate equal to the Eurodollar rate plus 0.50%. The Eurodollar rate is defined in the Credit Agreement as the rate per annum equal to one-month LIBOR.

On September 21, 2015, the Company amended the Credit Agreement to borrow an additional \$265.0 million (the "Second Amendment") in order to fund FactSet's acquisition of Portware which closed on October 16, 2015. The maturity date on all outstanding loan amounts (which total \$300.0 million as of May 31, 2016) is September 21, 2018. There are no prepayment penalties if the Company elects to prepay the outstanding loan amounts prior to the scheduled maturity date. The Second Amendment also allows FactSet, subject to certain requirements, to arrange for

additional borrowings with the Lender for an aggregate amount of up to \$400.0 million, provided that any such request for additional borrowings must be in a minimum amount of \$25.0 million. The Second Amendment adjusted the interest rate on the total outstanding principal debt to a rate equal to the Eurodollar rate plus 0.75%.

All outstanding loan amounts are reported as *Long-term debt* within the Consolidated Balance Sheet at May 31, 2016. Interest on the Loan is payable quarterly in arrears and on the maturity date. During the three and nine months ended May 31, 2016, the Company paid approximately \$0.9 million and \$2.2 million in interest on its outstanding Loan amount, respectively. The Company paid interest of less than \$0.1 million on its outstanding Loan amount for the nine months ended May 31, 2015. The principal balance is payable in full on the maturity date.

As of May 31, 2016, no commitment fee was owed by FactSet since it borrowed the full amount under the Credit Agreement. Other fees incurred by the Company, such as legal costs to draft and review the Credit Agreement, totaled less than \$0.1 million and were capitalized as loan origination fees. These loan origination fees are being amortized into interest expense over the term of the Loan (three years) using the effective interest method.

The Credit Agreement contains covenants restricting certain FactSet activities, which are usual and customary for this type of loan.

In addition, the Credit Agreement requires that FactSet must maintain a consolidated leverage ratio, as measured by total funded debt/EBITDA below a specified level as of the end of each fiscal quarter. The Company was in compliance with all of the covenants of the Credit Agreement as of May 31, 2016.

## 18. 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, 2016, the Company leases approximately 202,000 square feet of office space at its headquarters in Norwalk, Connecticut. In addition, FactSet leases office space for its U.S. reportable segment in New York, New York; Boston, Massachusetts; Chicago, Illinois; Los Angeles and San Francisco, California; Austin, Texas; Jackson, Wyoming; Atlanta, Georgia; Tuscaloosa, Alabama; Newark, Ridgewood and Piscataway, New Jersey; Manchester, New Hampshire; Reston, Virginia, Youngstown, Ohio, and Toronto, Canada. The Company's European segment operates in leased office space in London, England; Paris and Avon, France; Amsterdam, the Netherlands; Frankfurt, Germany; Luxembourg; Dubai, United Arab Emirates; Milan, Italy; and Riga, Latvia. Office space in Tokyo, Japan; Hong Kong; Singapore; Mumbai, India; and Melbourne and Sydney, Australia are leased by FactSet for its Asia Pacific operating segment. The data content collection centers located in Hyderabad, India and Manila, the Philippines benefit all of the Companies operating segments. The leases expire on various dates through 2031. At May 31, 2016, FactSet leases approximately 1,044,000 square feet of office space, which the Company believes is adequate for its current needs and that additional space is available for lease to meet any future needs.

Total minimum rental payments associated with the leases are recorded as rent expense (a component of SG&A expenses) on a straight-line basis over the periods of the respective non-cancelable lease terms. Rent expense (including operating costs) for all operating leases amounted to \$11.1 million and \$9.6 million during the three months ended May 31, 2016 and 2015, respectively. Rent expense for all operating leases amounted to \$32.0 million and \$28.7 million during the nine months ended May 31, 2016 and 2015, respectively. At May 31, 2016 and August 31, 2015, deferred rent reported within the Consolidated Balance Sheets totaled \$32.3 million and \$20.9 million, of which \$29.2 million and \$18.4 million, respectively, was reported as a non-current liability within the line item *Deferred rent and other non-current liabilities*.

During the nine months ended May 31, 2016, FactSet entered into the following new lease agreements:

*Chicago, Illinois:* A new lease agreement was entered into during November 2015 to expand the Company's office space in Chicago. At the time of signing, the new lease agreement resulted in incremental future minimum rental payments of \$11.3 million over the lease term through September 2027.

*Riga, Latvia:* A new lease amendment was signed to extend and expand the Company's existing office space in Riga by 4,144 rentable square feet. At the time of signing, the renewal resulted in incremental future minimum rental payments of \$0.5 million through October 2020.

*London, England:* A new lease agreement was entered into in September 2015 for 1,150 square feet of additional office space in London for the Company's Matrix business. At the time of signing, the new lease agreement resulted in incremental future minimum rental payments of \$0.3 million over the non-cancelable lease term through February 2019.

*Los Angeles, California:* A new lease agreement was entered into during April 2016 for 500 square feet of new office space in Los Angeles. At the time of signing, the new lease agreement resulted in incremental future minimum rental payments of \$0.1 million over the lease term through August 2018.

*Manila, Philippines:* A new lease agreement was entered into during April 2016 for 24,940 square feet of additional office space in Manila. At the time of signing, the new lease agreement resulted in incremental future minimum rental payments of \$2.4 million over the non-cancelable lease term through May 2021.

*Hyderabad, India:* A new lease agreement was entered into during April 2016 for 15,809 square feet of new office space in Hyderabad. At the time of signing, the new lease agreement resulted in incremental future minimum rental payments of \$0.8 million over the lease term through April 2021.

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 as of May 31, 2016:

| <i>(In thousands)</i>         | Minimum<br>Lease |
|-------------------------------|------------------|
| Years Ended August 31,        | Payments         |
| 2016 (remaining three months) | \$6,602          |
| 2017                          | 32,078           |
| 2018                          | 30,969           |
| 2019                          | 29,385           |
| 2020                          | 23,423           |
| Thereafter                    | 159,501          |
| Total                         | \$281,958        |

Approximately \$1.0 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, 2016. 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, 2016, FactSet was in compliance with all covenants contained in the standby letters of credit.

### **Purchase Commitments with Suppliers**

Purchase obligations represent payments 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. At August 31, 2015, the Company had total purchase commitments of \$65.2 million. There were no material changes in the Company's purchase commitments during the first nine months of fiscal 2016.

### **Contingencies**

#### *Income Taxes*

Uncertain income tax positions are accounted for in accordance with applicable accounting guidance (see Note 16). FactSet is currently under audit by tax authorities and has reserved for potential adjustments to its provision for



income taxes that may result from examinations by, or any negotiated settlements with, these tax authorities. The Company believes that the final outcome of these examinations or settlements 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.

### *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. Based on information available at May 31, 2016, FactSet's management does not believe that the ultimate outcome of these unresolved matters against the Company, individually or in the aggregate, is likely to have a material adverse effect on the Company's consolidated financial position, its results of operations or its cash flows.

### *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 it believes mitigates FactSet's exposure and may enable FactSet to recover a portion of any future amounts paid. The Company believes the estimated fair value of these indemnification obligations is immaterial.

## **Concentrations of Credit Risk**

### *Cash equivalents*

Cash and cash equivalents are primarily maintained with two financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. These deposits may be redeemed upon demand and are maintained with financial institutions with reputable credit and therefore bear minimal credit risk. The Company seeks to mitigate its credit risks by spreading such risks across multiple counterparties and monitoring the risk profiles of these counterparties.

### *Accounts Receivable*

Accounts receivable are unsecured and derived from revenues earned from clients located around the globe. FactSet does not require collateral from its clients but performs credit evaluations on an ongoing basis. The Company maintains reserves for potential write-offs and evaluates the adequacy of the reserves periodically. These losses have historically been within expectations. No single client represented 10% or more of FactSet's total revenues in any period presented. At May 31, 2016, the Company's largest individual client accounted for 2% of total annual subscriptions and subscriptions from the ten largest clients did not surpass 15% of total annual subscriptions, consistent with August 31, 2015. As of May 31, 2016 and August 31, 2015, the receivable reserve was \$1.5 million and \$1.6 million, respectively.

### *Derivative Instruments*

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 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 and regularly reviews credit exposure balances as well as the creditworthiness of the counterparties.

## **19. SUBSEQUENT EVENTS**

### *Completion of the Sale of the Market Metrics Business*

As previously announced, on May 21, 2016, FactSet entered into a Purchase Agreement with AI NewCo., a merger subsidiary of AI, pursuant to which the Company agreed to sell its market research business, consisting of Market Metrics LLC and Matrix-Data Limited, to AI. On July 1, 2016, the Company completed the Transaction and received \$165.0 million in cash less estimated working capital and certain adjustments set forth in the Purchase Agreement, including a \$9.7 million bonus adjustment amount. Upon the achievement of certain growth targets over the next two years by the market research business that has been sold, FactSet would be entitled to an additional earn-out of \$10.0 million.

*\$120 Million Accelerated Share Repurchase Program*

On July 1, 2016, FactSet entered into an accelerated share repurchase agreement (the “ASR Agreement”) with Bank of America, N.A. (“BofA”), to repurchase an aggregate of \$120.0 million of FactSet’s common stock. The ASR Agreement was entered into pursuant to FactSet’s previously announced \$165.0 million share repurchase program approved by the Company’s Board of Directors on May 19, 2016.

Under the terms of the ASR Agreement, FactSet made a \$120.0 million prepayment to BofA on July 5, 2016 and received an initial delivery of 0.6 million shares of FactSet’s common stock on that same day. This is approximately 80% of the total number of shares of FactSet’s common stock expected to be repurchased under the ASR Agreement based on the closing price of the Company’s common stock on July 1, 2016. The final number of shares to be repurchased will be based on the volume-weighted average stock price of the Company’s common stock during the term of the transaction, less a discount and subject to potential adjustments pursuant to the terms of the ASR Agreement. At settlement, under certain circumstances, BofA may be required to deliver additional shares of common stock to FactSet, or under certain circumstances, FactSet may be required to deliver shares of common stock or to make a cash payment, at its election, to BofA. The final settlement of the transaction under the ASR Agreement is scheduled to occur in the first quarter of fiscal 2017, but it may be terminated earlier under certain circumstances.

## **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
- Key Metrics
- Results of Operations
- Liquidity
- Capital Resources
- Foreign Currency
- Off-Balance Sheet Arrangements
- Share Repurchase Program
- Contractual Obligations
- Dividends
- Significant Accounting Policies and Critical Accounting Estimates
- New Accounting Pronouncements
- Market Trends
- Forward-Looking Factors

### **Executive Overview**

FactSet is a leading provider of integrated financial information and analytical applications to the global investment community. We deliver insight and information to investment professionals through our analytics, service, content, and technology. By integrating comprehensive datasets and analytics across asset classes with client data, we support 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. Our 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. Recent additions to our offering include a complete services solution focused on verifying, cleaning and loading portfolio data across asset classes, and an execution management system through our acquisition of Portware. Our revenues are derived from subscriptions to products and services such as workstations, analytics, enterprise data and content, research management and trade execution. Investment management (buy-side) clients account for 83.6% of our annual subscription value and the remainder is derived from investment banking firms (sell-side) that perform mergers and acquisitions (“M&A”) advisory work, capital markets services and equity research.

*Fiscal 2016 Third Quarter in Review*

FactSet continued its record of producing solid results in the third quarter of fiscal 2016. We reported year over year revenue growth of 13.0% and an increase in diluted earnings per share (“EPS”) of 11.7%. In a challenging market environment, we saw strong growth from our Analytics, Content & Technology Solutions (“CTS”) and Portware businesses. Annual Subscription Value (“ASV”) as of May 31, 2016 totaled \$1.156 billion while our organic ASV growth rate increased to 9.3%, compared to 8.9% a year ago. Overall, our buy-side business, which includes traditional asset management clients, hedge funds, wealth managers and Portware, accelerated to 9.6% growth, up over 100 basis points from the prior year period. Conversely, our sell-side, which includes M&A advisory, capital markets and equity research professionals, declined to 8.1% growth as market volatility postponed the buying decisions of our investment banking clients.

As a testament to our broadening suite of premium products and the strength of our business and service model, in May 2016, FactSet was awarded “Best Overall Provider,” “Best Research Provider” and “Best Data Analytics Provider” by Inside Market Data. FactSet was previously awarded Acquisition of the Year in 2014, Best Research Provider in 2014 and 2012, and Best Analytics Provider in 2008, 2009 and 2011.

At our core, FactSet is client-centric and well-situated to serve a broad range of our users’ needs through our ability to offer enterprise solutions across many workflows, backed with our industry-leading client service. As of May 31, 2016, our employee headcount was 8,100, up 16.5% from a year ago. Of our total employees, 2,358 were located in the U.S., 910 in Europe and 4,832 in the Asia Pacific region. Approximately 55% of our employees are involved with content collection, 23% work in product development, software and systems engineering, another 19% conduct sales and consulting services and the remaining 3% provide administrative support. We are proud that FactSet was recently recognized for the eighth time on *Fortune*’s 100 Best Companies to Work For® list and named one of the UK’s “Best Workplaces” by the Great Place to Work® Institute UK for the eighth consecutive year.

As previously announced in the third quarter, we made the decision to exit from our non-core market research business focused on advisor-sold investments and insurance businesses. As such, on May 21, 2016, we entered into a definitive stock purchase agreement (the “Purchase Agreement”) to sell Market Metrics and Matrix Solutions (the “Transaction”). The Transaction is consistent with our long-term strategic direction and demonstrates our commitment to deliver significant value to our shareholders. The Transaction closed on July 1, 2016, at which time we received \$165.0 million in cash less estimated working capital and certain adjustments set forth in the Purchase Agreement, including a \$9.7 million bonus adjustment amount. Upon the achievement of certain growth targets over the next two years by the market research business that has been sold, we would be entitled to an additional earn-out of \$10.0 million.

### **Key Metrics**

The following is a review of our key metrics:

|   | As of and for the          |           |                      |
|---|----------------------------|-----------|----------------------|
|   | Three months ended May 31, |           |                      |
| <i>(in millions, except client and user counts)</i> | 2016                       | 2015      | Change               |
| Revenues  | \$287.5                    | \$254.5   | 13.0%                |
| Operating Income                                    | \$89.3                     | \$85.4    | 4.6%                 |
| Net Income  | \$66.8                     | \$61.4    | 8.8%                 |
| Diluted EPS   | \$1.62                     | \$1.45    | 11.7%                |
| Free Cash Flow <sup>(2)</sup>                       | \$88.6                     | \$98.5    | (10.0)%              |
| ASV   | \$1,156.3                  | \$1,021.2 | 13.2% <sup>(1)</sup> |
| Clients   | 3,075                      | 2,915     | 5.5%                 |
| Users   | 63,535                     | 58,995    | 7.7%                 |

(1) ASV grew 9.3% organically year over year.

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. We use free cash flow, a non-GAAP 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 metric that we use to gauge progress in achieving our goals. Free cash flow is also an indication of cash flow that may be available to fund further investments in future growth initiatives.

### *Annual Subscription Value Growth*

Annual subscription value at any given point in time represents the forward-looking revenues for the next twelve months from all subscription services currently being supplied to clients. With proper notice to us, our clients are able to add to, delete portions of, or terminate service at any time, subject to certain contractual limitations. ASV totaled \$1.156 billion at May 31, 2016, up 9.3% organically over the prior year and an increase of \$16.3 million over the second quarter of fiscal 2016. Organic ASV excludes ASV from acquisitions completed within the past 12 months and the effects of foreign currency. Organic ASV continued to grow despite significant market volatility. We have achieved organic ASV growth of \$95.2 million over the last 12 months.

Overall, ASV for our buy-side business accelerated to 9.6%, up over 100 basis points from the prior year period while our sell-side business declined to 8.1% growth. The decrease in the sell-side growth rate can be attributed to being more heavily leveraged to workstation and headcount trends. Also contributing to growth this quarter was our annual price increase for clients in the European and Asia Pacific regions. This increase contributed \$4.2 million in ASV.

ASV from our U.S. operations was \$775.6 million for the third quarter of 2016, up 9.0% organically from a year ago. International (non-U.S.) ASV totaled \$380.7 million, up 10.1% organically from a year ago. ASV from our international operations represented 32.9% of our Company-wide total, its highest level in our history. Our European organic ASV achieved a growth rate of 7.8% over the last 12 months while Asia Pacific organic ASV grew by 17.9%. We saw solid growth in our core buy-side client base particularly in the Americas and Europe.

### *Client and User Additions*

As of May 31, 2016, there were 63,535 professionals using FactSet, an increase of 35 users in the third quarter of fiscal 2016. We have increased users by 4,540, or 7.7%, from the third quarter of fiscal 2015. During the third quarter of fiscal 2016, we added 18 net new clients, increasing the number of clients by 5.5% over the prior year. Our total client count was 3,075 as of May 31, 2016. We continue to focus on expanding our current client base as it is essential to our long-term growth strategy and encourages incremental sales growth of workstations, applications and content at our existing clients.

Annual client retention as of May 31, 2016 was greater than 95% of ASV and 94% when expressed as a percentage of clients, consistent with the prior year third quarter. Our retention success, demonstrating a majority of our clients maintain their subscriptions to FactSet year over year, highlights the strength of our business model. Over the past 12 months, we have added 160 net new clients. At May 31, 2016, our largest individual client accounted for 2% of total subscriptions and annual subscriptions from our ten largest clients did not surpass 15% of total client subscriptions, consistent with August 31, 2015.

### *Returning Value to Stockholders*

On May 6, 2016, our Board of Directors approved a 13.6% increase in the regular quarterly dividend beginning with the dividend payment in June 2016 which was \$0.50 per share, or \$2.00 per share per annum. Additionally, in the third quarter of 2016, we repurchased 505,000 shares for \$76.3 million under the existing share repurchase program compared to 440,100 shares for \$70.2 million in the same period a year ago. In May 2016, our Board of Directors approved a \$165 million expansion of the existing share repurchase program. Including the expansion, \$359.7 million remains available for future share repurchases. Combining our dividends and share repurchases, we returned \$95.0 million to stockholders in the third quarter of fiscal 2016 and \$343.7 million in the last 12 months.

### *Capital Expenditures*

Capital expenditures were \$8.2 million during the third quarter of fiscal 2016, compared to \$3.6 million in the same period a year ago. Approximately \$4.8 million, or 58%, of capital expenditures related to the build out of office space, including \$1.4 million at our Chicago location and \$1.1 million at our corporate headquarters in Norwalk. The remainder of our capital expenditures was primarily for purchases of more servers for our existing data centers, additional laptop computers and peripherals for new employees, upgrades to existing computer systems and improvements to our telecommunication equipment.

## **Results of Operations**

For an understanding of the significant factors that influenced our performance for the three and nine months ended May 31, 2016 and 2015, 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.

| <i>(in thousands, except per share data)</i> | Three months ended May 31, |           |        | Nine months ended May 31, |           |        |
|--|----------------------------|-----------|--------|---------------------------|-----------|--------|
|  | 2016                       | 2015      | Change | 2016                      | 2015      | Change |
| Revenues                                     | \$287,501                  | \$254,522 | 13.0%  | \$839,801                 | \$744,990 | 12.7%  |
| Cost of services                             | \$124,602                  | \$100,686 | 23.8%  | \$363,249                 | \$297,745 | 22.0%  |
| Selling, general and administrative          | \$73,609                   | \$68,480  | 7.5%   | \$214,610                 | \$200,980 | 6.8%   |



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|  |          |          |       |           |           |       |
|--|----------|----------|-------|-----------|-----------|-------|
| Operating income                       | \$89,290 | \$85,356 | 4.6%  | \$261,942 | \$246,265 | 6.4%  |
| Net income                             | \$66,781 | \$61,409 | 8.7%  | \$194,508 | \$178,867 | 8.7%  |
| Diluted earnings per common share      | \$1.62   | \$1.45   | 11.7% | \$4.68    | \$4.23    | 10.6% |
| Diluted weighted average common shares | 41,189   | 42,297   |       | 41,596    | 42,317    |       |

**Revenues**

Revenues for the three months ended May 31, 2016 were \$287.5 million, up 13.0% compared to the prior year. For the first nine months of fiscal 2016, revenues increased 12.7% to \$839.8 million compared to the first nine months of fiscal 2015. The increase in revenue was driven by organic ASV growth of 9.3%, strong demand for our Analytics suite of products, robust growth in CTS business and ongoing growth from Portware.

*Strong Demand for Analytics*

We continue to see demand for our Multi-Asset Class (MAC) Analytics suite which includes solutions for Risk, Performance Attribution, Return Analytics, Publishing, Quant and Portfolio Services. These products are core to our buy-side clients and continue to drive the largest segment of our business. A key driver of this demand is the ongoing convergence towards multi-asset class investment strategies as clients pursue yield in a low rate environment. Clients continue to find value in our ability to serve as a single solution for their analytics, risk and publishing needs, over a variety of asset classes, which enables them to analyze securities and portfolios based on a variety of asset classes.

*Robust Growth in Content & Technology Solutions*

Our CTS suite of products, which provides solutions for our clients outside our terminal business, was a significant growth driver during the third quarter of fiscal 2016. There is an increased awareness of our CTS capabilities and data solutions to power workflows for the front and middle office. We have seen success in licensing proprietary FactSet data as our global content sales team pursues expanding the distribution of our content. This type of data is licensed in feed form and includes Fundamentals, Estimates, Transcripts and Ownership, among other offerings. The CTS suite includes a growing number of standardized data feeds that complement and mirror the data in the FactSet workstation.

*Ongoing Growth from Portware*

Portware, acquired on October 16, 2015, has maintained its strong track record of growth. We acquired Portware to expand our presence strategically in large global asset managers by becoming part of their trading ecosystem. In the third quarter of fiscal 2016, Portware client volume increased as did new client and broker connections. The integration of the Portware group into our organization continues to go smoothly. We continue to execute on the healthy pipeline of business from the close of the acquisition and have taken advantage of cross-selling the Portware solution to FactSet's client base.

*Impact of Foreign Currency*

In addition to the positive revenue drivers disclosed above, foreign currency movements increased revenues by \$0.2 million, or 10 basis points, during the third quarter of fiscal 2016 compared to the year ago quarter. Foreign currency movements reduced our revenues by \$0.6 million, or 10 basis points, during the first nine months of fiscal 2016 compared to the same period a year ago. Excluding incremental revenues from acquisitions completed within the last twelve months and the effects of foreign currency, our organic revenue growth rate for the quarter was 9.0%.

*Revenues by Geographic Region*

| <i>(in thousands)</i> | Three months ended May 31, |           |        | Nine months ended May 31, |           |        |
|-----------------------|----------------------------|-----------|--------|---------------------------|-----------|--------|
|                       | 2016                       | 2015      | Change | 2016                      | 2015      | Change |
| U.S.                  | \$193,166                  | \$172,070 | 12.3%  | \$565,063                 | \$502,271 | 12.5%  |
| <i>% of revenues</i>  | 67.2                       | % 67.6    | %      | 67.3                      | % 67.4    | %      |
| Europe                | \$70,243                   | \$63,156  | 11.2%  | \$206,198                 | \$186,320 | 10.7%  |
| Asia Pacific          | 24,092                     | 19,296    | 24.9%  | 68,540                    | 56,399    | 21.5%  |
| International         | \$94,335                   | \$82,452  | 14.4%  | \$274,738                 | \$242,719 | 13.2%  |
| <i>% of revenues</i>  | 32.8                       | % 32.4    | %      | 32.7                      | % 32.6    | %      |
| Consolidated          | \$287,501                  | \$254,522 | 13.0%  | \$839,801                 | \$744,990 | 12.7%  |

*Three months ended May 31, 2016 compared to three months ended May 31, 2015*

Revenues from our U.S. segment increased 12.3% to \$193.2 million during the three months ended May 31, 2016 compared to the same period a year ago. Our fiscal 2016 third quarter U.S. revenue growth rate of 12.3% reflects a strong performance in our Analytics suite of products, robust growth in our CTS business, revenue from Portware and solid advancement in our buy-side client base. Excluding revenue attained from recent acquisitions, organic revenues in the U.S. were up 8.5% compared to the year ago third quarter. Revenues from our U.S. operations accounted for 67.2% of our consolidated revenues during the third quarter of fiscal 2016, a decrease from the prior year as U.S. sales growth was outpaced by international growth.

European revenues grew 11.2%, attributable to continued growth in ASV, revenue from Portware and our annual price increase for European clients. Foreign currency exchange rate fluctuations reduced our European growth rate by 30 basis points. Excluding acquired revenue from Portware and the impact of foreign currency fluctuations, European revenues grew 8.1% year over year.

Asia Pacific revenue growth of 24.9% was primarily due to increased subscriptions to our Analytics suite of products, revenue from Portware and our annual price increase for Asia Pacific clients. Excluding acquired revenue from Portware and the impact of foreign currency fluctuations, Asia Pacific revenues grew 16.8% year over year.

*Nine months ended May 31, 2016 compared to nine months ended May 31, 2015*

Revenues from our U.S. segment increased 12.5% to \$565.1 million during the nine months ended May 31, 2016 compared to the same period a year ago. The U.S. revenue growth rate of 12.5% in the first nine months of fiscal 2016 reflects a strong performance in our Analytics suite of products, robust growth in CTS, revenue from Portware and continued client and user additions within the U.S. Revenues from our U.S. operations accounted for 67.3% of our consolidated revenues during the first nine months of fiscal 2016, down slightly from the prior year.

European revenues grew 10.7%, attributable to increases in client and user counts, continued growth in ASV from European buy-side clients and revenue from Portware, partially offset by the negative effects of foreign currency. Foreign currency exchange rate fluctuations reduced our European growth rate by 30 basis points. Excluding acquired revenue from Portware and the impact of foreign currency fluctuations, European revenues grew 8.2% year over year.

Asia Pacific revenue growth of 21.5% was primarily due to net new user and client growth, increased subscriptions to our Analytics suite of products, our proficiency in selling additional services to existing clients and revenue from Portware, partially offset by negative effects of foreign due to the change in the value of the Japanese Yen compared to the U.S. dollar. Excluding acquired revenue from Portware and the impact of foreign currency fluctuations, Asia Pacific revenues grew 16.4% year over year.

### ***Operating Expenses***

| <i>(in thousands)</i>    | Three months ended May 31, |           |        | Nine months ended May 31, |           |        |
|--------------------------|----------------------------|-----------|--------|---------------------------|-----------|--------|
|                          | 2016                       | 2015      | Change | 2016                      | 2015      | Change |
| Cost of services         | \$124,602                  | \$100,686 | 23.8%  | \$363,249                 | \$297,745 | 22.0%  |
| SG&A                     | 73,609                     | 68,480    | 7.5%   | 214,610                   | 200,980   | 6.8%   |
| Total operating expenses | \$198,211                  | \$169,166 | 17.2%  | \$577,859                 | \$498,725 | 15.9%  |
| Operating Income         | \$89,290                   | \$85,356  | 4.6%   | \$261,942                 | \$246,265 | 6.4%   |
| Operating Margin         | 31.1 %                     | 33.5 %    |        | 31.2 %                    | 33.1 %    |        |

### **Cost of Services**

#### *Three months ended May 31, 2016 compared to three months ended May 31, 2015*

For the three months ended May 31, 2016, cost of services increased 23.8% to \$124.6 million compared to \$100.7 million in the same period a year ago. Cost of services, expressed as a percentage of revenues, was 43.3% during the third quarter of fiscal 2016, an increase of 370 basis points over the prior year period due to higher employee compensation, including stock-based compensation, amortization of intangible assets and computer-related expenses.

Employee compensation, including stock-based compensation, when expressed as a percentage of revenues increased 270 basis points in the third quarter of fiscal 2016 compared to the same period a year ago. This increase was primarily due to new employees hired in the past year. Over the last 12 months, we have added 678 net new employees involved with content collection and 234 net new engineering and product development employees, as we continue to focus on servicing our existing client base, expanding our content and improving our applications. The increase in employee headcount includes 123 employees added from the Portware acquisition in cost of sales related roles. Amortization of acquired intangible assets, when expressed as a percentage of revenues, increased 50 basis points in the third quarter of fiscal 2016 compared to the same period a year ago primarily due to the addition of \$75.5 million of intangible assets related to the acquisition of Portware. Computer-related expenses, which include depreciation, maintenance, software and other fees, increased 50 basis points when expressed as a percentage of revenues, as we require additional computer hardware and peripherals for new employees, upgrades to existing computer systems and the development of new internal systems to support our growing infrastructure.

*Nine months ended May 31, 2016 compared to nine months ended May 31, 2015*

For the nine months ended May 31, 2016, cost of services increased 22.0% to \$363.2 million compared to \$297.7 million in the same period a year ago. Cost of services, expressed as a percentage of revenues, was 43.3% during the first nine months of fiscal 2016, an increase of 330 basis points over the prior year period due to higher employee compensation, including stock-based compensation, amortization of intangible assets and computer-related expenses.

*Selling, General and Administrative*

*Three months ended May 31, 2016 compared to three months ended May 31, 2015*

For the three months ended May 31, 2016, SG&A expenses increased to \$5.1 million, up 7.5%, from \$68.5 million in the same period a year ago. SG&A expenses, expressed as a percentage of revenues, decreased from 26.9% to 25.6% during the third quarter of fiscal 2016 compared to the prior year period. This decrease was primarily due to lower compensation expense attributable to employees performing SG&A related roles, partially offset by higher professional expenses.

Employee compensation, including stock-based compensation, when expressed as a percentage of revenues decreased 160 basis points from a year ago due to a higher percentage of our employee base working in a cost of services capacity compared to an SG&A role. Of our total employee headcount increase in the last 12 months, only 19% were in SG&A related roles, including 43 employees from the Portware acquisition. As such, employee compensation classified as SG&A expense declined compared to the growth in cost of services. Professional fees, expressed as a percentage of revenues, increased 50 basis points year over year primarily due to \$1.4 million of professional fees primarily related to the sale of Market Metrics.

*Nine months ended May 31, 2016 compared to nine months ended May 31, 2015*

For the nine months ended May 31, 2016, SG&A expenses increased to \$13.6 million, up 6.8% from \$201.0 million in the same period a year ago. SG&A expenses, expressed as a percentage of revenues, decreased from 27.0% to 25.5% during the first half of fiscal 2016 compared to the prior year period. This decrease was primarily due to lower compensation expense from employees performing SG&A related roles and lower occupancy costs, which include rent and depreciation of furniture and fixtures, partially offset by higher professional expenses. Professional fees for the nine months ended May 31, 2016 included the \$1.4 million primarily related to the sale of Market Metrics and \$0.7 million related to the Portware acquisition in October 2015.

***Operating Income and Operating Margin****Three months ended May 31, 2016 compared to three months ended May 31, 2015*

Operating income increased 4.6% to \$89.3 million for the three months ended May 31, 2016 compared to the prior year period. Our operating margin during the third quarter of fiscal 2016 was 31.1%, down from 33.5% a year ago. The lower operating margin was primarily due to Portware's operations, which reduced our operating margin by 130 basis points in the current period. Additionally, the incremental \$1.4 million of professional fees reduced the margin by 40 basis points. Offsetting these decreases was organic revenue growth of 9.0% and foreign currency benefits totaling \$1.9 million.

*Nine months ended May 31, 2016 compared to nine months ended May 31, 2015*

Operating income increased 6.4% to \$261.9 million for the nine months ended May 31, 2016 compared to the prior year period. Our operating margin during the first nine months of fiscal 2016 was 31.2%, down from 33.1% a year ago. The lower operating margin was primarily due to Portware's operations, which reduced our operating margin by 120 basis points in the current period. Additionally the incremental \$2.1 million of professional fees further reduced the margin by 20 basis points. Offsetting these drivers was organic revenue growth of 9.6% and foreign currency benefits totaling \$8.8 million.

***Operating Income by Segment***

|                | Three months ended May 31, |          |        | Nine months ended May 31, |           |        |
|----------------|----------------------------|----------|--------|---------------------------|-----------|--------|
| (in thousands) | 2016                       | 2015     | Change | 2016                      | 2015      | Change |
| U.S.           | \$42,020                   | \$43,332 | (3.0)% | \$127,479                 | \$130,271 | (2.1)% |
| Europe         | 33,304                     | 31,187   | 6.8%   | 95,536                    | 85,675    | 11.5%  |
| Asia Pacific   | 13,966                     | 10,837   | 28.9%  | 38,927                    | 30,319    | 28.4%  |

Consolidated \$89,290 \$85,356 4.6% \$261,942 \$246,265 6.4%

Our operating segments are aligned with how we manage the business and the demographic markets in which we serve. Our internal financial reporting structure is based on three reportable segments, the U.S., Europe and Asia Pacific, which we believe helps us better manage the business and view the markets we serve. Sales, consulting, data collection, product development and software engineering are the primary functional groups within each segment. Each segment records compensation expense, including stock-based compensation, 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 our data centers, third party data costs and corporate headquarters charges are recorded by the U.S. segment and are not allocated to the other segments. The content collection centers located in India and the Philippines benefit all of our segments and thus the expenses incurred at these locations are allocated to each segment based on a percentage of revenues.

*Three months ended May 31, 2016 compared to three months ended May 31, 2015*

U.S. operating income decreased 3.0% to \$42.0 million during the three months ended May 31, 2016 compared to \$43.3 million in the same period a year ago. The decrease in U.S. operating income is primarily due to an increase in employee compensation expense, partially offset by revenue growth of 12.3%. U.S. employee headcount grew 11.0% year over year. U.S. revenue growth was driven by U.S. organic ASV growth of 9.0%, solid advancement in our core buy-side client base and revenue from Portware.

European operating income increased 6.8% to \$33.3 million during the three months ended May 31, 2016 compared to \$31.2 million in the same period a year ago. The increase in European operating income was due to revenue growth of 11.2% and benefits from a stronger U.S. dollar, partially offset by increases in employee compensation. The impact of foreign currency increased European operating income by \$0.3 million year over year. Employee compensation increased in Europe primarily due to a 14.6% increase in the European employee headcount year over year.

Asia Pacific operating income increased 28.9% to \$14.0 million during the three months ended May 31, 2016 compared to \$10.8 million a year ago. The increase in Asia Pacific operating income was due to revenue growth of 24.9% and benefits from a stronger U.S. dollar, partially offset by increases in employee compensation. The impact of foreign currency increased Asia Pacific operating income by \$1.6 million year over year. Employee compensation increased due to a 19.8% increase in Asia Pacific employee headcount year over year.

*Nine months ended May 31, 2016 compared to nine months ended May 31, 2015*

U.S. operating income decreased 2.1% to \$127.5 million during the nine months ended May 31, 2016 compared to \$130.3 million in the same period a year ago. The decrease in U.S. operating income is attributed to increases in employee compensation and higher professional expenses partially offset by revenue growth of 12.5%. Employee compensation increased primarily due to an 11.0% increase in the U.S. employee headcount year over year while professional fees rose due to \$2.1 million of costs incurred related to the sale of Market Metrics and the acquisition of Portware.

European operating income increased 11.5% to \$95.5 million during the nine months ended May 31, 2016 compared to \$85.7 million in the same period a year ago. The increase in European operating income was due to revenue growth of 10.7% and benefits from a stronger U.S. dollar, partially offset by increases in employee compensation. The impact of foreign currency increased European operating income by \$3.7 million year over year. Employee compensation increased in Europe primarily due to a 14.6% increase in the European employee headcount year over year.

Asia Pacific operating income increased 28.4% to \$38.9 million during the nine months ended May 31, 2016 compared to \$30.3 million a year ago. The increase in Asia Pacific operating income was due to revenue growth of 21.5% and benefits from a stronger U.S. dollar, partially offset by increases in employee compensation. The impact of foreign currency increased Asia Pacific operating income by \$4.9 million year over year. Employee compensation increased due to a 19.8% increase in the Asia Pacific employee headcount year over year.

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

| <i>(in thousands)</i>      | Three months ended May 31, |          |        | Nine months ended May 31, |           |        |
|----------------------------|----------------------------|----------|--------|---------------------------|-----------|--------|
|                            | 2016                       | 2015     | Change | 2016                      | 2015      | Change |
| Provision for income taxes | \$22,076                   | \$24,429 | (9.6)% | \$66,669                  | \$68,843  | (3.2)% |
| Net income                 | \$66,781                   | \$61,409 | 8.7%   | \$194,508                 | \$178,867 | 8.7%   |
| Diluted earnings per share | \$1.62                     | \$1.45   | 11.7%  | \$4.68                    | \$4.23    | 10.6%  |

**Income Taxes***Three months ended May 31, 2016 compared to three months ended May 31, 2015*

For the three months ended May 31, 2016, the provision for income taxes was \$22.1 million, down 9.6% from the same period a year ago. This was primarily due to income tax benefits of \$3.2 million in the third quarter of fiscal 2016 compared to income tax benefits of \$1.4 million in the same period a year ago. The income tax benefits related



to finalizing prior years' tax returns and other discrete items.

*Nine months ended May 31, 2016 compared to nine months ended May 31, 2015*

For the nine months ended May 31, 2016, the provision for income taxes was \$66.7 million, down 3.2% from the same period a year ago, primarily due to the US. Federal R&D tax credit being reenacted in December 2015 and income tax benefits related to finalizing prior years' tax returns and other discrete items. Overall, we recognized income tax benefits of \$10.5 million in fiscal 2016 compared to \$6.5 million in the same period in fiscal 2015. Offsetting the increase in tax benefits was an increase in taxable income of \$13.5 million year over year.

*Net Income and Diluted Earnings per Share*

*Three months ended May 31, 2016 compared to three months ended May 31, 2015*

Net income increased 8.7% to \$66.8 million and diluted earnings per share increased 11.7% to \$1.62 for the three months ended May 31, 2016 compared to the three months ended May 31, 2015. Drivers of net income and earnings per share during the third quarter of fiscal 2016 included revenue growth of 13.0%, a decrease in diluted shares outstanding and tax benefits of \$3.2 million related to finalizing prior years' tax returns and other discrete items. These increases were partially offset by incremental employee compensation expense due to the hiring of 1,149 net new employees (including 166 employees from acquisitions completed in the last 12 months), higher intangible asset amortization expense and the negative effects of foreign currency movements. The third quarter of fiscal 2016 net income was also reduced by the after-tax charges of \$1.0 million from professional fees related to the sale of Market Metrics. During the third quarter of fiscal 2016, foreign currency movements increased operating income by \$1.9 million compared to a benefit of \$4.3 million in the year ago quarter.

*Nine months ended May 31, 2016 compared to nine months ended May 31, 2015*

Net income increased 8.7% to \$194.5 million and diluted earnings per share increased 10.6% to \$4.68 for the nine months ended May 31, 2016 compared to the nine months ended May 31, 2015. Drivers of net income and earnings per share during the first nine months of fiscal 2016 included organic ASV growth of 9.3% and tax benefits of \$10.5 million related to the permanent reenactment of the U.S. Federal R&D tax credit and finalizing prior years' tax returns and other discrete items. These increases were partially offset by incremental employee compensation expense due to the hiring of 1,149 net new employees (including 166 employees from acquisitions completed in the last 12 months), an increase in professional fees and higher intangible asset amortization expense. During the first nine months of fiscal 2016, foreign currency movements increased operating income by \$8.8 million compared to a benefit of \$7.2 million in the same period of fiscal 2015.

***Adjusted Net Income and Diluted Earnings per Share (non-GAAP)***

Financial measures in accordance with U.S. GAAP including net income and diluted earnings per share have been adjusted. We use these adjusted financial measures, both in presenting our results to stockholders and the investment community, and in our internal evaluation and management of the business. We believe that these adjusted financial measures and the information they provide are useful to investors because it permits investors to view our performance using the same tools that we use to gauge progress in achieving our goals.

Adjusted operating income and margin, adjusted net income and adjusted earnings per share exclude both deal-related amortization and non-recurring items. We believe that this change to our reported adjusted financial measures better reflects the underlying economic performance of FactSet.

Adjusted net income for the three months ended May 31, 2016 was \$67.5 million, an increase of 9.7% from the prior year period. As presented in the table below, adjusted net income for the quarter ended May 31, 2016 excludes the after-tax charge of \$2.9 million from deal-related amortization, the after-tax charge of \$1.0 million from professional fees related to the sale of our Market Metrics business and \$3.2 million in income tax benefits from finalizing prior years' tax returns and other discrete items. Adjusted net income for the three months ended May 31, 2015 excludes the after-tax charge of \$1.6 million from deal-related amortization and \$1.4 million in income tax benefits.

Fiscal 2016 third quarter adjusted diluted EPS of \$1.64 excludes the net effect of the \$0.08 benefit from finalizing prior years' tax returns and other discrete items, a \$0.07 detriment from deal-related amortization and a \$0.02 detriment from the professional fees. Fiscal 2015 third quarter adjusted diluted EPS of \$1.46 excludes the net effect of the \$0.03 benefit from finalizing prior years' tax returns and other discrete items and a \$0.04 detriment from deal-related amortization.

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| <i>(in thousands, except per share data)</i>          | Three months<br>ended May 31, |          | Change |   |
|---|-------------------------------|----------|--------|---|
|   | 2016                          | 2015     |        | % |
| GAAP Net income                                       | \$66,781                      | \$61,409 | 8.7    | % |
| Deal-related amortization                             | 2,925                         | 1,597    |        |   |
| Incremental professional fees                         | 998                           | —        |        |   |
| Income tax benefits                                   | (3,159)                       | (1,408)  |        |   |
| Adjusted Net income (non-GAAP)                        | \$67,545                      | \$61,598 | 9.7    | % |
| Adjusted Diluted earnings per common share (non-GAAP) | \$1.64                        | \$1.46   | 12.3   | % |
| Weighted average common shares (Diluted)              | 41,189                        | 42,297   |        |   |

*The presentation of the financial information above is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP.*

## Liquidity

The table below, for the periods indicated, provides selected cash flow information:

| <i>(in thousands)</i>                               | Nine months ended |             |
|---|-------------------|-------------|
|   | May 31,           |             |
|   | 2016              | 2015        |
| Net cash provided by operating activities           | \$261,104         | \$222,842   |
| Capital expenditures <sup>(1)</sup>                 | (34,671 )         | (15,391 )   |
| Free cash flow <sup>(2)</sup>                       | \$226,433         | \$207,451   |
| Net cash used in investing activities               | \$(299,269)       | \$(53,849 ) |
| Net cash provided by (used in) financing activities | \$70,295          | \$(115,214) |
| Cash and cash equivalents at end of period          | \$187,436         | \$157,895   |

<sup>(1)</sup>Included in net cash used in investing activities during each fiscal year reported.

<sup>(2)</sup>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.

Cash and cash equivalents aggregated to \$187.4 million, or 18.0% of our total assets at May 31, 2016, compared with \$158.9 million, or 21.6% of our total assets at August 31, 2015. Our cash and cash equivalents increased \$28.5 million during the first nine months of fiscal 2016 due to cash provided by operations of \$261.1 million, \$265.0 million in proceeds from long-term debt, \$38.8 million in proceeds from the exercise of employee stock options and \$13.3 million in tax benefits from share-based payment arrangements. These cash inflows were partially offset by \$264.1 million in cash paid to acquire Portware (net of cash acquired), \$189.5 million in share repurchases under the existing share repurchase program, dividend payments of \$54.0 million, capital expenditures of \$34.7 million and \$3.6 million from the effects of foreign currency fluctuation.

Free cash flow generated in the nine months ended May 31, 2016 was \$226.4 million, up 9.1% compared to a year ago. The free cash flow was attributable to \$194.5 million of net income, \$26.3 million of positive working capital changes and adjusted for \$40.3 million of non-cash items, less \$34.7 million in capital expenditures. The year over year free cash flow increase was driven by higher net income of \$15.6 million and a positive working capital increase of \$2.7 million. Our days sales outstanding (“DSO”) was 35 days as of May 31, 2016, representing an increase from 33 days at August 31, 2015. DSO was 33 days at May 31, 2015.

Free cash flow generated over the last twelve months was \$299.7 million and exceeded net income by 16.8%. Included in the twelve month calculation of free cash flow was \$344.7 million of net cash provided by operations less \$45.0 million of capital expenditures. Free cash flow generated in the last twelve months was up 9.9% from the comparable year ago period due to higher levels of net income, and the timing of payables and accrued compensation, offset by incremental capital expenditures.

Net cash used in investing activities was \$299.3 million in the first nine months of fiscal 2016, representing a \$245.4 million increase from the same period a year ago. This was primarily due to our acquisition of Portware in the first quarter of fiscal 2016 which resulted in a net cash outflow of \$264.1 million compared to a net cash outflow of \$30.1 million for the acquisition of Code Red in the second quarter of fiscal 2015. Additionally, cash used in investing activities increased year over year due to an increase in capital expenditures primarily due to the fit-out of new space in New York, Chicago and at our corporate headquarters in Norwalk. These cash outflows were partially offset by an increase in proceeds from the sales of investments (net of purchases) of \$4.4 million year over year.

During the first nine months of fiscal 2016, net cash provided by financing activities was \$70.3 million, compared to cash used in financing activities of \$115.2 million in the first nine months of fiscal 2015. The year over year fluctuation was primarily due to proceeds from long-term debt of \$265.0 million and an increase in share repurchases of \$15.3 million, partially offset by lower proceeds and tax benefits from stock options exercised of \$23.6 million. The proceeds from long-term debt related to additional borrowings under the Second Amendment (defined in *Capital Needs*) to our credit agreement dated February 6, 2015 (the "Credit Agreement") to fund our acquisition of Portware on October 16, 2015.

We expect that for at least the next 12 months, our operating expenses will continue to constitute a significant use of our cash. As of May 31, 2016, our total cash and cash equivalents worldwide was \$187.4 million with \$300.0 million in outstanding borrowings. Approximately \$25.5 million of our total available cash and cash equivalents is held in bank accounts located within the U.S., \$128.0 million in Europe (predominantly within the UK and France) and the remaining \$33.9 million is held in the Asia Pacific region. We believe our liquidity (including cash on hand, cash from operating activities and other cash flows that we expect to generate) within each geographic segment will be sufficient to meet our short-term and long-term operating requirements, as they occur, including working capital needs, capital expenditures, dividend payments, stock repurchases, growth objectives and other financing activities. In addition, we expect existing foreign cash, cash equivalents and cash flows from operations to continue to be sufficient to fund our foreign operating activities and cash commitments for investing activities, such as capital expenditures, for at least the next 12 months and thereafter for the foreseeable future.

## **Capital Resources**

### ***Capital Expenditures***

Capital expenditures were \$8.2 million for the quarter ended May 31, 2016, up from \$3.6 million in the same period a year ago. Approximately \$4.8 million, or 58%, of capital expenditures related to the build out of office space including \$1.4 million at our Chicago location and \$1.1 million at our corporate headquarters in Norwalk. The remainder of our capital expenditures was primarily for purchases of more servers for our existing data centers, additional laptop computers and peripherals for employees.

Capital expenditures were \$34.7 million during the first nine months of fiscal 2016, up from \$15.4 million in the same period a year ago. Approximately \$21.4 million, or 62%, of capital expenditures related to the build out of office space including \$14.3 million at our New York location, \$1.5 million at our Chicago location and \$1.3 million at our corporate headquarters in Norwalk. The remaining 38% of our capital expenditures was for purchases of computer equipment, including new servers for our existing data centers and purchasing laptop computers and peripherals for employees, upgrading existing computer systems and improving telecommunication equipment.

### ***Capital Needs***

#### ***Long-Term Debt***

On February 6, 2015, we entered into a Credit Agreement between FactSet, as the borrower, and Bank of America, N.A., as the lender (the "Lender"). At that date, the Credit Agreement provided for a \$35.0 million revolving credit facility (the "Revolving Credit Facility"), under which we could request borrowings. The Credit Agreement also allowed us to arrange for additional borrowings for an aggregate amount of up to \$265.0 million provided that any such request for additional borrowings was in a minimum amount of \$25.0 million.

For purposes of funding our acquisition of Code Red on February 6, 2015, we borrowed \$35.0 million in the form of a Eurodollar rate loan (the "Loan") under the Revolving Credit Facility. The proceeds of the Loan made under the Credit Agreement could be used for permitted acquisitions and general corporate purposes. On September 21, 2015, we amended the Credit Agreement to borrow an additional \$265.0 million (the "Second Amendment") in order to fund our acquisition of Portware, which closed on October 16, 2015. The maturity date on all outstanding loan amounts (which total \$300.0 million as of May 31, 2016) is September 21, 2018. The Second Amendment also allows us, subject to certain requirements, to arrange for additional borrowings with the Lender for an aggregate amount of up to \$400.0 million, provided that any such request for additional borrowings must be in a minimum amount of \$25.0 million.

The \$300.0 million borrowed under the Credit Agreement bears interest on the outstanding principal amount at a rate equal to the Eurodollar rate plus 0.75% and is reported as *Long-term debt* within the Consolidated Balance Sheet at May 31, 2016. The Eurodollar rate is defined in the Credit Agreement as the rate per annum equal to one-month LIBOR. Interest on the Loan is payable quarterly in arrears and on the maturity date. During the three and nine months ended May 31, 2016, we paid approximately \$0.9 million and \$2.2 million, respectively, in interest on our outstanding Loan amount. We paid interest of less than \$0.1 million on our outstanding Loan amount for the nine months ended May 31, 2015. The principal balance is payable in full on the maturity date.

As of May 31, 2016, we owed no commitment fees since we borrowed the full amount of the Credit Agreement. Other fees incurred, such as legal costs to draft and review the Credit Agreement, totaled less than \$0.1 million and were capitalized as loan origination fees. These loan origination fees are being amortized to interest expense over the term of the Loan (three years) using the effective interest method.

The Credit Agreement contains covenants restricting certain FactSet activities, which are usual and customary for this type of loan.

In addition, the Credit Agreement requires us to maintain a consolidated leverage ratio, as measured by total funded debt/EBITDA, below a specified level as of the end of each fiscal quarter. We were in compliance with all of the covenants of the Credit Agreement as of May 31, 2016.

As of May 31, 2016, the fair value of our long-term debt was \$300.0 million, which we believe approximates carrying amount as the terms and interest rates approximate market rates given its floating interest rate basis.

### *Letters of Credit*

From time to time, we are required to obtain letters of credit in the ordinary course of business. Approximately \$1.0 million of standby letters of credit have been issued in connection with our current leased office space as of May 31, 2016. 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. As of May 31, 2016 and August 31, 2015, we were in compliance with all covenants contained in the standby letters of credit.

## **Foreign Currency**

### *Foreign Currency Exposure*

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 loss as a component of stockholders' equity.

As of May 31, 2016, our annualized non-U.S. dollar denominated revenues are estimated to be \$21.7 million while our non-U.S. dollar denominated expenses are estimated to be \$207.4 million, which translates into a net foreign currency exposure of \$185.7 million. Our foreign currency exchange exposure is related to our operating expense base in countries outside the U.S., where 71% of our employees were located as of May 31, 2016. Our operating income was \$1.9 million higher during the third quarter of fiscal 2016 compared to \$4.3 million a year ago. During the first nine months of fiscal 2016, foreign currency movements increased operating income by \$8.8 million, compared to \$11.2 million a year ago.

### *Foreign Currency Hedges*

As of May 31, 2016, we maintained the following foreign currency forward contracts to hedge our foreign currency exposure:

*British Pound Sterling* - foreign currency forward contracts to hedge approximately 50% of its British Pound Sterling exposure through the fourth quarter of fiscal 2017.



*Euro* - foreign currency forward contracts to hedge approximately 50% of its Euro exposure through the fourth quarter of fiscal 2016.

*Indian Rupee* - foreign currency forward contracts to hedge approximately 75% of its Indian Rupee exposure through the fourth quarter of fiscal 2018.

As of May 31, 2016, the gross notional value of foreign currency forward contracts to purchase British Pound Sterling with U.S. dollars was £28.3 million. The gross notional value of foreign currency forward contracts to purchase Euros with U.S. dollars was €4.5 million. The gross notional value of foreign currency forward contracts to purchase Indian Rupees with U.S. dollars was Rs. 4.0 billion.

There were no other outstanding foreign currency forward contracts as of May 31, 2016. A loss on derivatives of less than \$0.1 million was recorded into operating income during the third quarter of fiscal 2016, compared to a loss of \$0.3 million in the year ago third quarter. During the first nine months of fiscal 2016, a gain on derivatives of less than \$0.1 million was recorded into operating income, compared to a loss of \$0.5 million a year ago.

### **Off-Balance Sheet Arrangements**

At May 31, 2016 and August 31, 2015, we had no off-balance sheet financing or other arrangements with unconsolidated entities or financial partnerships (such as entities often referred to as structured finance or special purpose entities) established for purposes of facilitating off-balance sheet financing or other debt arrangements or for other contractually limited purposes.

### **Share Repurchase Program**

On May 19, 2016, our Board of Directors approved a \$165.0 million expansion of the existing share repurchase program. 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 from existing and future cash generated by operations. During the first nine months of fiscal 2016, we repurchased 1,220,000 shares for \$189.5 million under the existing share repurchase program compared to 1,209,954 shares for \$174.3 million a year ago. Including the expansion, \$359.7 million remains authorized for future share repurchases.

## 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, 2015, we had total purchase commitments of \$65.2 million. There were no material changes in our purchase commitments during the first nine months of fiscal 2016.

At May 31, 2016, FactSet leased approximately 1,044,000 square feet of office space, which we believe is adequate for our current needs and that additional space is available for lease to meet any future needs. During the nine months ended May 31, 2016, we entered into the following new lease agreements:

*Chicago, Illinois:* A new lease agreement was entered into during November 2015 to expand the Company's office space in Chicago. At the time of signing, the new lease agreement resulted in incremental future minimum rental payments of \$11.3 million over the lease term through September 2027.

*Riga, Latvia:* A new lease amendment was signed to extend and expand the Company's existing office space in Riga by 4,144 rentable square feet. At the time of signing, the renewal resulted in incremental future minimum rental payments of \$0.5 million through October 2020.

*London, England:* A new lease agreement was entered into in September 2015 for 1,150 square feet of additional office space in London for the Company's Matrix business. At the time of signing, the new lease agreement resulted in incremental future minimum rental payments of \$0.3 million over the non-cancelable lease term through February 2019.

*Los Angeles, California:* A new lease agreement was entered into during April 2016 for 500 square feet of new office space in Los Angeles. At the time of signing, the new lease agreement resulted in incremental future minimum rental payments of \$0.1 million over the lease term through August 2018.

*Manila, Philippines:* A new lease agreement was entered into during April 2016 for 24,940 square feet of additional office space in Manila. At the time of signing, the new lease agreement resulted in incremental future minimum rental payments of \$2.4 million over the non-cancelable lease term through May 2021.

*Hyderabad, India:* A new lease agreement was entered into during April 2016 for 15,809 square feet of new office space in Hyderabad. At the time of signing, the new lease agreement resulted in incremental future minimum rental payments of \$0.8 million over the lease term through April 2021.

As disclosed earlier in the *Capital Needs* section of this MD&A, we borrowed \$35.0 million in the form of a Eurodollar rate loan to fund the acquisition of Code Red in February 2015 and \$265.0 million in the form of a Eurodollar rate loan to fund the acquisition of Portware in October 2015. The maturity date on all outstanding loan amounts is September 21, 2018 and there are no prepayment penalties in the event that we elect to prepay the loan prior to its scheduled maturity date. The amount borrowed bears interest on the outstanding principal amount at a rate equal to the Eurodollar rate plus 0.75% and is reported as *Long-term debt* within our Consolidated Balance Sheet at May 31, 2016.

With the exception of the new leases entered into in the ordinary course of business and the \$265.0 million borrowing to fund the Portware acquisition, there were no other significant changes to our contractual obligations during the first nine months of fiscal 2016.

Subsequent to May 31, 2016, we entered into an accelerated share repurchase agreement (the “ASR Agreement”) with Bank of America, N.A. (“BofA”), to repurchase an aggregate of \$120.0 million of our common stock. The ASR Agreement was entered into pursuant to the \$165.0 million share repurchase program approved by our Board of Directors on May 19, 2016. Under the terms of the ASR Agreement, we made a \$120.0 million prepayment to BofA on July 5, 2016 and received an initial delivery of 0.6 million shares of our common stock on that same day. The final number of shares to be repurchased will be based on the volume-weighted average stock price of our common stock during the term of the transaction, less a discount and subject to potential adjustments pursuant to the terms of the ASR Agreement. The final settlement of the transaction under the ASR Agreement is scheduled to occur in the first quarter of fiscal 2017, but it may be terminated earlier under certain circumstances.

## **Dividends**

On May 6, 2016, our Board of Directors approved a 13.6% increase in the regular quarterly dividend beginning with the dividend payment in June 2016 which was \$0.50 per share, or \$2.00 per share per annum. The cash dividend of \$20.2 million was paid on June 21, 2016, to common stockholders of record on May 31, 2016. With our dividends and our share repurchases, in the aggregate, we have returned \$343.7 million to shareholders over the past 12 months. Future cash dividends will depend on our earnings, capital requirements, financial condition and other factors considered relevant by us and is subject to final determination by our Board of Directors.

## Significant Accounting Policies and Critical Accounting Estimates

We describe our significant accounting policies in Note 3, *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, 2015.

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, 2015. There were no significant changes in our accounting policies or critical accounting estimates during the first nine months of fiscal 2016.

## New Accounting Pronouncements

See Note 3, *Recent Accounting Pronouncements*, in the Notes to the Consolidated Financial Statements for a full description of recent accounting pronouncements, including the expected dates of adoption, which we include herein by reference.

## Market Trends

In the ordinary course of business, we are exposed to financial risks involving the volatility of equity markets as well as foreign currency and interest rate fluctuations.

Approximately 83.6% of our ASV 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 management clients. Our investment banking clients that perform M&A advisory work, provide capital markets services and equity research, account for approximately 16.4% of our ASV. A significant portion of these revenues relate to services deployed by large, bulge bracket banks. Credit 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 M&A funded by debt. Additional uncertainty, consolidation and business failures in the global investment banking sector could adversely affect our financial results and future growth. 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, capital markets and equity research to compensate for the issues created by other departments.

Due to the global nature of our operations, we conduct business outside the U.S. in several currencies including the British Pound Sterling, Euro, Indian Rupee, Japanese Yen and Philippine Peso. To the extent that our international activities increase in the future, our exposure to fluctuations in currency exchange rates will correspondingly increase. To manage this exposure, we utilize derivative instruments (foreign currency forward contracts). 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. Credit risk is managed through the continuous monitoring of exposure to the counterparties associated with these instruments. Our primary objective in holding derivatives is to reduce the volatility of earnings associated with changes in foreign currency.

On June 23, 2016, the United Kingdom (“UK”) held a referendum in which British citizens approved an exit from the European Union (“EU”), commonly referred to as “Brexit.” As a result of the referendum, the global markets and currencies have been adversely impacted, including a sharp decline in the value of the British Pound Sterling as compared to the U.S. dollar. Volatility in exchange rates is expected to continue in the short term as the UK negotiates its exit from the EU. We currently hedge approximately 50% of our British Pound Sterling exposure through the fourth quarter of fiscal 2017, thus reducing our currency risk. In the longer term, any impact from Brexit on us will depend, in part, on the outcome of tariff, trade, regulatory and other negotiations. Although it is unknown what the result of those negotiations will be, it is possible that new terms may adversely affect our operations and financial results. While we evaluate our own risks and uncertainty related to Brexit, we will continue to partner with our clients to help them navigate the fluctuating international markets. Our products, including our datasets such as GeoRev, allow our clients to understand geographic exposure and assess the risks of operating on a global scale so they may make informed business decisions.

## **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 to be 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," "may" and similar expressions. In addition, any statements that refer to 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.

### ***Business Outlook***

The following forward-looking statements reflect our expectations as of July 5, 2016. Given the 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 2016 Expectations (includes the results of the Market Metrics business through July 1, 2016):*

-Revenues are expected to range between \$286 million and \$292 million.

- GAAP operating margin is expected to range between 31.0% and 32.0%. Adjusted operating margin is expected to range between 32.5% and 33.5%.

-The annual effective tax rate is expected to range between 28.0% and 29.0%.

- GAAP diluted EPS should range between \$1.61 and \$1.65. Adjusted EPS is expected to range between \$1.68 and \$1.72. The midpoint of the adjusted EPS range represents 12.6% growth over the prior year.

### 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, Indian Rupee, Japanese Yen 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. Over the next 12 months, our non-U.S. dollar denominated revenues expected to be recognized are estimated to be \$21.7 million while our non-U.S. dollar denominated expenses are \$207.4 million, which translates into a net foreign currency exposure of \$185.7 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). 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 a major financial institution. 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 primary objective in holding derivatives is to reduce the volatility of earnings associated with changes in foreign currency.

As of May 31, 2016, we maintained the following foreign currency forward contracts to hedge our foreign currency exposure:

*British Pound Sterling* - foreign currency forward contracts to hedge approximately 50% of its British Pound Sterling exposure through the fourth quarter of fiscal 2017.

*Euro* - foreign currency forward contracts to hedge approximately 50% of its Euro exposure through the fourth quarter of fiscal 2016.

*Indian Rupee* - foreign currency forward contracts to hedge approximately 75% of its Indian Rupee exposure through the fourth quarter of fiscal 2018.



As of May 31, 2016, the gross notional value of foreign currency forward contracts to purchase British Pound Sterling with U.S. dollars was £28.3 million. The gross notional value of foreign currency forward contracts to purchase Euros with U.S. dollars was €4.5 million. The gross notional value of foreign currency forward contracts to purchase Indian Rupees with U.S. dollars was Rs. 4.0 billion

There were no other outstanding foreign currency forward contracts as of May 31, 2016. A loss on derivatives of less than \$0.1 million was recorded into operating income during the third quarter of fiscal 2016, compared to a loss of \$0.3 million in the year ago third quarter. During the first nine months of fiscal 2016, a gain on derivatives of less than \$0.1 million was recorded into operating income, compared to a loss of \$0.5 million a year ago. 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 loss and subsequently reclassified into operating expenses when the hedged exposure affects earnings. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

A sensitivity analysis was performed based on the estimated fair value of all foreign currency forward contracts outstanding at May 31, 2016. If the U.S. dollar had been 10% weaker, the fair value of outstanding foreign currency forward contracts would have increased by \$9.9 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 expense base. Had we not had any hedges in place as of May 31, 2016, a hypothetical 10% weaker U.S. dollar against all foreign currencies from the quoted foreign currency exchange rates at May 31, 2016, would result in a decrease in operating income by \$15.6 million over the next 12 months. A hypothetical 10% weaker U.S. dollar against all foreign currencies at May 31, 2016 would increase the fair value of total assets by \$32.0 million and equity by \$29.2 million.

On June 23, 2016, the UK held a referendum in which British citizens approved an exit from the EU, commonly referred to as "Brexit." As a result of the referendum, the global markets and currencies have been adversely impacted, including a sharp decline in the value of the British Pound Sterling as compared to the U.S. dollar. Volatility in exchange rates is expected to continue in the short term as the UK negotiates its exit from the EU. We hedge approximately 50% of our British Pound Sterling exposure through the fourth quarter of fiscal 2017, thus reducing our currency risk. In the longer term, any impact from Brexit on us will depend, in part, on the outcome of tariff, trade, regulatory and other negotiations. Although it is unknown what the result of those negotiations will be, it is possible that new terms may adversely affect our operations and financial results.

## Interest Rate Risk

*Cash and Cash Equivalents* - The fair market value of our cash and investments at May 31, 2016 was \$211.2 million. Our cash and cash equivalents consist of demand deposits and money market funds with original maturities of three months or less and are reported at fair value. Our investments consist of certificates of deposits with original maturities greater than three months, but less than one year and, as such, are classified as *Investments* within our Consolidated Balance Sheet. It is anticipated that the fair market value of our cash and investments 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 investments have been significantly impacted by current market events.

*Debt* - As of May 31, 2016, the fair value of our long-term debt was \$300.0 million, which approximated its carrying amount and was determined based on quoted market prices for debt with a similar maturity. It is anticipated that the fair market value of our debt will continue to be immaterially affected by fluctuations in interest rates and we do not believe that the value of our debt has been significantly impacted by current market events. The debt bears interest on the outstanding principal amount at a rate equal to 0.75% plus the Eurodollar rate, which is equal to one-month LIBOR. During the three and nine months ended May 31, 2016, we recorded interest expense of \$0.9 million and \$2.2 million, respectively, on the outstanding Loan amount. Assuming all terms of our outstanding long-term debt remained the same, a hypothetical 25 basis point change (up or down) in the one-month LIBOR rate would result in a \$0.8 million change in our annual interest expense.

## 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 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

In October 2015, we acquired Portware, LLC ("Portware"). Refer to Note 8, *Business Combinations*, in the Notes to the Consolidated Financial Statements for further discussion of the acquisition. We are currently in the process of integrating the internal controls and procedures of Portware into our internal controls over financial reporting. As provided under the Sarbanes-Oxley Act of 2002 and the applicable rules and regulations of the Securities and Exchange Commission, we will include the internal controls and procedures of Portware in our annual assessment of the effectiveness of our internal control over financial reporting for our 2017 fiscal year.

**PART II – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The information set forth under Note 18, *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**

There were no material changes during the first nine months of fiscal 2016 to the risk factors identified in the Company’s fiscal 2015 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, 2016:

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly | Maximum number of shares (or approximate dollar value) that may yet |
|--------|----------------------------------|------------------------------|--|---|
|--------|----------------------------------|------------------------------|--|---|

|            |         |           | announced<br>plans or<br>programs | be<br>purchased<br>under the<br>plans or<br>programs (in<br>US\$) |
|------------|---------|-----------|-----------------------------------|---|
| March 2016 | 165,000 | \$ 150.21 | 165,000                           | \$ 246,159  |
| April 2016 | 235,000 | \$ 151.45 | 235,000                           | \$ 210,568  |
| May 2016*  | 105,000 | \$ 150.98 | 105,000                           | \$ 359,715  |
| Total      | 505,000 |           | 505,000                           |   |

*\*On May 19, 2016, FactSet's Board of Directors approved a \$165.0 million expansion to the existing share repurchase program. Including the approved \$165.0 million expansion to the program, \$359.7 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 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

(a) EXHIBITS:

| <b>EXHIBIT<br/>NUMBER</b> | <b>DESCRIPTION</b>   |
|---------------------------|--|
| 2.1                       | Stock Purchase Agreement, dated as of May 21, 2016, by and among FactSet Research Systems Inc., FactSet UK Limited, AI NewCo., and Asset International Inc. (incorporated by reference as Exhibit 2.1 of Form 8-K filed on May 23, 2016) |
| 10.1                      | Confirmation, dated July 1, 2016, between FactSet Research Systems Inc. and Bank of America, N.A. (incorporated by reference as Exhibit 10.1 of Form 8-K filed on July 5, 2016)  |
| 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.DEF                   | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB                   | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE                   | XBRL Taxonomy Extension Presentation Linkbase Document   |

**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)

/s/

Date: July 11, 2016 MAURIZIO  
NICOLELLI  
Maurizio  
Nicoelli  
Senior Vice  
President,  
Chief  
Financial  
Officer

(Principal  
Financial  
Officer)

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

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