

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended May 31, 2017

OR

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

For the transition period from _____ to _____

Commission File Number: 1-11869

FACTSET RESEARCH SYSTEMS INC.

(Exact name of registrant as specified in its charter)

Delaware **13-3362547**
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

601 Merritt 7, Norwalk, Connecticut 06851
(Address of principal executive office) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** **No**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

Yes **No**

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

FactSet Research Systems Inc.

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For the Quarter Ended May 31, 2017

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

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

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

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

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

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

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

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

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

	May 31, 2017 <i>(Unaudited)</i>	August 31, 2016
<i>(In thousands, except share data)</i>		
ASSETS		
Cash and cash equivalents	\$ 161,758	\$ 228,407
Investments	31,927	24,217
Accounts receivable, net of reserves of \$1,691 at May 31, 2017 and \$1,521 at August 31, 2016	147,455	97,797
Prepaid taxes	5,344	—
Deferred taxes	2,623	3,158
Prepaid expenses and other current assets	24,076	15,697
Total current assets	373,183	369,276
Property, equipment and leasehold improvements, net	97,442	84,622
Goodwill	695,667	452,915
Intangible assets, net	175,534	93,161
Deferred taxes	5,099	13,406
Other assets	11,089	5,781
TOTAL ASSETS	\$1,358,014	\$1,019,161
LIABILITIES		
Accounts payable and accrued expenses	\$ 63,611	\$ 45,836
Accrued compensation	36,722	51,036
Deferred fees	51,210	33,247
Deferred taxes	1,781	291
Taxes payable	6,856	7,781
Dividends payable	21,951	20,019
Total current liabilities	182,131	158,210
Long-term debt	575,000	300,000
Deferred Fees	2,476	—
Deferred taxes	23,039	1,708
Taxes payable	10,780	8,782
Deferred rent and other non-current liabilities	37,035	33,080
TOTAL LIABILITIES	\$ 830,461	501,780
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, 51,737,696 and 51,150,978 shares issued; 39,198,325 and 40,038,225 shares outstanding at May 31, 2017 and August 31, 2016, respectively	517	512
Additional paid-in capital	720,020	623,195

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

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

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

	Nine months Ended	
	May 31,	May 31,
<i>(in thousands)</i>	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 198,707	\$ 194,508
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	33,770	28,222
Stock-based compensation expense	20,873	22,433
Loss on sale of business	1,223	—
Deferred income taxes	8,829	3,015
Loss on disposition of assets	33	2
Tax benefits from share-based payment arrangements	(9,798)	(13,327)
Changes in assets and liabilities, net of effects of acquisitions		
Accounts receivable, net of reserves	(29,310)	(11,316)
Accounts payable and accrued expenses	1,548	3,474
Accrued compensation	(17,299)	(1,809)
Deferred fees	2,638	3,696
Taxes payable, net of prepaid taxes	6,081	20,313
Prepaid expenses and other assets	440	1,250
Deferred rent and other non-current liabilities	2,766	