

FACTSET RESEARCH SYSTEMS INC  
Form 10-K  
October 30, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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Form 10-K

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**For the fiscal year ended August 31, 2013**

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.**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**13-3362547**

(I.R.S. Employer Identification No.)

**601 Merritt 7, Norwalk, Connecticut 06851**

(Address of principal executive office, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act: **Common Stock, par value \$0.01 per share**

Name of each exchange on which registered: **New York Stock Exchange and The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes    No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes    No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company"

in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-Accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller Reporting Company

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant based upon the closing price of a share of the registrant's common stock on February 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter, as reported by the New York Stock Exchange on that date, was \$3,932,642,411.

The number of shares outstanding of the registrant's common stock, as of October 21, 2013, was 43,105,237.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement dated October 30, 2013, for the 2013 Annual Meeting of Stockholders to be held on December 17, 2013, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

FACTSET RESEARCH SYSTEMS INC.

FORM 10-K

For The Fiscal Year Ended August 31, 2013

**PART I**

|                                    | <u>Page</u> |
|------------------------------------|-------------|
| ITEM 1. Business                   | 4           |
| ITEM 1A. Risk Factors              | 13          |
| ITEM 1B. Unresolved Staff Comments | 17          |
| ITEM 2. Properties                 | 17          |
| ITEM 3. Legal Proceedings          | 17          |
| ITEM 4. Mine Safety Disclosures    | 17          |

**PART II**

|                                                                                                                      |    |
|----------------------------------------------------------------------------------------------------------------------|----|
| ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 18 |
| ITEM 6. Selected Financial Data                                                                                      | 20 |
| ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations                        | 21 |
| ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk                                                  | 42 |
| ITEM 8. Financial Statements and Supplementary Data                                                                  | 43 |
| ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure                         | 79 |
| ITEM 9A. Controls and Procedures                                                                                     | 79 |
| ITEM 9B. Other Information                                                                                           | 79 |

**PART III**

|                                                                 |    |
|-----------------------------------------------------------------|----|
| ITEM 10. Directors, Executive Officers and Corporate Governance | 80 |
| ITEM 11. Executive Compensation                                 | 80 |

|                |                                                                                                |    |
|----------------|------------------------------------------------------------------------------------------------|----|
| ITEM 12.       | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 80 |
| ITEM 13.       | Certain Relationships and Related Transactions, and Director Independence                      | 80 |
| ITEM 14.       | Principal Accountant Fees and Services                                                         | 80 |
| <b>PART IV</b> |                                                                                                |    |
| ITEM 15.       | Exhibits and Financial Statement Schedules                                                     | 81 |
|                | Signatures                                                                                     | 83 |

Part I

**ITEM 1. BUSINESS**

*Overview*

FactSet Research Systems Inc. (the “Company” or “FactSet”) is a provider of integrated financial information and analytical applications to the global investment community. FactSet combines content regarding companies and securities from major markets all over the globe into a single online platform of information and analytics. By consolidating content from hundreds of databases with powerful analytics, FactSet supports the investment process from initial research to published results for buy and sell-side professionals. These professionals include portfolio managers, research and performance analysts, risk managers, marketing professionals, sell-side equity research professionals, investment bankers and fixed income professionals. The Company’s applications provide users access to company analysis, multicompany comparisons, industry analysis, company screening, portfolio analysis, predictive risk measurements, alphatesting, portfolio optimization and simulation, real-time news and quotes and tools to value and analyze fixed income securities and portfolios. With Microsoft Office integration, wireless access and customizable options, FactSet offers a complete financial workflow solution. The Company’s revenues are derived from subscriptions to services, content and financial applications. Approximately 81.6% of FactSet’s revenues are derived from investment management clients and the remainder is from investment banking firms who perform M&A advisory work and equity research.

Fiscal 2013 was the Company’s 35<sup>th</sup> year of operation, its 33<sup>rd</sup> consecutive year of revenue growth and its 17<sup>th</sup> consecutive year of positive earnings growth as a public company. In the past 12 months, FactSet has become faster and more relevant to a broader range of users as the Company continues to dedicate itself to building tools to support a variety of user workflows from traditional Asset Management clients to Wealth Managers, Mergers & Acquisitions, Advisory, Sales & Trading, Hedge Funds and Private Equity/Venture Capital. FactSet is on the desktops of many of the largest and most successful financial companies in the world. Its unique applications free global professionals from having to gather and collate financial and economic data, which allows them more time to analyze the data and increase their productivity.

*Highlights*

- Founded in 1978, public since 1996
- Dual listed on the New York Stock Exchange and the NASDAQ Stock Market under the symbol “FDS”
- \$4.8 billion market capitalization
- 29 office locations in 15 countries with 6,258 employees
- 33 consecutive years of revenue growth
- 17 consecutive years of positive earnings growth as a public company
- 11 consecutive years of operating margins greater than 31%

Clients can access information from more than 170 data suppliers, 100 exchanges and 90 news sources

Annual subscription value (“ASV”) of \$888 million as of August 31, 2013

2,500 clients and 50,925 users, both metrics up over the prior year

Revenues were up 6% and diluted earnings per share grew by 8% in fiscal 2013

\$251 million in free cash flow generated during fiscal 2013, up 20% from the prior year

Employee count rose 9% to 6,258, up 523 employees from a year ago

Lowered the Company’s effective tax rate for the full fiscal 2013 year to 26.7%

Recognized as one of Fortune’s “100 Best Companies to Work For”

Increased the regular quarterly dividend by 13%

### ***Business Strategy***

For over 35 years, the Company’s business strategy has been built on the creative use of technology and an unwavering dedication to client service. FactSet allows a user to access data anywhere, anytime – in real-time. A global investment professional is able to keep track of thousands of global financial databases, get custom feeds or integrate their own data into the Company’s solution that goes beyond the basics.

FactSet’s business strategy is to be a leading provider of integrated financial information and analytical applications to the global investment community by consolidating data content with powerful analytics on a single platform while providing superior individual desktop client service. FactSet is a growing, global company that is increasing its international reach, headcount, and ultimately, its competitive edge. The Company saw evidence of this growth in fiscal 2013 as FactSet added 523 employees and increased the number of office locations around the world from 26 to 29.



The Company's strategy is to continue to concentrate on driving revenue and earnings per share growth by focusing on making FactSet's product line faster, more relevant and customizable for a broader range of user types. The Company's business model has allowed FactSet to become a major force within the financial information industry. FactSet believes it is well-positioned to maintain its competitive position into the future for the following reasons:

Customizable and versioning deployment options to suit clients of nearly any size and strategy.

The ability to access FactSet through mobile platforms.

Commitment to investing in product development in order to deliver new technology and applications.

Key provider of financial news through StreetAccount.

Excellent client service including a 24-hour consulting support desk.

A growing geographic footprint that now includes 29 offices throughout the world

The ability to offer premier global proprietary datasets that include some of the latest, most accurate fundamentals, estimates and ownership data available.

The FactSet application is stable, reliable and scalable.

Strong operating metrics and financial results will allow FactSet to reinvest in future growth.

FactSet is a well-recognized brand known in the financial industry for delivering superior workflow solutions.

#### ***Focus Areas – Looking to the Future***

The Company's vision for the future is to continue its ongoing efforts while making key investments in its operations to position the business for sustainable growth. As stated in previous fiscal years, FactSet runs its strategic and product growth plans to double ASV. While the Company believes it is currently in a strong competitive position in the marketplace, FactSet expects to strengthen and grow its business by focusing on the following objectives:

*Simplify the User Experience* – empower as many users as possible to take advantage of the complete FactSet offering. The goal is an elegant system that does it all, while minimizing the learning curve required to reveal the myriad of extensive features and abilities.

*Expand, Enhance and Refine Proprietary Content* - invest intelligently to improve many proprietary datasets, including FactSet Fundamentals, Estimates, Debt Capital Structure, and Fixed Income.

*Further Invest in Product Development to Deliver Innovative Products* – invest in product development to enhance the Company’s competitive advantage and enable FactSet users with powerful applications that are unique in the industry.

*Continue to Migrate Client Workflows to FactSet’s new technology platform* – advance the implementation of Project NextGen, a multi-year project to migrate existing data center technology to a distributed state-of-the-art platform.

### ***Mobility and Connectivity***

FactSet can be accessed anywhere and everywhere. With FactSet Connect, a user can access the FactSet interface, including their customized workspace, from any internet-connected computer. FactSet Mobile brings in-depth analytics to tablet and mobile devices. FactSet clients can access a broad range of mobile apps, which allows each user to bring the latest portfolio performance, earnings, news, prices, estimates, event transcripts, and sales wherever they are.

### ***Products and Services***

FactSet offers workspaces designed for investment managers, investment bankers, hedge funds, quantitative research and others throughout each of the Company’s reportable segments. Each personalized solution offers standard features such as wireless connectivity, seamless integration of real-time market data, content choices from hundreds of data sets, Microsoft office integration and financial screening capabilities.

Significant new products and enhancements during fiscal 2013 included improving the speed of Company Reports, release of new Internal Research Notes, a product that leverages FactSet to create and distribute internal research alongside analytics and across portfolios, FactSet Instant Messenger, which enables clients to easily share news, charts, identifiers, and other financial data components while they send and receive messages, increased the coverage by the StreetAccount news team, introduced Fixed Income Analytical Services, which helps clients improve the data that they rely upon, launched Filings 2.0, released a much faster and easier to use version of FactSet for the iPad, created BookBuilder, an application that lets the user create a customized booklet overview of a company they are researching and released several Trader-related enhancements including Volume “At Time” and Portfolio Position History.

Customizable FactSet workspaces for investment managers, investment bankers and other professionals include the following:

#### Investment Managers

FactSet addresses the challenges unique to investment managers in its integrated platform. With FactSet, a user gains a sophisticated solution that can be customized with the exact data and analytics they need to support their firm's workflow while reducing training, technology, content, and deployment costs. FactSet is tightly integrated to make research efforts seamless. The comprehensive FactSet platform enables investment managers to manipulate data to an unprecedented degree and to present data in an infinite variety of formats, including customized reports and charts. With FactSet, clients around the globe are able to meet virtually all their research needs with just a few mouse clicks. The following are some of the key solutions offered to investment managers by FactSet: Portfolio Analysis, Equity Analysis, Economics and Market Analysis, Quant and Risk Analysis, Fixed Income Analysis, and Research Management Solutions.

#### Global Banking & Brokerage Professionals

FactSet enables investment banking professionals to gain in-depth company and industry insight with its integrated data and powerful analytical solutions designed specifically for a banker's workflow. From the beginning of research strategy to the end of the pitch, investment banking professionals can have access to the tools and information they need to identify new opportunities and track the companies and industries that are important to them and their clients. The comprehensive FactSet platform enables investment bankers to manipulate data and to present data in a multitude of formats, including customized reports and charts. The following are some of the key solutions offered to the sell-side professionals through the FactSet platform: Models and Presentations in Microsoft Office, Company and Industry Analytics, Idea Screening, Deal Analytics, People Intelligence and Wireless Access.

#### Other Global Professionals

Not only is FactSet designed to enhance the workflows of investment managers and bankers, but it is also able to be customized to meet the needs of many more professionals involved in hedge funds, private equity, sell-side research, equity sales, trading, consulting, investor relations, law firms and academic institutions.

*Hedge Funds* - Solutions for alternative investments, including long/short positions, equity options and futures

*Wealth Managers* - Solutions that allow a wealth manager to stay on top of their clients' portfolios, streamline communication and internal research, create account review documents and analyze multiple asset classes

*Private Equity and Venture Capital* - Screening technology and links between funds and their portfolio companies to help the user uncover new investment opportunities, with everything from high-level company snapshot reports to tools that create presentation and deal-ready books

*Research* - Information and tools needed to enhance the research analysts workflow and provides differentiated ideas and opportunities to their clients

*Sales* - News and trends to monitor the markets, consolidate company and industry research, and manage and strengthen client relationships

*Buy and Sell-Side Traders* – Real-time market data quotes, StreetAccount news, and analytics alongside portfolios

*Plans Sponsors and Pension Funds* - Solutions for fund managers specifically designed for selecting, analyzing, and incorporating external managers into an overall plan. For both direct and indirect investment, FactSet allows a user to aggregate portfolios, examine asset classes and styles, and analyze securities on a single platform.

*Consultants and Advisors* - Latest market data, all in firm standard formats and branding, to create flexible models and presentations

*Investor Relations and Corporate Strategy* - Analytics to research comparable companies, manage business development and M&A, access raw and edited transcripts and listen to call audio from company meetings

*Legal* - Accurate, fast updates in order to monitor companies, analyze transactions, and advise clients

*Academia* - Monitor global markets, public and private companies, equities and fixed income assets

*Government Agencies*- Solve governance, risk, and compliance challenges through FactSet's financial data, analytics, and innovative data management tools

### ***Client Relationships and Support***

As of August 31, 2013, there were 50,925 users of FactSet spread across 2,500 clients in over 50 countries worldwide. Approximately 68.4% of fiscal 2013 revenues are from its U.S. client base, 24.3% in Europe and the remaining 7.3% in Asia Pacific. FactSet's client retention rate is 92%. The Company is known throughout the financial industry for having excellent client service, and FactSet continued that track record in fiscal 2013 because one of the Company's top priorities is to ensure that the user always has the most accurate data available and the support it needs to use FactSet most effectively. Whether it is a quick question or step-by-step guidance through a complex task, FactSet consultants will help the client find answers and maximize the value of FactSet. In addition to unlimited access to the global support desk, every FactSet client is assigned a consultant who becomes familiar with the user's needs and processes. Consultants train users, assist on projects and answer any questions the client may have. FactSet differentiates itself from others in the care and attention it provides to its users. In response to FactSet's expanding

client base and products, the client support role of the consultant has evolved through the years. FactSet aims to hire consultants to specialize in the products for user type, more effectively route support desk calls and create roles within consulting that encourage proactive support.

6

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### ***Competition***

The market for providing accurate financial information and software solutions to the global investment community is highly competitive. The global financial information services industry, in which FactSet competes, includes both large and well-capitalized companies, as well as smaller, niche firms. International and U.S. competitors include market data suppliers, news and information providers and many of the content providers that supply the Company with financial information included in the FactSet workstation. However, the number of data providers servicing the financial industry is in many ways smaller than in prior years and decades. The main competitors to FactSet are Bloomberg L.P., Thomson Reuters Inc. and Standard & Poor's Capital IQ. Bloomberg and Thomson Reuters comprise approximately 31% and 30%, respectively, of the market share in the \$25 billion global market data and analysis space. Other competitors and competitive products include online database suppliers and integrators and their applications, such as, MSCI Inc., Morningstar Inc., Dealogic PLC, Interactive Data Corporation, Dow Jones & Company, Inc., Markit Group Limited, BlackRock Solutions, The Yield Book, Inc., RIMES Technologies Corporation and Wilshire Associates Incorporated. Many of these firms offer products or services which are similar to those sold by the Company. FactSet's development of its own robust sets of proprietary content combined with its news and quotes offering have resulted in more direct competition with the largest financial data providers. As more services overlap and firms look to cut costs, clients are forced to choose just one financial data service provider.

Despite competing market data products and services, FactSet believes it can offer clients a much more complete solution because it has one of the broadest sets of functionalities. FactSet provides in-depth analytics and superior client service, while offering complete content solutions through a desktop UI or a data feed. FactSet enjoys high barriers to entry and believes it would be difficult for another vendor to quickly replicate the extensive databases the Company currently offers. In addition, FactSet's applications, supported by its client support and service offerings, are entrenched in the workflow of many financial professionals given the downloading functions and portfolio analysis/screening capabilities they offer. As a result, the Company's products have become central to investment analysis and decision-making for clients. While clients may add, reduce or cancel services at almost any time, switching costs may be high. Lastly, the growth of FactSet globally means the Company can service clients in almost every country.

### ***Client Subscription 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. At August 31, 2013, ASV was \$888 million, up 6% organically from a year ago. The increase in ASV during fiscal 2013 was driven by broad-based growth across geographical segments, continued use of FactSet advanced applications such as Portfolio Analysis, increased usage of wealth management workflow solutions, expansion of the Market Metrics business, continued growth of in proprietary content sales, additional clients and users, the rollout of annual price increase and increased demand of StreetAccount news. These growth drivers were partially offset by lower than forecasted new ASV from the Company's investment banking clients as the banks continued their reduction in spending and hiring.

### ***Total ASV International ASV***



### ***Financial Information on Geographic Areas***

FactSet's operations are organized into three reportable segments based on geographic operations: the U.S., Europe and Asia Pacific. These reportable segments are aligned with how the Company, including its chief operating decision maker, manages the business and the demographic markets in which FactSet serves. Financial information, including revenues, operating income and long-lived assets related to the Company's operations in each geographic area are presented in Note 6, *Segment Information*, in the Notes to the Company's Consolidated Financial Statements included in Item 8 below. FactSet believes this alignment helps it better manage the business and view the markets the Company serves, which are centered on providing integrated global financial and economic information. Sales, consulting, data collection and software engineering are the primary functional groups within the U.S., Europe and Asia Pacific segments that provide global financial and economic information to investment managers, investment banks and other financial services professionals. The U.S. segment services finance professionals including financial institutions throughout the Americas, while the European and Asia Pacific segments service investment professionals located throughout Europe and Asia, respectively.

The European segment is headquartered in London, England and maintains office locations in France, Germany, the Netherlands, Latvia, Sweden, Dubai and Italy. The Asia Pacific segment is headquartered in Tokyo, Japan with office locations in Hong Kong, Australia and Mumbai. 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. Segment revenues reflect direct sales to clients based in their respective geographic locations. There are no intersegment or intercompany sales of the FactSet service. Each segment records compensation, including stock-based compensation, 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 following charts depict revenues related to each of the three Company's reportable segments.

### ***Data Centers***

FactSet's business is dependent on its ability to rapidly and efficiently process substantial volumes of data and transactions on its computer-based networks and systems. The Company's global technology infrastructure supports its operations and is designed to facilitate the reliable and efficient processing and delivery of data and analytics to its clients. FactSet's data centers contain multiple layers of redundancy to enhance system performance, including maintaining, processing and storing data at multiple data centers. User connections are load balanced between data centers and, in the event of a site failure, equipment problem or regional disaster, the remaining centers have the capacity to handle the additional load. FactSet continues to be focused on maintaining a global technical infrastructure that allows the Company to support its growing business.



FactSet is evolving away from large mainframe computers to a more distributed environment powered by a vast array of smaller, faster, and more cost-effective machines. As part of a multi-phase project to be executed over several years, FactSet converted many databases and released several applications on this new platform during fiscal 2013. In addition to investing in the future via this NextGen initiative, the Company continued to ensure that its existing mainframe architecture functions at the highest level.

The Company continues to operate fully redundant data centers in Virginia and New Jersey. These data centers handle FactSet's entire client capacity. In addition, the Company maintains a vast private wide area network that provides a high-speed direct link between the client's local network and the data content and powerful applications found on FactSet's mainframe machines.

### ***Corporate History***

The following timeline depicts FactSet's growth within the financial industry over the past 35 years.

### ***Investment in Content Collection***

FactSet began its investment in content collection in 2000 in order to gain control of the content that its clients needed, therefore reducing the dependency on data providers. The first step to build the content business was to identify content experts, which involved the acquisition of data companies. Strategically, FactSet assembled a more complete database solution for clients by acquiring LionShares, Mergerstat, CallStreet, JCF, TrueCourse, europrospectus.com, a copy of the Worldscope database from Thomson and StreetAccount. In the past five years, FactSet created production centers for data collection in India and the Philippines, which included the identification of new office space, the hiring of thousands of new employees, and setting up a data collection infrastructure that is the foundation of FactSet content. As of August 31, 2013, approximately 55% or 3,428 employees at FactSet focus on content collection. The goal for FactSet content is to find ways to differentiate from competitors along with increasing the timeliness and accuracy of the data and depth of coverage.

During fiscal 2013, progress was made in the debt capital structure and fixed income data. FactSet prioritized this content set due to its importance to its clients doing company, fixed income, and portfolio analysis. This targeted approach along with continuously striving to exceed client expectations increased user satisfaction in fiscal 2013. In addition, data feeds are an area of focus for the Company. Instead of thinking of data purely as a way to solve a client's workstation problem, the focus was selling data to other parts of those firms where a workstation wasn't appropriate, another way to monetize Company content. FactSet provides workflow and productivity solutions, and by expanding the Company's presence in the feed business, FactSet is further solving clients problems in another dimension of the marketplace. Lastly, the FactSet fundamentals team increased timeliness across all markets while also maintaining quality.

### ***Third-Party Data Content***

FactSet aggregates third-party content from more than 170 data suppliers, 100 exchanges and 90 news sources. The Company integrates content from premier providers such as Thomson Reuters, Standard & Poor's, Axion, Inc., FTSE, Interactive Data Corporation, Dow Jones & Company Inc., Northfield Information Services, Inc., Barclays Capital, Intex Solutions, Inc., Bureau van Dijk, ProQuote Limited, MSCI Barra, SIX Financial Information USA Inc., APT, Morningstar, Inc., Lipper Inc., Russell Investments, NYSE Euronext, London Stock Exchange, Tokyo Stock Exchange, NASDAQ OMX, Australian Securities Exchange and Toyo Keizai. FactSet combines the data from these commercial databases into its own dedicated online service which the client accesses to perform their analyses. Content fees billed to the Company may be on a fixed or royalty (per client) basis.

FactSet seeks to maintain contractual relationships with a minimum of two content providers for each major type of financial data; however this is not possible for all types of data. Certain datasets that FactSet relies on have a limited number of suppliers, although the Company makes every effort to assure that, where reasonable, alternative sources are available. However, FactSet is not dependent on any one third-party data supplier in order to meet the needs of its clients. The Company has entered into third-party content agreements with varying lengths, and in some cases can be terminated on one year's notice at predefined dates, and in other cases on shorter notice. No single vendor or data supplier represented 10% or more of FactSet's total expenses in any fiscal year presented.

### ***Research and Product Development Costs***

A key aspect of the Company's growth strategy is to enhance its existing products and applications by making them faster and the data within them more reliable. FactSet strives to rapidly adopt new technology that can improve its products and services. Research and product development costs relate to the salary and benefits for the Company's product development and software engineering technical support staff, which equaled approximately 24% and 25% of FactSet's workforce during fiscal 2013 and 2012, respectively. These research and product development costs are expensed when incurred within cost of services as employee compensation. The Company plans to continue to allocate a similar percentage of its workforce in future years in order to continue to develop new products and enhancements, respond quickly to market changes and to meet the needs of its clients efficiently.

### ***Sales & Marketing***

Approximately 18% of the Company's workforce conducts sales and consulting services as of August 31, 2013. FactSet leverages its 29 office locations in 15 countries to sell its services to new and existing clients as well as provide client support. In addition to selling FactSet, the Company employs many individuals to brand and market its services. Promoting the FactSet brand, from traditional advertising, to client events, to data sourcing continued during fiscal 2013. While a FactSet Symposium was not held in the U.S. during fiscal 2013 (it is currently scheduled to take place in November 2013), the European Symposium took place in June 2013. Almost 100 industry professionals from around the world, including many FactSet clients, attended the European symposium held during the third quarter of fiscal 2013. The European event grew by more than 10% compared to the 2012 event, and sold out again before the registration close date. In addition to the European Symposium, *The Wall Street Journal* published the results of the first annual "Europe's Best Analysts Survey" in conjunction with FactSet as the data provider on May 22, 2013. FactSet also provided the data for the WSJ's U.S. and Asia "Best Analysts" surveys. In fiscal 2014 and beyond, FactSet plans to expand its brand presence along with media in newer markets. The Company will continue its messaging to the user base through enhanced marketing materials, sharing insights on the FactSet website and by extending its web presence through social media outlets, including Facebook, Twitter and LinkedIn.

### ***Intellectual Property and other Proprietary Rights***

FactSet's success depends upon its proprietary technology. FactSet has registered trademarks and copyrights for many of its products and services and will continue to evaluate the registration of additional trademarks and copyrights as appropriate. FactSet enters into confidentiality agreements with its employees, clients, data suppliers and vendors. The Company seeks to protect its software, documentation and other written materials under trade secret and copyright laws. While FactSet does not believe it is dependent on any one of its intellectual property rights, the Company does rely on the combination of intellectual property rights and other measures to protect its proprietary rights. Despite these efforts, existing intellectual property laws may afford only limited protection.

### ***Government Regulation***

The Company is subject to reporting requirements, disclosure obligations and other recordkeeping requirements per the Securities and Exchange Commission ("SEC") and the various local authorities that regulate each location in which

FactSet operates in. The Company's wholly owned subsidiary, FactSet Data Systems, Inc., is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA") and is a registered broker-dealer under Section 15 of the Securities and Exchange Act of 1934. FactSet Data Systems, Inc., as a registered broker-dealer, is subject to Rule 15c3-1 under the Securities and Exchange Act of 1934, which requires that the Company maintain minimum net capital requirements. The Company claims exemption under Rule 15c3-3(k)(2)(ii).

### ***Available Information***

Through the *Investor Relations* section of the Company's website (<http://investor.factset.com>), FactSet makes available the following filings as soon as practicable after they are electronically filed with, or furnished to, the SEC: the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements for the annual stockholder meetings, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. All such filings are available free of charge.

FactSet broadcasts live its quarterly earnings calls via its investor relations web site. Additionally, the Company provides notifications of news or announcements regarding its financial performance, including SEC filings, investor events, press and earnings releases, and blogs as part of its investor relations web site. The contents of these web sites are not intended to be incorporated by reference into this report or in any other report or document the Company files and any reference to these web sites are intended to be inactive textual references only.

In addition, the Company's Code of Ethical Conduct for Financial Managers and Code of Business Conduct and Ethics are posted in the *Investor Relations* section of the Company's website and the same information is available in print to any stockholder who submits a written request to the Company's Investor Relations department at its corporate headquarters. Any amendments to or waivers of such code required to be publicly disclosed by the applicable exchange rules or the SEC will be posted on the Company's website. The charters of each of the committees of the Company's Board of Directors are available on the *Investor Relations* section of the Company's website and the same information is available in print, free of charge, to any stockholder who submits a written request to the Company's Investor Relations department at its corporate headquarters.

*Corporate Information, including Internet Address*

FactSet was founded as a Delaware corporation in 1978, and its principal executive offices are in Norwalk, Connecticut. The mailing address of the Company's headquarters is 601 Merritt 7, Norwalk, Connecticut 06851, and its telephone number at that location is (203) 810-1000. The Company's website address is [www.factset.com](http://www.factset.com).

*Employees*

FactSet continues to invest aggressively in its people in order to recruit, develop and retain a talented employee workforce. The Company believes that its future success depends in part on its continued ability to hire, assimilate and retain qualified personnel. One of FactSet's top priorities is to maintain competitive compensation, benefits, equity participation and work environment practices and policies in order to attract and retain qualified personnel. To date, FactSet believes that it has been successful in recruiting qualified employees. Approximately 85% of hiring in fiscal 2013 came from on campus college recruiting. Industry hiring grew as well in fiscal 2013. FactSet has not experienced any work stoppages and believes its employee relations are good. None of the Company's employees are represented by a collective bargaining arrangement.

As of August 31, 2013, employee headcount was 6,258, up 9% from a year ago. Of this total, 1,888 employees were located in the U.S., 663 in Europe and 3,707 in the Asia Pacific region. For the fourth consecutive year, FactSet hired at least 484 people and in the past four years, the Company has created a net new 3,296 jobs around the world, which equals a four year compounded annual growth rate of 21%. Fiscal 2013 employee growth was broad-based as FactSet welcomed new classes of software engineers and sales consultants, and continued the expansion of its proprietary content collection operations in India and the Philippines. Since the beginning of fiscal 2013, FactSet has increased its content collection headcount by 12% or approximately 380 employees, primarily at its offshore facilities. In addition to the hiring of employees for the Company's content collection operations, FactSet grew by approximately 98 net new engineering and product development employees and 49 net new consultants in the past year, as we continue to improve our applications and service the existing client base. Approximately 55% of the Company's employees are involved with content collection, 24% work in product development, software and systems engineering, another 18% conduct sales and consulting services and the remaining 3% provide administrative support.

FactSet received the following accolades during fiscal 2013:

Ranked #44 on Fortune's "100 Best Companies to Work For"  
FactSet Europe was named one of the "UK's 50 Best Workplaces"  
Recognized as one of "France's 50 Best Workplaces"  
Ranked in BusinessWeek's "Best Places to Launch a Career"

To date, the Company believes that it has been successful in recruiting qualified employees, but there is no assurance that FactSet will continue to be successful in the future.

*Executive Officers of the Registrant*

The following table shows the Company's executive officers as of August 31, 2013:

| Name of Officer         | Age | Office Held with the Company                                              | Officer Since |
|-------------------------|-----|---------------------------------------------------------------------------|---------------|
| Philip A. Hadley        | 51  | Chairman of the Board of Directors, Chief Executive Officer               | 2000          |
| Peter G. Walsh          | 48  | Executive Vice President, Chief Operating Officer                         | 2005          |
| Michael D. Frankenfield | 48  | Executive Vice President, Director of Global Sales                        | 2001          |
| Maurizio Nicoletti      | 45  | Senior Vice President, Chief Financial Officer                            | 2009          |
| Kieran M. Kennedy       | 48  | Senior Vice President, Director of Sales Operations                       | 2002          |
| Rachel R. Stern         | 48  | Senior Vice President, Strategic Resources, General Counsel and Secretary | 2009          |

*Philip A. Hadley, Chairman of the Board of Directors, Chief Executive Officer and Director.* Mr. Hadley was named Chairman and Chief Executive Officer of FactSet on September 5, 2000. Mr. Hadley joined FactSet in 1985 as a Consultant. From 1986 to 1989, Mr. Hadley was the Company's Vice President, Sales. From 1989 to 2000, Mr. Hadley was Senior Vice President and Director of Sales and Marketing. Prior to joining the Company, Mr. Hadley was employed by Cargill Corporation. He currently serves as a member of the board of advisors of Kum & Go. Mr. Hadley received a B.B.A. in Accounting from the University of Iowa, has earned the right to use the Chartered Financial Analyst designation and is a member of the CFA Institute.

*Peter G. Walsh, Executive Vice President, Chief Operating Officer.* Mr. Walsh joined the Company in 1996 as Vice President, Planning and Control within the Company's Finance group. Mr. Walsh held the position of Vice President, Director of Finance from 1999 until 2001. From late 2001 to February 2005, Mr. Walsh occupied the position of Vice President, Regional Sales Manager of the U.S. Southeast Region. On March 1, 2005 he assumed the position of Chief Financial Officer and Treasurer. On October 1, 2009, Mr. Walsh was promoted to his current position as the Company's Chief Operating Officer, where he is responsible for product development, content collection and software and systems engineering. Prior to joining FactSet, Mr. Walsh held several positions at Arthur Anderson & Co. Mr. Walsh received a B.S. in Accounting from Fairfield University. He has earned the right to use the Chartered Financial Analyst designation and is a member of the CFA Institute.

*Michael D. Frankenfield, Executive Vice President and Director of Global Sales.* Mr. Frankenfield joined the Company in 1989 within the Consulting Services Group. From 1990 to 1994, Mr. Frankenfield held the position of Vice President, Sales with the Company. From 1995 to 2000 Mr. Frankenfield was Director of Investment Banking Sales with the Company. From 2000 until 2005, Mr. Frankenfield was Director of Sales and Marketing with FactSet and from September 2005 until August 2009, he was the Director of Investment Management Services. In August 2009, he was promoted to his current position as Director of Global Sales. Mr. Frankenfield received a B.A. in Economics and International Relations from the University of Pennsylvania and has earned the right to use the Chartered Financial Analyst designation and is a member of the CFA Institute.

*Maurizio Nicoletti, Senior Vice President, Chief Financial Officer.* Mr. Nicoletti joined the Company in 1996 as the Senior Accountant and held the position of Chief Accountant from 1999 to 2001. From 2002 to 2009, he served as Vice President and Comptroller of the Company. From October 2009 to 2013, he occupied the position of Senior Vice President, Principal Financial Officer. On October 18, 2013, Mr. Nicoletti was appointed to his current position as Senior Vice President, Chief Financial Officer. Prior to joining FactSet, he was employed at PricewaterhouseCoopers LLP. He holds a B.S. degree in Political Science from Syracuse University and an M.B.A. degree in Accounting from St. John's University. Mr. Nicoletti is a CPA licensed in the state of New York.

*Kieran M. Kennedy, Senior Vice President and Director of Sales Operations.* Mr. Kennedy joined the Company in 1990 within the Consulting Services Group. From 1993 to 1997, Mr. Kennedy held the position of Sales and Consulting Manager for the West Coast. Mr. Kennedy was Director of Consulting from 1997 until he assumed the position as Director of Investment Banking and Brokerage Services in 2002. In August 2009, he assumed his current position as Director of Sales Operations. Prior to joining FactSet, Mr. Kennedy held a Currency Trading position at Goldman Sachs & Co. Mr. Kennedy received a B.A. in Economics from Syracuse University.

*Rachel R. Stern, Senior Vice President, Strategic Resources, General Counsel and Secretary.* Ms. Stern joined the Company in 2001 as General Counsel. On October 1, 2009, Ms. Stern was appointed to her current position as Senior Vice President, Strategic Resources, General Counsel and Secretary. In addition to the Legal department at FactSet, she is also responsible for Investor Relations, Human Resources, Facilities and Real Estate Planning, Third-Party Content and Strategic Partnerships, Knowledge Management, and Leadership Development. Prior to joining FactSet, Ms. Stern was associated with Cravath, Swaine & Moore. Ms. Stern is admitted to practice in New York and



Washington, D.C., and as House Counsel in Connecticut. She received her law degree from the University of Pennsylvania, graduated summa cum laude from Yale University and received a master's degree with distinction from the University of London.

### **Additional Information**

Additional information with respect to the Company's business is included in the following pages and is incorporated herein by reference:

|                                                                                                 | <u>Page(s)</u> |
|-------------------------------------------------------------------------------------------------|----------------|
| Five-Year Summary of Selected Financial Data                                                    | 20             |
| Management's Discussion and Analysis of Financial Condition and Results of Operations           | 21-42          |
| Quantitative and Qualitative Disclosures about Market Risk                                      | 42-43          |
| Note 1 to Consolidated Financial Statements entitled <i>Organization and Nature of Business</i> | 51             |
| Note 6 to Consolidated Financial Statements entitled <i>Segment Information</i>                 | 60-61          |

## **ITEM 1A. RISK FACTORS**

Set forth below and elsewhere in this report and in other documents FactSet files with the SEC are risks and uncertainties that could cause actual results to differ materially from those expressed by the forward-looking statements contained in this report. Investors should carefully consider the risks described below before making an investment decision. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in this Annual Report on Form 10-K filed with the SEC, including the Company's consolidated financial statements and related notes thereto. FactSet's operating results are subject to quarterly and annual fluctuations as a result of numerous factors. As a consequence, operating results for a particular future period are difficult to predict, and, therefore, prior results are not necessarily indicative of results to be expected in future periods.

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

### **FactSet must ensure the protection and privacy of client data**

Many of FactSet's products, as well as its internal systems and processes, involve the storage and transmission of proprietary information and sensitive or confidential data, including client portfolios. FactSet relies on a complex network of internal controls to protect the privacy of client data. If FactSet fails to maintain the adequacy of its internal controls, including any failure to implement required new or improved controls, or if FactSet experiences difficulties in their implementation, their misappropriation of client data by an employee or an external third party could occur, which could damage the Company's reputation and ultimately its business. Breaches of Company security measures could expose FactSet, its clients or the individuals affected to a risk of loss or misuse of this information, potentially resulting in litigation and liability for the Company, as well as the loss of existing or potential clients and damage to the Company brand and reputation.

### **Volatility in the financial markets may delay the spending pattern of clients and reduce future ASV growth**

Sales cycles for FactSet can fluctuate and be extended in times where the financial markets are volatile. The decision to purchase the FactSet service offering often requires prospective clients to provide management-level sponsorship. As a result, FactSet often engages in relatively lengthy sales efforts. Purchases (and incremental ASV) may therefore be delayed during the client decision process because uncertainties in the financial markets can cause clients to remain cautious about capital and data content expenditures, particularly in uncertain economic environments. The cycle associated with the purchase of the Company's service offerings depends upon the size of the client, and is subject to a number of significant risks that have impacted ASV growth and over which FactSet has little or no control, including broader financial market volatility, adverse economic conditions, clients' budgeting constraints, internal selection procedures, and changes in client personnel.

**A decline in equity returns may impact the buying power of FactSet's investment management clients**

Major equity indices and the global economy have experienced increased levels of volatility. Approximately 81.6% of the Company's annual subscription value is derived from its investment management clients. The prosperity of these clients is tied to equity assets under management. An equity market decline not only depresses assets under management but could cause a significant increase in redemption requests to move money out of equities and into other asset classes. Moreover, extended declines in the equity markets may reduce new fund or client creation, resulting in lower demand for services from investment managers.

**Uncertainty, consolidation, and business failures in the global investment banking industry may cause FactSet to lose additional clients and users**

The global investment banking industry continues to experience uncertainty, consolidation and business failures. This consolidation has resulted in a reduction in the number of prospective clients and users within the investment banking sector. FactSet's sell-side clients who perform M&A advisory work and equity research account for approximately 18.4% of its revenues. A significant portion of these revenues relate to services deployed by large, bulge bracket banks. The continued lack of available 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 merger and acquisitions funded by debt. Additional uncertainty, consolidation and business failures in the global investment banking sector could adversely affect the Company's financial results and future growth.

**FactSet must continue to introduce new products and enhancements to maintain its technological position**

The market for FactSet is characterized by rapid technological change, changes in client demands and evolving industry standards. New technologies or industry standards can render existing products obsolete and unmarketable. As a result, the Company's future success will continue to depend upon its ability to develop new products and enhancements that address the future needs of its target markets and to respond to their changing standards and practices. FactSet may not be successful in developing, introducing, marketing and licensing the Company's new products and enhancements on a timely and cost effective basis, and the Company's new products and enhancements may not adequately meet the requirements of the marketplace or achieve market acceptance. In addition, clients may delay purchases in anticipation of new products or enhancements.

**The FactSet brand and reputation are key assets and competitive advantages of the Company and its business may be affected by how FactSet is perceived in the marketplace**

FactSet's ability to attract and retain clients is affected by external perceptions of brand and reputation. Reputational damage from negative perceptions or publicity could damage the Company's reputation with clients, prospects, and the general public. Although FactSet monitors developments for areas of potential risk to its reputation and brand, negative perceptions or publicity could have a material adverse effect on its business and financial results.

**A prolonged or recurring outage at FactSet's data centers could result in reduced service and the loss of clients**

FactSet's clients rely on the Company for the delivery of time-sensitive, up-to-date data. FactSet's business is dependent on its ability to rapidly and efficiently process substantial volumes of data and transactions on its computer-based networks and systems. The Company's computer operations and those of its suppliers and clients are vulnerable to interruption by fire, natural disaster, power loss, telecommunications failures, terrorist attacks, acts of war, internet failures, computer viruses and other events beyond the Company's reasonable control. FactSet maintains back-up facilities for each of its major data centers to minimize the risk that any such event will disrupt operations. However, a loss of the Company's services may induce its clients to seek alternative data suppliers and any such losses or damages incurred by FactSet could have a material adverse effect on its business. Although the Company seeks to minimize these risks through security measures, controls and back-up data centers, there can be no assurance that such efforts will be successful or effective.

**Increased competition in FactSet's industry may cause price reductions or loss of market share**

FactSet continues to experience intense competition across all markets for its products. Its competitors range in size from multi-billion dollar companies to small, single-product businesses that are highly specialized. While the Company believes the breadth and depth of its suite of products and applications offer benefits to its clients that are a competitive advantage, its competitors may offer price incentives to acquire new business. Competitive pricing pressures did not have a material impact on the Company's results of operations during fiscal 2013 or in any other fiscal year presented. However, future competitive pricing pressures may result in decreased sales volumes and price reductions, resulting in lower revenues. Weak economic conditions can also result in clients' seeking to utilize lower-cost information that is available from alternative sources. The impact of cost-cutting pressures across the industries FactSet serves could lower demand for its services. In recent years, FactSet has seen clients intensify their focus on containing or reducing costs as a result of the more challenging market conditions. Clients within the financial services industry that strive to reduce their operating costs may seek to reduce their spending on financial market data and related services. If clients elect to reduce their spending with FactSet, the Company's results of operations could be materially adversely affected. Clients may use other strategies to reduce their overall spending on financial market data services by consolidating their spending with fewer vendors, by selecting vendors with lower-cost offerings or by self-sourcing their needs for financial market data. If clients elect to consolidate their spending on financial market data services with other vendors and not FactSet, the Company's results of operations could be adversely affected.

**Increased accessibility to free or relatively inexpensive information sources may reduce demand for FactSet**

In recent years, more free or relatively inexpensive information has become available, particularly through the Internet, and this trend may continue. The availability of free or relatively inexpensive information may reduce demand for FactSet. Weak economic conditions also can result in clients seeking to utilize lower-cost information that is available from alternative sources. While the Company believes its service offering is distinguished by such factors as customization, timeliness, accuracy, ease-of-use, completeness and other added value factors, if users choose to obtain the information they need from public or other sources, FactSet's business, financial condition, and results of operations could be adversely affected.

#### **FactSet must hire and retain key qualified personnel**

The Company's business is based on successfully attracting and retaining talented employees. Competition for talent, including engineering personnel, in the industry in which the Company competes is strong. If the Company is less successful in its recruiting efforts, or if it is unable to retain key employees, its ability to develop and deliver successful products and services may be adversely affected. FactSet needs technical resources such as product development engineers to develop new products and enhance existing products. The Company relies upon sales personnel to sell its products and services and maintain healthy business relationships. FactSet's failure to attract and retain talented employees could have a material adverse effect on the Company's business.

#### **Malicious, ignorant or illegal employee acts regarding insider information**

Misappropriation of insider information by an employee could damage the Company's reputation and ultimately its business. Improper disclosure of the Company's insider information could expose FactSet to a risk of loss or misuse of this information, potentially resulting in litigation and liability for the Company, as well as the loss of existing or potential clients and damage to the Company's brand and reputation.

#### **FactSet's ability to integrate newly acquired companies**

FactSet has made and expects to continue to make acquisitions from time to time. Acquisitions present significant challenges and risks relating to the integration of the business into FactSet's operations, and there can be no assurances that FactSet will manage acquisitions successfully. The related risks include the Company's failure to achieve strategic objectives and anticipated revenue improvements as well as the failure to retain key personnel of the acquired business. FactSet reviews its amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of its goodwill or amortizable intangible assets may not be recoverable include a decline in stock price, market capitalization, future cash flows and slower growth rates in its industry. FactSet may be required to record a charge to earnings in its financial statements during the period in which any impairment of its goodwill or amortizable intangible assets is determined, resulting in an impact on its results of operations.

### **Risks of doing business internationally**

During fiscal 2013, approximately 32% of the Company's revenue was generated outside the U.S. As of August 31, 2013, the Company employed 4,370 employees outside the U.S., representing 70% of the employee headcount worldwide and a 12% increase in the last 12 months. Because FactSet sells its services outside the U.S, the Company is subject to risks associated with doing business internationally that could have a material adverse effect on its results of operations including: the impact of recessions and market fluctuations; adverse changes in foreign currency exchange rates; difficulty in the enforcement of contractual provisions in local jurisdictions; unexpected changes in foreign laws and regulatory requirements; difficulties in successfully adapting the Company's products and services to the language, regulatory and technology standards of other countries; resistance of local cultures to foreign-based companies and difficulties engaging local resources; inflation; natural disasters in developing countries; and political and economic instability.

### **The negotiation of contract terms supporting new and existing datasets or products**

FactSet is a provider of global financial and economic information on companies worldwide. Clients have access to the data and content found within these databases, which they can combine and utilize in nearly all of the Company's applications. These databases are important to the Company's operations because they provide its clients with key information such as company fundamentals, estimates, global equity ownership, M&A data, events and transcripts, earnings and other equity and fixed income data. FactSet aggregates third-party content from more than 170 data suppliers, 100 exchanges and 90 news sources. The Company has entered into third-party content agreements with varying lengths from as long as five years to as short as on an ad-hoc basis. The agreements in some cases can be terminated on one year's notice at predefined dates, in other cases on shorter notice.

Certain datasets that FactSet relies on have a limited number of suppliers, although the Company makes every effort to assure that, where reasonable, alternative sources are available. These datasets include, without limitation, (1) Equity Pricing from exchanges such as NASDAQ, (2) Global Exchange Indices, (3) S&P CUSIP distribution, (4) S&P Ratings and (5) Moody's Investor Service Corporate Ratings. However, FactSet is not dependent on any one third-party data supplier in order to meet the needs of its clients. The Company combines the data from commercial databases into its own dedicated single online service, which the client accesses to perform their analysis. The failure of FactSet to be able to maintain these relationships or the failure of its suppliers to deliver accurate data and in a timely manner could adversely affect the Company's business.

### **Unauthorized parties may attempt to copy aspects of FactSet's products or to obtain and use information that the Company regards as proprietary**

FactSet's success depends significantly upon its proprietary technology. FactSet has registered trademarks and copyrights for many of its products and services and will continue to evaluate the registration of additional trademarks and copyrights as appropriate. FactSet enters into confidentiality agreements with its employees, clients, data suppliers and vendors. The Company seeks to protect its software, documentation and other written materials under trade secret and copyright laws. While FactSet does not believe it is dependent on any one of its intellectual property rights, the Company does rely on the combination of intellectual property rights and other measures to protect its proprietary

rights. Despite these efforts, existing intellectual property laws may afford only limited protection. In addition, it may be possible for unauthorized third parties to copy certain portions of FactSet content or to reverse engineer or otherwise obtain and use its proprietary information. In addition, FactSet cannot be certain that others will not develop or acquire substantially equivalent or superseding proprietary technology or that equivalent or better products will not be marketed in competition with its services, thereby substantially reducing the value of its proprietary rights.

**Third parties may claim FactSet infringes upon their intellectual property rights**

FactSet may receive notice from others claiming that the Company has infringed upon their intellectual property rights. Responding to these claims may require the Company to enter into royalty and licensing agreements on less favorable terms, enter into settlements, require FactSet to stop selling or to redesign affected products, or to pay damages or to satisfy indemnification commitments with the Company's clients or vendors under contractual provisions of various license arrangements. If FactSet is required to enter into such agreements or take such actions, its operating margins may decline as a result. FactSet has made and expects to continue incurring expenditures to acquire the use of technology and intellectual property rights as part of its strategy to manage this risk.

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

The Company faces exposure to adverse movements in foreign currency exchange rates because 70% of FactSet's employees and 45% of its leased office space are located outside the U.S. These exposures may change over time as business practices evolve, and they could have a material adverse impact on the Company's financial results and cash flows. The Company's primary exposures relate to expenses denominated in Euros, British Pound Sterling, Japanese Yen, Indian Rupee and Philippines Peso. This exposure has increased over the past 12 months primarily because the Company's international employee base rose 12% since August 31, 2012. FactSet's non-U.S. dollar denominated revenues expected to be recognized over the next twelve months are estimated to be \$15 million while its non-U.S. dollar denominated expenses are \$169 million, which translates into a net foreign currency exposure of \$154 million per year. Although FactSet believes that its foreign exchange hedging policies are reasonable and prudent under the circumstances, the Company's attempt to hedge against these risks may not be successful, resulting in an adverse impact on its results of operations.

**Resolution of ongoing and other probable audits by tax authorities**

FactSet is subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining its worldwide provision for income taxes. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. The Company's provision for income taxes, tax liability or effective tax rates in the future could be adversely affected by numerous factors including, but not limited to, income before income taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes in tax laws, regulations, accounting principles or interpretations thereof. FactSet is subject to the continuous examination of its income tax returns by the Internal Revenue Service and other tax authorities. Although FactSet believes its tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different than that which is reflected in historical income tax provisions and accruals. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on the Company's results of operations, including its provision for income taxes.

**Adverse resolution of litigation or governmental investigations may harm FactSet's operating results**

FactSet is party to lawsuits in the normal course of business. Litigation can be expensive, lengthy, and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. Unfavorable resolution of lawsuits or governmental investigations could have a material adverse effect on the Company's business, operating results or financial condition. For additional information regarding legal matters, see Item 3, *Legal Proceedings*, contained in Part I of this report.

**Changes in securities laws and regulations may increase expenses or may harm demand**

Many of FactSet's clients operate within a highly regulated environment. In light of the recent conditions in the U.S. financial markets and economy, Congress and regulators have increased their focus on the regulation of the financial



services industry. The information provided by, or resident in, the service FactSet provides to its clients could be deemed relevant to a regulatory investigation or other governmental or private legal proceeding involving its clients, which could result in requests for information from FactSet that could be expensive and time consuming. In addition, clients subject to investigations or legal proceedings may be adversely impacted possibly leading to their liquidation, bankruptcy, receivership, reductions in assets under management, or diminished operations that would adversely affect the Company's revenues.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

At August 31, 2013, the Company leases approximately 193,000 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; San Francisco and San Mateo, California; Austin, Texas; Jackson, Wyoming; Atlanta, Georgia; Tuscaloosa, Alabama; Newark, Ridgewood and Piscataway, New Jersey; Manchester, New Hampshire; and Reston, Virginia. The Company's European segment operates in leased office space in London, England; Paris and Avon, France; Amsterdam, the Netherlands; Frankfurt, Germany; Dubai, United Arab Emirates; Milan, Italy; and Riga, Latvia. Office space in Tokyo, Japan; Hong Kong; Mumbai, India; 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 Company's operating segments. The leases expire on various dates through 2024. Total minimum rental payments associated with the leases are recorded as rent expense (a component of selling, general and administrative expenses) on a straight-line basis over the periods of the respective non-cancelable lease terms. Including new lease agreements entered into during fiscal 2013, the Company's worldwide leased office space increased to approximately 809,000 square feet at August 31, 2013, up 2,000 square feet or 0.3% from August 31, 2012. The Company believes that its leased office space is adequate for its current needs and that additional space is available for lease to meet any future needs.

On September 9, 2013, FactSet relocated its California office from San Mateo to San Francisco. Located in the North Financial District of San Francisco, the new office gives local financial professionals even easier access to FactSet's industry-leading client service, powerful financial analytics, and the broadest scope of data available. FactSet established a West Coast presence 20 years ago with its San Mateo office in 1993. The relocation affords FactSet with new opportunities to recruit top talent for software engineering, client support, and product development as well as provides an extremely collaborative environment in a dynamic section of San Francisco.

At August 31, 2013, the Company's lease commitments for office space provide for the following future minimum rental payments under non-cancelable operating leases with remaining terms in excess of one year (in thousands):

|                        |          |
|------------------------|----------|
|                        | Minimum  |
| Years Ended August 31, | Lease    |
|                        | Payments |

|            |           |
|------------|-----------|
| 2014       | \$27,662  |
| 2015       | 23,621    |
| 2016       | 17,684    |
| 2017       | 16,359    |
| 2018       | 15,434    |
| Thereafter | 29,092    |
| Total      | \$129,852 |

### **ITEM 3. LEGAL PROCEEDINGS**

From time to time, FactSet is subject to legal proceedings, claims and litigation arising in the ordinary course of business, including intellectual property litigation. Based on currently available information, 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 annual results of operations or its annual cash flows. However, these matters are subject to inherent uncertainties and management's view of these matters may change in the future.

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

Not applicable.

## Part II

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****(a) Market Information, Holders and Dividends**

*Market Information* - FactSet common stock is listed on the New York Stock Exchange and the NASDAQ Stock Market under the symbol FDS. The following table sets forth, for each fiscal period indicated, the high and low sales prices per share of the Company's common stock as reported on the New York Stock Exchange.

|      | FIRST     | SECOND   | THIRD     | FOURTH    |
|------|-----------|----------|-----------|-----------|
| 2013 |           |          |           |           |
| High | \$ 104.81 | \$ 99.08 | \$ 102.39 | \$ 112.40 |
| Low  | \$ 87.09  | \$ 86.88 | \$ 88.67  | \$ 96.87  |
| 2012 |           |          |           |           |
| High | \$ 106.06 | \$ 95.52 | \$ 109.20 | \$ 108.00 |
| Low  | \$ 80.93  | \$ 85.45 | \$ 85.38  | \$ 88.56  |

*Holders of Record* - At October 21, 2013, there were approximately 115,238 holders of record of FactSet common stock. However, because many of FactSet's shares of common stock are held by brokers and other institutions on behalf of stockholders, FactSet is unable to estimate the total number of stockholders represented by these record holders. The closing price of FactSet's common stock on October 21, 2013 was \$109.19 per share as reported on the New York Stock Exchange.

*Dividends* - In fiscal 2013, the Company's Board of Directors declared the following dividends:

| Declaration Date | Dividends Per Share of Common Stock | Type           | Record Date     | Total Amount (in thousands) | Payment Date       |
|------------------|-------------------------------------|----------------|-----------------|-----------------------------|--------------------|
| August 15, 2013  | \$ 0.35                             | Regular (cash) | August 31, 2013 | \$ 15,164                   | September 17, 2013 |
|                  | \$ 0.35                             | Regular (cash) | May 31, 2013    | \$ 15,413                   | June 18, 2013      |

|                                |         |                |                   |           |                   |
|--------------------------------|---------|----------------|-------------------|-----------|-------------------|
| May 14,<br>2013 <sup>(1)</sup> |         |                |                   |           |                   |
| February<br>21, 2013           | \$ 0.31 | Regular (cash) | February 28, 2013 | \$ 13,510 | March 19, 2013    |
| November<br>15, 2012           | \$ 0.31 | Regular (cash) | November 30, 2012 | \$ 13,746 | December 18, 2012 |

On May 14, 2013, FactSet's Board of Directors approved a 13% increase in the regular quarterly dividend, (1)beginning with the Company's dividend payment on June 18, 2013 of \$0.35 per share, or \$1.40 per share per annum.

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.

#### (b) Recent Sales of Unregistered Securities

There were no sales of unregistered equity securities in fiscal 2013.

#### (c) Issuer Purchases of Equity Securities

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 August 31, 2013:

| Period      | Total<br>number<br>of shares<br>purchased | Average<br>price<br>paid per<br>share | Total<br>number of<br>shares<br>purchased<br>as part of<br>publicly<br>announced<br>plans or<br>programs | Maximum<br>number of<br>shares (or<br>approximate<br>dollar value)<br>that may yet<br>be purchased<br>under the<br>plans or<br>programs (in<br>thousands)(1) |
|-------------|-------------------------------------------|---------------------------------------|----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| June 2013   | 829,293                                   | \$99.86                               | 829,293                                                                                                  | \$ 123,655                                                                                                                                                   |
| July 2013   | 471,025                                   | \$107.32                              | 471,025                                                                                                  | \$ 73,107                                                                                                                                                    |
| August 2013 | 97,033                                    | \$109.99                              | 97,033                                                                                                   | \$ 62,434                                                                                                                                                    |
|             | 1,397,351                                 | \$103.08                              | 1,397,351                                                                                                |                                                                                                                                                              |

Repurchases may 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 (1) complete the repurchase program and it is expected that share repurchases will be paid using existing and future cash generated by operations.



*Securities Authorized for Issuance under Equity Compensation Plans*

Information regarding securities authorized for issuance under equity compensation plans is incorporated by reference from the Company's Proxy Statement filed on October 30, 2013 for its 2013 Annual Meeting of Stockholders.

**Stock Performance Graph**

The annual changes for the five-year period shown in the graph below are based on the assumption that \$100 had been invested in FactSet common stock, the Standard & Poor's 500 Index, the NYSE Composite Index and the Dow Jones U.S. Financial Services Index on August 31, 2008, and that all quarterly dividends were reinvested at the average of the closing stock prices at the beginning and end of the quarter. The total cumulative dollar returns shown on the graph represent the value that such investments would have had on August 31, 2013. Stockholder returns over the indicated period are based on historical data and should not be considered indicative of future stockholder returns.

|                                         | For the Years Ended August 31, |       |       |       |       |       |
|-----------------------------------------|--------------------------------|-------|-------|-------|-------|-------|
|                                         | 2013                           | 2012  | 2011  | 2010  | 2009  | 2008  |
| FactSet Research Systems Inc.           | \$163                          | \$147 | \$140 | \$117 | \$ 88 | \$100 |
| S&P 500 Index                           | \$127                          | \$110 | \$95  | \$82  | \$ 80 | \$100 |
| NYSE Composite Index                    | \$111                          | \$96  | \$90  | \$80  | \$ 79 | \$100 |
| Dow Jones U.S. Financial Services Index | \$96                           | \$71  | \$63  | \$64  | \$ 73 | \$100 |

*The information contained in the above graph shall not be deemed to be soliciting material or filed or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that FactSet specifically incorporates it by reference into a document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934.*

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected financial data has been derived from FactSet's consolidated financial statements. This financial data should be read in conjunction with Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

**Consolidated Statements of Income Data**

| (in thousands, except per share data)    | Years Ended August 31, |           |                        |           |                        |
|------------------------------------------|------------------------|-----------|------------------------|-----------|------------------------|
|                                          | 2013                   | 2012      | 2011                   | 2010      | 2009                   |
| Revenues                                 | \$858,112              | \$805,793 | \$726,510              | \$641,059 | \$622,023              |
| Operating income                         | 269,419 <sup>(1)</sup> | 272,990   | 238,335 <sup>(4)</sup> | 221,634   | 211,030                |
| Provision for income taxes               | 72,273                 | 85,896    | 67,912                 | 71,970    | 67,172                 |
| Net income                               | 198,637 <sup>(2)</sup> | 188,809   | 171,046 <sup>(5)</sup> | 150,211   | 144,950 <sup>(6)</sup> |
| Diluted earnings per common share        | \$4.45 <sup>(3)</sup>  | \$4.12    | \$3.61 <sup>(5)</sup>  | \$3.13    | \$2.97 <sup>(6)</sup>  |
| Weighted average common shares (diluted) | 44,624                 | 45,810    | 47,355                 | 48,004    | 48,789                 |
| Cash dividends declared per common share | \$1.32                 | \$1.16    | \$1.00                 | \$0.86    | \$0.76                 |

**Consolidated Balance Sheet Data**

| (in thousands)                       | August 31, |           |           |           |           |
|--------------------------------------|------------|-----------|-----------|-----------|-----------|
|                                      | 2013       | 2012      | 2011      | 2010      | 2009      |
| Cash and cash equivalents            | \$196,627  | \$189,044 | \$181,685 | \$195,741 | \$216,320 |
| Accounts receivable, net of reserves | 73,290     | 74,251    | 75,004    | 59,693    | 62,854    |
| Goodwill and intangible assets, net  | 280,796    | 289,162   | 274,575   | 274,170   | 227,705   |
| Total assets                         | 690,197    | 694,143   | 657,440   | 644,608   | 633,952   |
| Non-current liabilities              | 30,165     | 28,703    | 32,829    | 32,926    | 33,760    |
| Total stockholders' equity           | \$541,779  | \$552,264 | \$515,188 | \$502,406 | \$500,829 |

Fiscal 2013 operating income includes pre-tax charges totaling \$18.3 million related to the vesting of performance-based stock options granted in connection with the acquisitions of Market Metrics and StreetAccount. (1) These performance-based options vested in the second and fourth quarters of fiscal 2013, respectively, when each acquired business accelerated to achieve stretch growth targets established on the date of grant.

Includes \$12.9 million (after-tax) of incremental expenses related to the vesting of performance-based stock options granted in connection with the acquisitions of Market Metrics and StreetAccount and income tax benefits of \$7.2 million primarily from the reenactment of the U.S. Federal R&D tax credit in January 2013 and finalizing prior years' tax returns. (2)

Fiscal 2013 diluted earnings per common share ("EPS) excludes the net effect of a \$0.29 decrease for the vesting of performance-based options partially offset by an \$0.16 increase in diluted EPS from the reenactment of the U.S. (3)



Federal R&D credit.

(4) Fiscal 2011 operating income includes a pre-tax charge of \$7.9 million related to an increase in the estimated number of performance-based stock options that will vest. The revised estimate reflects a higher performance level than previously estimated and accordingly, increased the number of performance-based options that will vest and be expensed.

(5) Includes \$5.4 million (after-tax) of incremental expenses related to an increase in the estimated number of performance-based stock options that will vest and income tax benefits of \$6.3 million primarily from the finalization of the fiscal 2010 tax return and the reenactment of the U.S. Federal R&D tax credit in December 2010.

(6) Fiscal 2009 results include income tax benefits of \$4.0 million primarily from the reenactment of the U.S. Federal R&D tax credit in October 2008, finalizing prior year tax returns, adjusting certain reserves to reflect the lapse of statute of limitations and a benefit from repatriating foreign earnings to the U.S.

## **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

- Executive Overview
- Results of Operations
- Foreign Currency
- Liquidity
- Capital Resources
- Off-Balance Sheet Arrangements
- Share Repurchase Program
- Contractual Obligations
- Dividends
- Significant Accounting Policies
- Critical Accounting Estimates
- New Accounting Pronouncements

-Market Trends

-Forward-Looking Factors

The MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

## **Executive Overview**

FactSet is a provider of integrated financial information and analytical applications to the global investment community. We combine content regarding companies and securities from major markets all over the globe into a single online platform of information and analytics. By consolidating content from hundreds of databases with powerful analytics, FactSet supports the investment process from initial research to published results for buy and sell-side professionals. These professionals include portfolio managers, research and performance analysts, risk managers, marketing professionals, sell-side equity research professionals, investment bankers and fixed income professionals. Our applications provide users access to company analysis, multicompany comparisons, industry analysis, company screening, portfolio analysis, predictive risk measurements, alphas testing, portfolio optimization and simulation, real-time news and quotes and tools to value and analyze fixed income securities and portfolios. With Microsoft Office integration, wireless access and customizable options, we offer a complete financial workflow solution. Our revenues are derived from month-to-month subscriptions to services, databases and financial applications. We generate approximately 81.6% of our revenues from investment management clients and the remainder is from investment banking firms who perform M&A advisory work and equity research.

Fiscal 2013 was our 35<sup>th</sup> year of operation, our 33<sup>rd</sup> consecutive year of revenue growth and our 17<sup>th</sup> consecutive year of positive earnings growth as a public company. Fiscal 2013 was another successful year for us as we attained record levels of revenues, net income, diluted earnings per share and free cash flow through growth in all of our geographical segments and client types. Revenues for the fiscal year grew 6% to \$858 million, marking the 33<sup>rd</sup> consecutive year of positive revenue growth for FactSet. Diluted earnings per share rose to \$4.45, representing an 8% growth over the prior year. Free cash flow reached an all-time high of \$251 million during fiscal 2013, up 20% over last year. We continued to expand the depth and breadth of our product suite and invest to capture an attractive forward looking opportunity, as evidenced by our 9% employee growth in fiscal 2013. We improved and enhanced our FactSet workstation through several product enhancements and new releases to make it more valuable to our end users. FactSet was also being recognized as a great place to work, yet again, in the U.S., the UK and France. Accolades such as these indicate FactSet creates an environment that is productive, yet enjoyable for our employees, which in turn benefits our client and user base.

### Year in Review

Our business model is built upon dedication to client service and the creative use of technology, which has allowed us to become a major force within the \$25 billion dollar financial information industry. Looking at our fiscal 2013 achievements reminds us not only how far we have come, but also indicates how well-positioned we are to capitalize on the sizable market opportunity ahead of us. All of our key indicators (ASV, revenues, clients, users, free cash flow and employee count) increased during fiscal 2013, which was a result of our focus on product development, application enhancements, technology and proprietary content during fiscal 2013.

### Product Development and Significant Enhancements

During fiscal 2013 we made our product line faster, more relevant, and customizable for a broader range of user types. We invested heavily in new data center technologies, as well as our mobile platforms, including FactSet for the iPad, the iPhone, and the Android. Our goal is to make FactSet a critical component of the daily workflow for all user classes, from the most data intensive quantitative analyst to C-suite executives at our clients. Our product development teams released numerous enhancements to our service during fiscal 2013, many of which were the result of feedback from our client base. Our consultants, who spend their days working with clients, are one of the main conduits of information flow from the market. Each client office visit, phone call, email is logged into our tracking system and, if necessary, the idea is referred to product development. If an idea is actionable, we allocate product development resources to convert the idea into a new product or enhancement. We also conduct extensive market research and stay on top of the latest insight in the academic and professional communities. The net effect of feedback from the marketplace and FactSet market research is a constantly evolving FactSet suite of products that is an integral part of the workflow for our 50,925 users.

Summarized below are several application enhancements released during fiscal 2013:

*StreetAccount News* - since acquiring StreetAccount in July 2012, we have made significant investment in coverage and resources. In fiscal 2013, we doubled the StreetAccount London staff, which greatly increased our European coverage. We also expanded the number of companies covered, introduced company-specific earnings previews as well as “Street Takeaways” that briefly summarize analysts’ opinions. We continued to improve on our 24-hour coverage of market, geopolitical, and macroeconomic news by adding staff and launching new features in the U.S., Europe, and Asia.

*iPad* - we released an easier, better, and much faster version of FactSet for the iPad in fiscal 2013. This version has a more modern look and feel, enhanced navigation, portfolio analysis capabilities, and an improved news experience.

*Instant Messenger (“FactSet IM”)* - provides clients with a compliance-friendly, open collaboration platform. FactSet IM is fully integrated within the FactSet workstation to let users easily share news, charts, identifiers, and other financial data components while they send/receive messages. FactSet IM was specifically designed to let users connect and communicate between a broad range of consumer, enterprise, and professional instant messenger

networks including AOL, GoogleTalk, Microsoft Lync, Cisco CUPS, and more.

*Fixed Income Portfolio Analysis (“FIPA”)* - clients use FIPA to analyze the performance of fixed income portfolios. During fiscal 2013 we released a number of enhancements to FIPA, including a dramatic expansion of our network of servers to calculate the quantitative models that drive the analysis, as well as a tool to automate the testing of FIPA results.

*Filings 2.0* – for real-time consumers, there’s a new Blackline Report, which highlights changes in incoming EDGAR filings within seconds of release. For analysts and librarians, there’s faster and more intuitive document access, which helps in locating obscure filings. For the legal community, there are new tools for finding and evaluating precedent language. For buy- and sell-side analysts, there’s an expanded suite of searches to expose the market-moving minutiae across millions of pages of filings.

*BookBuilder* – new application to enables users to create a customized booklet that provides a complete overview of a company that they are researching. Users can compile documents (e.g., StreetAccount news, regulatory filings, transcripts, broker and internal research), insert FactSet reports such as Company Guide, and integrate their own content such as proprietary earnings models.

*Portfolio Position History* - enhancement to our industry leading Portfolio Analysis application that tracks the history of a portfolio position over time. This feature is unique to FactSet and it helps portfolio managers and traders evaluate the quality of timing of their buy-sell decisions. Based on intraday ticker history, FactSet predicts the remaining volume for the day at each trading venue, thus helping traders better direct the execution of their orders.

*Technology – Faster machines and more efficient data integration*

Our business is dependent on our ability to rapidly and efficiently process substantial volumes of data and transactions on our computer-based networks and systems. FactSet's global technology infrastructure supports our operations and is designed to facilitate the reliable and efficient processing and delivery of data and analytics to clients. We are evolving away from large mainframe computers to a more distributed environment powered by a vast array of smaller, faster, and more cost-effective machines. As part of a multi-phase NextGen project to be executed over several years, we converted many databases and released several applications on this new platform during fiscal 2013. Roughly two-thirds of all active FactSet users consume data and analytics from our NextGen Linux environment. An example of improved speed through the NextGen project is Company Guide now delivers insights into a company within seconds on the new platform.

In addition to investing in the future via the NextGen initiative, we continued to ensure that our existing mainframe architecture functions at the highest level through the following technology enhancements released during fiscal 2013:

*Fixed Income Analytical Services ("FIAS")* - we expanded our state-of-the-art technology grid and software systems to further support our fixed income analytics platform with a new service called FIAS. There are four parts to FIAS: client data integration, production monitoring, security modeling, and analytics modeling. In addition to engaging a collection of people from different teams at FactSet to support clients' workflow and processes, FIAS leverages our powerful technology grids to compute analytics for three million securities on behalf of our clients each night.

*Security* - data security is paramount at FactSet. Our standards and capabilities regarding the management of data are continually evolving and improving. The security feature at FactSet employs layers of controls to protect data. Some of these controls are commercially available technology leveraged by us, some facilitated via policies implemented by FactSet regarding the handling of data and lastly, some delivered via processes and automation that are unique to our systems.

*Refining Our Proprietary Content and Data Collection Processes*

In a relatively short period of time, we have hired thousands of new employees and set up a data collection infrastructure that is the foundation of all the FactSet content offered today. As of August 31, 2013, approximately 55% or 3,428 employees focus on content collection. The goal for FactSet content is to find ways to differentiate from competitors along with increasing the timeliness and accuracy of the data and depth of coverage. During fiscal 2013, we made great progress in refining our collection processes, focusing on timeliness, accuracy, coverage, completeness, cost and usage. The net effect of collecting data more efficiently was a decrease in headcount growth and improved timeliness, accuracy, and coverage. The following were several areas whereby we refined and improved our existing proprietary content during fiscal 2013:

*Credit Analysis* - our collection and presentation of debt capital structure information has advanced beyond what we believe is offered by our competitors. Our data is global, timely and supports a bottom up credit and liquidity analysis with full balance sheet reconciliation. During fiscal 2013, our coverage grew to over 28,000 companies,

5,000 of them private. We integrated terms and conditions and end of day pricing at the bond security and loan facility level, complete with navigation to a fully indexed universe of related prospectus, indentures, and credit agreement source documents.

*FactSet Fundamentals* – began the migration of our collection system to a new faster internal system, which is designed to improve data quality, collection efficiency, reduce the cost of supporting the older collection software and it provides an easier path to innovative new products based on fundamental data.

*FactSet Estimates* - we continued to add differentiating content, such as broader coverage and history of Company Guidance, 2,300 companies with GAAP to Non-GAAP EPS reconciliations, and 3,000 companies with business/product segment estimates.

*FactSet Fixed Income Terms & Conditions* - significant coverage improvements for Terms and Conditions (T&C”), improving our coverage to 200,000 securities. We also now cover T&C data for bank loans, PIPEs, convertibles, and preferred transactions. Document source linking is available to allow clients to verify the accuracy of our data.

*FactSet Transcripts* - we integrated our transcripts with our People database, allowing the reader to get more details on who is speaking on the call. Additionally, we provide audio indexing, which allows the user to toggle between the transcript and our audio recording of the call.

### Growth across all Geographies and Key Metrics

Fiscal 2013 was another successful year for our company as we once again attained record levels of revenues, net income, diluted earnings per share and free cash flow. Our just completed fourth quarter produced our best quarter in terms of both client and user additions since fiscal 2011, indicating a strong growth story. We continued our history of gaining new clients and users both in the U.S. and world-wide, as new and existing clients continue to value our functionality and content. We were able to achieve this growth all-while returning over \$388 million to stockholders over the last 12 months through our regular quarterly dividends and shares repurchases.

### *Growth in Several Key Metrics for Fiscal 2013*

ASV was \$888 million at August 31, 2013, up 5.9% organically over the prior year.

Revenues grew 6.5% to \$858 million.

Diluted earnings per share rose 8% to \$4.45.

Free cash flow generated over the last twelve months was \$251 million, up 20%.

Accounts receivable decreased \$1 million over the last twelve months while organic ASV was up \$49 million over the same period, reflecting an improvement in our days sales outstanding from 32 to 30 days.

Professionals using FactSet increased to 50,925, up 1,425 users.

A net increase of 108 clients over the last twelve months for a total of 2,500 clients at August 31, 2013.

Annual client retention remained greater than 95% of ASV and 92% when expressed as a percentage of clients.

### *U.S. Operations*

U.S. revenues increased 6.6% to \$586.9 million during fiscal 2013.

Revenues from U.S. operations accounted for 68% of our consolidated revenues in fiscal 2013, consistent with the prior year.

ASV was \$606 million at August 31, 2013, up 5.8% from a year ago.

Employee count in the U.S. grew to 1,888 employees and represented 30% of all employees at August 31, 2013.

### *European Operations*

European revenues increased 5.8% to \$208.8 million in fiscal 2013.

ASV was \$217 million at August 31, 2013, up 4.2% year over year.

Headcount increased by 56 in fiscal 2013 and represented 11% of all employees world-wide at August 31, 2013.

### *Asia Pacific Operations*

Asia Pacific revenues increased 7.8% to \$62.4 million in fiscal 2013.

ASV was \$65 million at August 31, 2013, up 4.0% year over year.

Headcount increased by 419 in fiscal 2013 and represented 59% of all employees world-wide at August 31, 2013.

### *Capital Expenditures*



Capital expenditures were \$18.5 million in fiscal 2013.

\$12.2 million or 66% of capital expenditures during fiscal 2013 were for computer equipment including increasing the number of servers and power into our existing data centers, purchasing new laptop computers and peripherals for our growing employee base, upgrading our computer systems in our data collection centers in India and the Philippines and improving telecommunication equipment.

Approximately \$6.3 million or 34% of capital expenditures was for office expansions, primarily for the build out of our new office in San Francisco, additional furniture for existing space in Boston and Norwalk, the relocation and fit-out of our new Hong Kong office during October 2012 and expansion space in the Philippines.

#### *Returning Value to Stockholders*

We increased our quarterly dividend 13% from \$0.31 to \$0.35 per share in May 2013.

We paid \$56.0 million of regular quarterly dividends during fiscal 2013.

We expanded our existing share repurchase program by an additional \$200 million in May 2013.

We repurchased 3.4 million shares for \$327 million under the program.

#### *Awards, Recognition and Job Creation*

Ranked #44 on Fortune's "100 Best Companies to Work For," marking our fifth appearance on that list in the last six years.

FactSet Europe was named one of the "UK's 50 Best Workplaces."

Recognized as one of "France's 50 Best Workplaces."

Employee count was 6,258 at August 31<sup>st</sup>, up 9% from a year ago. This marks the fourth consecutive year we have hired at least 450 people.

FactSet has created a net new 4,324 jobs around the world in just the past five years.

## Results of Operations

For an understanding of the significant factors that influenced our performance during the past three fiscal years, the following discussion should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements presented in this Annual Report on Form 10-K.

(in thousands, except per share data)

| Years Ended August 31,                 | 2013      | 2012      | Change |    | 2012      | 2011      | Change |   |
|----------------------------------------|-----------|-----------|--------|----|-----------|-----------|--------|---|
| Revenues                               | \$858,112 | \$805,793 | 6.5    | %  | \$805,793 | \$726,510 | 10.9   | % |
| Cost of services                       | 306,379   | 275,537   | 11.2   | %  | 275,537   | 244,623   | 12.6   | % |
| Selling, general and administrative    | 282,314   | 257,266   | 9.7    | %  | 257,266   | 243,552   | 5.6    | % |
| Operating income                       | 269,419   | 272,990   | (1.3)  | )% | 272,990   | 238,335   | 14.5   | % |
| Net income                             | \$198,637 | \$188,809 | 5.2    | %  | \$188,809 | \$171,046 | 10.4   | % |
| Diluted earnings per common share      | \$4.45    | \$4.12    | 8.0    | %  | \$4.12    | \$3.61    | 14.1   | % |
| Diluted weighted average common shares | 44,624    | 45,810    |        |    | 45,810    | 47,355    |        |   |

## Revenues

### *Fiscal 2013 compared to Fiscal 2012*

Revenues in fiscal 2013 were \$858.1 million, up 6.5% compared to the prior year. Growth was broad-based as we gained positive momentum through adding new clients, users and sales in all our U.S., European and Asia Pacific geographic regions. Our revenue growth drivers during fiscal 2013 were the continued use of our advanced applications such as Portfolio Analysis (“PA”), growth in our client count and total users, incremental revenue from the acquisition of StreetAccount in June 2012, the expansion of our Market Metrics business, continued growth of our proprietary content sales and subscriptions, annual price increases, and increased usage of our wealth management workflow solutions.

### *Continued Use of our Advanced Applications such as Portfolio Analysis*

Our Portfolio Analytics suite of products, including our Fixed Income in PA product, continues to be well received within our client base and was a source of revenue growth during fiscal 2013. Clients have been buying equity PA seats as they have begun to hire again, an encouraging trend that we hope will continue. Clients have also increased purchases of various other applications within that suite of products. Within the suite, our Fixed Income in PA product has grown at very attractive rates compared to a year ago as this suite is comprehensive and includes highly desired applications for portfolio attribution, risk, quantitative analysis, portfolio publishing and returns based, style analysis. The just completed fourth quarter of fiscal 2013 was our best quarter in fiscal 2013 for subscription contributions from Portfolio Publishing, SPAR and our suite of third party risk providers whose models and optimizers are fully integrated in PA.

Growth in our client count and total users

A keystone of growth for us is new client acquisition and in the just completed fourth quarter of fiscal 2013, we delivered our highest number of net new client wins in the past seven years. We have now experienced client growth for 15 consecutive quarters and the total number of clients was 2,500 at August 31, 2013. This is a net increase of 108 clients during the past 12 months and compares to 155 net new clients during fiscal 2012. New clients typically begin at lower subscription levels and grow over the first few years. Annual client retention as of August 31, 2013 was greater than 95% of ASV and 92% when expressed as a percentage of clients, consistent with a year ago. These metrics indicate to us that our clients are loyal and when we lose clients, it is often as a result of M&A activity or a business failure that results in firm closure. At August 31, 2013, our largest individual client accounted for 2% of total subscriptions and annual subscriptions from the ten largest clients did not surpass 15% of total client subscriptions, consistent with August 31, 2012.

At August 31, 2013, there were 50,925 professionals using FactSet, an increase of 1,425 users from a year ago. Users were flat among investment banking clients, but the overall user count still increased during fiscal 2013 due to expansion in our investment management business. In the past 12 months, our investment management client base has added approximately 1,460 users while our investment banking clients have contracted by 35 users. Investment banking clients remained cautious in fiscal 2013 as they closely reviewed and scrutinized their user populations and right-sized their populations based on how they perceive market opportunities while expanding their users in the fourth quarter due to new hire classes. In the fourth quarter of fiscal 2013, total user count increased by 1,409 compared to only 61 in the third quarter and 1,057 in the year ago fourth quarter. The just completed fourth quarter increase was the highest number of user additions for FactSet since 2011 with significant adds at both investment management and banking clients. We believe that although headcount at our investment banking clients is still under pressure, this recent new user trend should allow us to make gains on the investment management side, which constitutes approximately 18.4% of our revenues.

*Incremental Revenue from the Acquisition of StreetAccount*

On June 29, 2012, we acquired StreetAccount to complement our news offering with distilled and crucial market moving information for investment management and banking institutions. Our StreetAccount product receives high client praise as we continue to expand the unique ways the product can make our user base more efficient. StreetAccount added \$11.5 million of revenue to our operations during fiscal 2013. The revenue growth rate during fiscal 2013 of 6.5% was positively impacted by 120 basis points from the acquisition of StreetAccount. Excluding StreetAccount revenue, the revenue growth during fiscal 2013 would have been 5.3% over the prior year period.

*Expansion of our Market Metrics Business*

Our Market Metrics business continues to be a strong contributor on a relative basis to our growth. Our Market Metrics local market share suite of products, which was introduced in fiscal 2012, continues to perform well. This suite includes mutual fund, variable annuity and life insurance analytical products and applications for wholesalers that have enabled senior management to understand the value and penetration of their own products in local markets in greater detail than they have been able to examine before. In addition, Market Metrics experienced new growth in the European marketplace during 2013.

*Continued Growth of our Proprietary Content Sales and Subscriptions*

We continue to be successful in licensing our proprietary FactSet data, especially FactSet Fundamentals and FactSet Estimates. This type of data is licensed in feed form and includes Ownership, Transcripts, M&A and Corporate Hierarchy data. Data feeds are consumed by a wide-range of clients, including existing large FactSet clients and some outside of our core client base that do not manage money or provide sell side services. In addition, StreetAccount has developed new features that offer timely information to our users in an easy to consume format.

*Annual Price Increases*

As FactSet has done for the past several years, we issued annual price increases during fiscal 2013. These price increases impacted the majority of our U.S. and non-U.S. investment management clients and resulted in ASV growth of \$12.5 million during fiscal 2013 as compared to \$12.9 million a year ago. The annual price increases implemented in January 2013 (for U.S. investment management clients) and March 2013 (for non-U.S. investment management clients) grew revenues by \$7.8 million during fiscal 2013.

*Increased Usage of our Wealth Management Workflow Solutions*

During fiscal 2013, we have expanded the FactSet footprint within our wealth management clients by configuring solutions for their workflow. We have experienced positive rates of client and user acquisition both in the U.S. and in Europe as we believe we have an effective offering for that segment of the market. We have managed to displace competitors in our deployment of our workstations at wealth management clients, which is still a relatively new area

for us.

*Fiscal 2012 compared to Fiscal 2011*

Revenues in fiscal 2012 were \$805.8 million, up 10.9% compared to the prior year. Included in this total was \$1.8 million from the acquisition of StreetAccount on June 29, 2012. Our revenue growth drivers during fiscal 2012 were the continued use of our advanced applications such as PA, growth in the number of clients and users, new features and enhancements to our competitive product suite, expanded deployment of our proprietary data, annual price increases, the ability to access FactSet for the iPad and the iPhone, increased usage of FactSet in Excel by both buy and sell-side users, growth in our Market Metrics business and an annual client retention rate that is greater than 95% of ASV and 92% in terms of clients. These revenue drivers were partially offset by TheMarkets.com cancellation of an earnings estimates feed from us.

Revenues by Geographic Region

(in thousands)

|                        | 2013      | 2012      | 2011      |
|------------------------|-----------|-----------|-----------|
| Years Ended August 31, |           |           |           |
| U.S.                   | \$586,865 | \$550,474 | \$497,564 |
| % of revenues          | 68.4 %    | 68.3 %    | 68.5 %    |
| Europe                 | \$208,827 | \$197,404 | \$178,693 |
| Asia Pacific           | 62,420    | 57,915    | 50,253    |
| International          | \$271,247 | \$255,319 | \$228,946 |
| % of revenues          | 31.6 %    | 31.7 %    | 31.5 %    |
| Consolidated           | \$858,112 | \$805,793 | \$726,510 |

*Fiscal 2013 compared to Fiscal 2012*

Our U.S. segment revenues increased 6.6% to \$586.9 million in fiscal 2013 compared to fiscal 2012. Growth in our U.S. segment revenues reflects sales of advanced applications such as PA, growth in our client count and total users, expansion of the Market Metrics business, growth in our wealth management workflow solutions, an annual price increase and incremental revenues from the acquisition of StreetAccount in June 2012. Our U.S. investment management client annual price increase implemented in January 2013 drove revenues up by approximately \$6.1 million in fiscal 2013. The acquisition of StreetAccount added \$11.5 million of revenue to the U.S. segment during fiscal 2013 as compared to only \$1.8 million in fiscal 2012. These increases were partially offset by a net investment banking user count decrease of 35 due to the pressures faced by many sell-side firms today.

International revenues in fiscal 2013 were \$271.2 million, an increase from \$255.3 million in fiscal 2012. The impact from foreign currency decreased international revenues by \$2.0 million year over year. European revenues advanced 5.8% to \$208.8 million due to a broad selection of global proprietary content, an annual price increase for the majority of our non-U.S. investment management clients in March 2013, increases in user and client counts and clients licensing our advanced applications. Asia Pacific revenues grew to \$62.4 million, up 7.8% from a year ago. The foreign currency impact attributable to the change in the value of the Japanese Yen compared to the U.S. dollar decreased revenues by \$2.0 million in fiscal 2013. Holding currencies constant, Asia Pacific revenue growth year over year was 11.3%, primarily due to our ability to sell additional services to existing clients and new client and user growth over the last 12 months. In March 2013, we issued our annual price increase for the majority of our non-U.S. investment management clients resulting in incremental revenue of \$1.7 million during fiscal 2013. Revenues from international operations accounted for 31.6% of our consolidated revenues during 2013, down slightly from 31.7% a year ago driven by incremental revenue from StreetAccount as well as the strengthening of the U.S. dollar against the Japanese Yen.

#### *Fiscal 2012 compared to Fiscal 2011*

Revenues from our U.S. segment increased 10.6% to \$550.5 million in fiscal 2012 compared the same period a year ago. Our revenue growth rate in the U.S. reflects strong client and user count growth, the expanded deployment of our proprietary content, an increase in the number of PA users, annual price increases and incremental revenues from Market Metrics. International revenues rose 11.5% in fiscal 2012 due to offering a broader selection of global proprietary content, an annual price increase for the majority of our non-U.S. investment management clients in March 2012, increases in user and client counts and clients licensing our advanced applications. The impact from foreign currency increased international revenues by \$0.5 million year over year. European revenues advanced 10.5% to \$197.4 million while Asia Pacific revenues grew to \$57.9 million, up 15.2% from a year ago. Holding currencies constant, Asia Pacific revenue growth year over year was 14.2%.

#### Annual Subscription Value (ASV)

At August 31, 2013, ASV was \$888 million, up 5.9% organically over the prior year. ASV at a given point in time represents the forward-looking revenues for the next 12 months from all subscription services being supplied to our clients. With proper notice to us, our clients are able to add to, delete portions of, or terminate service at any time.

(\$ in millions)

| <u>As of August 31,</u>    | 2013  | 2012   | 2011  | 2010    | 2009  | 2008  | 2007  | 2006  | 2005  | 2004  | 2003  |
|----------------------------|-------|--------|-------|---------|-------|-------|-------|-------|-------|-------|-------|
| Total ASV                  | \$888 | \$843* | \$779 | \$684** | \$623 | \$621 | \$517 | \$423 | \$348 | \$273 | \$235 |
| Non-U.S. ASV               | \$282 | \$271  | \$246 | \$218   | \$200 | \$195 | \$157 | \$126 | \$92  | \$56  | \$47  |
| % of Total ASV<br>Non-U.S. | 32 %  | 32 %   | 32 %  | 32 %    | 32 %  | 31 %  | 30 %  | 30 %  | 26 %  | 21 %  | 20 %  |

\* Includes \$11.4 million from

the acquisition  
of  
StreetAccount  
on June 29,  
2012.  
Includes \$15.9  
million from  
\*\* the acquisition  
of Market  
Metrics on  
June 1, 2010.

ASV from our U.S. operations was \$606 million, up 5.8% from a year ago. International operations added \$11 million in new ASV to \$282 million during fiscal 2013 representing 32% of our Company-wide total. The percentage of our total ASV derived from investment management clients increased from 80.8% a year ago to 81.6% at August 31, 2013 due to growth in their user and client counts, combined with the cautious nature of our sell-side clients that led to delays in purchasing decisions.

The fiscal 2013 growth in organic ASV of \$49 million excludes the impact from foreign currency, primarily due to the strengthening of the U.S. dollar versus the Japanese Yen. The rise in ASV in 2013 was driven by continued growth of PA, the net addition of 108 new clients and 1,425 new users, the expansion of our Market Metrics business, annual price increases, a rise in proprietary content sales and increased usage of our wealth management workflow solutions. As noted earlier, in January 2013, we issued annual price increases for our U.S. investment management clients resulting in ASV growth of \$9.1 million and in March 2013, we issued annual price increases for our non-U.S. investment management clients increasing ASV by \$3.4 million.

Fiscal 2012 experienced ASV growth of 6.8%, driven by broad-based growth across geographical segments, continued use of FactSet advanced applications such as PA, expanded deployment of proprietary data, growth in the number of clients and users, increased usage of FactSet in Excel by both buy and sell-side users, growth in the Market Metrics Local Market Share suite of products, a high annual client retention rate, annual price increases for the majority of the Company's investment management clients and the acquisition of StreetAccount in June 2012. These growth drivers were partially offset by a cancellation of an earnings estimates feed to TheMarkets.com as a result of its acquisition by Standard & Poor's Capital IQ and a decline in ASV from investment banking clients in the past 12 months as the banks continued their reduction in spending and hiring. In January 2012, we issued annual price increases for our U.S. investment management clients resulting in ASV growth of \$10.2 million and in March 2012, we issued annual price increases for our non-U.S. investment management clients increasing ASV by \$2.7 million.

We believe that our continued ASV growth in both fiscal 2013 and 2012 highlight the stability of our subscription business model. We continue to combine our analytic applications, premier global content and client service to foster growth and the expansion of our business.

## Operating Expenses

(in thousands)

|                                              | 2013       | 2012      | 2011         |
|----------------------------------------------|------------|-----------|--------------|
| Years Ended August 31,                       |            |           |              |
| Cost of services                             | \$306,379* | \$275,537 | \$244,623    |
| Selling, general and administrative (“SG&A”) | 282,314**  | 257,266   | 243,552      |
| Total operating expenses                     | \$588,693  | \$532,803 | \$488,175*** |
| Operating income                             | \$269,419  | \$272,990 | \$238,335    |
| Operating Margin                             | 31.4 %     | 33.9 %    | 32.8 %       |

\* Cost of services in fiscal 2013 includes an incremental \$1.9 million from the vesting of performance-based stock options granted in connection with the acquisition of the Market Metrics business in June 2010 and the StreetAccount business in June 2012. These options vested in the second and fourth quarters of fiscal 2013, respectively, when the Market Metrics and StreetAccount businesses accelerated to achieve stretch growth targets established on the date of grant.

\*\* SG&A expenses in fiscal 2013 includes an incremental \$16.4 million from the vesting of performance-based stock options granted in connection with the acquisition of the Market Metrics and StreetAccount businesses.

\*\*\* Included in operating expenses during fiscal 2011 was an incremental \$7.9 million of stock-based compensation related to an increase in the estimated number of performance-based options scheduled to vest. The revised estimate reflects a higher performance level than previously estimated and accordingly, increased the number of performance-based options scheduled to vest and be expensed.

*Non-GAAP Financial Measures* - Operating income and operating margin calculated in accordance with generally accepted accounting principles in the U.S. (“GAAP”) have been adjusted in the table below to exclude a fiscal 2013 pre-tax charge of \$15.7 million related to the vesting of Market Metrics performance-based stock options, a fiscal 2013 pre-tax charge of \$2.6 million related to the vesting of StreetAccount performance-based stock options and a fiscal 2011 pre-tax charge of \$7.9 million related to an increase in the estimated number of performance-based options scheduled to vest. The incremental stock-based compensation recorded during fiscal 2013 reduced operating income by \$18.3 million and operating margin by 210 basis points while the \$7.9 million pre-tax charge in fiscal 2011 reduced the operating margin by 110 basis points. We use these non-GAAP 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 the non-GAAP financial measures provided in the table below are useful to investors because it permits investors to view our performance using the same tools that management uses to gauge progress in achieving goals. Investors may benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods and may also facilitate comparisons to its historical performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP.

(in thousands)

| Years Ended August 31,                        | 2013      | 2012      | 2011      |
|-----------------------------------------------|-----------|-----------|-----------|
| Cost of services                              | \$306,379 | \$275,537 | \$244,623 |
| Incremental stock-based compensation          | (1,948 )  | -         | (1,904 )  |
| Non-GAAP Cost of services                     | \$304,431 | \$275,537 | \$242,719 |
| SG&A                                          | \$282,314 | \$257,266 | \$243,552 |
| Incremental stock-based compensation          | (16,387 ) | -         | (5,961 )  |
| Non-GAAP SG&A                                 | \$265,927 | \$257,266 | \$237,591 |
| GAAP Operating income                         | \$269,419 | \$272,990 | \$238,335 |
| Add back incremental stock-based compensation | 18,335    | -         | 7,865     |
| Non-GAAP Operating income                     | \$287,754 | \$272,990 | \$246,200 |
| Non-GAAP Operating margin                     | 33.5 %    | 33.9 %    | 33.9 %    |

## Cost of Services

### *Fiscal 2013 compared to Fiscal 2012*

Cost of services increased 11.2% to \$306.4 million in fiscal 2013 as compared to \$275.5 million in the same period a year ago. Cost of services, expressed as a percentage of revenues, was 35.7% in 2013, which was 150 basis points higher than in 2012 due to higher employee compensation expense associated with new hires in consulting, engineering and content, additional StreetAccount expenses and increased stock-based compensation partially offset by lower third-party data costs.

Employee compensation, including stock-based compensation, expressed as a percentage of revenues, increased 190 basis points during fiscal 2013 compared to fiscal 2012 due to new hires in software engineering and consulting, increased headcount in our proprietary content collection operations located in India and the Philippines and salary increases year over year. Excluding \$6.9 million of compensation attributable to the StreetAccount workforce, the increase in employee compensation was 110 basis points over the same period last year. During 2013, we have increased headcount at our collection facilities in India and the Philippines by 408. At August 31, 2013, approximately 55% of our employees were involved with content collection. In addition to the hiring of employees at our primary content collection sites, we grew by approximately 98 net new engineering and product development employees and 49 net new consultants in the past year. StreetAccount expenses increased cost of services by approximately 100 basis points due to compensation paid to the acquired workforce, stock-based compensation expense from equity based awards granted to the new employees and the amortization of acquired intangible assets.

Higher compensation was also driven by increased stock-based compensation expense. Due to the vesting of performance-based stock options granted in connection with the acquisition of the Market Metrics business in June 2010 and the StreetAccount business in June 2012, an incremental \$1.9 million in stock-based compensation expense was recognized in cost of services during 2013.

In connection with our acquisition of the Market Metrics business in June 2010, we granted 746,415 performance-based stock options, which would vest only if accelerated stretch revenue targets were achieved related to the Market Metrics business and option holders remain employed by FactSet. These options vested in the second quarter of fiscal 2013 when the Market Metrics business accelerated to achieve the stretch revenue growth targets established on the date of grant, resulting in a pre-tax stock-based compensation charge of \$15.7 million, of which \$0.2 million was recorded within cost of services and \$15.5 million within SG&A. The stock-based compensation charge was equal to the grant date fair value of the stock options awarded at the time of the acquisition and represented a cumulative adjustment from a change in the vesting based on achieving the accelerated revenue targets.

In June 2012, we acquired the StreetAccount business and subsequently in July 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. During the fourth quarter of fiscal 2013, the StreetAccount business accelerated to achieve the first usage growth target established on the date of grant, thus the first 20% or 48,314 options vested on August 31, 2013. In addition, due to the accelerated fourth quarter growth and forecasted future usage growth, we estimated that the second 20% tranche will vest by August 31, 2017. This vesting reflected a higher performance level than previously estimated and accordingly increased the number of options that will vest to a total 40%, which required us to record a pre-tax stock-based compensation charge of \$2.6 million in the fourth quarter of fiscal 2013, of which \$1.7 million was recorded within cost of services and the remaining \$0.9 million within SG&A.

Partially offsetting the growth in cost of services during fiscal 2013 were lower levels of third party data costs. Data costs, expressed as a percentage of revenues, decreased 20 basis points in fiscal 2013 compared to the same period in fiscal 2012 as a result a slowing growth rate in users, a reduction in CallStreet third party collection fees, lower variable fees payable to data vendors based on deployment of their content over the FactSet platform partially offset by incremental Market Metrics data collection costs. The disparity between third party data cost growth and our overall revenue growth is a result of our continued investment in FactSet proprietary databases, a long-term strategic initiative that is not only cost-effective, but allows us to create a unique content offering to power our analytical tools.

#### *Fiscal 2012 compared to Fiscal 2011*

Cost of services increased 12.6% to \$275.5 million in fiscal 2012 compared to \$244.6 million in 2011. Cost of services expressed as a percentage of revenues was 34.2% during 2012, an increase of 50 basis points over the prior year due higher employee compensation expense and data costs partially offset by lower computer depreciation, a decline in intangible assets amortization expense and a prior year stock-based compensation charge.

Employee compensation, including stock-based compensation, expressed as a percentage of revenues, increased 115 basis points during fiscal 2012 compared to the same period a year ago due to approximately 455 net new hires in software engineering, consulting, and proprietary content collection combined with salary increases. Higher compensation was partially offset by lower stock-based compensation expense in fiscal 2012 because 2011 included a pre-tax charge of \$7.9 million related to an increase in the estimated number of performance-based options scheduled to vest (approximately \$1.9 million of the total pre-tax charge of \$7.9 million was recorded within cost of services). Data costs, expressed as a percentage of revenues, increased 15 basis points in fiscal 2012 compared to the same period a year ago due to our growing user base, the continued expansion of our third party data set offerings and incremental Market Metrics data collection costs.

Lower computer depreciation and amortization of intangible assets expense partially offset the overall increase in costs of services during fiscal 2012 compared to fiscal 2011. Computer-related expenses, including depreciation and computer maintenance costs, decreased 55 basis points in 2012 due to the transition to more efficient and cost-effective servers in our data centers and the use of fully depreciated servers. Amortization of intangible assets declined 25 basis points as additional intangible assets became fully amortized during 2012, while revenues increased over the same period by 10.9%.

#### Selling, General and Administrative (SG&A)

##### *Fiscal 2013 compared to Fiscal 2012*

SG&A expenses increased 9.7% to \$282.3 million in fiscal 2013 as compared to \$257.3 million in 2012. Expressed as a percentage of revenues, SG&A expenses increased 100 basis points to 32.9% in fiscal 2013 due to incremental stock-based compensation from the vesting of the Market Metrics and StreetAccount performance-based stock options partially offset by a decline in variable employee compensation.

Due to the vesting of performance-based stock options granted in connection with the acquisition of the Market Metrics and StreetAccount businesses, an incremental \$16.4 million in stock-based compensation expense was recognized in SG&A during 2013. The incremental \$16.4 million of stock-based compensation increased SG&A expenses, expressed as a percentage of revenues, from 31.0% to 32.9% and lowered our year-to-date operating margin by 210 basis points.

##### *Fiscal 2012 compared to Fiscal 2011*

SG&A expenses in fiscal 2012 were up 5.6% from fiscal 2011. However, expressed as a percentage of revenues, SG&A expenses decreased 160 basis points to 31.9% in 2012 due to lower employee compensation, including stock-based compensation, a reduction in travel and entertainment (“T&E”) spending and lower occupancy costs partially offset by foreign currency hedging losses.

Employee compensation, including stock-based compensation, expressed as a percentage of revenues, decreased 150 basis points in fiscal 2012 due to decreased variable compensation and lower stock option expense due to a charge for vesting of performance options last year. Approximately \$6.0 million of the total pre-tax stock-based compensation charge of \$7.9 million was recorded within SG&A during fiscal 2011. T&E costs, expressed as a percentage of revenues, decreased 50 basis points in 2012 compared to 2011 primarily due to lower interoffice travel and a prior year internal sales conference that did not reoccur in fiscal 2012. Occupancy costs, including rent and depreciation of furniture and fixtures, expressed as a percentage of revenues, decreased 30 basis points in fiscal 2012 due to more efficient use of existing leased office space and the timing of acquiring new space.

The decrease in SG&A expenses was partially offset by realized losses of \$1.0 million during fiscal 2012 from our hedges. This loss compares to a gain of \$4.2 million recorded in SG&A in fiscal 2011 as a result of previously entered into foreign currency forward contracts to hedge our Euro and British Pound Sterling currency risk.

## **Operating Income and Operating Margin**

### *Fiscal 2013 compared to Fiscal 2012*

Operating income declined 1.3% to \$269.4 million during fiscal 2013 compared to the prior year. For the twelve months ended August 31, 2013, our operating margin was 31.4%, down 250 basis points from 33.9% a year ago due to higher performance-based stock option expense, salary increases year over year, and additional hiring within our sales, engineering and content collection teams partially offset by lower third party data costs from a slower growing user base and reduced CallStreet third party collection fees. The Market Metrics performance-based stock option charge of \$15.7 million recorded in the second quarter of fiscal 2013 and the StreetAccount performance-based stock option charge of \$2.6 million recorded in the fourth quarter of fiscal 2013 reduced our fiscal 2013 operating margin by 210 basis points from 33.5% to 31.4%. The continued investment in our personnel resulted in employee count growth of 9% to 6,285 as of August 31, 2013. In addition, StreetAccount negatively impacted our year-to-date operating margin by 30 basis points due to higher employee compensation costs and the amortization of acquired intangibles. The impact from foreign currency increased operating income by \$0.6 million in fiscal 2013 compared to \$1.3 million a year ago.

*Fiscal 2012 compared to Fiscal 2011*

Operating income advanced 14.5% to \$273.0 million in fiscal 2012 from \$238.3 million in fiscal 2011. Our operating margin during 2012 was 33.9%, up 110 basis points from 32.8% a year ago due to lower stock-based compensation expense, a reduction T&E spending, more efficient occupancy costs and a decline in computer depreciation and the amortization of intangible assets. These reductions in expenses were partially offset by higher employee compensation due to expanding the number of employees in all areas throughout the world, including within our content operations, engineering, product development and consulting groups. The impact from foreign currency increased fiscal 2012 operating income by \$1.3 million compared to a \$0.1 million decrease in operating income during fiscal 2011.

*Operating Income by Segment*

(in thousands)

|                        | 2013       | 2012       | 2011       |
|------------------------|------------|------------|------------|
| Years Ended August 31, |            |            |            |
| U.S.                   | \$ 138,706 | \$ 149,968 | \$ 135,327 |
| Europe                 | 100,187    | 95,417     | 79,637     |
| Asia Pacific           | 30,526     | 27,605     | 23,371     |
| Consolidated           | \$ 269,419 | \$ 272,990 | \$ 238,335 |

Our operating segments are aligned with how we, including our chief operating decision maker, manage the business and the demographic markets in which we serve. Our internal financial reporting structure is based on three reportable segments; U.S., Europe and Asia Pacific, which we believe helps us better manage the business and view the markets we serves. Sales, consulting, data collection and software engineering are the primary functional groups within each segment. Each segment records compensation, 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 operating segments and thus the expenses incurred at these locations are allocated to each segment based on a percentage of revenues.

*Fiscal 2013 compared to Fiscal 2012*

Operating income from our U.S. business decreased 7.5% to \$138.7 million during fiscal 2013 compared to \$150.0 million a year ago. The decline in operating income in 2013 was primarily due to the pre-tax charge of \$18.3 million related to the vesting of Market Metrics and StreetAccount performance-based stock options, higher employee compensation within cost of services and an increase in costs from the acquisition of StreetAccount partially offset by a 6.6% increase in U.S. revenues and lower third party data costs, and a decline in intangible asset amortization expense. Of the total pre-tax stock-based compensation charge of \$18.3 million, \$18.1 million was recorded within the U.S. segment as it related to primarily U.S.-based businesses. The U.S. revenue growth was driven by the continued

use of our advanced applications such as PA, growth in our Market Metrics suite of products, \$11.5 million of incremental revenues from StreetAccount, an increase in the number of PA users, sales of our wealth management solution, growth in the number of clients of FactSet, and the January 2013 annual price increase for our U.S. investment management clients, which drove revenues up by approximately \$6.1 million.

European operating income increased 5.0% to \$100.2 million during fiscal 2013 compared to the same period a year ago. The increase in European operating income is due to an \$11.4 million increase in revenues, lower employee variable compensation expense, a reduction in T&E spending and lower amortization expense as previously acquired intangible assets become fully amortized. European revenues advanced 5.8% to \$208.8 million due to our broader selection of global proprietary content, an annual price increase for the majority of our non-U.S. investment management clients in March 2013, increases in user and client counts and clients licensing our advanced applications.

Asia Pacific operating income increased 10.6% to \$30.5 million during fiscal 2013 compared to \$27.6 million in the same period a year ago. The increase in Asia Pacific operating income was from \$4.5 million of incremental revenues year over year and lower operating expenses due to the impact of foreign currency. Asia Pacific revenue growth year over year of 7.8% was due to growth in our global content offering, the expansion of our real-time news and quotes that services the needs of a global investor, our ability to sell additional services to existing clients and new client and user growth over the last 12 months.

#### *Fiscal 2012 compared to Fiscal 2011*

Operating income from our U.S. business increased 11% during fiscal 2012 compared to 2011 primarily due to \$52.9 million of incremental revenues, lower interoffice travel, a prior year internal U.S. sales conference that did not reoccur in fiscal 2012, lower computer depreciation and a decline in intangible asset amortization expense partially offset by higher employee compensation within cost of services and an increase in data costs. Computer-related expenses decreased due to the transition to more efficient and cost-effective servers in our data centers in addition to the continued use of fully depreciated servers.

European operating income increased 20% to \$95.4 million during fiscal 2012 compared 2011 primarily due to an \$18.7 million increase in revenues, lower employee variable compensation expense, a reduction in T&E spending and lower amortization expense as previously acquired intangible assets become fully amortized.

Asia Pacific operating income increased 18% to \$27.6 million during fiscal 2012 compared 2011 primarily due to \$7.7 million of incremental revenues year over year and a more disciplined approach to controlling operating expenses, including T&E.

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

(in thousands, except per share data)

|                                   | 2013       | 2012      | 2011        |
|-----------------------------------|------------|-----------|-------------|
| Years Ended August 31,            |            |           |             |
| Other income                      | \$ 1,491   | \$ 1,715  | \$ 623      |
| Provision for income taxes        | \$72,273 * | \$85,896  | \$67,912 ** |
| Net income                        | \$198,637  | \$188,809 | \$171,046   |
| Diluted earnings per common share | \$4.45     | \$4.12    | \$3.61      |
| Effective Tax Rate                | 26.7 %*    | 31.3 %    | 28.4% **    |

\* Included in the provision for income taxes during fiscal 2013 were income tax benefits of \$7.2 million primarily from the reenactment of the U.S. Federal R&D tax credit in January 2013 and the finalization of the fiscal 2012 tax return. Our effective tax rate is based on current enacted tax laws and as such, prior to the second quarter of fiscal 2013, it did not reflect the R&D tax credit in any months of 2012 as the R&D credit expired on December 31, 2011. The reenactment of the R&D tax credit was retroactive to January 1, 2012 and resulted in an actual effective tax rate of 26.7% for the full fiscal 2013 year.

\*\* Included in the provision for income taxes during fiscal 2011 were income tax benefits of \$6.3 million from the finalization of the fiscal 2010 tax return and the reenactment of the U.S. Federal R&D tax credit in December 2010. The reenactment of the credit was retroactive to January 1, 2010 and resulted in an actual effective tax rate of 28.4% for the full fiscal 2011 year.

### Other Income

*Fiscal 2013 compared to Fiscal 2012*



Other income declined by \$0.2 million to \$1.5 million during fiscal 2013 as we obtained a lower return on our existing cash and cash equivalents as well as a 50 basis point yield reduction in our certificates of deposit investment. Our return on cash was lower in fiscal 2013 as compared to 2012 because we held more cash within the U.S., which produced a lower return than if we had held the funds in Europe or Asia. The certificates of deposits resulted in interest income of \$1.3 million during fiscal 2013 as compared to \$1.1 million in 2012. Excluding the interest income from our certificates of deposit, our average annualized return on cash and cash equivalents declined to 10 basis points during fiscal 2013, compared to 32 basis points in fiscal 2012. At no time during fiscal 2013 and 2012 did a component of our cash, cash equivalents and investments portfolio experience a decline in value due to a ratings change, default or increase in counterparty credit risk.

*Fiscal 2012 compared to Fiscal 2011*

Other income rose by \$1.1 million during fiscal 2012 due to our \$15.0 million purchase of short-term certificates of deposit in October 2011. These deposits have maturities of less than one year and resulted in interest income of \$1.1 million during fiscal 2012. Excluding our returns on the short-term certificates of deposit, our average annualized return on cash and cash equivalents remained relatively flat at 32 basis points during fiscal 2012, compared to 33 basis points in fiscal 2011.

Income Taxes

*Fiscal 2013 compared to Fiscal 2012*

In fiscal 2013, our provision for income taxes was \$72.3 million, down 15.9% from fiscal 2012 due to income tax benefits of \$7.2 million primarily from the reenactment of the U.S. Federal R&D tax credit in January 2013 and the finalization of the fiscal 2012 tax return. Income tax benefits of \$4.9 million resulted from the reenactment of the U.S. Federal R&D tax credit and a \$2.3 million benefit from the finalization of the fiscal 2012 tax return. Excluding the \$7.2 million of income tax benefits in fiscal 2013, the annual effective tax rate was 29.3%, which was 200 basis points lower than fiscal 2012 due to the reenactment of the U.S. Federal R&D credit in January 2013.

*Fiscal 2012 compared to Fiscal 2011*

The fiscal 2012 provision for income taxes was \$85.9 million, up 26.5% from fiscal 2011 due to a 14.5% increase in pre-tax income year over year and income tax benefits of \$6.3 million recorded in fiscal 2011 from the finalization of the fiscal 2010 tax return and the reenactment of the U.S. Federal R&D tax credit in December 2010. Our annual effective tax rate for fiscal 2012 was 31.3%, 290 basis points higher than our annual effective tax rate in fiscal 2011 primarily due to the income tax benefits recognized in 2011. The fiscal 2011 annual effective tax rate before discrete items of \$6.3 million was 30.9% or 40 basis points lower than the 2012 effective tax rate due to the expiration of the U.S. Federal R&D tax credit on December 31, 2011.



## Net Income and Diluted Earnings per Share

### *Fiscal 2013 compared to Fiscal 2012*

Net income rose 5.2% to \$198.6 million and diluted earnings per share increased 8.0% to \$4.45 during fiscal 2013. Included in fiscal 2013 were income tax benefits of \$0.16 per diluted share from the reenactment of the U.S. Federal R&D tax credit and the finalization of the fiscal 2012 tax return partially offset by a pre-tax charge of \$18.3 million (\$12.9 million after-tax) or \$0.29 per diluted share related to the vesting of Market Metrics and StreetAccount performance-based stock options. Adding back the stock-based compensation charge of \$0.29 per share and excluding the \$0.16 in income tax benefits recorded during the year, fiscal 2013 non-GAAP diluted EPS was \$4.58, or 11.2% higher than fiscal 2012. Drivers of net income and diluted earnings per share growth in fiscal 2013 were higher levels of revenue, lower third party data costs, a decline in the amortization of intangible assets and a reduction in the diluted weighted average shares outstanding partially offset by higher compensation costs.

### *Fiscal 2012 compared to Fiscal 2011*

Net income rose 10.4% to \$188.8 million and diluted earnings per share increased 14.1% to \$4.12 during fiscal 2012 compared to fiscal 2011. Included in fiscal 2011 were income tax benefits of \$0.13 per diluted share from finalizing our 2010 U.S. tax return and the reenactment of the U.S. Federal R&D tax credit partially offset by a pre-tax charge of \$7.9 million (\$5.4 million after-tax) or \$0.11 per diluted share related to an increase in the estimated number of performance-based stock options that were eligible to vest. Drivers of net income and diluted earnings per share growth in fiscal 2012 were higher levels of revenue, lower T&E, decreased computer depreciation and amortization of intangible assets and a reduction in the diluted weighted average shares outstanding partially offset by higher compensation and a higher effective tax rate due to the expiration of the U.S. Federal R&D tax credit.

## **Foreign Currency**

Certain wholly owned subsidiaries within the European and Asia Pacific segments operate under a functional currency different from the U.S. dollar. The financial statements of these foreign subsidiaries are translated into U.S. dollars using period-end rates of exchange for assets and liabilities and average rates for the period for revenues and expenses. Translation gains and losses that arise from translating assets, liabilities, revenues and expenses of foreign operations are recorded in accumulated other comprehensive loss as a component of stockholders' equity.

Our non-U.S. dollar denominated revenues expected to be recognized over the next twelve months are estimated to be \$15 million while our non-U.S. dollar denominated expenses are \$169 million, which translates into a net foreign currency exposure of \$154 million per year. Our foreign currency exchange exposure is related to our operating expense base in countries outside the U.S., where approximately 70% of our employees are located as of August 31, 2013. During fiscal 2013, foreign currency movements increased operating income by \$0.6 million compared to \$1.3 million in fiscal 2012.

As of August 31, 2013 we maintain foreign currency forward contracts to hedge approximately 75% of our Indian Rupee exposure through the end of the second quarter of fiscal 2016, 40% of our net British Pound exposure through the end of the second quarter of fiscal 2014 and 50% of our Philippines Peso exposure through the end of fiscal 2014. At August 31, 2013 the notional principal and fair value of foreign exchange contracts to purchase Indian Rupees with U.S. dollars was Rs.2.9 billion and (\$7.7) million, respectively. At August 31, 2013 the notional principal and fair value of foreign exchange contracts to purchase British Pounds with U.S. dollars was £6.8 million and \$0.1 million, respectively. At August 31, 2013 the notional principal and fair value of foreign exchange contracts to purchase Philippine Pesos with U.S. dollars was Php515.9 million and (\$0.2) million, respectively. There were no other outstanding foreign exchange forward contracts at August 31, 2013. A loss on derivatives of \$1.0 million was recorded into operating income during fiscal 2013 and 2012, respectively.

## Liquidity

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

| Years Ended August 31,                               | 2013        | 2012        | 2011        |
|------------------------------------------------------|-------------|-------------|-------------|
| Net cash provided by operating activities            | \$269,809   | \$231,965   | \$207,136   |
| Capital expenditures (1)                             | (18,517 )   | (22,520 )   | (29,343 )   |
| Free cash flow (2)                                   | \$251,292   | \$209,445   | \$177,793   |
| Net cash used in investing activities                | \$(20,412 ) | \$(58,849 ) | \$(29,343 ) |
| Net cash used in financing activities                | \$(238,408) | \$(158,718) | \$(199,123) |
| Cash and cash equivalents at end of year (August 31) | \$196,627   | \$189,044   | \$181,685   |

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

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 (2) 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 it permits 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.

### Fiscal 2013 compared to Fiscal 2012

Cash and cash equivalents aggregated to \$196.6 million or 28% of our total assets at August 31, 2013, compared with \$189.0 million at August 31, 2012 or 27% of our total assets. All of our operating and capital expense requirements were financed entirely from cash generated from our operations. Our cash and cash equivalents increased \$7.6 million in the past 12 months due to cash provided by operations of \$269.8 million, \$124.5 million from the exercise of employee stock options and \$25.2 million of tax benefits from share-based payment arrangements partially offset by \$332.2 million in stock repurchases, dividend payments of \$56.0 million, capital expenditures of \$18.5 million, \$1.2 million in purchases of investments (time deposits) and \$3.4 million from the effect of exchange rate changes on our foreign cash balances.

Free cash flow for fiscal 2013 was \$251.3 million, up 20% over the prior year and exceeded net income by 27%. Free cash flow generated during fiscal 2013 was attributable to \$198.6 million in net income, \$17.5 million of positive working capital changes and \$53.7 million in non-cash expenses less \$18.5 in capital expenditures. Working capital improvements of \$17.5 million were derived from stronger accounts receivable collections, a reduction in tax payments due to stock option exercises and increased accounts payable and accrued expenses. Over the past 12 months, organic ASV is up \$49 million while accounts receivable has decreased by \$1.0 million over the same period,

reflecting an improvement in our days sales outstanding (“DSO”) from 32 to 30 days. We have seen DSOs decrease substantially over the past several years as we continue to optimize our internal billing and collection processes.

Net cash used in investing activities was \$20.4 million during fiscal 2013 due to capital expenditures of \$18.5 million, \$1.2 million in purchases of investments and the final working capital payment of \$0.7 million related to the acquisition of StreetAccount in June 2012. Net cash used in investing activities was \$38.4 million lower in fiscal 2013 compared to fiscal 2012 due to the acquisition of StreetAccount in June 2012, the purchase of \$15 million in time deposits in fiscal 2012 and a \$4.0 million decrease in capital expenditures.

Net cash used in financing activities was \$238.4 million in fiscal 2013 as we repurchased \$332.2 million in common stock and paid out \$56.0 million in dividend payments partially offset by \$149.8 million in proceeds from employee stock plans and related tax benefits. Net cash used in financing activities was \$79.7 million higher in fiscal 2013 compared to the prior year due to an increase in share repurchases of \$178.5 million and \$6.0 million more in dividends paid during the current year partially offset by an incremental \$104.9 million in proceeds from employee stock plans and incremental tax benefits from share-based payment arrangements. In fiscal 2013, we repurchased 3.4 million shares for \$327.3 million under the existing program. A year ago, we repurchased 1.6 million shares for \$152.7 million. Dividend payments increased by \$6.0 million in fiscal 2013 because our Board approved a 13% increase in the regular quarterly dividend during May 2013. Proceeds from employee stock exercises and related income tax benefits increased by \$104.9 million in fiscal 2013 as compared to a year ago because the number of stock options exercised by our employees increased by 1.55 million. Through quarterly cash dividends and share repurchases, we returned \$388.2 million to our stockholders in fiscal 2013.

We expect that for at least the next 12 months, our operating expenses will continue to constitute a significant use of our cash. Furthermore, we expect existing domestic (U.S.) cash to continue to be sufficient to fund our domestic operating activities and cash commitments for investing and financing activities for at least the next 12 months and thereafter for the foreseeable future. In addition, we expect our existing foreign (non-U.S.) cash and related cash flows from operations to continue to be sufficient to fund our foreign operating activities and cash commitments for at least the next 12 months and thereafter for the foreseeable future. As of August 31, 2013, our total cash and cash equivalents worldwide was \$196.6 million with no outstanding borrowings. Approximately \$106.1 million of our total available cash and cash equivalents was held in bank accounts located within the U.S., \$69.3 million in Europe (predominantly within the UK and France) and the remaining \$21.2 million was held in Asia Pacific at the end of fiscal 2013. 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 each segment's short-term and longer-term operating requirements, as they occur, including working capital needs, capital expenditures, dividend payments, stock repurchases and financing activities. Refer to the section, *Contractual Obligations*, for the table summarizing our significant contractual obligations as of August 31, 2013 and the corresponding effect that these obligations will have on our liquidity and cash flows in future periods.

#### *Fiscal 2012 compared to Fiscal 2011*

Our cash and cash equivalents increased \$7.4 million in fiscal 2012 compared to fiscal 2011 as a result of cash provided by operations of \$232.0 million, \$33.7 million from the exercise of employee stock options and \$11.2 million of tax benefits from share-based payment arrangements partially offset by cash outflows of \$153.6 million related to stock repurchases, dividend payments of \$50.0 million, capital expenditures of \$22.5 million, the purchase of the StreetAccount business for \$21.3 million (net of cash acquired), \$15.0 million in purchases of investments, and \$7.0 million from the effect of exchange rate changes on our foreign cash balances.

Free cash flow generated in fiscal 2012 was \$209.4 million, up 18% over fiscal 2011, and exceeded net income by 11%. Free cash flow during fiscal 2012 was generated from higher levels of net income, positive working capital changes, higher non-cash expenses and a year over year decline in capital expenditures. Working capital improvements of \$8.7 million were from stronger accounts receivable collections in the past 12 months and a reduction in tax payments due to stock option exercises. At August 31, 2012, DSO was 32 days, down from 35 days as of August 31, 2011.

Net cash used in investing activities was \$58.8 million during fiscal 2012 due to the acquisition of StreetAccount in June 2012 for \$21.3 million (net of cash acquired), capital expenditures of \$22.5 million and the purchase of \$15 million of certificates of deposit with maturity dates ranging from nine to twelve months from purchase date. Net cash used in investing activities was \$29.5 million higher in fiscal 2012 compared to fiscal 2011 due to the acquisition of StreetAccount and purchase of time deposits partially offset by a reduction in capital expenditures.

Net cash used in financing activities was \$158.7 million in fiscal 2012 due to share repurchases and dividend payments partially offset by proceeds from employee stock plans. During fiscal 2012, we repurchased 1.6 million

shares for \$152.7 million under the program as compared to spending \$216.6 million in fiscal 2011. Higher dividend payments of \$6.0 million were made in fiscal 2012 because our Board of Directors approved a 15% increase in the regular quarterly dividend, beginning with the Company's dividend payment in June 2012. Proceeds from employee stock exercises decreased from \$9.4 million in 2012 compared to 2011 as the number of employee stock option exercises decreased by 0.5 million options.

## **Capital Resources**

### Capital Expenditures

Capital expenditures were \$18.5 million during fiscal 2013, down from \$22.5 million a year ago. Approximately \$12.2 million or 66% of capital expenditures during fiscal 2013 was for computer equipment including increasing the number of servers and power into our existing data centers, purchasing new laptop computers and peripherals for our growing employee base, upgrading our computer systems in our data collection centers in India and the Philippines and improving telecommunication equipment. The remaining 34% of capital expenditures was for office expansions, primarily for the build out of our new office in San Francisco, additional furniture for existing space in Boston and Norwalk, the relocation and fit-out of our new Hong Kong office during October 2012 and expansion space in the Philippines. We continue to expand aggressively to meet the needs of our growing global footprint. Including new lease agreements entered into in fiscal 2013, our worldwide leased office space increased by approximately 2,000 square feet and totaled 809,000 square feet at year-end.

Capital expenditures were \$22.5 million during fiscal 2012, down from \$29.3 million in fiscal 2011. Capital spending levels were \$6.8 million lower in fiscal 2012 compared to fiscal 2011 as we relocated our data center from New Hampshire to New Jersey in December 2010 and in that process we purchased several new servers and upgraded many other existing mainframe machines. Approximately \$13.1 million or 58% of capital expenditures during fiscal 2012 were for computer equipment including upgrading our mainframe server equipment held in our data centers and laptop computers and peripherals for our employee base. The remaining 42% of capital expenditures was for office expansions, primarily for the build out of new space in Norwalk, New York, the Philippines and Hong Kong.



### Capital Needs

We currently have no outstanding indebtedness, other than the letters of credit issued in the ordinary course of business. Approximately \$2.2 million of standby letters of credit have been issued in connection with our current leased office space as of August 31, 2013. 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 August 31, 2013 and 2012, we maintained a zero debt balance and were in compliance with all covenants contained in the standby letters of credit.

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

At August 31, 2013 and 2012, 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**

During fiscal 2013, we repurchased 3.4 million shares for \$327.3 million under the existing share repurchase program compared to 1.6 million shares for \$152.7 million during fiscal 2012. On May 14, 2013, our Board of Directors approved a \$200 million expansion of the existing share repurchase program. Including the expansion, \$62.4 million remains authorized for future share repurchases at August 31, 2013. Repurchases may 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.

### **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.

The following table summarizes our significant contractual obligations as of August 31, 2013 and the corresponding effect that these obligations will have on our liquidity and cash flows in future periods (in thousands):

|                                                             | Payments due by period |           |           |                     | Total      |
|-------------------------------------------------------------|------------------------|-----------|-----------|---------------------|------------|
|                                                             | 2014                   | 2015-2016 | 2017-2018 | 2019 and thereafter |            |
| Operating lease obligations <sup>(1)</sup>                  | \$27,662               | \$41,305  | \$31,793  | \$ 29,092           | \$ 129,852 |
| Purchase commitments <sup>(2)</sup>                         | 48,611                 | 1,568     | -         | -                   | 50,179     |
| Deferred rent and other non-current liabilities             | 22,334                 | -         | -         | -                   | 22,334     |
| Total by period                                             | \$98,607               | \$42,873  | \$31,793  | \$ 29,092           | \$202,365  |
| Non-current taxes payable and deferred taxes <sup>(3)</sup> |                        |           |           |                     | 7,831      |
| Total contractual obligations                               |                        |           |           |                     | \$210,196  |

*Operating lease amounts include future minimum lease payments under all our non-cancelable operating leases <sup>(1)</sup>with an initial term in excess of one year. For more information on our operating leases, see Note 16 to the Consolidated Financial Statements.*

*Purchase obligations represent payment due in future periods in respect of commitments to our various data <sup>(2)</sup>vendors as well as commitments to purchase goods and services such as telecommunication and computer maintenance services.*

*Non-current income taxes payable of \$5.4 million and non-current deferred tax liabilities of \$2.4 million have been included only in the total column in the preceding table due to uncertainty regarding the timing of future payments. <sup>(3)</sup>Non-current income taxes payable include uncertain tax positions (see Note 15 to the Consolidated Financial Statements).*

Purchase orders do not necessarily reflect a binding commitment but are merely indicative of authorizations and intention to conclude purchases in the future. For the purpose of this tabular disclosure, purchase obligations for goods and services are defined as agreements that are enforceable and legally binding on us 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. It is expected that all the contractual obligations noted in the table will be funded from existing cash and cash flows from operations. Expected timing pertaining to the contractual obligations included in the table above has been estimated based on information currently available. The amounts paid and timing of those payments may differ based on when the goods and services provided by our vendors to whom we are contractually obligated are actually received as well as due to changes to agreed upon amounts for any of our obligations.

## Dividends

On May 14, 2013, our Board of Directors approved a 13% increase in our regular quarterly dividend, beginning with the dividend payment in June 2013 of \$0.35 per share, or \$1.40 per share per annum. This is the eighth consecutive year that our annual dividend has been increased by more than 10%, resulting in a five year annual dividend growth rate of 14%.

During fiscal years 2013 and 2012, our Board of Directors declared the following dividends:

| Declaration Date  | Dividends Per Share of Common Stock | Type           | Record Date       | Total \$ Amount (in thousands) | Payment Date       |
|-------------------|-------------------------------------|----------------|-------------------|--------------------------------|--------------------|
| August 15, 2013   | \$ 0.35                             | Regular (cash) | August 31, 2013   | \$ 15,164                      | September 17, 2013 |
| May 14, 2013      | \$ 0.35                             | Regular (cash) | May 31, 2013      | \$ 15,413                      | June 18, 2013      |
| February 21, 2013 | \$ 0.31                             | Regular (cash) | February 28, 2013 | \$ 13,510                      | March 19, 2013     |
| November 15, 2012 | \$ 0.31                             | Regular (cash) | November 30, 2012 | \$ 13,746                      | December 18, 2012  |
| August 8, 2012    | \$ 0.31                             | Regular (cash) | August 31, 2012   | \$ 13,727                      | September 18, 2012 |
| May 8, 2012       | \$ 0.31                             | Regular (cash) | May 31, 2012      | \$ 13,893                      | June 19, 2012      |
| February 14, 2012 | \$ 0.27                             | Regular (cash) | February 29, 2012 | \$ 12,085                      | March 20, 2012     |
| November 10, 2011 | \$ 0.27                             | Regular (cash) | November 30, 2011 | \$ 12,181                      | December 20, 2011  |

All of the above cash dividends were paid from existing cash resources. 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

We describe our significant accounting policies in Note 3, *Summary of Significant Accounting Policies*, of the Notes to our Consolidated Financial Statements included in Item 8 below.

## Critical Accounting Estimates

We consider an accounting estimate to be critical if: (i) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (ii) changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact

on our financial statements.

### Revenue Recognition and Receivable Reserves

Our revenues are derived from month-to-month subscriptions to services such as workstations (also referred to as users), content and applications. Subscription revenue is earned each month as the service is rendered to clients on a monthly basis. Revenue is recognized when the client subscribes to FactSet services, the service has been rendered and earned during the month, the amount of the subscription is fixed or determinable based on established rates quoted on an annualized basis and collectability is reasonably assured.

Accounts receivable are unsecured and are derived from revenues earned from clients located around the globe. We perform ongoing credit evaluations of our clients and do not require collateral. We maintain reserves for potential write-offs and these losses have historically been within expectations. Aged client receivables are analyzed each month and our collection efforts are directed accordingly. We review recent history of client receivable write-offs, analyze trends in aged client receivables and general market conditions to estimate our accounts receivable reserve. At August 31, 2013 and 2012, the receivable reserve was \$1.6 and \$1.8 million, respectively.

### Accrued Compensation

We make significant estimates in determining our accrued compensation. Approximately 15-20% of our employee incentive compensation programs are discretionary. We conduct a final review of Company and departmental individual performance each year end to determine the amount of discretionary employee compensation. We also review compensation throughout the year to determine how overall performance tracks against management's expectations. Management takes these and other factors, including historical performance, into account in reviewing accrued compensation estimates quarterly and adjusting accrual rates as appropriate. The amount of the variable employee compensation recorded within accrued compensation as of August 31, 2013 was \$35.2 million compared \$35.9 million as of August 31, 2012.

### Business Combinations

We record acquisitions using the purchase method of accounting. All of the assets acquired, liabilities assumed, contractual contingencies and contingent consideration are recognized at their fair value on the acquisition date. The application of the purchase method of accounting for business combinations requires management to make significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. Our estimates are based on historical experience, information obtained from the management of the acquired companies and when appropriate, includes assistance from independent third-party appraisal firms. Our significant assumptions and estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates.



### Estimated Tax Provision and Tax Contingencies

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Our tax provision is an estimate based on our understanding of laws in Federal, state and foreign tax jurisdictions. These laws can be complicated and are difficult to apply to any business including ours. The tax laws also require us to allocate our taxable income to many jurisdictions based on subjective allocation methodologies and information collection processes. Our effective tax rates differ from the statutory rate primarily due to the impact of state taxes, foreign operations, R&D and other tax credits, tax audit settlements, incentive-stock options and domestic production activities (Section 199) deductions. Our annual effective tax rate was 26.7%, 31.3% and 28.4% in fiscal 2013, 2012, and 2011, respectively.

We recognize the benefit of an income tax position only if it is more-likely-than-not that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position as of the reporting date. Otherwise, no benefit can be recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We will classify the liability for unrecognized tax benefits as current to the extent that we anticipate payment (or receipt) of cash within one year. Additionally, we accrue interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. Interest and penalties are classified as income tax expense in the financial statements.

As of August 31, 2013, we have gross unrecognized tax benefits totaling \$5.4 million, including \$1.0 million of accrued interest, recorded as non-current taxes payable in 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, we adjust the previously recorded tax expense to reflect examination results when the position is effectively settled. If recognized, the unrecognized tax benefits and related interest would be recorded as a benefit to tax expense on the Consolidated Statement of Income. Audits by multiple tax authorities are currently ongoing. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. For this reason, we regularly engage in discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. Although we believe our reserves are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effect of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

Our provision for income taxes is subject to volatility and could be adversely impacted by lower earnings than anticipated in countries that have lower tax rates and higher earnings than anticipated in countries that have higher tax rates; by changes in the valuation of our deferred tax assets and liabilities; by expiration of or lapses in the R&D tax credit laws; by transfer pricing adjustments including the post-acquisition integration of purchased intangible assets from certain acquisitions; by tax effects of nondeductible compensation; by tax costs related to intercompany realignments; or by changes in tax laws, regulations, or accounting principles, including accounting for uncertain tax positions or interpretations of them. Significant judgment is required to determine recognition and measurement.

Further, as a result of certain ongoing employment and capital investment actions and commitments, our income in certain countries is subject to reduced tax rates and in some cases is wholly exempt from tax. Our failure to meet these commitments could adversely affect our provision for income taxes. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse impact on our operating results and financial condition.

#### Performance-based Equity Awards

We have an employee stock-based compensation plan, which allows for the issuance of performance-based equity awards to employees. Accounting guidance requires the measurement and recognition of compensation expense for all performance-based equity awards made to employees based on the estimated fair values of the awards that are expected to vest. At the end of each reporting period, management must make assumptions regarding the likelihood of achieving our performance targets because the number of stock options that vest will be predicated on us achieving these levels.

*November 2010 Annual Employee Performance-based Option Grant Review*

In November 2010, we granted 734,334 performance-based employee stock options. None of these performance-based stock options vested because we did not achieve certain performance levels for both organic ASV and diluted earnings per share during the two fiscal years ended August 31, 2012. This reflected a lower performance level than previously estimated and accordingly decreased the number of options that will vest to zero, which required us to reverse \$1.4 million of stock-based compensation during fiscal 2012. These performance-based options were recorded as forfeitures in fiscal 2012.

*November 2011 Annual Employee Performance-based Option Grant Review*

In November 2011, we granted 665,551 performance-based employee stock options. None of these performance-based stock options vested because we did not achieve certain performance levels for both organic ASV and diluted earnings per share during the two fiscal years ended August 31, 2013. These performance-based options were recorded as forfeitures in the fourth quarter of fiscal 2013.

*November 2012 Annual Employee Performance-based Option Grant Review*

In November 2012, we granted 1,011,510 performance-based employee stock options. The number of performance-based options that vest is based on us achieving performance levels for both organic ASV and diluted earnings per share during the two fiscal years ended August 31, 2014. At August 31, 2013, we estimated that 20% or 202,302 of the performance-based stock options would vest which results in unamortized stock-based compensation expense of \$3.6 million to be recognized over the remaining vesting period. However, a change in the actual financial performance levels achieved during fiscal 2014 could result in the following changes to the Company's current estimate of the vesting percentage and related expense (in thousands):

| Vesting Percentage | Total Unamortized Stock-based Compensation Expense at August 31, 2013 | Cumulative Catch-up Adjustment* | Average Remaining Quarterly Expense to be Recognized |
|--------------------|-----------------------------------------------------------------------|---------------------------------|------------------------------------------------------|
| 0%                 | \$ 0                                                                  | \$ (1,192 )                     | \$ 0                                                 |
| 20%                | \$ 3,556                                                              | \$ 0                            | \$ 213                                               |
| 60%                | \$ 10,668                                                             | \$ 2,384                        | \$ 639                                               |
| 100%               | \$ 17,780                                                             | \$ 4,768                        | \$ 1,065                                             |

\* Amounts represent the cumulative catch-up adjustment to be recorded if there was a change in the vesting percentage as of August 31, 2013.



*July 2012 Performance-based Option Grant Review*

In July 2012, we 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. During the fourth quarter of fiscal 2013, the StreetAccount business accelerated to achieve the first usage growth target established on the date of grant, thus the first 20% or 48,314 options vested on August 31, 2013. In addition, due to the accelerated fourth quarter growth and forecasted future usage growth, we estimated that the second 20% tranche will vest by August 31, 2017. This reflected a higher performance level than previously estimated and accordingly increased the number of options that will vest to a total 40%, which required us to record a pre-tax stock-based compensation charge of \$2.6 million in the fourth quarter of fiscal 2013. The change in estimate also results in unamortized stock-based compensation expense of \$1.2 million to be recognized over the remaining vesting period of 4.0 years. A change, up or down, 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 (in thousands):

| Vesting    | Cumulative               | Remaining                      |
|------------|--------------------------|--------------------------------|
| Tranche    | Catch-up<br>Adjustment** | Expense<br>to be<br>Recognized |
| First 20%* | n/a                      | n/a*                           |
| Second 20% | \$ (361                  | ) \$ 0                         |
| Third 20%  | \$ 448                   | \$ 2,391                       |
| Fourth 20% | \$ 848                   | \$ 3,591                       |
| Fifth 20%  | \$ 1,358                 | \$ 4,681                       |

\* The first 20% of the grant vested during fiscal 2013, and as such, there is no remaining expense to be recognized as of August 31, 2013.

\*\* Amounts represent the cumulative catch-up adjustment to be recorded if there was a change in the vesting percentage as of August 31, 2013.

*Market Metrics Performance-based Option Grant*

In connection with the acquisition of the Market Metrics business in June 2010, we granted 746,415 performance-based stock options, which would vest only if accelerated stretch revenue targets were achieved related to the Market Metrics business and option holders remain employed by us. These options vested in the second quarter of fiscal 2013 when the Market Metrics business accelerated to achieve the stretch revenue growth targets established on the date of grant, resulting in a pre-tax stock-based compensation charge of \$15.7 million. The pre-tax stock-based compensation charge of \$15.7 million, recorded in the second quarter of fiscal 2013, was equal to the grant-date fair value of the stock options awarded at the time of the acquisition and represented a cumulative adjustment from a change in the vesting based on achieving the accelerated revenue targets. As of August 31, 2013, none of these performance-based stock options remain unvested.



### *Other Performance-based Option Grants*

We granted 229,635 performance-based employee stock options between January 2011 and July 2011 that vest based on achieving certain ASV targets. Of this total, 133,958 vested during fiscal 2012, 53,285 vested during fiscal 2013 and 9,301 were forfeited due to employee terminations. At August 31, 2013, we estimate that 7,964 of these performance-based stock options will vest based on forecasted ASV growth, resulting in unamortized stock-based compensation expense of \$0.1 million to be recognized over the remaining vesting period. The remaining 25,127 performance-based stock options outstanding are expected to be forfeited.

### Long-lived Assets

Long-lived assets, comprised of property, equipment and leasehold improvements are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that may cause an impairment review include significant changes in technology that make current computer-related assets that we use in our operations obsolete or less useful and significant changes in the way we use these assets in our operations. When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which may be based on estimated future cash flows (discounted and with interest charges). We recognize an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. The new cost basis will be depreciated (amortized) over the remaining useful life of that asset. Using the impairment evaluation methodology described herein, there have been no long-lived asset impairment charges for each of the last three years. The carrying value of long-lived assets as of August 31, 2013, was \$65.4 million.

Our impairment loss calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including forecasting useful lives of the assets and selecting the discount rate that reflects the risk inherent in future cash flows. We have not made any material changes in our impairment loss assessment methodology during the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate long-lived asset impairment losses. However, if actual results are not consistent with our estimates and assumptions used in estimating future cash flows and asset fair values, we may be exposed to losses that could be material.

### Intangible Assets

Intangible assets consist of certain acquired content databases, client relationships, software technology, non-compete agreements and trade names resulting from previous acquisitions and depending on the nature of the intangible asset, are amortized on either a straight-line or an accelerated basis using estimated useful lives ranging between two and twenty years. The remaining useful lives of intangible assets subject to amortization are evaluated quarterly to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of the remaining useful life is changed, the remaining carrying amount of the intangible asset is amortized

prospectively over that revised remaining useful life. There were no adjustments to the useful lives of intangible assets subject to amortization during any of the periods presented. These intangible assets have no assigned residual values as of August 31, 2013 and 2012. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for intangible assets that management expects to hold and use is based on the amount the carrying value exceeds the fair value of the asset. No impairment of intangible assets has been identified during any of the periods presented. The carrying value of intangible assets as of August 31, 2013 and 2012 was \$36.2 million and \$43.4 million, respectively. Our ongoing consideration of the recoverability could result in impairment charges in the future, which could adversely affect our results of operations.

#### Valuation of Goodwill

In September 2011, the FASB issued an accounting standard update intended to simplify how an entity tests goodwill for impairment. The guidance allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting standard update became effective for us beginning in the first quarter of fiscal 2013, and its adoption did not have an impact on our consolidated financial statements because we did not elect to first assess qualitative factors, but performed the quantitative analysis instead.

We evaluate goodwill at the reporting unit level for impairment annually and whenever events or changes in circumstances indicate the carrying value of the goodwill may not be recoverable. We complete our impairment evaluation by performing internal valuation analyses and consider other publicly available market information. We determined that there were three reporting units during fiscal years 2013, 2012 and 2011, which are consistent with our operating segments because there is no discrete financial information available for the subsidiaries within each operating segment. Our reporting units evaluated for potential impairment during fiscal years 2013, 2012 and 2011 were U.S., Europe and Asia Pacific, which reflects the level of internal reporting we use to manage our business and operations. We performed our annual goodwill impairment test during the fourth quarter of fiscal years 2013, 2012 and 2011 and determined that there were no reporting units that were deemed at risk and there had been no impairment. The carrying value of goodwill as of August 31, 2013 and 2012 was \$244.6 million and \$245.8 million, respectively.

We determine fair value using the discounted cash flows model. This analysis contains uncertainties because it requires management to make assumptions and to apply judgment to estimate industry economic factors including market conditions, legal and technological factors and the profitability of future business strategies. It is our policy to conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as future expectations. We have not made any material changes in our impairment loss assessment methodology during the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for goodwill impairment losses. However, if actual results are not consistent with our estimates and assumptions, we may be exposed to an impairment charge that could be material. Future events could cause us to conclude that indicators of impairment do exist and that goodwill associated with our previous acquisitions is impaired, which could result in an impairment loss in our Consolidated Statements of Income and a write-down of the related asset.

### **New Accounting Pronouncements**

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

### **Market Trends**

In the ordinary course of business, we are exposed to financial risks involving foreign currency and interest rate fluctuations. Major equity indices continue to experience volatility. Approximately 81.6% of our annual subscription value is derived from our investment management clients. The prosperity of these clients is tied to equity assets under management. An equity market decline not only depresses assets under management but could cause a significant increase in redemption requests to move money out of equities and into other asset classes. Moreover, extended declines in the equity markets may reduce new fund or client creation, resulting in lower demand for services from investment managers.

Our investment banking clients who perform M&A advisory work and equity research account for approximately 18.4% of our annual subscription value. 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 merger and acquisitions funded by debt. Additional uncertainty, consolidation and business failures in the global investment banking sector could adversely affect our financial results and future growth.

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

## **Forward-Looking Factors**

### Forward-Looking Statements

In addition to current and historical information, this Annual Report on Form 10-K, 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," "believe," "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 in Part 1 Item 1A, *Risk Factors* of this Annual Report on Form 10-K. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this Annual Report to reflect actual results or future events or circumstances.

#### Dividend Payment

On August 15, 2013, a regular quarterly dividend of \$0.35 per share was announced. The cash dividend of \$15.2 million was paid on September 17, 2013, to common stockholders of record on August 31, 2013 using our existing cash generated by operations.

#### Business Outlook

The following forward-looking statements reflect our expectations as of September 17, 2013. Given the number of risk factors, uncertainties and assumptions discussed below, 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.

#### *First Quarter Fiscal 2014 Expectations*

-Revenues are expected to range between \$222 million and \$225 million.

-Operating margin is expected to range between 33.0% and 34.0%.

The annual effective tax rate is expected to range between 28.5% and 29.5% and assumes the U.S. Federal R&D tax credit will be re-enacted by the end of the first quarter of fiscal 2014.

Diluted EPS should range between \$1.21 and \$1.24, the midpoint of the range represents 10% growth over last year's first quarter. Diluted EPS assumes the U.S. Federal R&D tax credit will be re-enacted. If the U.S. Federal R&D tax credit is not re-enacted, first quarter's diluted EPS will be reduced by \$0.03.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

### *Foreign Currency Exchange Risk*

We conduct business outside the U.S. in several currencies including the British Pound Sterling, Euro, Japanese Yen, Indian Rupee and Philippine Peso. The financial statements of these foreign subsidiaries are translated into U.S. dollars using period-end rates of exchange for assets and liabilities and average rates for the period for revenues and expenses. Our non-U.S. dollar denominated revenues expected to be recognized over the next twelve months are estimated to be \$15 million while our non-U.S. dollar denominated expenses are \$169 million, which translates into a net foreign currency exposure of \$154 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 August 31, 2013 we maintain foreign currency forward contracts to hedge approximately 75% of our Indian Rupee exposure through the end of the second quarter of fiscal 2016, 40% of our net British Pound exposure through the end of the second quarter of fiscal 2014 and 50% of our Philippines Peso exposure through the end of fiscal 2014. We are required to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. At August 31, 2013 the notional principal and fair value of foreign exchange contracts to purchase Indian Rupees with U.S. dollars was Rs.2.9 billion and (\$7.7) million, respectively. At August 31, 2013 the notional principal and fair value of foreign exchange contracts to purchase British Pounds with U.S. dollars was £6.8 million and \$0.1 million, respectively. At August 31, 2013 the notional principal and fair value of foreign exchange contracts to purchase Philippine Pesos with U.S. dollars was Php515.9 million and (\$0.2) million, respectively. A loss on derivatives of \$1.0 million was recorded into operating income during fiscal 2013 and 2012, respectively. 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 August 31, 2013. If the U.S. dollar had been 10% weaker, the fair value of outstanding foreign currency forward contracts would have increased by \$5.5 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 August 31, 2013, a hypothetical 10% weaker U.S. dollar against all foreign currencies from the quoted foreign currency exchange rates at August 31, 2013, would result in a decrease in operating income by \$14.8 million over the next twelve months. A hypothetical 10% weaker U.S. dollar against all foreign currencies at August 31, 2013 would increase the fair value of total assets by \$29.0 million and equity by \$26.4 million.

### *Interest Rate Risk*

The fair market value of our cash and investments at August 31, 2013 was \$209.4 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 (short-term) on 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.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

### **Index to Consolidated Financial Statements**

|                                                                                                               | <u>Page</u> |
|---------------------------------------------------------------------------------------------------------------|-------------|
| <b><i>Consolidated Financial Statements:</i></b>                                                              |             |
| Management's Statement of Responsibility for Financial Statements                                             | 44          |
| Management's Report on Internal Control over Financial Reporting                                              | 44          |
| Report of Independent Registered Public Accounting Firm                                                       | 45          |
| Consolidated Statements of Income for the years ended August 31, 2013, 2012 and 2011                          | 46          |
| Consolidated Statements of Comprehensive Income for the years ended August 31, 2013, 2012 and 2011            | 47          |
| Consolidated Balance Sheets at August 31, 2013 and 2012                                                       | 48          |
| Consolidated Statements of Cash Flows for the years ended August 31, 2013, 2012 and 2011                      | 49          |
| Consolidated Statements of Changes in Stockholders' Equity for the years ended August 31, 2013, 2012 and 2011 | 50          |
| Notes to the Consolidated Financial Statements                                                                | 51          |

***Financial Statement Schedule:***

Schedule II – Valuation and Qualifying Accounts 81

43

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## **Management's Statement of Responsibility for Financial Statements**

FactSet's consolidated financial statements are prepared by management, which is responsible for their fairness, integrity and objectivity. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's estimates and judgments. All financial information in this Annual Report on Form 10-K has been presented on a basis consistent with the information included in the accompanying financial statements.

FactSet's policies and practices reflect corporate governance initiatives that are compliant with the listing requirements of the New York Stock Exchange, the NASDAQ Stock Market and the corporate governance requirements of the Sarbanes-Oxley Act of 2002. Management, with oversight by the Company's Board of Directors, has established and maintains a strong ethical climate so that its affairs are conducted to the highest standards of personal and corporate conduct.

FactSet maintains accounting systems, including internal accounting controls, designed to provide reasonable assurance of the reliability of financial records and the protection of assets. The concept of reasonable assurance is based on recognition that the cost of a system should not exceed the related benefits. The effectiveness of those systems depends primarily upon the careful selection of financial and other managers, clear delegation of authority and assignment of accountability, inculcation of high business ethics and conflict-of-interest standards, policies and procedures for coordinating the management of corporate resources, and the leadership and commitment of top management. In compliance with the Sarbanes-Oxley Act of 2002, FactSet assessed its internal control over financial reporting as of August 31, 2013 and issued a report (see below).

The Audit Committee of the Board of Directors, which consists solely of independent non-employee directors, is responsible for overseeing the functioning of the accounting system and related controls and the preparation of annual financial statements. The Audit Committee periodically meets with management and the independent accountants to review and evaluate their accounting, auditing and financial reporting activities and responsibilities, including management's assessment of internal control over financial reporting. The independent registered public accounting firm has full and free access to the Audit Committee and met with the committee, with and without management present.

## **Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, the Company

conducted an evaluation of the effectiveness of its internal control over financial reporting based on criteria established in the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management concluded that its internal control over financial reporting was effective as of August 31, 2013. PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the effectiveness of FactSet's internal control over financial reporting and has issued a report on the Company's internal control over financial reporting as of August 31, 2013, which is included in their report on the following page.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PHILIP A. HADLEY

Philip A. Hadley  
Chairman of the Board of Directors and Chief Executive Officer  
(Principal Executive Officer)  
October 30, 2013

/s/ MAURIZIO NICOLELLI

Maurizio Nicoelli  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)  
October 30, 2013

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of FactSet Research Systems Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of FactSet Research Systems Inc. and its subsidiaries (the “Company”) at August 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of August 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Stamford, Connecticut

October 30, 2013

## Consolidated Statements of Income

(In thousands, except per share data)

|                                          |           |           |           |
|------------------------------------------|-----------|-----------|-----------|
| Years Ended August 31,                   | 2013      | 2012      | 2011      |
| Revenues                                 | \$858,112 | \$805,793 | \$726,510 |
| Operating expenses                       |           |           |           |
| Cost of services                         | 306,379   | 275,537   | 244,623   |
| Selling, general and administrative      | 282,314   | 257,266   | 243,552   |
| Total operating expenses                 | 588,693   | 532,803   | 488,175   |
| Operating income                         | 269,419   | 272,990   | 238,335   |
| Other income                             | 1,491     | 1,715     | 623       |
| Income before income taxes               | 270,910   | 274,705   | 238,958   |
| Provision for income taxes               | 72,273    | 85,896    | 67,912    |
| Net income                               | \$198,637 | \$188,809 | \$171,046 |
| Basic earnings per common share          | \$4.53    | \$4.22    | \$3.72    |
| Diluted earnings per common share        | \$4.45    | \$4.12    | \$3.61    |
| Weighted average common shares (Basic)   | 43,890    | 44,784    | 45,953    |
| Weighted average common shares (Diluted) | 44,624    | 45,810    | 47,355    |

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



## Consolidated Statements of Comprehensive Income

(In thousands)

| Years Ended August 31,                          | 2013      | 2012      | 2011      |
|-------------------------------------------------|-----------|-----------|-----------|
| Net income                                      | \$198,637 | \$188,809 | \$171,046 |
| Other comprehensive income (loss), net of tax   |           |           |           |
| Net unrealized (loss) gain on cash flow hedges* | (3,296 )  | (2,141 )  | 828       |
| Foreign currency translation adjustments        | (5,151 )  | (14,925 ) | 14,897    |
| Other comprehensive (loss) income               | (8,447 )  | (17,066 ) | 15,725    |
| Comprehensive Income                            | \$190,190 | \$171,743 | \$186,771 |

\* The unrealized (loss) gain on cash flow hedges disclosed above was net of tax benefit (expense) of \$1,965, \$1,283 and (\$500) for the fiscal years ended August 31, 2013, 2012 and 2011, respectively.

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

## Consolidated Balance Sheets

(In thousands, except share data)

| At August 31,                                                                                                                                                                                 | 2013              | 2012              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>CURRENT ASSETS</b>                                                                                                                                                                         |                   |                   |
| Cash and cash equivalents                                                                                                                                                                     | \$ 196,627        | \$ 189,044        |
| Investments                                                                                                                                                                                   | 12,725            | 13,919            |
| Accounts receivable, net of reserves of \$1,644 and \$1,830 at August 31, 2013 and 2012, respectively                                                                                         | 73,290            | 74,251            |
| Prepaid taxes                                                                                                                                                                                 | 16,937            | 2,485             |
| Deferred taxes                                                                                                                                                                                | 2,803             | 5,085             |
| Prepaid expenses and other current assets                                                                                                                                                     | 15,652            | 14,341            |
| <i>Total current assets</i>                                                                                                                                                                   | 318,034           | 299,125           |
| <b>LONG-TERM ASSETS</b>                                                                                                                                                                       |                   |                   |
| Property, equipment and leasehold improvements, at cost                                                                                                                                       | 192,338           | 189,546           |
| Less accumulated depreciation and amortization                                                                                                                                                | (126,967)         | (113,016)         |
| Property, equipment and leasehold improvements, net                                                                                                                                           | 65,371            | 76,530            |
| Goodwill                                                                                                                                                                                      | 244,573           | 245,791           |
| Intangible assets, net                                                                                                                                                                        | 36,223            | 43,371            |
| Deferred taxes                                                                                                                                                                                | 22,023            | 23,113            |
| Other assets                                                                                                                                                                                  | 3,973             | 6,213             |
| <b>TOTAL ASSETS</b>                                                                                                                                                                           | <b>\$ 690,197</b> | <b>\$ 694,143</b> |
| <b>CURRENT LIABILITIES</b>                                                                                                                                                                    |                   |                   |
| Accounts payable and accrued expenses                                                                                                                                                         | \$ 29,864         | \$ 27,680         |
| Accrued compensation                                                                                                                                                                          | 40,137            | 41,274            |
| Deferred fees                                                                                                                                                                                 | 29,319            | 30,495            |
| Taxes payable                                                                                                                                                                                 | 3,769             | —                 |
| Dividends payable                                                                                                                                                                             | 15,164            | 13,727            |
| <i>Total current liabilities</i>                                                                                                                                                              | 118,253           | 113,176           |
| <b>NON-CURRENT LIABILITIES</b>                                                                                                                                                                |                   |                   |
| Deferred taxes                                                                                                                                                                                | 2,396             | 2,593             |
| Taxes payable                                                                                                                                                                                 | 5,435             | 5,464             |
| Deferred rent and other non-current liabilities                                                                                                                                               | 22,334            | 20,646            |
| <b>TOTAL LIABILITIES</b>                                                                                                                                                                      | <b>\$ 148,418</b> | <b>\$ 141,879</b> |
| Commitments and contingencies (See Note 16)                                                                                                                                                   |                   |                   |
| <b>STOCKHOLDERS' EQUITY</b>                                                                                                                                                                   |                   |                   |
| Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued                                                                                                                   | \$—               | \$—               |
| Common stock, \$.01 par value, 150,000,000 shares authorized, 48,110,740 and 45,599,754 shares issued; 43,324,410 and 44,279,214 shares outstanding at August 31, 2013 and 2012, respectively | 481               | 456               |
| Additional paid-in capital                                                                                                                                                                    | 326,869           | 137,569           |

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|                                                                                                   |                  |                  |
|---------------------------------------------------------------------------------------------------|------------------|------------------|
| Treasury stock, at cost: 4,786,330 and 1,320,540 shares at August 31, 2013 and 2012, respectively | (454,917)        | (122,749)        |
| Retained earnings                                                                                 | 700,519          | 559,714          |
| Accumulated other comprehensive loss                                                              | (31,173 )        | (22,726 )        |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                                                                 | <b>541,779</b>   | <b>552,264</b>   |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                 | <b>\$690,197</b> | <b>\$694,143</b> |

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

## Consolidated Statements of Cash Flows

(In thousands)

| Years Ended August 31,                                                                         | 2013             | 2012             | 2011             |
|------------------------------------------------------------------------------------------------|------------------|------------------|------------------|
| <i>CASH FLOWS FROM OPERATING ACTIVITIES</i>                                                    |                  |                  |                  |
| Net income                                                                                     | \$ 198,637       | \$ 188,809       | \$ 171,046       |
| Adjustments to reconcile net income to net cash provided by operating activities               |                  |                  |                  |
| Depreciation and amortization                                                                  | 35,779           | 33,779           | 36,847           |
| Stock-based compensation expense                                                               | 39,951           | 21,982           | 25,773           |
| Deferred income taxes                                                                          | 3,175            | (3,760 )         | (1,806 )         |
| Gain on sale of assets                                                                         | (26 )            | -                | (22 )            |
| Tax benefits from share-based payment arrangements                                             | (25,225 )        | (11,159 )        | (18,331 )        |
| Changes in assets and liabilities, net of effects of acquisition                               |                  |                  |                  |
| Accounts receivable, net of reserves                                                           | 859              | 2,083            | (15,311 )        |
| Accounts payable and accrued expenses                                                          | 3,355            | 9                | 715              |
| Accrued compensation                                                                           | (776 )           | 519              | (7,882 )         |
| Deferred fees                                                                                  | (1,107 )         | (2,573 )         | 3,219            |
| Taxes payable, net of prepaid taxes                                                            | 13,498           | 4,209            | 20,387           |
| Prepaid expenses and other assets                                                              | 2,105            | (445 )           | (6,579 )         |
| Deferred rent and other non-current liabilities                                                | (2,846 )         | (905 )           | (483 )           |
| Other working capital accounts, net                                                            | 2,430            | (583 )           | (437 )           |
| <b>Net cash provided by operating activities</b>                                               | <b>269,809</b>   | <b>231,965</b>   | <b>207,136</b>   |
| <i>CASH FLOWS FROM INVESTING ACTIVITIES</i>                                                    |                  |                  |                  |
| Acquisition of business, net of cash acquired                                                  | (705 )           | (21,329 )        | —                |
| Purchases of investments                                                                       | (15,613 )        | (15,000 )        | —                |
| Proceeds from sales of investments                                                             | 14,423           | —                | —                |
| Purchases of property, equipment and leasehold improvements, net of proceeds from dispositions | (18,517 )        | (22,520 )        | (29,343 )        |
| <b>Net cash used in investing activities</b>                                                   | <b>(20,412 )</b> | <b>(58,849 )</b> | <b>(29,343 )</b> |
| <i>CASH FLOWS FROM FINANCING ACTIVITIES</i>                                                    |                  |                  |                  |
| Dividend payments                                                                              | (56,002 )        | (49,983 )        | (43,949 )        |
| Repurchase of common stock                                                                     | (332,168)        | (153,641)        | (216,584)        |
| Proceeds from employee stock plans                                                             | 124,537          | 33,747           | 43,079           |
| Tax benefits from share-based payment arrangements                                             | 25,225           | 11,159           | 18,331           |
| <b>Net cash used in financing activities</b>                                                   | <b>(238,408)</b> | <b>(158,718)</b> | <b>(199,123)</b> |
| Effect of exchange rate changes on cash and cash equivalents                                   | (3,406 )         | (7,039 )         | 7,274            |
| Net increase (decrease) in cash and cash equivalents                                           | 7,583            | 7,359            | (14,056 )        |
| Cash and cash equivalents at beginning of year                                                 | 189,044          | 181,685          | 195,741          |

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|                                                            |            |            |            |
|------------------------------------------------------------|------------|------------|------------|
| Cash and cash equivalents at end of year                   | \$ 196,627 | \$ 189,044 | \$ 181,685 |
| <i>Supplemental Disclosure of Cash Flow Information</i>    |            |            |            |
| Cash paid during the year for income taxes, net of refunds | \$ 45,732  | \$ 73,219  | \$ 36,869  |
| <i>Supplemental Disclosure of Non-Cash Transactions</i>    |            |            |            |
| Dividends declared, not paid                               | \$ 15,164  | \$ 13,727  | \$ 12,165  |
| Stock issued for acquisition of business                   | \$ —       | \$ 3,974   | \$ —       |

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

## Consolidated Statements of Changes in Stockholders' Equity

(In thousands)

| Years Ended August 31,                                     | 2013        | 2012        | 2011        |
|------------------------------------------------------------|-------------|-------------|-------------|
| <b>COMMON STOCK</b>                                        |             |             |             |
| Balance, beginning of year                                 | \$456       | \$614       | \$601       |
| Common stock issued for employee stock plans               | 25          | 9           | 13          |
| Retirement of treasury stock                               | —           | (167 )      | —           |
| Balance, end of year                                       | \$481       | \$456       | \$614       |
| <b>ADDITIONAL PAID-IN CAPITAL</b>                          |             |             |             |
| Balance, beginning of year                                 | \$137,569   | \$432,538   | \$344,144   |
| Common stock issued for employee stock plans               | 124,124     | 33,383      | 44,290      |
| Stock-based compensation expense                           | 39,951      | 21,982      | 25,773      |
| Tax benefits from share-based payment arrangements         | 25,225      | 11,159      | 18,331      |
| Stock issued for acquisition of business                   | —           | (11 )       | —           |
| Retirement of treasury stock                               | —           | (361,482)   | —           |
| Balance, end of year                                       | \$326,869   | \$137,569   | \$432,538   |
| <b>TREASURY STOCK</b>                                      |             |             |             |
| Balance, beginning of year                                 | \$(122,749) | \$(824,382) | \$(607,798) |
| Repurchase of common stock, including stock swaps          | (327,454)   | (152,933)   | (216,584)   |
| Stock issued for acquisition of business                   | —           | 3,985       | —           |
| Purchase of common stock upon restricted stock vesting     | (4,714 )    | (354 )      | —           |
| Retirement of treasury stock                               | —           | 850,935     | —           |
| Balance, end of year                                       | \$(454,917) | \$(122,749) | \$(824,382) |
| <b>RETAINED EARNINGS</b>                                   |             |             |             |
| Balance, beginning of year                                 | \$559,714   | \$912,078   | \$786,844   |
| Net income                                                 | 198,637     | 188,809     | 171,046     |
| Dividends                                                  | (57,832 )   | (51,887 )   | (45,812 )   |
| Retirement of treasury stock                               | —           | (489,286)   | —           |
| Balance, end of year                                       | \$700,519   | \$559,714   | \$912,078   |
| <b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>                |             |             |             |
| Balance, beginning of year                                 | \$(22,726 ) | \$(5,660 )  | \$(21,385 ) |
| Foreign currency translation adjustments                   | (5,151 )    | (14,925 )   | 14,897      |
| Net unrealized (loss) gain on cash flow hedges, net of tax | (3,296 )    | (2,141 )    | 828         |
| Balance, end of year                                       | \$(31,173 ) | \$(22,726 ) | \$(5,660 )  |

**TOTAL STOCKHOLDERS' EQUITY**

|                                                            |           |           |           |
|------------------------------------------------------------|-----------|-----------|-----------|
| Balance, beginning of year                                 | \$552,264 | \$515,188 | \$502,406 |
| Net income                                                 | 198,637   | 188,809   | 171,046   |
| Common stock issued for employee stock plans               | 124,149   | 33,392    | 44,303    |
| Purchase of common stock upon restricted stock vesting     | (4,714 )  | (354 )    | —         |
| Stock-based compensation expense                           | 39,951    | 21,982    | 25,773    |
| Tax benefits from share-based payment arrangements         | 25,225    | 11,159    | 18,331    |
| Repurchase of common stock, including stock swaps          | (327,454) | (152,933) | (216,584) |
| Foreign currency translation adjustments                   | (5,151 )  | (14,925 ) | 14,897    |
| Stock issued for acquisition of business                   | —         | 3,974     | —         |
| Net unrealized (loss) gain on cash flow hedges, net of tax | (3,296 )  | (2,141 )  | 828       |
| Dividends                                                  | (57,832 ) | (51,887 ) | (45,812 ) |
| Balance, end of year                                       | \$541,779 | \$552,264 | \$515,188 |

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

Notes to the Consolidated Financial Statements

## 1. ORGANIZATION AND NATURE OF BUSINESS

FactSet Research Systems Inc. (the “Company” or “FactSet”) is a provider of integrated financial information and analytical applications to the global investment community. FactSet combines content regarding companies and securities from major markets all over the globe into a single online platform of information and analytics. By consolidating content from hundreds of databases with powerful analytics, FactSet supports the investment process from initial research to published results for buy and sell-side professionals. These professionals include portfolio managers, research and performance analysts, risk managers, marketing professionals, sell-side equity research professionals, investment bankers and fixed income professionals. The Company’s applications provide users access to company analysis, multicompany comparisons, industry analysis, company screening, portfolio analysis, predictive risk measurements, alphas testing, portfolio optimization and simulation, real-time news and quotes and tools to value and analyze fixed income securities and portfolios. With Microsoft Office integration, wireless access and customizable options, FactSet offers a complete financial workflow solution. The Company’s revenues are derived from subscriptions to services such as workstations, content and applications.

As of August 31, 2013, the Company employed 6,258 employees, an increase of 358 over the past three months and up 9.1% or 523 employees from a year ago. Of these employees, 1,888 were located in the U.S., 663 in Europe and 3,707 in Asia Pacific. Approximately 55% of FactSet employees are involved with content collection, 24% work in product development, software and systems engineering, another 18% conduct sales and consulting services and the remaining 3% provide administrative support.

## 2. BASIS OF PRESENTATION

FactSet conducts business globally and is managed on a geographic basis. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany activity and balances have been eliminated from the consolidated financial statements. Certain reclassification have been made to amounts for prior years in order to conform to the current year’s presentation.

The Company’s consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles. The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates have been made in areas that include receivable reserves, accrued compensation, allocation of purchase price to assets and



liabilities acquired, income taxes, stock-based compensation, valuation of goodwill, and useful lives and valuation of fixed and intangible assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies of the Company and its subsidiaries are summarized below.

#### **Revenue Recognition**

The Company's revenues are derived from month-to-month subscriptions to services such as workstations (also referred to as users), content and applications. The majority of clients are invoiced monthly to reflect the actual services provided. The remaining clients are invoiced quarterly, annually or biannually in advance. Subscription revenue is earned each month as the service is rendered to clients on a monthly basis. FactSet recognizes revenue when the client subscribes to FactSet services, the service has been rendered and earned during the month, the amount of the subscription is fixed or determinable based on established rates quoted on an annualized basis and collectability is reasonably assured. A provision for billing adjustments and cancellation of services is estimated and accounted for as a reduction of revenue, with a corresponding reduction to accounts receivable.

#### **Accounts Receivable and Deferred Fees**

Amounts that have been earned but not yet paid are reflected on the Consolidated Balance Sheets as accounts receivable, net of reserves. Amounts invoiced in advance or client payments that are in excess of earned subscription revenues are reflected on the Consolidated Balance Sheets as deferred fees. As of August 31, 2013, the amount of accounts receivable that was unbilled totaled \$3.3 million, which was billed in fiscal 2014.

The Company calculates its receivable reserve through analyzing aged client receivables, reviewing the recent history of client receivable write-offs and understanding general market and economic conditions. In accordance with this policy, a receivable reserve of \$1.6 million and \$1.8 million was recorded as of August 31, 2013 and 2012, respectively, in the Consolidated Balance Sheets as a reduction of accounts receivable.

### **Cost of Services**

Cost of services is comprised of compensation for Company employees within the content collection, consulting, product development, software and systems engineering groups in addition to data costs, amortization of identifiable intangible assets, computer maintenance and depreciation expenses and client-related communication costs.

### **Selling, General and Administrative**

Selling, general and administrative expenses include compensation for the sales and various other support and administrative departments, travel and entertainment expenses, marketing costs, rent, amortization of leasehold improvements, depreciation of furniture and fixtures, office expenses, professional fees and other miscellaneous expenses.

### **Earnings per Share**

Basic earnings per share (“EPS”) is computed by dividing net income by the number of weighted average common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the number of weighted average common shares outstanding during the period increased by the dilutive effect of potential common shares outstanding during the period. The number of potential common shares outstanding has been determined in accordance with the treasury stock method to the extent they are dilutive. Common share equivalents consist of common shares issuable upon the exercise of outstanding share-based compensation awards, including employee stock options and restricted stock. Under the treasury stock method, the exercise price paid by the optionee, future stock-based compensation expense that the Company has not yet recognized and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

### **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. 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 cash equivalents are classified as Level 1 while the Company’s derivative instruments (foreign exchange forward contracts) and certificates of deposit are classified as Level 2. There were no Level 3 assets or liabilities held by FactSet as of August 31, 2013 or 2012.

### **Cash and Cash Equivalents**

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

### **Investments**

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 (short-term) on the Consolidated Balance Sheets. These certificates of deposit are held for investment and are not debt securities. The Company's investments are associated with its purchase of certificates of deposits in India with maturities ranging from nine months to twelve months from the date of purchase. Interest income earned from the certificates of deposit during fiscal 2013 and 2012 were \$1.3 million and \$1.1 million, respectively. The Company's cash, cash equivalents and investments portfolio did not experience any realized or unrealized losses as a result of counterparty credit risk or ratings change during fiscal 2013 and 2012.

### **Property, Equipment and Leasehold Improvements**

Property, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Computers and related equipment are depreciated on a straight-line basis over estimated useful lives of three years. Furniture and fixtures are depreciated on a straight-line basis over their estimated useful lives of seven years. Leasehold improvements are amortized on a straight-line basis over the terms of the related leases or estimated useful lives of the improvements, whichever period is shorter. Repairs and maintenance expenditures, which are not considered leasehold improvements and do not extend the useful life of the property and equipment, are expensed as incurred.

The Company performs a test for impairment whenever events or changes in circumstances indicate that the carrying amount of an individual asset or asset group may not be recoverable. Should projected undiscounted future cash flows be less than the carrying amount of the asset or asset group, an impairment charge reducing the carrying amount to fair value is required. Fair value is determined based on the most appropriate valuation technique, including discounted cash flows.

### **Asset Retirement Obligations**

An asset retirement obligation is recognized in the period in which sufficient information exists to determine the fair value of the liability with a corresponding increase to the carrying amount of the related property, plant and equipment which is then depreciated over its useful life. The liability is initially measured at discounted fair value and then accretion expense is recorded in each subsequent period. The Company's asset retirement obligations are primarily associated with its build out of office space in London and Hong Kong where FactSet made significant leasehold improvements and is obligated to remove the leasehold improvements at the end of the lease term. The Company's asset retirement obligations are not material to its consolidated financial statements.

### **Goodwill**

Goodwill has resulted from the acquisitions of the Insyte, LionShares, Mergerstat, CallStreet, JCF, TrueCourse, Derivative Solutions, AlphaMetrics, Global Filings, DealMaven, Thomson Fundamentals, Market Metrics and StreetAccount businesses. Goodwill resulting from the acquisitions of LionShares, Mergerstat, TrueCourse, Derivative Solutions, Market Metrics, and StreetAccount are income tax-deductible based on the structure of the acquisition. On an ongoing basis, the Company evaluates goodwill at the reporting unit level for indications of potential impairment. Goodwill is tested for impairment based on the present value of discounted cash flows, and, if impaired, written down to fair value. FactSet has determined that there were three reporting units during fiscal years 2013, 2012 and 2011, which are consistent with the operating segments reported because there is no discrete financial information available for the subsidiaries within each operating segment. The Company's reporting units evaluated for potential impairment were U.S., Europe and Asia Pacific, which reflects the level of internal reporting the Company uses to manage its business and operations. The Company performed an annual goodwill impairment test during the fourth quarter of fiscal years 2013, 2012 and 2011 and determined that there were no reporting units that were deemed at risk and there had been no impairment.

### **Intangible Assets**

Intangible assets consist of certain acquired content databases, client relationships, software technology, non-compete agreements and trade names resulting from the acquisitions of Mergerstat (M&A data), JCF (earnings and other estimates), TrueCourse (takeover defense intelligence), Derivative Solutions (fixed income), AlphaMetrics (research and performance evaluation networking tool), Global Filings (equity and fixed income prospectuses), DealMaven (investment banking workflow tool), Thomson Fundamentals (financial data), Market Metrics (market research data on advisor-sold investments and insurance products), and StreetAccount (financial news) and depending on the nature of the intangible asset, are amortized on either a straight-line or an accelerated basis using estimated useful lives ranging between two and twenty years. The remaining useful lives of intangible assets subject to amortization are evaluated quarterly to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of the remaining useful life is changed, the remaining carrying amount of the intangible asset is amortized prospectively over that revised remaining useful life. These intangible assets have no assigned residual values. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for intangible assets that management expects to hold and use is based on the amount the carrying value exceeds the fair value of the asset. No impairment of intangible assets has been identified

during any of the periods presented.

### **Internal Use Software**

Certain costs related to computer software developed or obtained for internal use are capitalized. FactSet capitalizes only those direct costs incurred during the application development and implementation stages for developing, purchasing or otherwise acquiring software solely to meet the Company's internal needs. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of the underlying software, three years or less. During fiscal 2013, 2012 and 2011, the Company capitalized \$0.7 million, \$0.9 million and \$0.9 million, respectively of internal employee compensation costs associated with the application development and implementation stages for developing software for internal use only. In fiscal 2013, 2012 and 2011, FactSet recorded amortization expense related to capitalized software of \$0.9 million, \$0.9 million and \$0.7 million, respectively.

### **Product Development**

The Company capitalizes software development costs related to software to be sold, leased, or otherwise marketed. Software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to the public. Once the point of technological feasibility is reached, which is the completion of a working prototype that has been certified as having no critical bugs and is a release candidate or has alternative future uses, development costs are capitalized until the product is ready for general release. Research and product development costs not subject to capitalization are expensed as incurred. As of August 31, 2013 and 2012, there were no software development costs capitalized related to software to be sold, leased, or otherwise marketed.

### **Accrued Liabilities**

Accrued liabilities include estimates relating to employee compensation, operating expenses and tax liabilities. Approximately 15-20% of the Company's employee incentive compensation programs are discretionary. FactSet conducts a final review of Company and departmental individual performance each fiscal year end to determine the amount of discretionary employee compensation. The Company also reviews compensation throughout the year to determine how overall performance tracks against management's expectations. Management takes these and other factors, including historical performance, into account in reviewing accrued compensation estimates quarterly and adjusting accrual rates as appropriate. The amount of the variable employee compensation recorded within accrued compensation as of August 31, 2013 and 2012, was \$35.2 million and \$35.9 million, respectively.

### **Landlord Contributions for Leasehold Improvements**

In conjunction with entering into leases for office space, the Company receives contributions from landlords toward leasehold improvements which are reported in the Accounts Payable and Accrued Expenses line item (current portion only) and the Deferred Rent and Other Non-Current Liabilities line item (non-current portion) of the Consolidated Balance Sheets. These contributions are amortized as a reduction to rent expense over the non-cancelable lease terms to which they pertain. During fiscal 2013, 2012 and 2011, cash contributions from landlords were \$0.5 million, \$1.5 million and \$1.4 million, respectively.

### **Derivative Instruments**

FactSet conducts business outside the U.S. in several currencies including the British Pound Sterling, Euro, Japanese Yen, Indian Rupee and Philippine Peso. As such, it is exposed to movements in foreign currency exchange rates compared to the U.S. dollar. To manage the exposures related to the effects of foreign exchange rate fluctuations, the Company utilizes derivative instruments (foreign currency forward contracts). The Company's primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency. In designing a specific hedging approach, FactSet considers several factors, including offsetting exposures, significance of exposures, forecasting risk and potential effectiveness of the hedge. These transactions are designated and accounted for as cash flow hedges in accordance with applicable accounting guidance. The changes in fair value for these foreign currency forward contracts are initially reported as a component of accumulated other comprehensive loss and subsequently reclassified into operating expenses when the hedged exposure affects earnings. The gains and losses on foreign currency forward contracts mitigate the variability in operating expenses associated with currency movements. All derivatives are assessed for effectiveness at each reporting period. The Company does not enter into foreign exchange forward contracts for trading or speculative purposes.

### **Foreign Currency Translation**

Certain wholly owned subsidiaries within the Europe and Asia Pacific segments operate under a functional currency different from the U.S. dollar, such as the British Pound Sterling, Euro, Japanese Yen, Indian Rupee and Philippines 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. 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. The accumulated foreign currency translation loss totaled \$26.3 million and \$21.2 million at August 31, 2013 and 2012, respectively.

### **Comprehensive Income (Loss)**

The Company discloses comprehensive income (loss) in accordance with applicable standards for the reporting and display of comprehensive income (loss) in a set of financial statements. Comprehensive income (loss) is defined as the change in net assets of a business enterprise during a period from transactions generated from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

### **Income and Deferred 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.

FactSet recognizes 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 as of the reporting date. 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 50% likelihood of being realized upon ultimate settlement. Additionally, FactSet accrues interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. Interest and penalties are classified as income tax expense in the financial statements. As of August 31, 2013, the Company had gross unrecognized tax benefits totaling \$5.4 million, including \$1.0 million of accrued interest, recorded as non-current taxes payable in the Consolidated Balance Sheet.

### **Stock-Based Compensation**

Accounting guidance requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including stock options, restricted stock and common shares acquired under employee stock purchases based on estimated fair values of the share awards that are scheduled to vest during the period. FactSet uses the straight-line attribution method for all awards with graded vesting features and service conditions only. Under this method, the amount of compensation expense that is recognized on any date is at least equal to the vested portion of the award on that date. For all stock-based awards with performance conditions, the graded vesting attribution method is used by the Company to determine the monthly stock-based compensation expense over the applicable vesting periods.

As stock-based compensation expense recognized is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based primarily on historical experience. Windfall tax benefits, defined as tax deductions that exceed recorded stock-based compensation, are classified as cash inflows from financing activities.

Performance-based stock options require management to make assumptions regarding the likelihood of achieving Company performance targets on a quarterly basis. The number of performance-based options that vest will be predicated on the Company achieving certain performance levels. A change in the financial performance levels the Company achieves could result in changes to FactSet's current estimate of the vesting percentage and related stock-based compensation.

### **Treasury Stock**

The Company accounts for repurchased common stock under the cost method and includes such treasury stock as a component of its stockholders' equity. At the time treasury stock retirement is approved by FactSet's Board of Directors, the Company's accounting policy is to deduct its par value from common stock, reduce additional paid-in capital ("APIC") by the amount recorded in APIC when the stock was originally issued and any remaining excess of cost as a deduction from retained earnings.

### **Operating Leases**

The Company conducts all of its operations in leased facilities which have minimum lease obligations under non-cancelable operating leases. Certain of these leases contain rent escalations based on specified percentages. Most of the leases contain renewal options and require payments for taxes, insurance and maintenance. Rent expense is charged to operations as incurred except for escalating rents, which are charged to operations on a straight-line basis over the life of the lease. Lease incentives, relating to allowances provided by landlords, are amortized over the term of the lease as a reduction of rent expense. Costs associated with acquiring a subtenant, including broker commissions and tenant allowances, are amortized over the sublease term as a reduction of sublease income.



### **Business Combinations**

The Company records acquisitions using the purchase method of accounting. All of the assets acquired, liabilities assumed, contractual contingencies and contingent consideration are recognized at their fair value on the acquisition date. The application of the purchase method of accounting for business combinations requires management to make significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Acquisition-related expenses and restructuring costs are recognized separately from the business combination and are expensed as incurred.

### **Concentrations of Risk**

Cash and cash equivalents are maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, 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.

### **New Accounting Standards or Updates Recently Adopted**

Except for the new accounting standard updates disclosed below, the new updates issued by the Financial Accounting Standards Board (“FASB”) during the last two fiscal years did not have an impact on the Company’s consolidated financial statements.

### *Presentation of Comprehensive Income*

In June 2011, the FASB issued an accounting standard update to provide guidance on increasing the prominence of items reported in other comprehensive income. The guidance eliminated the option to present components of other comprehensive income as part of the statement of stockholders' equity. Instead, it required that the total of comprehensive income, the components of net income and the components of other comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. FactSet adopted this accounting standard in the first quarter of fiscal 2013. Other than the change in presentation, the adoption did not have an impact on the Company's consolidated financial statements.

### *Goodwill Impairment Testing*

In September 2011, the FASB issued an accounting standard update intended to simplify how an entity tests goodwill for impairment. The guidance will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting standard update became effective for FactSet beginning in the first quarter of fiscal 2013, and its adoption did not have an impact on the Company's consolidated financial statements.

### *Fair Value Measurement and Disclosure Requirements*

On September 1, 2011, FactSet adopted guidance issued by the FASB on disclosure requirements related to fair value measurements. The guidance requires the disclosure of roll-forward activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). Adoption of this new guidance did not have an impact on the Company's consolidated financial statements. On March 1, 2012, FactSet adopted guidance issued by the FASB on accounting and disclosure requirements related to fair value measurements. The guidance is the result of joint efforts by the FASB and International Accounting Standards Board to develop a single, converged fair value framework on how to measure fair value and what disclosures to provide about fair value measurements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The adoption did not have a material impact on the Company's consolidated financial statements.

### **Recent Accounting Standards or Updates Not Yet Effective**

#### *Balance Sheet Offsetting*

In December 2011, the FASB issued an accounting standard update requiring enhanced disclosures about certain financial instruments and derivative instruments that are offset in the balance sheet or that are subject to enforceable master netting arrangements or similar agreements. In January 2013, the FASB issued a clarifying accounting standard update, which limited the scope of the previous guidance to only derivatives, repurchase type agreements and securities borrowing and lending transactions. These accounting standard updates are effective for FactSet beginning

in the first quarter of fiscal 2014. Other than requiring additional disclosures, the adoption is not expected to have an impact on the Company's consolidated financial statements as FactSet currently reports derivative assets and liabilities on a gross basis in the consolidated balance sheets.

#### *Indefinite-lived Intangible Assets*

In July 2012, the FASB issued an accounting standard update intended to simplify how an entity tests indefinite-lived intangible assets other than goodwill for impairment by providing entities with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. This accounting standard update is effective for FactSet beginning in the first quarter of fiscal 2014 and is not expected to have an impact on the Company's consolidated financial statements.

#### *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*

In February 2013, the FASB issued an accounting standard update to require reclassification adjustments from other comprehensive income to be presented either in the financial statements or in the notes to the financial statements. This accounting standard update is effective for FactSet beginning in the first quarter of fiscal 2014, at which time the Company will include the required disclosures.

#### *Cumulative Translation Adjustments*

In March 2013, the FASB issued an accounting standard update requiring an entity to release into net income the entire amount of a cumulative translation adjustment related to its investment in a foreign entity when as a parent it either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity. This accounting standard update is effective for FactSet beginning in the first quarter of fiscal 2014 and is not 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.

##### *(a) 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 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 FactSet’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 FactSet as of August 31, 2013 or 2012.

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

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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 August 31, 2013 and 2012 (in thousands):

| August 31, 2013                             | Fair Value Measurements at Reporting Date Using |          |         |           |
|---------------------------------------------|-------------------------------------------------|----------|---------|-----------|
|                                             | Level 1                                         | Level 2  | Level 3 | Total     |
| <u>Assets</u>                               |                                                 |          |         |           |
| Corporate money market funds <sup>(1)</sup> | \$156,693                                       | \$-      | \$ -    | \$156,693 |
| Certificates of deposit <sup>(2)</sup>      | -                                               | 12,725   | -       | 12,725    |
| <i>Total assets measured at fair value</i>  | \$156,693                                       | \$12,725 | \$ -    | \$169,418 |

|                                                 |     |         |      |         |
|-------------------------------------------------|-----|---------|------|---------|
| <u>Liabilities</u>                              |     |         |      |         |
| Derivative instruments <sup>(3)</sup>           | \$- | \$7,740 | \$ - | \$7,740 |
| <i>Total liabilities measured at fair value</i> | \$- | \$7,740 | \$ - | \$7,740 |

| August 31, 2012                             | Fair Value Measurements at Reporting Date Using |          |         |           |
|---------------------------------------------|-------------------------------------------------|----------|---------|-----------|
|                                             | Level 1                                         | Level 2  | Level 3 | Total     |
| <u>Assets</u>                               |                                                 |          |         |           |
| Corporate money market funds <sup>(1)</sup> | \$160,169                                       | \$-      | \$ -    | \$160,169 |
| Certificates of deposit <sup>(2)</sup>      | -                                               | 13,919   | -       | 13,919    |
| <i>Total assets measured at fair value</i>  | \$160,169                                       | \$13,919 | \$ -    | \$174,088 |

|                                                 |     |         |      |         |
|-------------------------------------------------|-----|---------|------|---------|
| <u>Liabilities</u>                              |     |         |      |         |
| Derivative instruments <sup>(3)</sup>           | \$- | \$2,374 | \$ - | \$2,374 |
| <i>Total liabilities measured at fair value</i> | \$- | \$2,374 | \$ - | \$2,374 |

The Company's corporate money market funds are traded in an active market and the net asset value of each fund (1) 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 sheet.

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 Company's consolidated balance sheet.

The Company utilizes the income approach to measure fair value for its derivative instruments (foreign exchange (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.

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's Consolidated Balance Sheets at August 31, 2013 and 2012 as follows (in thousands):

|                                                 | Fair Value Measurements at Reporting Date Using |          |         |           |
|-------------------------------------------------|-------------------------------------------------|----------|---------|-----------|
|                                                 | Level 1                                         | Level 2  | Level 3 | Total     |
| August 31, 2013                                 |                                                 |          |         |           |
| Cash and cash equivalents                       | \$156,693                                       | \$-      | \$ -    | \$156,693 |
| Investments                                     | -                                               | 12,725   | -       | 12,725    |
| <i>Total assets measured at fair value</i>      | \$156,693                                       | \$12,725 | \$ -    | \$169,418 |
| Accounts payable and accrued liabilities        | \$-                                             | \$3,085  | \$ -    | \$3,085   |
| Deferred rent and other non-current liabilities |                                                 | 4,655    | -       | 4,655     |
| <i>Total liabilities measured at fair value</i> | \$-                                             | \$7,740  | \$ -    | \$7,740   |

|                                                 | Fair Value Measurements at Reporting Date Using |          |         |           |
|-------------------------------------------------|-------------------------------------------------|----------|---------|-----------|
|                                                 | Level 1                                         | Level 2  | Level 3 | Total     |
| August 31, 2012                                 |                                                 |          |         |           |
| Cash and cash equivalents                       | \$160,169                                       | \$-      | \$ -    | \$160,169 |
| Investments                                     | -                                               | 13,919   | -       | 13,919    |
| <i>Total assets measured at fair value</i>      | \$160,169                                       | \$13,919 | \$ -    | \$174,088 |
| Accounts payable and accrued liabilities        | \$-                                             | \$2,374  | \$ -    | \$2,374   |
| <i>Total liabilities measured at fair value</i> | \$-                                             | \$2,374  | \$ -    | \$2,374   |

***(c) 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 and this condition is determined to be other-than-temporary. During fiscal 2013, no fair value adjustments or material fair value measurements were required for the Company's non-financial assets or liabilities.

## 5. DERIVATIVE INSTRUMENTS

FactSet enters into foreign currency forward contracts to reduce the effects of foreign currency fluctuations. These transactions are designated and accounted for as cash flow hedges in accordance with applicable accounting guidance. There was no discontinuance of cash flow hedges during fiscal 2013 or fiscal 2012 and as such, no corresponding gains or losses were reclassified into earnings. 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.

As of August 31, 2013, FactSet maintains foreign currency forward contracts to hedge approximately 75% of its Indian Rupee exposure through the end of the second quarter of fiscal 2016, 40% of its net British Pound exposure through the end of the second quarter of fiscal 2014 and 50% of its Philippines Peso exposure through the end of fiscal 2014. The Company is required to recognize all derivative instruments as either assets or liabilities at fair value in the consolidated balance sheet. At August 31, 2013, the notional principal and fair value of foreign exchange contracts to purchase Indian Rupees with U.S. dollars was Rs.2.9 billion and (\$7.7) million, respectively. At August 31, 2013, the notional principal and fair value of foreign exchange contracts to purchase British Pounds with U.S. dollars was £6.8 million and \$0.1 million, respectively. At August 31, 2013, the notional principal and fair value of foreign exchange contracts to purchase Philippine Pesos with U.S. dollars was Php515.9 million and (\$0.2) million, respectively.

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

| Currency Hedged (in U.S. dollars) | Gross Notional Value |              | Fair Value Asset (Liability) |              |
|-----------------------------------|----------------------|--------------|------------------------------|--------------|
|                                   | Aug 31, 2013         | Aug 31, 2012 | Aug 31, 2013                 | Aug 31, 2012 |
| Indian Rupee                      | \$47,388             | \$36,286     | \$(7,693)                    | \$(2,434)    |
| British Pound                     | 10,436               | -            | 131                          | -            |
| Philippine Peso                   | 11,700               | -            | (178 )                       | -            |
| Euro                              | -                    | 10,160       | -                            | 60           |
| Total                             | \$69,524             | \$46,446     | \$(7,740)                    | \$(2,374)    |

#### 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. The Company regularly reviews its credit exposure balances as well as the creditworthiness of the counterparties. The Company does not expect any losses as a result of default of its counterparties.

#### Fair Value of Derivative Instruments

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

| Designation of Derivatives                    | Balance Sheet Location                          | Aug 31, | Aug 31, |
|-----------------------------------------------|-------------------------------------------------|---------|---------|
|                                               |                                                 | 2013    | 2012    |
| Derivatives designated as hedging instruments | Liabilities: Foreign Currency Forward Contracts |         |         |
|                                               | Accounts payable and accrued expenses           | \$3,085 | \$2,374 |
|                                               | Deferred rent and other non-current liabilities | \$4,655 | \$-     |

All derivatives were designated as hedging instruments as of August 31, 2013 and 2012, respectively.



Derivatives in Cash Flow Hedging Relationships for the twelve months ended August 31, 2013 and 2012 (in thousands):

|                                                | Loss Recognized                                     |            | Location of Loss<br>Reclassified from AOCL<br>into Income | Loss Reclassified<br>from AOCL into<br>Income |                        |      |
|------------------------------------------------|-----------------------------------------------------|------------|-----------------------------------------------------------|-----------------------------------------------|------------------------|------|
|                                                | in AOCL on<br>Derivatives<br>(Effective<br>Portion) | 2013       |                                                           | 2012                                          | (Effective<br>Portion) | 2013 |
| Derivatives in Cash Flow Hedging Relationships |                                                     |            | (Effective Portion)                                       |                                               |                        |      |
| Foreign currency forward contracts             | \$ (4,296)                                          | \$ (3,172) | SG&A                                                      | \$ (1,000)                                    | \$ (1,031)             |      |

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

Accumulated Unrealized Loss on Cash Flow Hedges

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

|                                        | Twelve Months<br>Ended |            |
|----------------------------------------|------------------------|------------|
|                                        | August 31,<br>2013     | 2012       |
| Beginning balance                      | \$ (1,551)             | \$ 590     |
| Changes in fair value                  | (4,296)                | (3,172)    |
| Realized loss reclassified to earnings | 1,000                  | 1,031      |
| Ending balance                         | \$ (4,847)             | \$ (1,551) |

## 6. SEGMENT INFORMATION

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

FactSet's 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; U.S., Europe and Asia Pacific. FactSet believes this alignment helps it better manage the business and view the markets the Company serves, which are centered on providing integrated global financial and economic information. Sales, consulting, data collection and software engineering are the primary functional groups within the U.S., Europe and Asia Pacific segments that provide global financial and economic information to investment managers, investment banks and other financial services professionals. The U.S. segment services finance professionals including financial institutions throughout the Americas, while the European and Asia Pacific segments service investment professionals located throughout Europe and Asia, respectively. The accounting policies of the segments are the same as those described in the Note 3, *Summary of Significant Accounting Policies*.

The European segment is headquartered in London, England and maintains office locations in France, Germany, the Netherlands, Latvia, Dubai and Italy. The Asia Pacific segment is headquartered in Tokyo, Japan with office locations in Hong Kong, Australia and Mumbai. Segment revenues reflect direct sales to clients based in their respective geographic locations. There are no intersegment or intercompany sales of the FactSet service. Each segment records compensation, including stock-based compensation, 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 \$245 million of goodwill reported by the Company at August 31, 2013, 69% was recorded in the U.S. segment, 30% 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, in part, by management, both in evaluating the performance of, and in allocating resources to, each of the segments (in thousands).

| <u>Year Ended</u> | U.S. | Europe | Asia    | Total |
|-------------------|------|--------|---------|-------|
| <u>August 31.</u> |      |        | Pacific |       |

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2013

|                               |           |           |          |           |
|-------------------------------|-----------|-----------|----------|-----------|
| Revenues from clients         | \$586,865 | \$208,827 | \$62,420 | \$858,112 |
| Segment operating profit      | 138,706   | 100,187   | 30,526   | 269,419   |
| Total assets                  | 444,406   | 193,202   | 52,589   | 690,197   |
| Depreciation and amortization | 27,757    | 4,027     | 3,995    | 35,779    |
| Stock-based compensation      | 37,307    | 2,264     | 380      | 39,951    |
| Capital expenditures          | 13,649    | 1,276     | 3,592    | 18,517    |

Year Ended

| <u>August 31,</u>             | U.S.      | Europe    | Asia Pacific | Total     |
|-------------------------------|-----------|-----------|--------------|-----------|
| <u>2012</u>                   |           |           |              |           |
| Revenues from clients         | \$550,474 | \$197,404 | \$57,915     | \$805,793 |
| Segment operating profit      | 149,968   | 95,417    | 27,605       | 272,990   |
| Total assets                  | 377,320   | 266,967   | 49,856       | 694,143   |
| Depreciation and amortization | 25,061    | 4,922     | 3,796        | 33,779    |
| Stock-based compensation      | 20,180    | 1,680     | 122          | 21,982    |
| Capital expenditures          | 20,408    | 488       | 1,624        | 22,520    |

Year Ended

| <u>August 31,</u>             | U.S.      | Europe    | Asia Pacific | Total     |
|-------------------------------|-----------|-----------|--------------|-----------|
| <u>2011</u>                   |           |           |              |           |
| Revenues from clients         | \$497,564 | \$178,693 | \$50,253     | \$726,510 |
| Segment operating profit      | 135,327   | 79,637    | 23,371       | 238,335   |
| Total assets                  | 353,205   | 274,139   | 30,096       | 657,440   |
| Depreciation and amortization | 27,463    | 6,092     | 3,292        | 36,847    |
| Stock-based compensation      | 23,091    | 2,364     | 318          | 25,773    |
| Capital expenditures          | 20,588    | 2,770     | 5,985        | 29,343    |



**GEOGRAPHIC INFORMATION** - The following table sets forth information for those countries that are 10% or more of revenues (in thousands).

| Years Ended August 31,       | 2013      | 2012      | 2011      |
|------------------------------|-----------|-----------|-----------|
| <b>Revenues*</b>             |           |           |           |
| United States                | \$586,865 | \$550,474 | \$497,564 |
| United Kingdom               | 121,072   | 114,435   | 104,698   |
| All other European countries | 87,755    | 82,969    | 73,995    |
| Asia Pacific                 | 62,420    | 57,915    | 50,253    |
| Total revenues               | \$858,112 | \$805,793 | \$726,510 |

\* Revenues are attributed to countries based on the location of the client.

The following table sets forth long-lived assets by geographic area (in thousands):

| At August 31,                    | 2013     | 2012     | 2011     |
|----------------------------------|----------|----------|----------|
| <b>Long-lived Assets**</b>       |          |          |          |
| United States                    | \$51,184 | \$60,288 | \$60,092 |
| United Kingdom                   | 4,806    | 5,466    | 6,863    |
| Philippines                      | 3,228    | 3,420    | 4,181    |
| India                            | 1,753    | 2,921    | 4,453    |
| France                           | 1,701    | 2,079    | 2,859    |
| All other European countries     | 1,350    | 872      | 1,216    |
| All other Asia Pacific countries | 1,349    | 1,484    | 1,956    |
| Total long-lived assets          | \$65,731 | \$76,530 | \$81,620 |

\*\* Long-lived assets consist of property, equipment and leasehold improvements, net of accumulated depreciation and amortization and exclude goodwill, intangible assets, deferred taxes and other assets.

## 7. BUSINESS COMBINATIONS

### StreetAccount

On June 29, 2012, FactSet acquired StreetAccount LLC (“SA”) to complement the Company's news offering with distilled and crucial market moving information for buy-side and sell-side institutions. Founded in 2003, SA is known for its timely and informative news summaries and provides investment professionals with an efficient method for managing news flow. The SA service includes real-time company updates, portfolio and sector filtering, email alerts, and market summaries. Content is written by financial professionals and can be customized for portfolio, index,

sector, market, time of day (i.e., Overnight Summaries), and category (i.e., Top Stories, Market Summaries, Economic, M&A). As of the date of acquisition, SA had annual subscriptions of \$11.4 million and employed 49 individuals.

As of the date of acquisition, SA did not have a significant international presence and FactSet believed it could leverage its international network to sell SA outside the U.S. as many of their current clients would like to see the SA news offering increase coverage in Europe and Asia. The opportunity for FactSet to grow by providing proprietary financial news to clients worldwide contributed to a purchase price in excess of fair value of the StreetAccount net tangible and intangible assets. As a result, FactSet recorded goodwill in connection with this transaction.

The total purchase price of the acquisition is as follows (in thousands):

|                                    |          |
|------------------------------------|----------|
| Cash consideration                 | \$21,633 |
| Fair value of FactSet stock issued | 3,974    |
| Working capital                    | 711      |
| Total purchase price               | \$26,318 |

Allocation of the purchase price to the assets acquired and liabilities assumed was finalized for this acquisition in the first quarter of fiscal 2013. The total purchase price was allocated to StreetAccount'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      | \$3,584  |
| Amortizable intangible assets |          |
| Client relationships          | 2,822    |
| Software technology           | 2,332    |
| Data content                  | 613      |
| Non-compete agreements        | 404      |
| Trade name                    | 186      |
| Goodwill                      | 21,997   |
| Total assets acquired         | 31,938   |
| Liabilities assumed           | (5,620 ) |
| Net assets acquired           | \$26,318 |

Intangible assets of \$6.4 million have been allocated to amortizable intangible assets consisting of client relationships, amortized over seven years using an accelerated amortization method; software technology, amortized over five years using a straight-line amortization method; data content, amortized over three years using a straight-line amortization method; non-compete agreements, amortized over four years using an accelerated amortization method; and trade name, amortized over two years using a straight-line amortization method.

Goodwill totaling \$22.0 million represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. Goodwill will not be amortized, but tested for impairment at least annually. Goodwill generated from the StreetAccount acquisition is included in the U.S. segment and is deductible for income tax purposes. The results of operations of StreetAccount have been included in the Company's Consolidated Statement of Income since the completion of the acquisition on June 29, 2012 and did not have a material impact on fiscal 2013. Pro forma information has not been presented because the effect of this acquisition was not material on the Company's consolidated financial results.

## 8. GOODWILL

There were no business combinations during fiscal 2013. Changes in the carrying amount of goodwill by segment for fiscal years ended August 31, 2013 and 2012 are as follows (in thousands):

|                                     | U.S.      | Europe   | Asia<br>Pacific | Total     |
|-------------------------------------|-----------|----------|-----------------|-----------|
| Balance at August 31, 2011          | \$145,826 | \$78,172 | \$4,267         | \$228,265 |
| Goodwill acquired during the period | 21,991    | —        | —               | 21,991    |

|                                     |           |          |         |           |
|-------------------------------------|-----------|----------|---------|-----------|
| Foreign currency translations       | —         | (4,366 ) | (99 )   | (4,465 )  |
| Balance at August 31, 2012          | \$167,817 | \$73,806 | \$4,168 | \$245,791 |
| Goodwill acquired during the period | 5         | —        | —       | 5         |
| Foreign currency translations       | —         | (382 )   | (841 )  | (1,223 )  |
| Balance at August 31, 2013          | \$167,822 | \$73,424 | \$3,327 | \$244,573 |

Goodwill is not amortized as it has an estimated infinite life. At least annually, the Company evaluates goodwill at the reporting unit level for potential impairment. Goodwill is tested for impairment based on the present value of discounted cash flows, and, if impaired, written down to fair value based on discounted cash flows. The Company has three reporting units, which are consistent with the operating segments reported because there is no discrete financial information available for the subsidiaries within each operating segment. The Company's reporting units evaluated for potential impairment were U.S., Europe and Asia Pacific, which reflects the level of internal reporting the Company uses to manage its business and operations. The Company performed an annual goodwill impairment test during the fourth quarter of fiscal years 2013, 2012 and 2011, which determined that there were no reporting units that were deemed at risk. The fair value of each of the Company's reporting units significantly exceeded carrying value, thus there had been no impairment.

## 9. INTANGIBLE ASSETS

FactSet's identifiable intangible assets consist of acquired content databases, client relationships, software technology, non-compete agreements and trade names resulting from previous acquisitions, which have been fully integrated into the Company's operations. The weighted average useful life of the Company's acquired intangible assets at August 31, 2013 was 11.6 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 were no changes to the estimate of the remaining useful lives during fiscal years 2013, 2012 and 2012. 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 (in thousands):

| At August 31, 2013     | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|------------------------|-----------------------|--------------------------|---------------------|
| Data content           | \$ 49,185             | \$ 22,419                | \$ 26,766           |
| Client relationships   | 22,915                | 16,185                   | 6,730               |
| Software technology    | 20,914                | 19,126                   | 1,788               |
| Non-compete agreements | 2,154                 | 1,293                    | 861                 |
| Trade names            | 758                   | 680                      | 78                  |
| Total                  | \$ 95,926             | \$ 59,703                | \$ 36,223           |

| At August 31, 2012     | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|------------------------|-----------------------|--------------------------|---------------------|
| Data content           | \$ 49,120             | \$ 18,521                | \$ 30,599           |
| Client relationships   | 22,841                | 14,089                   | 8,752               |
| Software technology    | 20,892                | 18,482                   | 2,410               |
| Non-compete agreements | 2,154                 | 810                      | 1,344               |
| Trade names            | 758                   | 492                      | 266                 |
| Total                  | \$ 95,765             | \$ 52,394                | \$ 43,371           |

There were no intangible assets acquired during fiscal 2013. During fiscal 2012, \$6.4 million of intangible assets were acquired with a weighted average useful life of 5.5 years due to the acquisition of StreetAccount on June 29, 2012.

| <u>StreetAccount Intangible Asset Allocation</u> | Weighted Average Amortization Period | Acquisition Cost |
|--------------------------------------------------|--------------------------------------|------------------|
|                                                  | (years)                              |                  |
| Client relationships                             | 7.0                                  | \$ 2,822         |
| Software technology                              | 5.0                                  | 2,332            |
| Data content                                     | 3.0                                  | 613              |
| Non-compete agreements                           | 4.0                                  | 404              |
| Trade name                                       | 2.0                                  | 186              |
| Total                                            | 5.5                                  | \$ 6,357         |

Amortization expense recorded for intangible assets during fiscal years 2013, 2012 and 2011 was \$7.1 million, \$7.5 million and \$8.4 million, respectively. As of August 31, 2013, estimated intangible asset amortization expense for each of the next five years and thereafter are as follows (in thousands):

|             | Estimated               |
|-------------|-------------------------|
| Fiscal Year | Amortization<br>Expense |
| 2014        | \$ 5,983                |
| 2015        | 5,053                   |
| 2016        | 3,407                   |
| 2017        | 3,273                   |
| 2018        | 2,914                   |
| Thereafter  | 15,593                  |
| Total       | \$ 36,223               |

## 10. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements consist of the following (in thousands):

| At August 31,                                       | 2013      | 2012      |
|-----------------------------------------------------|-----------|-----------|
| Leasehold improvements                              | \$90,040  | \$88,327  |
| Computers and related equipment                     | 73,320    | 74,370    |
| Furniture and fixtures                              | 28,978    | 26,849    |
| <i>Subtotal</i>                                     | \$192,338 | \$189,546 |
| Less accumulated depreciation and amortization      | (126,967) | (113,016) |
| Property, equipment and leasehold improvements, net | \$65,371  | \$76,530  |

Depreciation expense was \$28.4 million, \$26.1 million and \$27.9 million for fiscal years 2013, 2012 and 2011, respectively.

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

On May 14, 2013, FactSet's Board of Directors approved a 13% increase in the regular quarterly dividend, beginning with the Company's dividend payment in June 2013 of \$0.35 per share, or \$1.40 per share per annum.

Shares of common stock outstanding were as follows (in thousands):

| Years Ended August 31,                       | 2013    | 2012    | 2011    |
|----------------------------------------------|---------|---------|---------|
| Balance, beginning of year (September 1)     | 44,279  | 45,055  | 46,024  |
| Common stock issued for employee stock plans | 2,459   | 825     | 1,283   |
| Stock issued for acquisition of business     | -       | 43      | -       |
| Repurchase of common stock                   | (3,414) | (1,644) | (2,252) |
| Balance, end of year (August 31)             | 43,324  | 44,279  | 45,055  |

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

| Years Ended August 31,                                           | Net Income (Numerator) |            |            | Weighted Average Common Shares (Denominator) |        |        | Per Share Amount |         |         |
|------------------------------------------------------------------|------------------------|------------|------------|----------------------------------------------|--------|--------|------------------|---------|---------|
|                                                                  | 2013                   | 2012       | 2011       | 2013                                         | 2012   | 2011   | 2013             | 2012    | 2011    |
| <b>Basic EPS</b>                                                 |                        |            |            |                                              |        |        |                  |         |         |
| Income available to common stockholders                          | \$ 198,637             | \$ 188,809 | \$ 171,046 | 43,890                                       | 44,784 | 45,953 | \$ 4.53          | \$ 4.22 | \$ 3.72 |
| <b>Diluted EPS</b>                                               |                        |            |            |                                              |        |        |                  |         |         |
| Dilutive effect of stock options and restricted stock            |                        |            |            | 734                                          | 1,026  | 1,402  |                  |         |         |
| Income available to common stockholders plus assumed conversions | \$ 198,637             | \$ 188,809 | \$ 171,046 | 44,624                                       | 45,810 | 47,355 | \$ 4.45          | \$ 4.12 | \$ 3.61 |

Dilutive potential common shares consist of stock options and unvested restricted stock. There were 6,408 stock options excluded from the fiscal 2013 calculation of diluted earnings per share compared to 383,058 stock options excluded from the fiscal 2012 calculation because their inclusion would have been anti-dilutive. A total of 2,670 stock options were excluded from the fiscal 2011 calculation of diluted earnings per share. There were 30,456 restricted stock awards excluded from the calculation of diluted earnings per share in fiscal 2013 and 2012 compared to 11,284 in fiscal 2011.

As of August 31, 2013, 2012 and 2011, 1,202,685, 1,710,017 and 1,672,975, respectively, performance-based stock option grants were excluded from the calculation of diluted earnings per share. Performance-based stock options are omitted from the calculation of diluted earnings per share until the performance criteria have been met.

## 12. STOCKHOLDERS' EQUITY

### *Preferred Stock*

At August 31, 2013 and 2012, 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 August 31, 2013 and 2012, there were 150,000,000 shares of common stock (\$.01 par value per share) authorized, of which 48,110,740 and 45,599,754 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 August 31, 2013 and August 31, 2012, there were 4,786,330 and 1,320,540 shares of treasury stock (at cost) outstanding, respectively. As a result, 43,324,410 and 44,279,214 shares of FactSet common stock were outstanding at August 31, 2013 and August 31, 2012, respectively.

*Share Repurchase Program*

On May 14, 2013, the Company's Board of Directors approved a \$200 million expansion to the existing share repurchase program. During fiscal 2013, the Company repurchased 3.4 million shares for \$327.3 million under the existing share repurchase program leaving \$62.4 million authorized for future share repurchases at August 31, 2013. Repurchases may 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. During fiscal 2012, the Company repurchased 1.6 million shares for \$152.7 million under the share repurchase program.

In addition to the purchase of 3.4 million shares under the existing share repurchase program, FactSet repurchased 50,828 shares for \$4.7 million from employees to cover their cost of taxes upon the vesting of previously granted restricted stock during fiscal 2013.

*Restricted Stock*

Restricted stock awards entitle the holder to shares of common stock as the awards vest over time. During fiscal 2013, FactSet granted 131,702 restricted stock awards compared to none in fiscal 2012. During fiscal 2011, FactSet granted 149,741 restricted stock awards vested and are included in the common stock outstanding as of August 31, 2013 (less 50,828 shares repurchased from employees to cover their cost of taxes upon vesting of the restricted stock). During fiscal 2012, 14,258 restricted stock awards vested.

*Dividends*

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

| Declaration Date  | Dividends                   |                | Record Date       | Total \$                    |                    |
|-------------------|-----------------------------|----------------|-------------------|-----------------------------|--------------------|
|                   | Share of<br>Common<br>Stock | Type           |                   | Amount<br>(in<br>thousands) | Payment Date       |
| August 15, 2013   | \$ 0.35                     | Regular (cash) | August 31, 2013   | \$ 15,164                   | September 17, 2013 |
| May 14, 2013      | \$ 0.35                     | Regular (cash) | May 31, 2013      | \$ 15,413                   | June 18, 2013      |
| February 21, 2013 | \$ 0.31                     | Regular (cash) | February 28, 2013 | \$ 13,510                   | March 19, 2013     |
| November 15, 2012 | \$ 0.31                     | Regular (cash) | November 30, 2012 | \$ 13,746                   | December 18, 2012  |
| August 8, 2012    | \$ 0.31                     | Regular (cash) | August 31, 2012   | \$ 13,727                   | September 18, 2012 |
| May 8, 2012       | \$ 0.31                     | Regular (cash) | May 31, 2012      | \$ 13,893                   | June 19, 2012      |
| February 14, 2012 | \$ 0.27                     | Regular (cash) | February 29, 2012 | \$ 12,085                   | March 20, 2012     |
| November 10, 2011 | \$ 0.27                     | Regular (cash) | November 30, 2011 | \$ 12,181                   | December 20, 2011  |
| August 11, 2011   | \$ 0.27                     | Regular (cash) | August, 31 2011   | \$ 12,165                   | September 20, 2011 |
| May 9, 2011       | \$ 0.27                     | Regular (cash) | May 31, 2011      | \$ 12,374                   | June 21, 2011      |

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|                   |         |                |                   |           |                    |
|-------------------|---------|----------------|-------------------|-----------|--------------------|
| February 9, 2011  | \$ 0.23 | Regular (cash) | February 28, 2011 | \$ 10,612 | March 15, 2011     |
| November 10, 2010 | \$ 0.23 | Regular (cash) | November 30, 2010 | \$ 10,660 | December 21, 2010  |
| August 10, 2010   | \$ 0.23 | Regular (cash) | August, 31 2010   | \$ 10,586 | September 21, 2010 |

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.

*Accumulated Other Comprehensive Loss*

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

|                                                             | Aug 31,<br>2013 | Aug 31,<br>2012 |
|-------------------------------------------------------------|-----------------|-----------------|
| Accumulated unrealized loss on cash flow hedges, net of tax | \$(4,847 )      | \$(1,551 )      |
| Accumulated foreign currency translation adjustments        | (26,326)        | (21,175)        |
| Total accumulated other comprehensive loss                  | \$(31,173)      | \$(22,726)      |

**13. EMPLOYEE STOCK OPTION AND RETIREMENT PLANS**

**Stock Options**

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

*Stock Option Activity*

In fiscal years 2013, 2012 and 2011, stock options to purchase 1,674,966; 1,468,513; and 998,038 shares of common stock, respectively, at prices which ranged from \$88.40 to \$103.30 were granted to existing employees and non-employee directors of the Company. A summary of stock option activity is as follows (in thousands, except per share data):

|                                        | Number      | Weighted<br>Average            |
|----------------------------------------|-------------|--------------------------------|
|                                        | Outstanding | Exercise<br>Price Per<br>Share |
| Balance at August 31, 2010             | 6,451       | \$ 47.73                       |
| Granted – non performance-based        | 91          | 89.45                          |
| Granted – performance-based            | 892         | 89.39                          |
| Granted – non-employee Directors grant | 15          | 95.05                          |
| Exercised                              | (1,209 )    | 32.08                          |
| Forfeited                              | (108 )      | 66.55                          |
| Balance at August 31, 2011             | 6,132       | \$ 57.28                       |
| Granted – non performance-based        | 540         | 93.96                          |
| Granted – performance-based            | 907         | 93.80                          |
| Granted – non-employee Directors grant | 21          | 87.26                          |
| Exercised                              | (731 )      | 35.96                          |
| Forfeited                              | (786 )      | 87.37                          |
| Balance at August 31, 2012             | 6,083       | \$ 64.76                       |
| Granted – non performance-based        | 645         | 92.22                          |
| Granted – performance-based            | 1,011       | 92.22                          |
| Granted – non-employee Directors grant | 19          | 91.06                          |
| Exercised                              | (2,286 )    | 52.25                          |
| Forfeited                              | (743 )      | 93.84                          |
| Balance at August 31, 2013             | 4,729       | \$ 75.95                       |

*Stock Options Outstanding and Exercisable*

The following table summarizes ranges of outstanding and exercisable options as of August 31, 2013 (in thousands, except per share data):

| Outstanding        | Exercisable               |
|--------------------|---------------------------|
| Weighted Aggregate | Number Weighted Aggregate |

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| Range of Exercise Prices Per Share | Number Outstanding | Weighted Average Exercise Price Per Share of Remaining Contractual Life | Intrinsic Value | Exercisable | Weighted Average Exercise Price Per Share | Intrinsic Value |           |
|------------------------------------|--------------------|-------------------------------------------------------------------------|-----------------|-------------|-------------------------------------------|-----------------|-----------|
| \$24.49–\$59.36                    | 782                | 1.4                                                                     | \$ 39.96        | \$48,801    | 759                                       | \$ 40.03        | \$ 47,293 |
| \$61.65–\$65.67                    | 661                | 2.5                                                                     | \$ 64.44        | \$25,046    | 379                                       | \$ 65.44        | \$ 13,992 |
| \$66.46–\$67.41                    | 696                | 3.1                                                                     | \$ 66.47        | \$24,975    | 495                                       | \$ 66.47        | \$ 17,749 |
| \$87.26–\$91.06                    | 551                | 8.4                                                                     | \$ 90.08        | \$6,761     | 142                                       | \$ 88.74        | \$ 1,935  |
| \$92.22–\$92.55                    | 1,591              | 9.2                                                                     | \$ 92.22        | \$16,111    | -                                         | \$ 92.22        | \$ -      |
| \$94.84–\$103.30                   | 448                | 8.0                                                                     | \$ 95.28        | \$3,167     | 150                                       | \$ 94.92        | \$ 1,113  |
| Total Fiscal 2013                  | 4,729              | 5.9                                                                     | \$ 75.95        | \$124,861   | 1,925                                     | \$ 59.70        | \$ 82,082 |

| <i>Prior Year Amounts</i>      | 2012             |                                           | 2011             |                                           |
|--------------------------------|------------------|-------------------------------------------|------------------|-------------------------------------------|
|                                | Number of Shares | Weighted Average Exercise Price Per Share | Number of Shares | Weighted Average Exercise Price Per Share |
| Outstanding at fiscal year end | 6,083            | \$ 64.76                                  | 6,132            | \$ 57.28                                  |
| Exercisable at fiscal year end | 2,858            | \$ 48.44                                  | 2,643            | \$ 38.99                                  |

The aggregate intrinsic value of in-the-money stock options exercisable at August 31, 2013 and 2012 was \$82.1 million and \$125.4 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price of \$102.35 at August 31, 2013 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 fiscal 2013, 2012 and 2011 was \$99.1 million, \$43.0 million, and \$71.3 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 for both organic ASV and diluted earnings per share during the two fiscal years subsequent to the date of grant. Dependent on the financial performance levels attained by FactSet during the two subsequent fiscal years, 0%, 20%, 60% or 100% of the performance-based stock options will vest to the grantees of those stock options. However, there is no current guarantee that such options will vest in whole or in part.

*November 2010 Annual Employee Performance-based Option Grant Review*

In November 2010, FactSet granted 734,334 performance-based employee stock options. None of these performance-based stock options granted vested because the Company did not achieve certain performance levels for both organic ASV and diluted earnings per share during the two fiscal years ended August 31, 2012. This reflected a lower performance level than previously estimated and accordingly decreased the number of options that will vest to zero, which required FactSet to reverse \$1.4 million of stock-based compensation during fiscal 2012. These performance-based options were recorded as forfeitures in fiscal 2012.

*November 2011 Annual Employee Performance-based Option Grant Review*

In November 2011, FactSet granted 665,551 performance-based employee stock options. None of these performance-based stock options vested because the Company did not achieve certain performance levels for both organic ASV and diluted earnings per share during the two fiscal years ended August 31, 2013. These performance-based options were recorded as forfeitures in the fourth quarter of fiscal 2013.

*November 2012 Annual Employee Performance-based Option Grant Review*

In November 2012, FactSet granted 1,011,510 performance-based employee stock options. The number of performance-based options that vest is based on the Company achieving performance levels for both organic ASV and diluted earnings per share during the two fiscal years ended August 31, 2014. At August 31, 2013, FactSet estimated that 20% or 202,302 of the performance-based stock options would vest which results in unamortized stock-based compensation expense of \$3.6 million to be recognized over the remaining vesting period. However, a change in the actual financial performance levels achieved during fiscal 2014 could result in the following changes to the Company's current estimate of the vesting percentage and related expense (in thousands):

|            |             |             |           |
|------------|-------------|-------------|-----------|
| Vesting    | Total       | Cumulative  | Average   |
| Percentage | Unamortized | Catch-up    | Remaining |
|            | Stock-based |             | Quarterly |
|            |             | Adjustment* |           |

|      | Compensation<br>Expense at<br>August 31,<br>2013 |             | Expense to<br>be<br>Recognized |
|------|--------------------------------------------------|-------------|--------------------------------|
| 0%   | \$ 0                                             | \$ (1,192 ) | \$ 0                           |
| 20%  | \$ 3,556                                         | \$ 0        | \$ 213                         |
| 60%  | \$ 10,668                                        | \$ 2,384    | \$ 639                         |
| 100% | \$ 17,780                                        | \$ 4,768    | \$ 1,065                       |

\* Amounts represent the cumulative catch-up adjustment to be recorded if there was a change in the vesting percentage as of August 31, 2013.

#### *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. During the fourth quarter of fiscal 2013, the StreetAccount business accelerated to achieve the first usage growth target established on the date of grant, thus the first 20% or 48,314 options vested on August 31, 2013. In addition, due to the accelerated fourth quarter growth and forecasted future usage growth, the Company estimated that the second 20% tranche will vest by August 31, 2017. This reflected a higher performance level than previously estimated and accordingly increased the number of options that will vest to a total 40%, which required FactSet to record a pre-tax stock-based compensation charge of \$2.6 million in the fourth quarter of fiscal 2013. The change in estimate also results in unamortized stock-based compensation expense of \$1.2 million to be recognized over the remaining vesting period of 4.0 years. A change, up or down, 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 (in thousands):

| Vesting<br>Tranche | Cumulative<br>Catch-up<br>Adjustment** | Remaining<br>Expense<br>to be<br>Recognized |
|--------------------|----------------------------------------|---------------------------------------------|
| First 20%*         | n/a                                    | n/a*                                        |
| Second 20%         | \$ (361 )                              | \$ 0                                        |
| Third 20%          | \$ 448                                 | \$ 2,391                                    |
| Fourth 20%         | \$ 848                                 | \$ 3,591                                    |
| Fifth 20%          | \$ 1,358                               | \$ 4,681                                    |

\* The first 20% of the grant vested during fiscal 2013, and as such, there is no remaining expense to be recognized as of August 31, 2013.

\*\* Amounts represent the cumulative catch-up adjustment to be recorded if there was a change in the vesting percentage as of August 31, 2013.



*Market Metrics Performance-based Option Grant*

In connection with the acquisition of the Market Metrics business in June 2010, the Company granted 746,415 performance-based stock options, which would vest only if accelerated stretch revenue targets were achieved related to the Market Metrics business and option holders remain employed by us. These options vested in the second quarter of fiscal 2013 when the Market Metrics business accelerated to achieve the stretch revenue growth targets established on the date of grant, resulting in a pre-tax stock-based compensation charge of \$15.7 million. The pre-tax stock-based compensation charge of \$15.7 million, recorded in the second quarter of fiscal 2013, was equal to the grant-date fair value of the stock options awarded at the time of the acquisition and represented a cumulative adjustment from a change in the vesting based on achieving the accelerated revenue targets. At August 31, 2013, none of these performance-based stock options remain unvested.

*Other Performance-based Option Grants*

FactSet granted 229,635 performance-based employee stock options between January 2011 and July 2011 that vest based on achieving certain ASV targets. Of this total, 133,958 vested during fiscal 2012, 53,285 vested during fiscal 2013 and 9,301 were forfeited due to employee terminations. At August 31, 2013, the Company estimates that 7,964 of these performance-based stock options will vest based on forecasted ASV growth, resulting in unamortized stock-based compensation expense of \$0.1 million to be recognized over the remaining vesting period. The remaining 25,127 performance-based stock options outstanding are expected to be forfeited.

**Restricted Stock and Stock Unit Awards**

The Company's option plans permit the issuance of restricted stock and restricted stock units. Restricted stock awards are subject to continued employment over a specified period. A summary of restricted stock award activity is as follows (in thousands, except per award data):

|                                            | Number | Weighted<br>Average<br>Grant<br>Date Fair<br>Value<br>Per<br>Award |
|--------------------------------------------|--------|--------------------------------------------------------------------|
| Balance at August 31, 2010                 | 261    | \$ 61.65                                                           |
| Granted (restricted stock and stock units) | 154    | \$ 87.55                                                           |
| Vested                                     | -      | \$ -                                                               |
| Canceled/forfeited                         | (8     | ) \$ 69.41                                                         |
| Balance at August 31, 2011                 | 407    | \$ 71.31                                                           |
| Granted (restricted stock and stock units) | -      | \$ -                                                               |
| Vested*                                    | (14    | ) \$ 69.02                                                         |
| Canceled/forfeited                         | (10    | ) \$ 77.13                                                         |
| Balance at August 31, 2012                 | 383    | \$ 71.34                                                           |

|                                            |        |          |
|--------------------------------------------|--------|----------|
| Granted (restricted stock and stock units) | 132    | \$ 85.80 |
| Vested**                                   | (150 ) | \$ 62.34 |
| Canceled/forfeited                         | (7 )   | \$ 81.38 |
| Balance at August 31, 2013                 | 358    | \$ 80.43 |

\* Between June 2010 and July 2011, FactSet granted 21,102 restricted stock units which entitled the holder to shares of common stock as the awards vest. A restricted stock unit is a promise to deliver shares to the employee at a future date if certain vesting conditions are met. These restricted stock units are performance-based and cliff vest 25% when certain ASV targets are met. Of the total 21,102 units granted, 14,258 units vested during the fourth quarter of fiscal 2012 because FactSet achieved three of the four ASV growth targets.

\*\*Of the total 149,741 restricted stock awards that vested during fiscal 2013, 87,758 related to awards granted on October 23, 2009. These restricted stock awards cliff vested 60% after three years (on October 23, 2012) and the remaining 40% will vest after five years (on October 23, 2014). An additional 55,572 awards that vested in fiscal 2013 related to awards granted on February 9, 2010 at a price of \$63.09. These restricted stock awards cliff vested 100% after three years (on February 9, 2013). The remaining 6,411 restricted stock awards that vested were previously granted between June 2010 and July 2011 and vesting occurred when certain ASV targets were met in fiscal 2013.

#### *April 2013 Employee Restricted Stock Award*

In April 2013, the Company granted 131,702 restricted stock units with a fair value of \$85.80, which entitle the holder to shares of common stock as the awards vest over time. The Company's restricted stock units cliff vest 20% annually upon each anniversary date of the grant. As of August 31, 2013, unamortized stock-based compensation expense of \$10.4 million is to be amortized ratably to compensation expense over the remaining vesting period of 4.6 years.

**Share-based Awards Available for Grant**

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

|                                                                                                             | Share-based<br>Awards<br>Available<br>for Grant<br>under | Share-based<br>Awards<br>Available for<br>Grant under |
|-------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------|
|                                                                                                             | Employee<br>Stock<br>Option<br>Plans                     | Non-Employee<br>Stock Option<br>Plans                 |
| Balance at August 31, 2010                                                                                  | 2,216                                                    | 162                                                   |
| Amendment to the 2004 Stock Option and Award Plan to increase the number of shares available for issuance** | 4,000                                                    | -                                                     |
| Granted – non performance-based options                                                                     | (91 )                                                    | -                                                     |
| Granted – performance-based options                                                                         | (892 )                                                   | -                                                     |
| Granted – non-employee Directors grant                                                                      | -                                                        | (15 )                                                 |
| Restricted stock awards granted*                                                                            | (386 )                                                   | -                                                     |
| Share-based awards canceled/forfeited                                                                       | 130                                                      | -                                                     |
| Balance at August 31, 2011                                                                                  | 4,977                                                    | 147                                                   |
| Granted – non performance-based options                                                                     | (540 )                                                   | -                                                     |
| Granted – performance-based options                                                                         | (907 )                                                   | -                                                     |
| Granted – non-employee Directors grant                                                                      | -                                                        | (21 )                                                 |
| Restricted stock awards granted*                                                                            | -                                                        | -                                                     |
| Share-based awards canceled/forfeited                                                                       | 810                                                      | -                                                     |
| Balance at August 31, 2012                                                                                  | 4,340                                                    | 126                                                   |
| Granted – non performance-based options                                                                     | (645 )                                                   | -                                                     |
| Granted – performance-based options                                                                         | (1,011 )                                                 | -                                                     |
| Granted – non-employee Directors grant                                                                      | -                                                        | (19 )                                                 |
| Restricted stock awards granted*                                                                            | (329 )                                                   | -                                                     |
| Share-based awards canceled/forfeited                                                                       | 761                                                      | -                                                     |
| Balance at August 31, 2013                                                                                  | 3,116                                                    | 107                                                   |

\* Under the Company's option plan, for each restricted stock award granted/canceled/forfeited, an equivalent of 2.5 shares is added back to the available share-based awards balance.

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

#### Employee Stock Purchase Plan

On December 16, 2008, the Company's stockholders ratified the adoption of the FactSet Research Systems Inc. 2008 Employee Stock Purchase Plan (the "Purchase Plan"). A total of 500,000 shares have been reserved for issuance under the Purchase Plan. There is no expiration date for the Purchase Plan. Shares of FactSet common stock may be purchased by eligible employees under the Purchase Plan in three-month intervals at a purchase price equal to at least 85% of the lesser of the fair market value of the Company's common stock on either the first day or the last day of each three-month offering period. Employee purchases may not exceed 10% of their gross compensation during an offering period. During fiscal 2013, employees purchased 75,281 shares as compared to 85,487 shares in fiscal 2012 and 75,718 shares in fiscal 2011. At August 31, 2013, 119,770 shares were reserved for future issuance under the Purchase Plan.

#### 401(k) Plan

The Company established a 401(k) Plan (the "401(k) Plan") in fiscal 1993. The 401(k) Plan is a defined contribution plan covering all full-time, U.S. employees of the Company and is subject to the provisions of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986. Each year, participants may contribute up to 60% of their eligible annual compensation, subject to annual limitations established by the Internal Revenue Code. The Company matches up to 4% of employees' earnings, capped at the IRS annual maximum. Company matching contributions are subject to a five year graduated vesting schedule. All full-time, U.S. employees are eligible for the matching contribution by the Company. The Company contributed \$7.5 million, \$6.7 million, and \$5.9 million in matching contributions to employee 401(k) accounts during fiscal 2013, 2012 and 2011, respectively.

## 14. STOCK-BASED COMPENSATION

The Company recognized total stock-based compensation expense of \$40.0 million, \$22.0 million, and \$25.8 million in fiscal 2013, 2012, and 2011, respectively.

Stock-based compensation expense for the year ended August 31, 2013 includes pre-tax charges totaling \$18.3 million related to the vesting of performance-based stock options granted in connection with the acquisitions of Market Metrics and StreetAccount. These performance-based options vested in the second and fourth quarters of fiscal 2013, respectively, when each acquired business accelerated to achieve stretch growth targets established on the date of grant. Included in fiscal 2011 was a pre-tax stock-based compensation charge of \$7.9 million from an increase in the estimated number of performance-based options that will vest due to accelerating levels of ASV and diluted EPS than previously expected. The revised estimate reflects a higher performance level than previously estimated and accordingly, increased the number of performance-based options that will vest and be expensed.

As of August 31, 2013, \$50.3 million of total unrecognized compensation expense related to non-vested awards is expected to be recognized over a weighted average period of 3.5 years. As of August 31, 2012, \$39.2 million of total unrecognized compensation expense related to non-vested awards is expected to be recognized over a weighted average period of 3.1 years. There was no stock-based compensation capitalized as of August 31, 2013 and 2012, respectively.

### *Employee Stock Option Fair Value Determinations*

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

### Fiscal 2013

*Q1 2013* – 635,308 non performance-based employee stock options and 1,011,510 performance-based employee stock options were granted at a weighted average exercise price of \$92.22 and a weighted average estimated fair value of \$26.87 per share.

*Q2 2013* – 9,367 non performance-based employee stock options were granted at a weighted average exercise price of \$92.55 and a weighted average estimated fair value of \$26.69 per share.

*Q3 2013* – There were no employee stock options granted during the third quarter.

*Q4 2013* – There were no employee stock options granted during the fourth quarter.



Fiscal 2012

*Q1 2012* – 419,593 non performance-based employee stock options and 665,551 performance-based employee stock options were granted at a weighted average exercise price of \$94.84 and a weighted average estimated fair value of \$32.08 per share.

*Q2 2012* – There were no employee stock options granted during the second quarter.

*Q3 2012* – There were no employee stock options granted during the third quarter.

*Q4 2012* – 120,847 non performance-based employee stock options and 241,546 performance-based employee stock options were granted at a weighted average exercise price of \$90.92 and fair value of \$33.11 per share.

Fiscal 2011

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

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

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

*Q4 2011* – 17,842 performance-based employee stock options were granted at a weighted average exercise price of \$96.10 and a weighted average estimated fair value of \$28.02 per share.

The weighted average estimated fair value of employee stock options granted during fiscal 2013, 2012 and 2011 was determined using the binomial model with the following weighted average assumptions:

|                                              | 2013    |         | 2012    |         | 2011    |         |
|----------------------------------------------|---------|---------|---------|---------|---------|---------|
| Term structure of risk-free interest rate    | 0.16%   | - 1.91% | 0.13%   | - 2.41% | 0.18%   | - 1.88% |
| Expected life (years)                        | 7.6     | - 7.8   | 7.6     | - 9.1   | 4.0     | - 6.5   |
| Term structure of volatility                 | 24%     | - 33%   | 29%     | - 36%   | 23%     | - 35%   |
| Dividend yield                               | 1.30%   |         | 1.16%   |         | 1.25%   |         |
| Weighted average estimated fair value        | \$26.87 |         | \$32.34 |         | \$24.78 |         |
| Weighted average exercise price              | \$92.22 |         | \$93.86 |         | \$89.39 |         |
| Fair value as a percentage of exercise price | 29.1%   |         | 34.5%   |         | 27.7%   |         |

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

#### ***Non-Employee Director Stock Option Fair Value Determinations***

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. A total of 250,000 shares of FactSet common stock have been reserved for issuance under the Directors' Plan. The expiration date of the Directors' Plan is December 1, 2018.

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

Fiscal 2013

On January 15, 2013, FactSet granted 18,781 stock options to the Company's non-employee Directors at a weighted average estimated fair value of \$24.23 per share, using the Black-Scholes option-pricing model with the following weighted average assumptions:

|                         |       |
|-------------------------|-------|
| Risk-free interest rate | 0.89% |
| Expected life (years)   | 5.4   |
| Expected volatility     | 32 %  |
| Dividend yield          | 1.30% |

Fiscal 2012

On January 13, 2012, FactSet granted 20,976 stock options to the Company's non-employee Directors, including a one-time new Director grant of 5,244 stock options for Robin A. Abrams, who was elected to FactSet's Board of Directors on December 13, 2011. All of the options granted on January 13, 2012 have a weighted average estimated fair value of \$24.79 per share, using the Black-Scholes option-pricing model with the following weighted average assumptions:

|                         |       |
|-------------------------|-------|
| Risk-free interest rate | 0.94% |
| Expected life (years)   | 5.4   |
| Expected volatility     | 34 %  |
| Dividend yield          | 1.11% |

Fiscal 2011

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

|                         |        |
|-------------------------|--------|
| Risk-free interest rate | 2.13 % |
| Expected life (years)   | 5.4    |
| Expected volatility     | 31 %   |
| Dividend yield          | 1.18 % |

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

***Restricted Stock Fair Value Determinations***

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

Fiscal 2013

131,702 restricted stock units granted on April 8, 2013 with a fair value of \$85.80.

Fiscal 2012

There were no restricted stocks awards granted during fiscal 2012.

Fiscal 2011

117,723 shares of restricted stock with a fair value of \$84.38 were granted on November 8, 2010.  
3,291 restricted stock units with a fair value of \$83.49 were granted on November 8, 2010.  
366 shares of restricted stock with a fair value of \$95.24 were granted on January 27, 2011.  
1,719 restricted stock units with a fair value of \$94.50 were granted on January 27, 2011.

30,090 shares of restricted stock with a fair value of \$99.75 were granted on April 14, 2011.  
 1,092 restricted stock units with a fair value of \$91.54 were granted on July 22, 2011.

***Employee Stock Purchase Plan Fair Value Determinations***

During fiscal 2013, employees purchased 75,281 shares at a weighted average price of \$80.77 as compared to 85,487 shares at a weighted average price of \$75.20 in fiscal 2012 and 75,718 shares at a weighted average price of \$75.36 in fiscal 2011. Stock-based compensation expense recorded during fiscal 2013, 2012, and 2011 relating to the employee stock purchase plan was \$1.2 million, \$1.3 million and \$1.1 million, respectively.

The Company uses the Black-Scholes model to calculate the estimated fair value for the employee stock purchase plan. The weighted average estimated fair value of employee stock purchase plan grants during fiscal years 2013, 2012 and 2011 were \$15.79, \$16.09, and \$15.99 per share, respectively, with the following weighted average assumptions:

|                         | 2013  | 2012  | 2011  |
|-------------------------|-------|-------|-------|
| Risk-free interest rate | 0.07% | 0.06% | 0.10% |
| Expected life (months)  | 3     | 3     | 3     |
| Expected volatility     | 9.8 % | 14.8% | 11.9% |
| Dividend yield          | 1.38% | 1.26% | 1.04% |

***Accuracy of Fair Value Estimates***

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

**15. INCOME TAXES**

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

**Provision for Income Taxes**

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

|                                  |            |           |             |
|----------------------------------|------------|-----------|-------------|
| Years Ended August 31,           | 2013       | 2012      | 2011        |
| U.S. operations                  | \$220,778  | \$229,772 | \$198,688   |
| Non-U.S. operations              | 50,132     | 44,933    | 40,270      |
| Income before income taxes       | \$270,910  | \$274,705 | \$238,958   |
| U.S. operations                  | \$61,328   | \$76,020  | \$58,125    |
| Non-U.S. operations              | 10,945     | 9,876     | 9,787       |
| Total provision for income taxes | \$72,273 * | \$85,896  | \$67,912 ** |
| Effective tax rate               | 26.7 %*    | 31.3 %    | 28.4 %**    |

\* Includes income tax benefits of \$7.2 million primarily from the reenactment of the U.S. Federal R&D tax credit in January 2013 and the finalization of the fiscal 2012 tax return. The reenactment of the credit was retroactive to January 1, 2012 and extends through the end of the 2013 calendar year. The fiscal 2013 annual effective tax rate before discrete items of \$7.2 million was 28.9%.

\*\* Includes income tax benefits of \$6.3 million from the finalization of the fiscal 2010 tax return and the reenactment of the U.S. Federal R&D tax credit in December 2010. The fiscal 2011 annual effective tax rate before discrete items of \$6.3 million was 30.9%.

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

|                        |      |      |      |
|------------------------|------|------|------|
| Years Ended August 31, | 2013 | 2012 | 2011 |
| Current                |      |      |      |

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|                      |          |          |          |
|----------------------|----------|----------|----------|
| U.S. federal         | \$52,625 | \$73,272 | \$53,925 |
| U.S. state and local | 3,309    | 4,305    | 4,833    |
| Non-U.S.             | 11,188   | 10,224   | 10,728   |
| Total current taxes  | \$67,122 | \$87,801 | \$69,486 |

|                                  |          |           |           |
|----------------------------------|----------|-----------|-----------|
| Deferred                         |          |           |           |
| U.S. federal                     | \$5,036  | \$(1,405) | \$(606)   |
| U.S. state and local             | 358      | (152)     | (27)      |
| Non-U.S.                         | (243)    | (348)     | (941)     |
| Total deferred taxes             | \$5,151  | \$(1,905) | \$(1,574) |
| Total provision for income taxes | \$72,273 | \$85,896  | \$67,912  |

The provision for income taxes differs from the amount of income tax determined by applying the U.S. statutory federal income tax rate to income before income taxes as a result of the following factors (expressed as a percentage of income before income taxes):

| Years Ended August 31,                                        | 2013  | 2012  | 2011  |
|---------------------------------------------------------------|-------|-------|-------|
| Tax at federal U.S. statutory tax rate                        | 35.0% | 35.0% | 35.0% |
| Increase (decrease) in taxes resulting from:                  |       |       |       |
| State and local taxes, net of U.S. federal income tax benefit | 2.0   | 2.1   | 2.2   |
| Foreign income at other than U.S. rates                       | (2.5) | (1.9) | (1.7) |
| Domestic production activities (Section 199) deduction        | (2.6) | (2.6) | (2.1) |
| Income tax benefit from R&D tax credits                       | (4.1) | (0.8) | (4.9) |
| Income tax benefits from foreign tax credits                  | (1.2) | (0.5) | (0.7) |
| Other, net                                                    | 0.1   | 0.0   | 0.6   |
| Effective tax rate                                            | 26.7% | 31.3% | 28.4% |

**Deferred Tax Assets and Liabilities**

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

| At August 31,                                                  | 2013     | 2012     |
|----------------------------------------------------------------|----------|----------|
| Deferred tax assets                                            |          |          |
| Current                                                        |          |          |
| Receivable reserve                                             | \$614    | \$687    |
| Deferred rent                                                  | 2,191    | 3,175    |
| Deferred fees                                                  | (2 )     | 1,223    |
| Net current deferred taxes                                     | \$2,803  | \$5,085  |
| Non-current                                                    |          |          |
| Depreciation on property, equipment and leasehold improvements | \$6,329  | \$2,498  |
| Deferred rent                                                  | 2,772    | 2,782    |
| Stock-based compensation                                       | 19,828   | 23,395   |
| Purchased intangible assets, including acquired technology     | (8,401 ) | (6,801 ) |
| Other                                                          | 1,495    | 1,239    |
| Net non-current deferred taxes                                 | \$22,023 | \$23,113 |
| Total deferred tax assets                                      | \$24,826 | \$28,198 |

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

| At August 31,                                              | 2013    | 2012    |
|------------------------------------------------------------|---------|---------|
| Deferred tax liabilities (non-current)                     |         |         |
| Purchased intangible assets, including acquired technology | \$2,761 | \$2,936 |
| Stock-based compensation                                   | (365 )  | (343 )  |
| Total deferred tax liabilities (non-current)               | \$2,396 | \$2,593 |

With the exception of the Company's UK and French subsidiaries, a provision has not been made for additional U.S. Federal taxes as of August 31, 2013 on undistributed earnings of foreign subsidiaries because FactSet intends to reinvest these funds indefinitely to support foreign growth opportunities. The amount of such undistributed earnings of foreign subsidiaries included in consolidated retained earnings was immaterial at August 31, 2013 and 2012. 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 and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws.

As of August 31, 2013, the Company had gross unrecognized tax benefits totaling \$5.4 million, including \$1.0 million of accrued interest, recorded as non-current taxes payable in 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 effectively settled. The Company regularly engages in discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. It is reasonably possible that certain federal, foreign, and state tax matters may be concluded in the next 12 months. However, FactSet has no reason to believe that such audits will result in the payment of additional taxes and/or penalties that would have a material adverse effect on the Company's results of operations or financial position, beyond current estimates. Any changes in accounting estimates resulting from new developments with respect to uncertain tax positions will be recorded as appropriate. The Company does not currently anticipate that the total amounts of unrecognized tax benefits will significantly change within the next 12 months.

The following table summarizes the changes in the balance of gross unrecognized tax benefits (in thousands):

|                                                              |         |
|--------------------------------------------------------------|---------|
| Unrecognized income tax benefits at August 31, 2010          | \$7,346 |
| Additions based on tax positions related to the current year | 1,258   |
| Additions for tax positions of prior years                   | 1,493   |
| Statute of limitations lapse                                 | (964 )  |
| Reductions from settlements with taxing authorities          | (1,929) |
| Unrecognized income tax benefits at August 31, 2011          | \$7,204 |
| Additions based on tax positions related to the current year | 691     |
| Additions for tax positions of prior years                   | 470     |
| Statute of limitations lapse                                 | (613 )  |
| Reductions from settlements with taxing authorities          | (2,288) |
| Unrecognized income tax benefits at August 31, 2012          | \$5,464 |
| Additions based on tax positions related to the current year | 1,372   |
| Additions for tax positions of prior years                   | 986     |
| Statute of limitations lapse                                 | (1,103) |
| Reductions from settlements with taxing authorities          | (1,284) |
| Unrecognized income tax benefits at August 31, 2013          | \$5,435 |

In the normal course of business, the Company's tax filings are subject to audit by federal, state and foreign tax authorities. At August 31, 2013, the Company remained subject to examination in the following major tax jurisdictions for the tax years as indicated below:

| <b><u>Major Tax Jurisdictions</u></b> | <b><u>Open Tax Years</u></b> |
|---------------------------------------|------------------------------|
| U.S.                                  |                              |
| Federal                               | 2010 through 2013            |
| State (various)                       | 2010 through 2013            |
| Europe                                |                              |
| France                                | 2010 through 2013            |
| United Kingdom                        | 2011 through 2013            |

## 16. COMMITMENTS AND CONTINGENCIES

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

### **Lease Commitments**

At August 31, 2013, the Company leases approximately 193,000 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; San Francisco and San Mateo, California; Austin, Texas; Jackson, Wyoming; Atlanta, Georgia; Tuscaloosa, Alabama; Newark, Ridgewood and Piscataway, New Jersey; Manchester, New Hampshire; and Reston, Virginia. The Company's European segment operates in leased office space in London, England; Paris and Avon, France; Amsterdam, the Netherlands; Frankfurt, Germany; Dubai, United Arab Emirates; Milan, Italy; and Riga, Latvia. Office space in Tokyo, Japan; Hong Kong; Mumbai, India; 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 Company's operating segments. The leases expire on various dates through 2024. Total minimum rental payments associated with the leases are recorded as rent expense (a component of selling, general and administrative expenses) on a straight-line basis over the periods of the respective non-cancelable lease terms. Including new lease agreements entered into during fiscal 2013, the Company's worldwide leased office space increased to approximately 809,000 square feet at August 31, 2013, up 2,000 square feet or 0.3% from August 31, 2012. The Company believes that its leased office space is adequate for its current needs and that additional space is available for lease to meet any future needs.

During fiscal 2013, 2012 and 2011, rent expense (including operating costs) for all operating leases amounted to approximately \$36.2 million, \$34.6 million, and \$32.8 million, respectively. Approximately \$2.2 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 August 31, 2013. These standby letters of credit contain covenants that, among other things, require FactSet to maintain minimum levels of consolidated net worth and certain leverage and fixed charge ratios. As of August 31, 2013 and 2012, FactSet was in compliance with all covenants contained in the standby letters of credit.

At August 31, 2013, the Company's lease commitments for office space provide for the following future minimum rental payments under non-cancelable operating leases with remaining terms in excess of one year (in thousands):

| Years Ended August 31, | Minimum<br>Lease<br>Payments |
|------------------------|------------------------------|
| 2014                   | \$27,662                     |
| 2015                   | 23,621                       |
| 2016                   | 17,684                       |
| 2017                   | 16,359                       |
| 2018                   | 15,434                       |
| Thereafter             | 29,092                       |
| Total                  | \$129,852                    |

### **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. As of August 31, 2013 and 2012, the Company had total purchase commitments with suppliers of \$50.2 million and \$52.2 million, respectively.

### **Contingencies**

#### ***Legal Matters***

FactSet accrues non income-tax liabilities for contingencies when management believes that a loss is probable and the amounts can be reasonably estimated, while contingent gains are recognized only when realized. The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business, including intellectual property litigation. Based on information available, 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.

#### ***Income Taxes***

Uncertain income tax positions are accounted for in accordance with applicable accounting guidance (see Note 15). FactSet is currently under audit by multiple tax authorities. The Company has reserved for potential adjustments to its

provision for income taxes that may result from examinations by, or any negotiated agreements with, these tax authorities, and the Company believes that the final outcome of these examinations or agreements will not have a material effect on its results of operations. If events occur which indicate payment of these amounts is unnecessary, the reversal of the liabilities would result in the recognition of tax benefits in the period FactSet determines the liabilities are no longer necessary. If the Company's estimates of the federal, state, and foreign income tax liabilities are less than the ultimate assessment, a further charge to expense would result.

### *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.

## 17. RISKS AND CONCENTRATIONS OF CREDIT RISK

### **Financial Risk Management**

#### *Foreign Currency Exchange Risk*

The Company is exposed to changes in foreign currency exchange rates, which could affect its operating results, financial position and cash flows. The Company's primary foreign currency market exposures include the Euro, British Pound Sterling, Japanese Yen, Indian Rupee and Philippines Peso. The Company's non-U.S. dollar denominated revenues expected to be recognized over the next twelve months are estimated to be \$15 million while its non-U.S. dollar denominated expenses are \$169 million, which translates into a net foreign currency exposure of \$154 million per year. To the extent that FactSet's international activities recorded in local currencies increase in the future, its exposure to fluctuations in currency exchange rates will correspondingly increase. FactSet manages its exposure to foreign currency exchange risk through its regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge currency exposures as well as to reduce earnings volatility resulting from shifts in market rates. FactSet only enters into foreign currency forward contracts to manage foreign currency exposures. The fair market values of all the Company's derivative contracts change with fluctuations in currency rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. See Note 5 to the Consolidated Financial Statements for additional analysis of the Company's foreign currency exchange rate risk.

#### *Interest Rate Risk*

The fair market value of the Company's cash and investments at August 31, 2013 was \$209 million. FactSet's 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. The Company's investments consist of certificates of deposits with original maturities greater than three months, but less than one year and, as such, are reported as short-term investments. It is anticipated that the fair market value of the Company's portfolio will continue to be immaterially affected by fluctuations in interest rates. Because FactSet has a restrictive investment policy, its financial exposure to fluctuations in interest rates is expected to remain low. The Company does not believe that the value or liquidity of its cash and investments have been significantly impacted by the recent credit crisis.

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

### **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 are derived from revenues earned from clients located around the globe. FactSet performs ongoing credit evaluations of its clients and does not require collateral from its clients. The Company maintains reserves for potential write-offs and these losses have historically been within expectations. No single client represented 10% or more of FactSet's total revenues in any fiscal year presented. At August 31, 2013, the Company's largest individual client accounted for 2% of total subscriptions and annual subscriptions from the ten largest clients did not surpass 15% of total subscriptions, consistent with August 31, 2012. At August 31, 2013 and 2012, the receivable reserve was \$1.6 million and \$1.8 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 credit default swaps 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 review credit exposure balances as well as the creditworthiness of the counterparties.

*Data Content Providers*

Certain datasets that FactSet relies on have a limited number of suppliers, although the Company makes every effort to assure that, where reasonable, alternative sources are available. However, FactSet is not dependent on any one third-party data supplier in order to meet the needs of its clients. FactSet combines the data from these commercial databases into its own dedicated single online service, which the client accesses to perform their analysis. No single vendor or data supplier represented 10% or more of FactSet's total expenses in any fiscal year presented.

**18. UNAUDITED QUARTERLY FINANCIAL DATA**

The following table presents selected unaudited financial information for the eight quarters in the period ended August 31, 2013 and 2012. The results for any quarter are not necessarily indicative of future quarterly results and, accordingly, period-to-period comparisons should not be relied upon as an indication of future performance (in thousands, except per share data).

|                                          | First     | Second    | Third     | Fourth    |
|------------------------------------------|-----------|-----------|-----------|-----------|
| Fiscal 2013                              |           |           |           |           |
|                                          | Quarter   | Quarter   | Quarter   | Quarter   |
| Revenues                                 | \$211,085 | \$213,083 | \$214,613 | \$219,332 |
| Cost of services                         | 73,586    | 75,842    | 76,721    | 80,231    |
| Selling, general and administrative      | 66,414    | 81,077    | 66,255    | 68,567    |
| Operating income                         | 71,085    | 56,164    | 71,637    | 70,534    |
| Net income                               | 49,769    | 44,539    | 53,367    | 50,964    |
| Diluted earnings per common share        | \$1.11    | \$1.00    | \$1.20    | \$1.16    |
| Weighted average common shares (diluted) | 44,984    | 44,455    | 44,485    | 44,043    |

|                                          | First     | Second    | Third     | Fourth    |
|------------------------------------------|-----------|-----------|-----------|-----------|
| Fiscal 2012                              |           |           |           |           |
|                                          | Quarter   | Quarter   | Quarter   | Quarter   |
| Revenues                                 | \$196,448 | \$199,371 | \$202,311 | \$207,663 |
| Cost of services                         | 66,833    | 67,531    | 68,878    | 72,295    |
| Selling, general and administrative      | 62,862    | 64,723    | 64,939    | 64,741    |
| Operating income                         | 66,753    | 67,117    | 68,494    | 70,627    |
| Net income                               | 45,544    | 46,746    | 47,980    | 48,539    |
| Diluted earnings per common share        | \$0.99    | \$1.02    | \$1.05    | \$1.08    |
| Weighted average common shares (diluted) | 46,103    | 45,707    | 45,736    | 45,152    |

**19. SUBSEQUENT EVENT**



**Revere Data Acquisition**

On September 1, 2013, FactSet announced it had acquired the assets of Revere Data, LLC for \$15.4 million. Over the last decade, Revere has built an industry taxonomy that offers investors a unique way to classify companies and analyze how they fit in the global economy. Revere also offers a robust database of supply chain relationships that helps investors identify companies' interrelationships and mutual dependencies. At the time of acquisition, Revere had annual subscriptions of \$4.9 million. The addition of Revere's specialty data complements FactSet's commitment to provide clients with unique and insightful content sets.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

On October 30, 2013, the Audit Committee of the Board of Directors of FactSet Research Systems Inc. (“FactSet” or the “Company”) engaged Ernst & Young LLP (“EY”) as FactSet’s independent registered public accounting firm commencing with the fiscal year ending August 31, 2014.

PricewaterhouseCoopers LLP (“PwC”) performed the audit of the Company’s consolidated financial statements for the fiscal year ended August 31, 2013 and was dismissed as the independent registered public accounting firm upon completion of the audit on October 30, 2013. During the Company’s fiscal years ended August 31, 2013 and 2012 and through October 30, 2013, FactSet had no disagreements with PwC on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved to PwC’s satisfaction, would have caused it to make reference to the matter in conjunction with its report on the Company’s consolidated financial statements for the relevant year; and during that same period there were no reportable events as defined in Item 304(a)(1)(v) of SEC Regulation S-K.

PwC’s audit reports on FactSet’s consolidated financial statements for the fiscal years ended August 31, 2013 and 2012 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. A copy of PwC’s letter to the SEC dated October 30, 2013 is filed as Exhibit 16.1.

During the Company’s fiscal years ended August 31, 2013 and 2012 and through October 30, 2013, neither FactSet, nor anyone on its behalf, consulted with EY with respect to either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company’s consolidated financial statements, and no written report or oral advice was provided by EY to FactSet that EY concluded was an important factor considered in reaching a decision as to the accounting, auditing, or financial reporting issue or (ii) any matter that was the subject of either a disagreement (as defined in Item 304(a)(1)(iv) of SEC Regulation S-K) or a reportable event (as defined in Item 304(a)(1)(v) of SEC Regulation S-K).

### **ITEM 9A. 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 annual 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

The Company regularly reviews its system of internal control over financial reporting and makes changes to its processes and systems to improve controls and increase efficiency, while ensuring that the Company maintains an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

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 fourth quarter of fiscal 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### Management's Report on Internal Control over Financial Reporting

See Management's Report on Internal Control over Financial Reporting under Item 8 on page 44.

#### Report of Independent Registered Public Accounting Firm

See Report of Independent Registered Public Accounting Firm under Item 8 on page 45.

### **ITEM 9B. OTHER INFORMATION**

None.

PART III

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item relating to our directors and nominees, regarding compliance with Section 16(a) of the Securities Act of 1934, and regarding our Audit Committee is included under the captions “Corporate Governance” and “Security Ownership of Certain Beneficial Owners and Management” and contained in the definitive Proxy Statement dated October 30, 2013, all of which information is incorporated herein by reference.

Pursuant to General Instruction G(3) of Form 10-K, the information required by this item relating to our executive officers is included under the caption “Executive Officers” of the Company’s definitive Proxy Statement dated October 30, 2013, all of which information is incorporated herein by reference.

We have adopted a code of ethics that applies to our principal executive officer and all members of our finance department, including the principal financial officer and principal accounting officer. This code of ethics, which consists of the “Code of Ethical Conduct for Financial Managers,” is posted on our website, along with our committee charters. The Internet address for our Website is [www.factset.com](http://www.factset.com), and the code of ethics may be found in the “Investor Relations” section under “Corporate Governance.” All employees, officers and directors are also subject to our “Code of Business Conduct and Ethics,” also posted on the “Corporate Governance” page of our website and the same information is available in print free of charge to any stockholder who submits a written request to the Company’s Investor Relations department at its corporate headquarters at 601 Merritt 7, Norwalk, Connecticut 06851.

We intend to satisfy any disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this code of ethics by posting such information on our website, at the address and general location specified above.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item relating to our executive compensation is included under the caption “Executive Compensation” contained in the definitive Proxy Statement dated October 30, 2013, all of which information is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item relating to security ownership of certain beneficial owners and management is included under the caption “Security Ownership of Certain Beneficial Owners and Management” and the information required by this item relating to securities authorized for issuance under equity compensation plans is included under the caption “Equity Compensation Plan Information,” in the definitive Proxy Statement dated October 30, 2013, all of which information is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item relating to review, approval or ratification of transactions with related persons is included under the caption “Certain Relationships and Related Transactions” and the information required by this item relating to director independence is included under the captions “Corporate Governance” and “Director Compensation,” contained in the definitive Proxy Statement dated October 30, 2013, all of which information is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is included under the caption “Proposal 2: Ratification of Independent Registered Public Accounting Firm” in the definitive Proxy Statement dated October 30, 2013, all of which information is incorporated herein by reference.

## PART IV

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

## 1. Consolidated Financial Statements

The Index to Consolidated Financial Statements under Item 8 on page 43 is incorporated herein by reference as the list of financial statements required as part of this report.

## 2. Financial Statement Schedule

**Schedule II – Valuation and Qualifying Accounts**

Years Ended August 31, 2013, 2012, and 2011 (in thousands):

| Receivable reserve<br>and billing adjustments* | Balance at<br>Beginning<br>of Year | Charged<br>to<br>Expense/<br>Against<br>Revenue | Write-offs,<br>Net of<br>Recoveries | Balance<br>at<br>End of<br>Year |
|------------------------------------------------|------------------------------------|-------------------------------------------------|-------------------------------------|---------------------------------|
| 2013                                           | \$ 1,830                           | \$ 1,580                                        | \$ 1,766                            | \$ 1,644                        |
| 2012                                           | \$ 1,955                           | \$ 1,863                                        | \$ 1,988                            | \$ 1,830                        |
| 2011                                           | \$ 1,862                           | \$ 1,748                                        | \$ 1,655                            | \$ 1,955                        |

\* Additions to the receivable reserve for doubtful accounts are charged to bad debt expense. Additions to the receivable reserve for billing adjustments are charged against revenues.

Additional financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

## 3.Exhibits

| EXHIBIT<br>NUMBER | DESCRIPTION                                                                                                |
|-------------------|------------------------------------------------------------------------------------------------------------|
| 3.1               | Restated Certificate of Incorporation <sup>(1)</sup>                                                       |
| 3.2               | Amendment to the Restated Certificate of Incorporation <sup>(2)</sup>                                      |
| 3.3               | Second Amendment to the Restated Certificate of Incorporation <sup>(3)</sup>                               |
| 3.4               | By-laws of FactSet Research Systems Inc. <sup>(4)</sup>                                                    |
| 3.5               | Amended and Restated By-laws of FactSet Research Systems Inc. <sup>(5)</sup>                               |
| 4                 | Form of Common Stock <sup>(1)</sup>                                                                        |
| 10.1              | Severance Agreement dated September 20, 1999 between FactSet Research Systems Inc. and Peter G. Walsh      |
| 10.2              | The FactSet Research Systems Inc. 1996 Stock Option Plan <sup>(6)</sup>                                    |
| 10.3              | The FactSet Research Systems Inc. 2000 Stock Option Plan <sup>(7)</sup>                                    |
| 10.4              | The FactSet Research Systems Inc. 2004 Stock Option and Award Plan, as Amended and Restated <sup>(8)</sup> |
| 10.5              | The FactSet Research Systems Inc. 1998 Non-Employee Directors' Stock Option Plan <sup>(9)</sup>            |
| 10.6              | The FactSet Research Systems Inc. 2008 Non-Employee Directors' Stock Option Plan <sup>(10)</sup>           |
| 10.8              | The FactSet Research Systems Inc. 2008 Employee Stock Purchase Plan <sup>(10)</sup>                        |
| 16.1              | Letter from PricewaterhouseCoopers LLP to the Securities and Exchange Commission dated October 30, 2013    |
| 21                | Subsidiaries of the Registrant                                                                             |
| 23                | Consent of Independent Registered Public Accounting Firm                                                   |
| 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                                                                             |
| 101.CAL*          | XBRL Taxonomy Extension Calculation Linkbase                                                               |
| 101.DEF*          | XBRL Taxonomy Extension Definition Linkbase Document                                                       |
| 101.LAB*          | XBRL Taxonomy Extension Label Linkbase                                                                     |
| 101.PRE*          | XBRL Taxonomy Extension Presentation Linkbase                                                              |

- (1) *Incorporated by reference to the Company's Registration Statement on Form S-1 (File No. 333-04238).*
  - (2) *Incorporated by reference to the Company's annual report on Form 10-K for fiscal year 2001.*
  - (3) *Incorporated by reference to the Company's periodic report on Form 8-K, filed on December 16, 2011.*
  - (4) *Incorporated by reference to the Company's quarterly report on Form 10-Q for the third quarter of fiscal year 2000.*
  - (5) *Incorporated by reference to the Company's quarterly report on Form 10-Q for the first quarter of fiscal year 2009.*
  - (6) *Incorporated by reference to the Company's Registration Statement on Form S-8 (File No. 333-22319).*
  - (7) *Incorporated by reference to the Company's Registration Statement on Form S-8 (File No. 333-56870).*
  - (8) *Incorporated by reference to the Company's Registration Statement on Form S-8 (File No. 333-171667).*
  - (9) *Incorporated by reference to the Company's Registration Statement on Form S-8 (File No. 333-59839).*
  - (10) *Incorporated by reference to the Company's Registration Statement on Form S-8 (File No. 333-156649).*
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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

FACTSET RESEARCH SYSTEMS INC.  
(Registrant)

Date: October 30, 2013 /s/ PHILIP A. HADLEY  
Philip A. Hadley  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Name</u>                                  | <u>Title</u>                                                                       | <u>Date</u>         |
|----------------------------------------------|------------------------------------------------------------------------------------|---------------------|
| /S/ PHILIP A. HADLEY<br>Philip A. Hadley     | Chairman and Chief Executive Officer<br>(Principal Executive Officer)              | October<br>30, 2013 |
| /s/ MAURIZIO NICOLELLI<br>Maurizio Nicolelli | Senior Vice President and Chief Financial Officer<br>(Principal Financial Officer) | October<br>30, 2013 |
| /s/ MATTHEW J. MCNULTY<br>Matthew J. McNulty | Vice President and Controller<br>(Principal Accounting Officer)                    | October<br>30, 2013 |
| /S/ CHARLES J. SNYDER<br>Charles J. Snyder   | Vice Chairman of the Board of Directors                                            | October<br>30, 2013 |
| /S/ JAMES J. MCGONIGLE<br>James J. McGonigle | Lead Independent Director                                                          | October<br>30, 2013 |
| /S/ ROBIN A. ABRAMS<br>Robin A. Abrams       | Director                                                                           | October<br>30, 2013 |

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|                                                      |          |                     |
|------------------------------------------------------|----------|---------------------|
| /S/ SCOTT A. BILLEADEAU<br>Scott A. Billeadeau       | Director | October<br>30, 2013 |
| /S/ MICHAEL F. DICHRISTINA<br>Michael F. DiChristina | Director | October<br>30, 2013 |
| /S/ JOSEPH E. LAIRD, JR.<br>Joseph E. Laird, Jr.     | Director | October<br>30, 2013 |
| /S/ WALTER F. SIEBECKER<br>Walter F. Siebecker       | Director | October<br>30, 2013 |
| /s/ JOSEPH R. ZIMMEL<br>Joseph R. Zimmer             | Director | October<br>30, 2013 |