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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended November 30, 2015

OR

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

For the transition period from ______to ______

Commission File Number: 1-11869

FACTSET RESEARCH SYSTEMS INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-3362547**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

Large accelerated filer **Accelerated filer** **Non-accelerated filer** **Smaller reporting company**

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

The number of shares outstanding of the registrant’s common stock, $.01 par value, as of December 31, 2015 was 41,190,780.

FactSet Research Systems Inc.

Form 10-Q

For the Quarter Ended November 30, 2015

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

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FactSet Research Systems Inc.

CONSOLIDATED STATEMENTS OF INCOME – Unaudited

	Three Months Ended	
	November 30,	
(In thousands, except per share data)	2015	2014
Revenues	$270,504	$242,676
Operating expenses		
Cost of services	114,736	97,543
Selling, general and administrative	68,460	64,873
Total operating expenses	183,196	162,416
Operating income	87,308	80,260
Other income	93	430
Income before income taxes	87,401	80,690
Provision for income taxes	27,436	24,830
Net income	$59,965	$55,860
Basic earnings per common share	$1.45	$1.34
Diluted earnings per common share	$1.43	$1.32
Basic weighted average common shares	41,387	41,683
Diluted weighted average common shares	42,063	42,340

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

FactSet Research Systems Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – Unaudited

	Three Months Ended November 30,	
(In thousands)	2015	2014
Net income	$59,965	$55,860
Other comprehensive loss, net of tax		
Net unrealized loss on cash flow hedges*	(416)	(112)
Foreign currency translation adjustments	(6,386)	(13,555)
Other comprehensive loss	(6,802)	(13,667)
Comprehensive income	$53,163	$42,193

* For the three months ended November 30, 2015, the unrealized loss on cash flow hedges was net of tax benefits of $244. For the three months ended November 30, 2014, the unrealized loss on cash flow hedges was net of tax benefits of $67.

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

FactSet Research Systems Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	November 30, 2015 (Unaudited)	August 31, 2015
ASSETS		
Cash and cash equivalents	$180,148	$158,914
Investments	23,145	23,497
Accounts receivable, net of reserves of $1,512 at November 30, 2015 and $1,580 at August 31, 2015	98,630	95,064
Prepaid taxes	—	4,808
Deferred taxes	2,524	2,105
Prepaid expenses and other current assets	16,401	19,786
Total current assets	320,848	304,174
Property, equipment and leasehold improvements, at cost	231,047	213,279
Less accumulated depreciation and amortization	(161,330)	(154,015)
Property, equipment and leasehold improvements, net	69,717	59,264
Goodwill	498,636	308,287
Intangible assets, net	111,934	40,052
Deferred taxes	11,629	20,599
Other assets	4,923	4,295
TOTAL ASSETS	$1,017,687	$736,671
LIABILITIES		
Accounts payable and accrued expenses	$36,525	$33,880
Accrued compensation	22,379	44,916
Deferred fees	40,801	38,488
Deferred taxes	507	562
Taxes payable	10,311	3,755
Dividends payable	18,208	18,179
Total current liabilities	128,731	139,780
Long-term debt	300,000	35,000
Deferred taxes	1,483	1,697
Taxes payable	7,109	6,776
Deferred rent and other non-current liabilities	22,595	21,834
TOTAL LIABILITIES	$459,918	$205,087
Commitments and contingencies (See Note 17)		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued	$—	$—
	507	503

Common stock, $.01 par value, 150,000,000 shares authorized, 50,658,052 and 50,328,423 shares issued; 41,382,700 and 41,316,902 shares outstanding at November 30, 2015 and August 31, 2015, respectively		
Additional paid-in capital	577,921	542,355
Treasury stock, at cost: 9,275,352 and 9,011,521 shares at November 30, 2015 and August 31, 2015, respectively	(1,033,211)	(988,873)
Retained earnings	1,063,406	1,021,651
Accumulated other comprehensive loss	(50,854)	(44,052)
TOTAL STOCKHOLDERS' EQUITY	$557,769	$531,584
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,017,687	$736,671

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

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FactSet Research Systems Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS – Unaudited

	Three Months Ended November 30,	
(in thousands)	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$59,965	$55,860
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	8,437	8,216
Stock-based compensation expense	6,462	5,277
Deferred income taxes	2,388	341
Loss on sale of assets	—	24
Tax benefits from share-based payment arrangements	(9,083)	(2,458)
Changes in assets and liabilities, net of effects of an acquisition		
Accounts receivable, net of reserves	1,599	1,627
Accounts payable and accrued expenses	1,056	4,548
Accrued compensation	(23,073)	(23,061)
Deferred fees	(2,588)	(1,696)
Taxes payable, net of prepaid taxes	20,561	23,667
Prepaid expenses and other assets	3,998	(1,011)
Deferred rent and other non-current liabilities	1,255	(166)
Other working capital accounts, net	110	—
Net cash provided by operating activities	71,087	71,168
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of business, net of cash acquired	(264,087)	—
Purchases of investments	(12,131)	(12,437)
Proceeds from sales of investments	12,423	7,535
Purchases of property, equipment and leasehold improvements, net of proceeds from dispositions	(14,385)	(4,814)
Net cash used in investing activities	(278,180)	(9,716)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend payments	(18,053)	(16,184)
Repurchase of common stock	(44,339)	(50,539)
Proceeds from debt	265,000	—
Debt issuance costs	(12)	—
Proceeds from employee stock plans	20,025	7,381
Tax benefits from share-based payment arrangements	9,083	2,458
Net cash provided by (used in) financing activities	231,704	(56,884)
Effect of exchange rate changes on cash and cash equivalents	(3,377)	(5,711)
Net increase (decrease) in cash and cash equivalents	21,234	(1,143)

Cash and cash equivalents at beginning of period	158,914	116,378
Cash and cash equivalents at end of period	$180,148	$115,235

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FactSet Research Systems Inc.

November 30, 2015

(Unaudited)

1. ORGANIZATION AND NATURE OF BUSINESS

FactSet Research Systems Inc. (the “Company” or “FactSet”) is a provider of integrated financial information and analytical applications for the global investment community. FactSet 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 and industry analyses, multicompany comparisons, 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 such as workstations, content and applications.

2. BASIS OF PRESENTATION

FactSet conducts business globally and is managed on a geographic basis. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany activity and balances have been eliminated from the consolidated financial statements.

The accompanying financial data as of November 30, 2015 and for the three months ended November 30, 2015 and 2014 has been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. The August 31, 2015 Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. However, the Company believes that the disclosures are adequate to make the information presented not misleading. The information in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended August 31, 2015.

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

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

3. RECENT ACCOUNTING PRONOUNCEMENTS

As of the beginning of fiscal 2016, FactSet implemented all applicable new accounting standards and updates issued by the Financial Accounting Standards Board ("FASB") that were in effect. There were no new standards or updates adopted during the first three months of fiscal 2016 that had a material impact on the consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued an accounting standard update which provides clarified principles for recognizing revenue arising from contracts with clients and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to clients in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity will identify the contract with a client, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2019, with early adoption in fiscal 2018 permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

Going Concern

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

Income Statement Presentation – Extraordinary and Unusual Items

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

Simplification Guidance on Debt Issuance Costs

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

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

Customers' Accounting for Cloud Computing Costs

In April 2015, the FASB issued an accounting standard update to provide guidance on a customer's accounting for cloud computing costs. Under the accounting standard update, a customer must determine whether a cloud computing arrangement contains a software license. If so, the customer would account for the fees related to the software license element in a manner consistent with how the accounting for software licenses is accounted for under previously issued guidance. If the arrangement does not contain a software license, the customer would account for the arrangement as a service contract. This guidance will be effective for FactSet beginning in the first quarter of fiscal 2017. The Company does not believe this new accounting standard update will have a material impact on its consolidated financial statements.

Simplification of the Accounting for Measurement-Period Adjustments

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

Balance Sheet Classification of Deferred Taxes

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

No other new accounting pronouncements issued or effective as of November 30, 2015 have had or are expected to have an impact on the Company’s consolidated financial statements.

4. FAIR VALUE MEASURES

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

Fair Value Hierarchy

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

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

Level 2 – applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data. The Company's certificates of deposit and derivative instruments are classified as Level 2.

Level 3 – applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities. There were no Level 3 assets or liabilities held by the Company as of November 30, 2015 or August 31, 2014.

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

The following tables shows by level within the fair value hierarchy the Company's assets and liabilities that are measured at fair value on a recurring basis at November 30, 2015 and August 31, 2015:

	Fair Value Measurements at November 30, 2015			
(in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Corporate money market funds [1]	$101,405	$—	$ —	$101,405
Certificates of deposit [2]	—	23,145	—	23,145
Derivative instruments [3]	—	607	—	607
Total assets measured at fair value	$101,405	$23,752	$ —	$125,157
Liabilities				
Derivative instruments [3]	$—	$1,834	$ —	$1,834
Total liabilities measured at fair value	$—	$1,834	$ —	$1,834

	Fair Value Measurements at August 31, 2015			
(in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Corporate money market funds [1]	$89,443	$—	$ —	$89,443
Certificates of deposit [2]	—	23,497	—	23,497
Derivative instruments [3]	—	1,035	—	1,035
Total assets measured at fair value	$89,443	$24,532	$ —	$113,975
Liabilities				
Derivative instruments [3]	$—	$1,602	$ —	$1,602
Total liabilities measured at fair value	$—	$1,602	$ —	$1,602

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

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

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

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

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

Certain assets, including goodwill and intangible assets, and liabilities, are measured at fair value on a non-recurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances such as when they are deemed to be other-than-temporarily impaired. The fair values of these non-financial assets and liabilities are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost exceeds its fair value, based upon the results of such valuations. During the three months ended November 30, 2015, no fair value adjustments or material fair value measurements were required for the Company’s non-financial assets or liabilities.

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

As of November 30, 2015 and August 31, 2015, the fair value of the Company’s long-term debt was $300.0 million and $35.0 million, respectively, which approximated its carrying amount given its floating interest rate basis. The fair value of the Company’s long-term debt was determined based on quoted market prices for debt with a similar maturity, and thus categorized as Level 2 in the fair value hierarchy.

5. DERIVATIVE INSTRUMENTS

Cash Flow Hedges

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

As of November 30, 2015, FactSet maintained the following foreign currency forward contracts to hedge its Indian Rupee, British Pound Sterling and Euro exposures:

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

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

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

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

(in thousands)	Gross Notional Value		Fair Value (Liability) Asset	
Currency Hedged (in U.S. dollars)	Nov 30, 2015	Aug 31, 2015	Nov 30, 2015	Aug 31, 2015
Indian Rupee	$51,420	$56,320	$(447)	$(990)
Euro	15,107	20,263	(719)	143
British Pound Sterling	32,589	15,831	(61)	280
Total	$99,116	$92,414	$(1,227)	$(567)

As of November 30, 2015, the gross notional value of foreign currency forward contracts to purchase Indian Rupees with U.S. dollars was Rs. 3.6 billion. The gross notional value of foreign currency forward contracts to purchase British Pound Sterling with U.S. dollars was £21.6 million. The gross notional value of foreign currency forward contracts to purchase Euros with U.S. dollars was €13.6 million.

Counterparty Credit Risk

As a result of the use of derivative instruments, the Company is exposed to counterparty credit risk. FactSet has incorporated counterparty risk into the fair value of its derivative assets and its own credit risk into the value of the Company’s derivative liabilities. FactSet calculates credit risk from observable data related to credit default swaps (“CDS”) as quoted by publicly available information. Counterparty risk is represented by CDS spreads related to the senior secured debt of the respective bank with whom FactSet has executed these derivative transactions. Because CDS spread information is not available for FactSet, the Company’s credit risk is determined based on using a simple average of CDS spreads for peer companies. To mitigate counterparty credit risk, FactSet enters into contracts with large financial institutions and regularly reviews its credit exposure balances as well as the creditworthiness of the counterparties. The Company does not expect any losses as a result of default of its counterparties.

Fair Value of Derivative Instruments

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

(in thousands) Designation of Derivatives	Balance Sheet Location	Nov 30, 2015	Aug 31, 2015
Derivatives designated as hedging instruments	Assets: Foreign Currency Forward Contracts		
	Prepaid expenses and other current assets	$607	$1,035
	Liabilities: Foreign Currency Forward Contracts		
	Accounts payable and accrued expenses	$780	$—
	Deferred rent and other non-current liabilities	$1,054	$1,602

All derivatives were designated as hedging instruments as of November 30, 2015 and August 31, 2015, respectively.

Derivatives in Cash Flow Hedging Relationships

The following table provides the pre-tax effect of derivative instruments in cash flow hedging relationships for the three months ended November 30, 2015 and 2014:

(in thousands)	(Loss) Recognized in AOCL on Derivatives (Effective Portion)		Location of (Loss) Reclassified from AOCL into Income (Effective Portion)	Gain (Loss) Reclassified from AOCL into Income (Effective Portion)	
Derivatives in Cash Flow Hedging Relationships	2015	2014		2015	2014
Foreign currency forward contracts	$(605)	$(218)	SG&A	$56	$(39)

No amount of ineffectiveness was recorded in the Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness. As of November 30, 2015, FactSet estimates that approximately $0.2 million of net derivative losses related to its cash flow hedges included in AOCL will be reclassified into earnings within the next 12 months.

Offsetting of Derivative Instruments

FactSet's master netting and other similar arrangements with its respective counterparties allow for net settlement under certain conditions. As of November 30, 2015 and August 31, 2015, information related to these offsetting arrangements was as follows:

(in thousands)	Derivatives Offset in Consolidated Balance Sheets		
November 30, 2015	Gross Derivative Amounts	Gross Derivative Amounts Offset in Balance Sheet	Net Amounts
Fair value of assets	$789	$ (182)	$ 607
Fair value of liabilities	(2,016)	182	(1,834)
Total	$(1,227)	$ —	$(1,227)

(in thousands)	Derivatives Offset in Consolidated Balance Sheets		
August 31, 2015	Gross Derivative Amounts	Gross Derivative Amounts Offset in Balance Sheet	Net Amounts
Fair value of assets	$1,040	$ (5)	$ 1,035
Fair value of liabilities	(1,607)	5	(1,602)
Total	$(567)	$ —	$(567)

6. OTHER COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of other comprehensive loss and amounts reclassified out of AOCL into earnings during the three months ended November 30, 2015 and 2014 are as follows:

	November 30, 2015		November 30, 2014	
(in thousands)	Pre-tax	Net of tax	Pre-tax	Net of tax
Foreign currency translation adjustments	$(6,386)	$(6,386)	$(13,555)	$(13,555)
Realized (gain) loss on cash flow hedges reclassified to earnings [1]	(56)	(35)	39	24
Unrealized loss on cash flow hedges recognized in AOCL	(605)	(381)	(218)	(136)
Other comprehensive loss	$(7,047)	$(6,802)	$(13,734)	$(13,667)

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

The components of accumulated other comprehensive loss is as follows:

(in thousands)	November 30, 2015	August 31, 2015
Accumulated unrealized losses on cash flow hedges, net of tax	$(774)	$(358)
Accumulated foreign currency translation adjustments	(50,080)	(43,694)
Total accumulated other comprehensive loss	$(50,854)	$(44,052)

7. SEGMENT INFORMATION

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

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

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The European segment is headquartered in London, England and maintains office locations in France, Germany, Italy, Ireland, Latvia, Luxembourg, the Netherlands, Spain, South Africa, Sweden and Dubai. The Asia Pacific segment is headquartered in Tokyo, Japan with office locations in Australia, Hong Kong, Singapore and Mumbai, India. Segment revenues reflect direct sales to clients based in their respective geographic locations. There are no intersegment or intercompany sales of FactSet services. Each segment records compensation expense, including stock-based compensation, amortization of intangible assets, depreciation of furniture and fixtures, amortization of leasehold improvements, communication costs, professional fees, rent expense, travel, marketing, office and other direct expenses. Expenditures associated with the Company's data centers, third party data costs and corporate headquarters charges are recorded by the U.S. segment and are not allocated to the other segments. The content collection centers located in India and the Philippines benefit all of the Company's operating segments and thus the expenses incurred at these locations are allocated to each segment based on a percentage of revenues. Of the total $498.6 million of goodwill reported by the Company at November 30, 2015, 81% was recorded in the U.S. segment, 18% in the European segment and the remaining 1% in the Asia Pacific segment.

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

(in thousands) For the three months ended November 30, 2015	U.S.	Europe	Asia Pacific	Total
Revenues from clients	$182,244	$66,979	$21,281	$270,504
Segment operating profit	45,162	30,782	11,364	87,308
Total assets	706,311	238,622	72,754	1,017,687
Capital expenditures	12,891	785	709	14,385

For the three months ended November 30, 2014	U.S.	Europe	Asia Pacific	Total
Revenues from clients	$163,663	$60,610	$18,403	$242,676
Segment operating profit	44,435	26,589	9,236	80,260
Total assets	354,028	231,155	61,296	646,479
Capital expenditures	4,325	85	404	4,814

8. BUSINESS COMBINATIONS

Portware LLC

On October 16, 2015, FactSet acquired Portware LLC ("Portware") for a total purchase price of $264.8 million. At the time of acquisition, Portware employed 166 individuals in its New York, London, Hong Kong, and Hyderabad, India offices. Portware is a global provider of multi-asset trade automation solutions for mega and large asset managers. With the acquisition of Portware, FactSet now offers a platform that it expects will increase value to global asset managers by expanding its capabilities to include multi-asset trade automation. This factor contributed to a purchase price in excess of fair value of Portware's net tangible and intangible assets, leading to the recognition of goodwill. Total transaction costs related to the acquisition were $0.7 million for the three months ended November 30, 2015. These transaction expenses were recorded within Selling, General and Administrative ("SG&A") expenses in the Consolidated Statement of Income.

Allocation of the purchase price to the assets acquired and liabilities assumed was not yet finalized as of November 30, 2015 as it is subject to finalizing certain acquired assets and liabilities in addition to working capital adjustments. The preliminary purchase price was allocated to Portware's net tangible and intangible assets based upon their estimated fair value as of the date of acquisition. Based upon the purchase price and preliminary valuation, the allocation is as follows:

(in thousands)	
Tangible assets acquired	$9,559
Amortizable intangible assets	
Software technology	43,000
Client relationships	27,000
Non-compete agreements	3,500
Trade name	2,000
Goodwill	193,075
Total assets acquired	$278,124
Liabilities assumed	13,373
Net assets acquired	$264,761

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

Goodwill totaling $193.1 million represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is included in the U.S. segment. Approximately 78% of the total goodwill generated from the Portware acquisition is deductible for income tax purposes. The results of operations of Portware have been included in the Company’s Consolidated Statements of Income since the completion of the acquisition on October 16, 2015. Pro forma information has not been presented because the effect of the Portware acquisition was not material to the Company’s consolidated financial results.

Code Red, Inc.

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

The total purchase price of Code Red is as follows:

(in thousands)	
Cash consideration	$32,962
Fair value of FactSet stock issued	2,991
Total purchase price	$35,953

The purchase price was allocated to Code Red’s net tangible and intangible assets based upon their estimated fair value as of the date of acquisition. Based upon these estimated fair values and the intangible assets valuation, the purchase price allocation is as follows:

(in thousands)	
Tangible assets acquired	$3,090
Amortizable intangible assets	
Software technology	4,728
Client relationships	3,089
Non-compete agreements	277
Trade name	127
Goodwill	29,627
Total assets acquired	$40,938
Liabilities assumed	(4,985)
Net assets acquired	$35,953

Intangible assets of $8.2 million have been allocated to amortizable intangible assets consisting of software technology, amortized over six years using a straight-line amortization method; client relationships, amortized over seven years using an accelerated amortization method; non-compete agreements, amortized over four years using a straight-line amortization method; and a trade name, amortized over three years using a straight-line amortization method.

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

9. GOODWILL

Changes in the carrying amount of goodwill by segment for the three months ended November 30, 2015 are as follows:

(in thousands)	U.S.	Europe	Asia Pacific	Total
Balance at August 31, 2015	$211,869	$93,725	$2,693	$308,287
Goodwill acquired during the period	193,075	—	—	193,075
Foreign currency translations	—	(2,682)	(44)	(2,726)
Balance at November 30, 2015	$404,944	$91,043	$2,649	$498,636

Goodwill is not amortized as it has an estimated indefinite life. At least annually, the Company is required to test 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 as there is no discrete financial information available for the subsidiaries within each operating segment. The Company's reporting units evaluated for potential impairment were the 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 its annual goodwill impairment test during the fourth quarter of fiscal 2015, consistent with the timing of previous years, at which time it was determined that there were no indications of impairment, with the fair value of each of the Company's reporting units significantly exceeding carrying value. Goodwill acquired during the first three months of fiscal 2016 of $193.1 million represents the excess of the preliminary purchase price over the fair value of the net tangible and intangible assets from the Portware acquisition completed in October 2015.

10. INTANGIBLE ASSETS

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

November 30, 2015 was 11.0 years. The Company amortizes intangible assets over their estimated useful lives, which are evaluated quarterly to determine whether events and circumstances warrant a revision to the remaining period of amortization. There have been no changes to the estimate of the remaining useful lives during the first three months of fiscal 2016. Amortizable intangible assets are tested for impairment based on undiscounted cash flows, and, if impaired, written down to fair value based on discounted cash flows. No impairment of intangible assets has been identified during any of the periods presented. The intangible assets have no assigned residual values.

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

(in thousands) At November 30, 2015	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Data content	$38,700	$ 16,860	$21,840
Client relationships	54,549	18,799	35,750
Software technology	64,169	16,098	48,071
Non-compete agreements	4,555	750	3,805
Trade names	3,601	1,133	2,468
Total	$165,574	$ 53,640	$111,934

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

During three months ended November 30, 2015, $75.5 million of intangible assets were acquired with a weighted average useful life of 10.7 years.

Amortization expense recorded for intangible assets was $2.9 million and $2.1 million for the three months ended November 30, 2015 and 2014, respectively. As of November 30, 2015, estimated intangible asset amortization expense for each of the next five years and thereafter is as follows:

Fiscal Year *(in thousands)*	Estimated Amortization Expense
2016 (remaining nine months)	$ 12,305
2017	16,136
2018	14,819
2019	13,306
2020	12,724
Thereafter	42,644
Total	$ 111,934

11. COMMON STOCK AND EARNINGS PER SHARE

On November 6, 2015, FactSet's Board of Directors approved a regular quarterly dividend of $0.44 per share, or $1.76 per share per annum. The cash dividend of $18.2 million was paid on December 15, 2015 to common stockholders of record at the close of business on November 30, 2015.

Shares of common stock outstanding were as follows:

(in thousands)

	2015	2014
Three Months Ended November 30,		
Balance at September 1	41,317	41,793
Common stock issued for employee stock plans	330	183
Repurchase of common stock from employees[1]	(14)	(17)
Repurchase of common stock under the share repurchase program	(250)	(380)
Balance at November 30, 2015 and 2014, respectively	41,383	41,579

(1)

For the three months ended November 30, 2015 and 2014, the Company repurchased 13,831 and 17,165 shares, or $2.4 million and $2.2 million, of common stock, respectively, in settlement of employee tax withholding obligations due upon the vesting of restricted stock.

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

(in thousands, except per share data)	Net Income (Numerator)	Weighted Average Common Shares (Denominator)	Per Share Amount
For the three months ended November 30, 2015			
Basic EPS			
Income available to common stockholders	$ 59,965	41,387	$ 1.45
Diluted EPS			
Dilutive effect of stock options and restricted stock		676	
Income available to common stockholders plus assumed conversions	$ 59,965	42,063	$ 1.43
For the three months ended November 30, 2014			
Basic EPS			
Income available to common stockholders	$ 55,860	41,683	$ 1.34
Diluted EPS			
Dilutive effect of stock options and restricted stock		657	
Income available to common stockholders plus assumed conversions	$ 55,860	42,340	$ 1.32

Dilutive potential common shares consist of stock options and unvested restricted stock awards. The number of stock options excluded from the calculation of diluted earnings per share for the three months ended November 30, 2015 was 171,262 because their inclusion would have been anti-dilutive, while 154,304 stock options were excluded for the three months ended November 30, 2014. The number of restricted stock awards excluded from the calculation of diluted earnings per share for the three months ended November 30, 2015 was 980 because their inclusion would have been anti-dilutive, while 3,408 restricted stock awards were excluded from the calculation of diluted earnings per share for the three months ended November 30, 2014.

For the three months ended November 30, 2015 and 2014 the number of performance-based stock option grants excluded from the calculation of diluted earnings per share was 942,501 and 380,653, respectively. Performance-based stock options are omitted from the calculation of diluted earnings per share until the performance criteria are probable of being achieved. The criterion was not yet probable of being achieved as of November 30, 2015 and 2014 for these performance-based stock options.

12. STOCKHOLDERS' EQUITY

Preferred Stock

At November 30, 2015 and August 31, 2015, there were 10,000,000 shares of preferred stock ($.01 par value per share) authorized, of which no shares were issued and outstanding. FactSet's Board of Directors may from time to time authorize the issuance of one or more series of preferred stock and, in connection with the creation of such series, determine the characteristics of each such series including, without limitation, the preference and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions of the series.

Common Stock

At November 30, 2015 and August 31, 2015, there were 150,000,000 shares of common stock ($.01 par value per share) authorized, of which 50,658,052 and 50,328,423 shares were issued, respectively. The authorized shares of common stock are issuable for any proper corporate purpose, including future stock splits, stock dividends, acquisitions, raising equity capital or to adopt additional employee benefit plans.

Treasury Stock

At November 30, 2015 and August 31, 2015, there were 9,275,352 and 9,011,521 shares of treasury stock (at cost) outstanding, respectively. As a result, 41,382,700 and 41,316,902 shares of FactSet common stock were outstanding at November 30, 2015 and August 31, 2015, respectively.

Share Repurchase Program

During the first three months of fiscal 2016, the Company repurchased 250,000 shares for $41.9 million. On December 14, 2015, the Company's Board of Directors approved a $250.0 million expansion of the existing share repurchase program.

Including this expansion, $342.3 million is now available for future share repurchases. Repurchases will be made from time to time in the open market and privately negotiated transactions, subject to market conditions. No minimum number of shares to be repurchased has been fixed. There is no timeframe to complete the repurchase program and it is expected that share repurchases will be paid using existing and future cash generated by operations.

Restricted Stock

Restricted stock awards entitle the holder to shares of common stock as the awards vest over time. During the first three months of fiscal 2016, 37,079 of previously granted restricted stock awards vested and were included in common stock outstanding as of November 30, 2015 (less 13,831 shares repurchased from employees to cover their cost of taxes upon vesting of the restricted stock). During the same period a year ago, 53,495 of previously granted restricted stock awards vested and were included in common stock outstanding as of November 30, 2014 (less 17,165 shares repurchased from employees to cover their cost of taxes upon vesting of the restricted stock).

Dividends

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

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

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

13. EMPLOYEE STOCK OPTION AND RETIREMENT PLANS

Stock Option Awards

The FactSet Research Systems Inc. 2004 Stock Option and Award Plan, as Amended and Restated (the "Option Plan") provides for the grant of share-based awards, including stock options and restricted stock awards to employees of FactSet. The expiration date of the Option Plan is December 14, 2020. Stock options granted under the Option Plan expire either seven or ten years from the date of grant and the majority vest ratably over a period of five years. Options become vested and exercisable provided the employee continues employment with the Company through the applicable vesting date and remain exercisable until expiration or cancellation. Options are not transferable or assignable other than by will or the laws of descent and distribution. During the grantee's lifetime, the options may be exercised only by the grantee.

Stock Option Activity

During the first three months of fiscal 2016, FactSet granted 1,044,203 stock options at a weighted average exercise price of $170.21 to existing employees of the Company. As of November 30, 2015, a total of 3,875,703 stock options were outstanding at a weighted average exercise price of $122.06. Unamortized stock-based compensation of $57.9 million is expected to be recognized as stock-based compensation expense over the remaining vesting period of 3.9 years.

A summary of stock option activity is as follows:

(in thousands, except per share data)	Number Outstanding	Weighted Average Exercise Price Per Share
Balance at August 31, 2015	3,117	$ 100.71

Granted – non performance-based	514	$ 175.20
Granted – performance-based	530	$ 165.37
Exercised	(277)	$ 63.72
Forfeited	(8)	$ 108.32
Balance at November 30, 2015	3,876	$ 122.06

The total number of in-the-money options exercisable as of November 30, 2015 was 1.2 million with a weighted average exercise price of $83.59. As of August 31, 2015, 1.4 million in-the-money outstanding options were exercisable with a weighted average exercise price of $78.70. The aggregate intrinsic value of in-the-money stock options exercisable at November 30, 2015 and August 31, 2015 was $102.3 million and $107.1 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price of $169.53 on November 30, 2015 and the exercise price multiplied by the number of options exercisable as of that date. The total pre-tax intrinsic value of stock options exercised during the three months ended November 30, 2015 and 2014 was $27.7 million and $6.0 million, respectively.

Performance-based Stock Options

Performance-based stock options require management to make assumptions regarding the likelihood of achieving Company performance targets. The number of performance-based options that vest will be predicated on the Company achieving performance levels during the measurement period subsequent to the date of grant. Dependent on the financial performance levels attained by FactSet, a percentage of the performance-based stock options will vest to the grantees of those stock options. However, there is no current guarantee that such options will vest in whole or in part.

July 2012 Performance-based Option Grant Review

In July 2012, FactSet granted 241,546 performance-based employee stock options, which are eligible to vest in 20% tranches depending upon future StreetAccount user growth through August 31, 2017. During the fourth quarter of fiscal 2013, the first growth target as outlined within the terms of the grant was achieved, thus 20% or 48,314 options vested on August 31, 2013. The second 20% tranche vested on August 31, 2014 as a result of accelerated expansion of Street Account users during fiscal 2014. During the fourth quarter of fiscal 2015, the third growth target was achieved, thus the third 20% tranche vested on August 31, 2015. As of November 30, 2015, the Company estimates that the fourth 20% tranche will vest by August 31, 2017, resulting in unamortized stock-based compensation expense of $0.5 million to be recognized over the remaining vesting period of 1.7 years. A change in the actual financial performance levels achieved by StreetAccount in future fiscal years could result in the following changes to the current estimate of the vesting percentage and related expense:

(in thousands) Vesting Percentage	Cumulative Catch-up Adjustment*	Remaining Expense to be Recognized
Fourth 20% (current expectation)	$ 0	$ 542
Fifth 20%	$ 1,312	$ 830

** Amounts represent the cumulative catch-up adjustment to be recorded if there was a change in the vesting percentage as of November 30, 2015.*

February 2015 Performance-based Option Grant Review

In connection with the acquisition of Code Red during the second quarter of fiscal 2015, FactSet granted 137,522 performance-based stock options. These performance-based options are eligible to vest four years from date of grant if certain Code Red ASV and operating margin targets are achieved over the measurement period. The option holders must also remain employed by FactSet to be eligible to vest. Of the total grant, 68,761 performance-based options are eligible for vesting based on achieving the growth targets over a two year measurement period ending February 28, 2017 and the remaining 68,761 options are eligible to cliff vest based on a four year measurement period ending February 28, 2019. As of November 30, 2015, total unamortized stock-based compensation of $1.9 million will be recognized as expense over the remaining vesting period of 3.2 years. A change, up or down, in the actual financial performance levels achieved by Code Red in future fiscal years could result in the following changes to the current estimate of the vesting percentage and related expense:

(in thousands) Vesting Percentage	Cumulative Catch-up Adjustment*	Remaining Expense to be Recognized
0%	$ (488)	$ 0
10%	$ (366)	$ 478
40% (current expectation)	$ 0	$ 1,912
70%	$ 366	$ 3,346
100%	$ 732	$ 4,780

** Amounts represent the cumulative catch-up adjustment to be recorded if there was a change in the vesting percentage as of November 30, 2015.*

October 2015 Performance-based Option Grant Review

In connection with the acquisition of Portware during the first quarter of fiscal 2016, FactSet granted 530,418 performance-based stock options. These performance-based options will vest 40% on the second anniversary date of the grant and 20% on each subsequent anniversary date if certain Portware revenue and operating income targets are achieved by October 16, 2017. The option holders must also remain employed by FactSet to be eligible to vest. As of November 30, 2015, FactSet does not believe these growth targets are probable of being achieved, and as such, no stock-based compensation expense is expected to be recognized in connection with these performance-based options. A change in the actual financial performance levels achieved by Portware in future fiscal years could result in the following changes to the current estimate of the vesting percentage and related expense:

(in thousands) Vesting Percentage	Cumulative Catch-up Adjustment*	Remaining Expense to be Recognized
0% (current expectation)	$ 0	$ 0
50%	$ 306	$ 11,944
70%	$ 429	$ 16,721
100%	$ 612	$ 23,888

** Amounts represent the cumulative catch-up adjustment to be recorded if there was a change in the vesting percentage as of November 30, 2015.*

Other Performance-based Option Grant

In connection with the acquisition of Matrix, FactSet granted 165,949 performance-based stock options on December 23, 2013 with a total grant date fair value of $5.0 million. The performance-based options granted in connection with the acquisition of Matrix will vest only if ASV and operating margin targets related to the Matrix business are met during a five year measurement period ending December 23, 2018, and the option holders remain employed by FactSet. As of November 30, 2015 FactSet does not believe these targets are probable of being achieved, and as such, no stock-based compensation expense is expected to be realized in connection with these options.

Restricted Stock and Stock Unit Awards

The Company’s Option Plan permit the issuance of restricted stock and restricted stock units. Restricted stock awards are subject to continued employment over a specified period.

Restricted Stock and Stock Unit Awards Activity

During the first three months of fiscal 2016, FactSet granted 93,120 restricted stock awards to employees of the Company at a weighted average grant date fair value of $159.46. These restricted stock awards vest over a weighted average period of 4.9 years from grant date.

As of November 30, 2015, a total of 368,486 shares of restricted stock and restricted stock units were unvested and outstanding, which results in unamortized stock-based compensation of $33.1 million to be recognized as stock-based compensation expense over the remaining vesting period of 3.8 years.

A summary of restricted stock award activity is as follows:

(in thousands, except per award data)	Number Outstanding		Weighted Average Grant Date Fair Value Per Award
Balance at August 31, 2015	313		$ 103.34
Granted	93		$ 159.46
Vested[(1)]	(37	)	$ 84.38
Canceled/forfeited	(1	)	$ 97.92
Balance at November 30, 2015	368		$ 119.44

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

Share-based Awards Available for Grant

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

(in thousands)

	Share-based Awards Available for Grant under the Employee Option Plan	Share-based Awards Available for Grant under the Non-Employee Directors Plan
Balance at August 31, 2015	2,441	88
Granted – non performance-based options	(514)	—
Granted – performance-based options	(530)	—
Restricted stock awards granted[1]	(232)	—
Share-based awards canceled/forfeited[2]	11	—
Balance at November 30, 2015	1,176	88

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

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

Employee Stock Purchase Plan

Shares of FactSet common stock may be purchased by eligible employees under the Amended and Restated FactSet Research Systems Inc. 2008 Employee Stock Purchase Plan (the "Purchase Plan") in three-month intervals at a purchase price equal to at least 85% of the lesser of the fair market value of the Company's common stock on either the first day or the last day of each three-month offering period. Employee purchases may not exceed 10% of their gross compensation during an offering period.

During the three months ended November 30, 2015, employees purchased 15,835 shares at a weighted average price of $130.36 as compared to 15,397 shares at a weighted average price of $108.68 in the same period a year ago. At November 30, 2015, 465,781 shares were reserved for future issuance under the Purchase Plan.

401(k) Plan

The Company established it 401(k) Plan in fiscal 1993. The 401(k) Plan is a defined contribution plan covering all full-time, U.S. employees of the Company and is subject to the provisions of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 ("IRC"). Each year, participants may contribute up to 60% of their eligible annual compensation, subject to annual limitations established by the IRC. The Company matches up to 4% of employees' earnings, capped at the Internal Revenue Service annual maximum. Company matching contributions are subject to a five year graduated vesting schedule. All full-time, U.S. employees are eligible for the matching contribution by the Company. The Company contributed \$2.0 million and \$1.8 million in matching contributions to employee 401(k) accounts during the three months ended November 30, 2015 and 2014, respectively.

14. STOCK-BASED COMPENSATION

The Company recognized total stock-based compensation expense of $6.5 million and $5.3 million during the three months ended November 30, 2015 and 2014, respectively. As of November 30, 2015, $91.0 million of total unrecognized compensation expense related to non-vested equity awards is expected to be recognized over a weighted average period of 3.9 years. There was no stock-based compensation capitalized as of November 30, 2015 or August 31, 2015, respectively.

Employee Stock Option Fair Value Determinations

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

Q1 2016	513,785 non performance-based employee stock options and 530,418 performance-based employee stock options were granted at a weighted average exercise price of $170.21 and a weighted average estimated fair value of $46.62 per share.
Q1 2015	462,913 non performance-based employee stock options were granted at a weighted average exercise price of $131.31 and a weighted average estimated fair value of $37.67 per share.

The weighted average estimated fair value of employee stock options granted during the three months ended November 30, 2015 and 2014 was determined using the binomial model with the following weighted average assumptions:

Three months ended November 30,	2015			2014		
Term structure of risk-free interest rate	0.07%	-	2.12%	0.06%	-	2.34%
Expected life (years)		7.8			8.2	
Term structure of volatility	21%	-	30%	21%	-	31%
Dividend yield		1.07%			1.37%	
Weighted average estimated fair value	$	46.62		$	37.67	
Weighted average exercise price	$	170.21		$	131.31	
Fair value as a percentage of exercise price		27.4%			28.7%	

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 based on the option's remaining vested life and the extent to which the option is in-the-money. The binomial model estimates the probability of exercise as a function of these two variables based on the entire history of exercises and cancellations of all past option grants made by the Company.

Non-Employee Director Stock Option Fair Value Determinations

The 2008 Non-Employee Directors' Stock Option Plan (the "Directors' Plan") provides for the grant of share-based awards, including stock options, to non-employee directors of FactSet. An initial 250,000 shares of FactSet common stock were reserved for issuance under the Directors' Plan, of which 88,590 remain available for future grant as of November 30, 2015. The expiration date of the Directors' Plan is December 1, 2018. There were no stock options granted to the Company's non-employee Directors during the three months ended November 30, 2015 and 2014, respectively.

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

Restricted Stock Fair Value Determinations

Restricted stock granted to employees entitles the holder to shares of common stock as the award vests over time, but not to dividends declared on the underlying shares while the restricted stock is unvested. The grant date fair value of restricted stock awards is measured by reducing the grant date price of FactSet's share by the present value of the dividends expected to be paid on the underlying stock during the requisite service period, discounted at the appropriate risk-free interest rate. Restricted stock awards are amortized to expense over the vesting period. During the first three months of fiscal 2016, there were 93,120 restricted stock awards granted with a weighted average grant date fair value of $159.46. During the first three months of fiscal 2015, FactSet granted 10,225 restricted stock awards at a weighted average grant date fair value of $127.58.

Employee Stock Purchase Plan Fair Value Determinations

During the three months ended November 30, 2015, employees purchased 15,835 shares at a weighted average price of $130.36 as compared to 15,397 shares at a weighted average price of $108.68 in the same period a year ago. Stock-based compensation expense recorded for the three months ended November 30, 2015 and 2014, relating to the employee stock purchase plan was $0.4 million and $0.3 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 the three months ended November 30, 2015 and 2014 were $25.41 and $20.86 per share, respectively, with the following assumptions:

Three months ended November 30,	2015	2014
Risk-free interest rate	0.05%	0.02%
Expected life (months)	3	3
Expected volatility	9.9 %	8.5 %
Dividend yield	1.15%	1.22%

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)

	2015	2014
Three months ended November 30,		
U.S. operations	$70,898	$65,958
Non-U.S. operations	16,503	14,732
Income before income taxes	$87,401	$80,690
U.S. operations	$24,072	$25,660
Non-U.S. operations	3,364	(830)
Total provision for income taxes	$27,436	$24,830
Effective tax rate	31.4 %	30.8 %

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

The components of the provision for income taxes consist of the following:

(in thousands)	2015	2014
Three months ended November 30,		
Current		
U.S. federal	$20,813	$22,704
U.S. state and local	1,206	1,325
Non-U.S.	3,029	1,208
Total current taxes	$25,048	25,237
Deferred		
U.S. federal	$1,938	$1,602
U.S. state and local	115	29
Non-U.S.	335	(2,038)
Total deferred taxes	$2,388	$(407)
Total provision for income taxes	$27,436	$24,830

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)	November 30, 2015	August 31, 2015
Current		
Receivable reserve	$519	$541
Deferred rent	913	794
Other	1,092	770
Net current deferred tax assets	$2,524	$2,105
Non-current		
Depreciation on property, equipment and leasehold improvements	$10,345	$10,880
Deferred rent	5,438	5,108
Stock-based compensation	16,469	17,562
Purchased intangible assets, including acquired technology	(24,838)	(17,533)
Other	4,215	4,582
Net non-current deferred tax assets	$11,629	$20,599
Total deferred tax assets	$14,153	$22,704

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

(in thousands)	November 30, 2015	August 31, 2015
Current		
Other	$ 507	$562
Net current deferred tax liabilities	$ 507	$562
Non-current		
Purchased intangible assets, including acquired technology	$ 1,728	$1,886
Stock-based compensation	(60)	—
Other	(185)	(189)
Net non-current deferred tax liabilities	$ 1,483	$1,697
Total deferred tax liabilities	$ 1,990	$2,259

A provision has not been made for additional U.S. Federal taxes as all undistributed earnings of foreign subsidiaries are considered to be invested indefinitely or will be repatriated free of additional tax. The amount of such undistributed earnings of these foreign subsidiaries included in consolidated retained earnings was immaterial at November 30, 2015 and August 31, 2015. As such, the unrecognized deferred tax liability on those undistributed earnings was immaterial. These earnings could become subject to additional tax if they are remitted as dividends, loaned to FactSet, or upon sale of the subsidiary’s stock.

Unrecognized Tax Positions

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

As of November 30, 2015, the Company had gross unrecognized tax benefits totaling $7.1 million, including $1.5 million of accrued interest, recorded as non-current taxes payable in the Consolidated Balance Sheet. Approximately $0.2 million of these unrecognized tax benefits would have affected the current year effective tax rate if realized as of November 30, 2015. Unrecognized tax benefits represent tax positions taken on tax returns but not yet recognized in the consolidated financial statements. When applicable, the Company adjusts the previously recorded tax expense to reflect examination results when the position is ultimately settled. The Company regularly engages in discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. It is reasonably possible that certain federal, foreign and state tax matters may be concluded in the next 12 months. However, FactSet has no reason to believe that such audits will result in the payment of additional taxes and/or penalties that could have a material adverse effect on the Company’s results of operations or financial position, beyond current estimates. Any changes in accounting estimates resulting from new developments with respect to uncertain tax positions will be recorded as appropriate. The Company does not currently anticipate that the total amounts of unrecognized tax benefits will significantly change within the next 12 months.

The following table summarizes the changes in the balance of gross unrecognized tax benefits during the first three months of fiscal 2016:

(in thousands)	
Unrecognized income tax benefits at August 31, 2015	$6,776
Additions based on tax positions related to the current year	165
Additions for tax positions of prior years	168
Unrecognized income tax benefits at November 30, 2015	$7,109

In the normal course of business, the Company’s tax filings are subject to audit by federal, state and foreign tax authorities. At November 30, 2015, the Company remained subject to examination in the following major tax jurisdictions:

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

16. LONG-TERM DEBT

FactSet's debt obligations consisted of the following:

(in thousands)	November 30, 2015	August 31, 2015
2015 Revolving Credit Facility *(maturity date of September 21, 2018)*	$ 300,000	$ 35,000
Total Outstanding Debt	$ 300,000	$ 35,000

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

On September 21, 2015, the Company amended the Credit Agreement to borrow an additional $265.0 million (the "Second Amendment) in order to fund FactSet's acquisition of Portware which closed on October 16, 2015. The maturity date on all outstanding loan amounts (which total $300.0 million as of November 30, 2015) is September 21, 2018. There are no prepayment penalties if the Company elects to prepay the outstanding loan amounts prior to the scheduled maturity date. The Second Amendment also allows FactSet, subject to certain requirements, to arrange for additional borrowings with the Lender for an aggregate amount of up to $400.0 million, provided that any such request for additional borrowings must be in a minimum amount of $25.0 million. The Second Amendment adjusted the interest rate on the total outstanding principal debt to a rate equal to the Eurodollar rate plus 0.75%.

All outstanding loan amounts are reported as long-term debt within the Consolidated Balance Sheet at November 30, 2015. Interest on the Loan is payable quarterly in arrears and on the maturity date. During the first three months of fiscal 2016, the Company paid approximately $0.4 million in interest on its outstanding Loan amount. The principal balance is payable in full on the maturity date.

As of November 30, 2015, no commitment fee was owed by FactSet since it borrowed the full amount under the Credit Agreement. Other fees incurred by the Company, such as legal costs to draft and review the Credit Agreement, totaled less than $0.1 million and were capitalized as loan origination fees. These loan origination fees are being amortized into interest expense over the term of the Loan (three years) using the effective interest method.

The Credit Agreement contains covenants restricting certain FactSet activities, which are usual and customary for this type of loan. In addition, the Credit Agreement requires that FactSet must maintain a consolidated leverage ratio, as measured by total funded debt/EBITDA below a specified level as of the end of each fiscal quarter. The Company was in compliance with all of the covenants of the Credit Agreement as of November 30, 2015.

17. 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 November 30, 2015, the Company leases approximately 202,000 square feet of office space at its headquarters in Norwalk, Connecticut. In addition, FactSet leases office space for its U.S. reportable segment in New York, New

York; Boston, Massachusetts; Chicago, Illinois; San Francisco, California; Austin, Texas; Jackson, Wyoming; Atlanta, Georgia; Tuscaloosa, Alabama; Newark, Ridgewood and Piscataway, New Jersey; Manchester, New Hampshire; Reston, Virginia, Youngstown, Ohio, and Toronto, Canada. The Company's European segment operates in leased office space in London, England; Paris and Avon, France; Amsterdam, the Netherlands; Frankfurt, Germany; Luxembourg; Dubai, United Arab Emirates; Milan, Italy; and Riga, Latvia. Office space in Tokyo, Japan; Hong Kong; Singapore; Mumbai, India; and Sydney, Australia are leased by FactSet for its Asia Pacific operating segment. The data content collection centers located in Hyderabad, India and Manila, the Philippines benefit all of the Companies operating segments. The leases expire on various dates through 2031. 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. At November 30, 2015, FactSet leases approximately 1,002,000 square feet of office space, which the Company believes is adequate for its current needs and that additional space is available for lease to meet any future needs.

Rent expense (including operating costs) for all operating leases amounted to \$10.3 million and \$9.7 million during the three months ended November 30, 2015 and 2014, respectively. At November 30, 2015 and August 31, 2015, deferred rent reported within the Consolidated Balance Sheets totaled \$22.4 million and \$20.9 million, of which \$19.7 million and \$18.4 million, respectively, was reported as a non-current liability within the line item *Deferred Rent and Other Non-Current Liabilities*.

During the three months ended November 30, 2015, FactSet entered into the following new lease agreements:

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

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

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

The Company's lease commitments for office space provide for the following future minimum rental payments under non-cancelable operating leases with remaining terms in excess of one year as of November 30, 2015:

(In thousands) Years Ended August 31,	Minimum Lease Payments
2016 (remaining nine months)	$18,212
2017	30,167
2018	29,194
2019	27,633
2020	21,325
Thereafter	152,182
Total	$278,713

Approximately $1.0 million of standby letters of credit have been issued during the ordinary course of business in connection with the Company's current leased office space as of November 30, 2015. These standby letters of credit contain covenants that, among other things, require the Company to maintain minimum levels of consolidated net worth and certain leverage and fixed charge ratios. As of November 30, 2015, FactSet was in compliance with all covenants contained in the standby letters of credit.

Purchase Commitments with Suppliers

Purchase obligations represent payments due in future periods in respect of commitments to the Company's various data vendors as well as commitments to purchase goods and services such as telecommunication and computer maintenance services. These purchase commitments are agreements that are enforceable and legally binding on FactSet and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. At August 31, 2015, the Company had total purchase commitments of $65.2 million. There were no material changes in the Company's purchase commitments during the first three months of fiscal 2016.

Contingencies

Income Taxes

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

Legal Matters

FactSet accrues non income-tax liabilities for contingencies when management believes that a loss is probable and the amounts can be reasonably estimated, while contingent gains are recognized only when realized. The Company is subject to legal proceedings, claims and litigation arising in the ordinary course of business, including intellectual property litigation. Based on information available at November 30, 2015, FactSet's management does not believe that the ultimate outcome of these unresolved matters against the Company, individually or in the aggregate, is likely to have a material adverse effect on the Company's consolidated financial position, its results of operations or its cash flows.

Indemnifications

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

Concentrations of Credit Risk

Cash equivalents

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

Accounts Receivable

Accounts receivable are unsecured and derived from revenues earned from clients located around the globe. FactSet does not require collateral from its clients but performs credit evaluations on an ongoing basis. The Company maintains reserves for potential write-offs and these losses have historically been within expectations. No single client represented 10% or more of FactSet’s total revenues in any period presented. At November 30, 2015, the Company’s largest individual client accounted for 2% of total annual subscriptions and subscriptions from the ten largest clients did not surpass 15% of total annual subscriptions, consistent with August 31, 2015. As of November 30, 2015 and August 31, 2015, the receivable reserve was $1.5 million and $1.6 million, respectively.

Derivative Instruments

As a result of the use of derivative instruments, the Company is exposed to counterparty credit risk. FactSet has incorporated counterparty risk into the fair value of its derivative assets and its own credit risk into the value of the Company’s derivative liabilities. FactSet calculates credit risk from observable data related to CDS as quoted by publicly available information. Counterparty risk is represented by CDS spreads related to the senior secured debt of the respective bank with whom FactSet has executed these derivative transactions. Because CDS spread information is not available for FactSet, the Company’s credit risk is determined based on using a simple average of CDS spreads for peer companies as determined by FactSet. To mitigate counterparty credit risk, FactSet enters into contracts with large financial institutions and regularly reviews credit exposure balances as well as the creditworthiness of the counterparties.

18. SUBSEQUENT EVENT

On December 18, 2015, the U.S. Congress passed the Consolidated Appropriations Act, 2016 (the “ACT”), which President Obama signed into law on the same day. The ACT reinstated and made permanent the U.S. Federal R&D tax credit (the “R&D tax credit”), which had previously expired on December 31, 2014. The reenactment of the R&D tax credit was retroactive to January 1, 2015 and by providing for a permanent R&D tax credit, the ACT eliminates the yearly uncertainty surrounding the extension of the credit. Prior to the reenactment of the R&D tax credit, FactSet had not been permitted to factor it into its effective tax rate as it was not currently enacted tax law. The timing of FactSet’s ability to recognize the R&D tax credit has been volatile due to the number of lapses and retroactive re-enactments. The reenactment is expected to result in discrete income tax benefits between $7.0 million and $7.5 million during the second quarter of fiscal 2016.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION ANDRESULTS 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
- Liquidity
-