FACTSET RESEARCH SYSTEMS INC
Form 10-Q
July 11, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the fiscal quarter ended May 31, 2011

OR

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

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** x **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** x **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	x	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** x

The number of shares outstanding of the registrant s common stock, $.01 par value, on May 31, 2011 was 45,830,400.

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FactSet Research Systems Inc.

Form 10-Q

For the Quarter Ended May 31, 2011

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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.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
FactSet Research Systems Inc.

CONSOLIDATED STATEMENTS OF INCOME Unaudited

(In thousands, except per share data)	Three Months Ended May 31, 2011	Three Months Ended May 31, 2010	Nine Months Ended May 31, 2011	Nine Months Ended May 31, 2010
Revenues	$ 183,647	$ 160,301	$ 534,571	$ 472,825
Operating expenses				
Cost of services	62,224	51,355	179,146	152,632
Selling, general and administrative	59,600	53,262	176,080	155,989
Total operating expenses	121,824	104,617	355,226	308,621
Operating income	61,823	55,684	179,345	164,204
Other income	172	86	429	475
Income before income taxes	61,995	55,770	179,774	164,679
Provision for income taxes	18,684	17,112	49,608	53,759
Net income	$ 43,311	$ 38,658	$ 130,166	$ 110,920
Basic earnings per common share	$ 0.94	$ 0.83	$ 2.82	$ 2.37
Diluted earnings per common share	$ 0.92	$ 0.81	$ 2.75	$ 2.30
Weighted average common shares (Basic)	45,969	46,544	46,145	46,872
Weighted average common shares (Diluted)	47,154	47,725	47,418	48,183

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

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FactSet Research Systems Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION Unaudited

(In thousands, except share data)	May 31, 2011	August 31, 2010
ASSETS		
Cash and cash equivalents	$ 208,668	$ 195,741
Accounts receivable, net of reserves of $1,903 at May 31, 2011 and $1,862 at August 31, 2010	67,537	59,693
Deferred taxes	4,156	2,812
Prepaid taxes	6,776	0
Other current assets	11,353	6,899
Total current assets	298,490	265,145
Property, equipment and leasehold improvements, at cost	175,883	160,952
Less accumulated depreciation and amortization	(94,096)	(81,457)
Property, equipment and leasehold improvements, net	81,787	79,495
Goodwill	228,559	221,991
Intangible assets, net	48,578	52,179
Deferred taxes	18,821	19,601
Other assets	8,396	6,197
TOTAL ASSETS	$ 684,631	$ 644,608
LIABILITIES		
Accounts payable and accrued expenses	$ 22,744	$ 23,976
Accrued compensation	32,138	48,607
Deferred fees	30,021	25,034
Taxes payable	0	1,073
Dividends payable	12,374	10,586
Total current liabilities	97,277	109,276
Deferred taxes	3,835	3,731
Taxes payable	6,795	7,346
Deferred rent and other non-current liabilities	22,287	21,849
TOTAL LIABILITIES	$ 130,194	$ 142,202
Commitments and contingencies (See Note 16)		
STOCKHOLDERS EQUITY		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued	$ 0	$ 0
Common stock, $.01 par value, 100,000,000 shares authorized, 61,312,572 and 60,142,905 shares issued; 45,830,400 and 46,024,137 shares outstanding at May 31, 2011 and August 31, 2010, respectively	613	601
Additional paid-in capital	415,047	344,144
Treasury stock, at cost: 15,482,172 and 14,118,768 shares at May 31, 2011 and August 31, 2010, respectively	(740,749)	(607,798)
Retained earnings	883,365	786,844
Accumulated other comprehensive loss	(3,839)	(21,385)
TOTAL STOCKHOLDERS EQUITY	554,437	502,406

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 684,631	$ 644,608

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

(In thousands)	Nine Months Ended May 31, 2011	Nine Months Ended May 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 130,166	$ 110,920
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	27,950	27,424
Stock-based compensation expense	15,352	10,239
Deferred income taxes	(483)	(5,617)
Gain on sale of assets	(3)	(123)
Tax benefits from share-based payment arrangements	(17,073)	(22,065)
Changes in assets and liabilities		
Accounts receivable, net of reserves	(7,844)	4,359
Accounts payable and accrued expenses	(1,671)	(580)
Accrued compensation	(17,179)	(8,022)
Deferred fees	4,987	(5,459)
Taxes payable, net of prepaid taxes	8,919	30,303
Prepaid expenses and other assets	(6,039)	(156)
Landlord contributions	1,354	483
Other working capital accounts, net	(1,440)	(877)
Net cash provided by operating activities	136,996	140,829
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment and leasehold improvements, net of proceeds from dispositions	(22,806)	(13,676)
Net cash used in investing activities	(22,806)	(13,676)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend payments	(31,655)	(27,908)
Repurchase of common stock	(132,951)	(153,489)
Proceeds from employee stock plans	37,936	47,180
Tax benefits from share-based payment arrangements	17,073	22,065
Net cash used in financing activities	(109,597)	(112,152)
Effect of exchange rate changes on cash and cash equivalents	8,334	(6,608)
Net increase in cash and cash equivalents	12,927	8,393
Cash and cash equivalents at beginning of period	195,741	216,320
Cash and cash equivalents at end of period	$ 208,668	$ 224,713

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FactSet Research Systems Inc.

May 31, 2011

(Unaudited)

1. ORGANIZATION AND NATURE OF BUSINESS

FactSet Research Systems Inc. (the Company or FactSet) is a leading provider of integrated financial information and analytical applications to the global investment community. By consolidating content from hundreds of databases with powerful analytics on a single platform, FactSet supports the investment process from initial research to published results for buy and sell-side professionals. These professionals include portfolio managers, research and performance analysts, risk managers, marketing professionals, sell-side equity research professionals, investment bankers and fixed income professionals. The Company s applications provide users access to company analysis, multicompany comparisons, industry analysis, company screening, portfolio analysis, predictive risk measurements, alphatesting, portfolio optimization and simulation, real-time news and quotes and tools to value and analyze fixed income securities and portfolios.

FactSet combines hundreds of data sets, including content regarding tens of thousands of companies and securities from major markets all over the globe, into a single online platform of information and analytics. Clients have simultaneous access to content from an array of sources, which they can combine and utilize in nearly all of the Company s applications. 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, databases and financial applications.

As of May 31, 2011, the Company employed 4,805 employees, an increase of 37 over the past three months and up 32% or 1,174 employees from a year ago. Of these employees, 1,555 were located in the U.S., 570 in Europe and the remaining 2,680 in Asia Pacific. Approximately 56% of employees are involved with content collection, 19% conduct sales and consulting services, another 21% are involved in product development, software and systems engineering and the remaining 4% provide administrative support.

2. BASIS OF PRESENTATION

FactSet conducts business globally and is managed on a geographic basis. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany activity and balances have been eliminated from the consolidated financial statements. The presentation of prior year segment operating profit for each of the Company s reportable segments in Note 7 to the Consolidated Statements of Financial Condition has been adjusted to conform to the current year s presentation. These reclassifications between the U.S., Europe and Asia Pacific reportable segments had no effect on the Company s previously reported total operating profit.

The accompanying financial data as of May 31, 2011 and for the three and nine months ended May 31, 2011 and 2010 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 accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The August 31, 2010 Consolidated Statement of Financial Condition 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. These consolidated financial statements should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes to them included in the Company s Annual Report on Form 10-K for the fiscal year ended August 31, 2010.

In the opinion of management, the accompanying statements of financial condition and related interim statements of 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.

FactSet has performed an evaluation of subsequent events occurring subsequent to the end of the Company s fiscal 2011 third quarter and through the date the consolidated financial statements were issued based on the accounting guidance for subsequent events.

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3. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Guidance

Revenue Recognition

In October 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance on revenue recognition that was effective for the Company beginning September 1, 2010. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The adoption of this new guidance did not have an impact on the Company s financial position and results of operations.

Recent Accounting Guidance Not Yet Adopted

In January 2010, the FASB issued authoritative guidance to require disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective beginning September 1, 2011. Other than requiring additional fair value disclosures, adoption of this new guidance will not have an impact on the Company s financial position and results of operations.

Other Recent Accounting Guidance FASB Accounting Standards Updates

During fiscal 2011, the FASB issued several ASU s ASU No. 2010-25 through ASU No. 2010-29 and ASU No. 2011-01 through ASU No. 2011-04. The ASU s entail technical corrections to existing guidance or affect guidance related to specialized industries or entities and do not have a material impact on the Company s financial position and results of operations.

4. FAIR VALUE MEASURES

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

(a) Fair Value Hierarchy

The accounting guidance 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 and derivatives within the hierarchy as follows:

Level 1

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

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 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 derivative instruments are classified as Level 2 as they are valued using pricing models that use observable market inputs.

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Level 3

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. Certain assets would be classified within Level 3 of the fair value hierarchy because they trade infrequently and, therefore, have little or no transparency. There were no Level 3 assets or liabilities held by FactSet as of May 31, 2011 or August 31, 2010.

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

The following tables shows by level within the fair value hierarchy the Company s assets and liabilities that are measured at fair value on a recurring basis at May 31, 2011 and August 31, 2010 (in thousands):

	Fair Value Measurements at Reporting Date Using			
May 31, 2011	Level 1	Level 2	Level 3	Total
Assets				
Corporate money market funds	$ 180,461	$ 0	$ 0	$ 180,461
Derivative instruments	$ 0	$ 1,768	$ 0	$ 1,768
Total assets measured at fair value	$ 180,461	$ 1,768	$ 0	$ 182,229
Liabilities				
Derivative instruments	$ 0	$ 0	$ 0	$ 0
Total liabilities measured at fair value	$ 0	$ 0	$ 0	$ 0

	Fair Value Measurements at Reporting Date Using			
August 31, 2010	Level 1	Level 2	Level 3	Total
Assets				
Corporate money market funds	$ 172,218	$ 0	$ 0	$ 172,218
Derivative instruments	0	879	0	879
Total assets measured at fair value	$ 172,218	$ 879	$ 0	$ 173,097
Liabilities				
Derivative instruments	$ 0	$ 1,220	$ 0	$ 1,220
Total liabilities measured at fair value	$ 0	$ 1,220	$ 0	$ 1,220

Cash Equivalents

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 cash equivalents are classified as Level 1.

Derivative Instruments

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

Assets and liabilities measured at fair value on a recurring basis were presented on the Company s Consolidated Statements of Financial Condition at May 31, 2011 and August 31, 2010 as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			
May 31, 2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 180,461	$ 0	$ 0	$ 180,461
Other current assets (derivative assets)	$ 0	$ 1,768	$ 0	$ 1,768
Total assets measured at fair value	$ 180,461	$ 1,768	$ 0	$ 182,229
Accounts payable and accrued liabilities	$ 0	$ 0	$ 0	$ 0
Total liabilities measured at fair value	$ 0	$ 0	$ 0	$ 0

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	Fair Value Measurements at Reporting Date Using			
August 31, 2010	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 172,218	$ 0	$ 0	$ 172,218
Other current assets (derivative assets)	0	879	0	879
Total assets measured at fair value	$ 172,218	$ 879	$ 0	$ 173,097
Accounts payable and accrued liabilities (derivative liabilities)	$ 0	$ 1,027	$ 0	$ 1,027
Deferred rent and other non-current liabilities (derivative liabilities)	0	193	0	193
Total liabilities measured at fair value	$ 0	$ 1,220	$ 0	$ 1,220

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

Certain assets, including goodwill and intangible assets, and liabilities, are measured at fair value on a non-recurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances such as when they are deemed to be other-than-temporarily impaired. The fair values of these non-financial assets and liabilities are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections. An impairment charge is recorded when the cost exceeds its fair value and this condition is determined to be other-than-temporary. During the three and nine months ended May 31, 2011, no fair value adjustments or material fair value measurements were required for the Company s non-financial assets or liabilities.

5. CASH AND CASH EQUIVALENTS

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

The following table summarizes the Company s cash and cash equivalents at May 31, 2011 (in thousands):

	Amortized Cost	Gross Unrealized Gain	Fair Value
Cash on hand	$ 28,207	$	$ 28,207
Corporate money market funds	180,461		180,461
Total cash and cash equivalents	$ 208,668	$	$ 208,668

The following table summarizes the Company s cash and cash equivalents at August 31, 2010 (in thousands):

	Amortized Cost	Gross Unrealized Gain	Fair Value
Cash on hand	$ 23,523	$	$ 23,523
Corporate money market funds	172,218		172,218
Total cash and cash equivalents	$ 195,741	$	$ 195,741

The Company did not hold any investments at May 31, 2011 or August 31, 2010. The Company s cash and cash equivalents portfolio did not experience any realized or unrealized losses as a result of counterparty credit risk or ratings change during fiscal 2011 and 2010.

6. DERIVATIVE INSTRUMENTS

Foreign Exchange Risk Management

FactSet conducts business outside the U.S. in several currencies including the British Pound Sterling, Euro, Japanese Yen, Indian Rupee and Philippine Peso. As such, it is exposed to movements in foreign currency exchange rates compared to the U.S. dollar. To manage the exposures related to the effects of foreign exchange rate fluctuations, the Company utilizes derivative instruments (foreign currency forward contracts). The Company s primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency. The Company does not enter into foreign exchange forward contracts for trading or speculative purposes.

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Cash Flow Hedges

FactSet enters into foreign currency forward contracts to reduce the effects of foreign currency fluctuations. These hedging programs are not designed to provide long-term foreign currency protection as the contracts have maturities of less than two years. In designing a specific hedging approach, FactSet considered several factors, including offsetting exposures, significance of exposures, forecasting risk and potential effectiveness of the hedge. These transactions are designated and accounted for as cash flow hedges in accordance with applicable accounting guidance. The changes in fair value for these foreign currency forward contracts are initially reported as a component of accumulated other comprehensive income (AOCI) and subsequently reclassified into operating expenses when the hedged exposure affects earnings. The gains and losses on foreign currency forward contracts mitigate the variability in operating expenses associated with currency movements. All components of each derivative s gain or loss were included in the assessment of hedge effectiveness. No amount of ineffectiveness was recorded in the Consolidated Statements of Income for the Company s designated cash flow hedges. There was no discontinuance of cash flow hedges during fiscal 2011 or fiscal 2010 and as such, no corresponding gains or losses were reclassified into earnings.

During the first quarter of fiscal 2011, FactSet entered into foreign currency forward contracts to hedge approximately 95% of its net Japanese Yen exposure through the end of the fourth quarter of fiscal 2011. In the second half of fiscal 2010, FactSet entered into foreign currency forward contracts to hedge approximately 95% of its net Euro exposure through the end of the first quarter of fiscal 2012 and 95% of its net British Pound Sterling exposure through the end of the third quarter of fiscal 2011.

At May 31, 2011 the notional principal and fair value of foreign exchange contracts to purchase Japanese Yen with U.S. dollars were ¥115.5 million and less than $0.1 million, respectively. At May 31, 2011, the notional principal and fair value of foreign exchange contracts to purchase Euros with U.S. dollars were 13.0 million and $1.8 million, respectively. At May 31, 2011, there were no outstanding foreign exchange forward contracts to purchase British Pound Sterling with U.S. dollars.

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

	Gross Notional Value		Fair Value Asset (Liability)	
Currency Hedged (Buy/Sell)	May 31, 2011	Aug 31, 2010	May 31, 2011	Aug 31, 2010
Euro / U.S. Dollar	$ 16,835	$ 42,367	$ 1,813	$ (1,220)
British Pound Sterling / U.S. Dollar	0	30,978	0	879
Japanese Yen / U.S. Dollar	1,373	0	(45)	0
Total	$ 18,208	$ 73,345	$ 1,768	$ (341)

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 as determined by FactSet.

To mitigate counterparty credit risk, FactSet enters into contracts with large financial institutions (JPMorgan Chase and Bank of America). The Company regularly reviews its credit exposure balances as well as the creditworthiness of the counterparties. The Company does not expect any losses as a result of default of its counterparties.

Fair Value of Derivative Instruments

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

Designation of Derivatives	Balance Sheet Location

		May 31, 2011	Aug 31, 2010
Derivatives designated as hedging instruments	Assets: Foreign Currency Forward Contracts		
	Other current assets	$ 1,768	$ 879
	Liabilities: Foreign Currency Forward Contracts		
	Accounts payable and accrued expenses	$	$ (1,027)
	Deferred rent and other non-current liabilities		(193)
	Total liabilities	$	$ (1,220)
Derivatives not designated as hedging instruments	None	$	$ 0
	Net Derivative Assets (Liabilities)	$ 1,768	$ (341)

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Derivatives in Cash Flow Hedging Relationships for the three months ended May 31, 2011 and 2010 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion) 2011	2010	Location of Gain Reclassified from AOCI into Income (Effective Portion)	Gain Reclassified from AOCI to Income (Effective Portion) 2011	2010
Foreign currency forward contracts	$ 1,411	$ (2,873)	SG&A	$ 1,887	$ (208)

Derivatives in Cash Flow Hedging Relationships for the nine months ended May 31, 2011 and 2010 (in thousands):

Derivatives in Cash Flow Hedging Relationships	Gain Recognized in AOCI on Derivatives (Effective Portion) 2011	2010	Location of Gain Reclassified from AOCI into Income (Effective Portion)	Gain Reclassified from AOCI to Income (Effective Portion) 2011	2010
Foreign currency forward contracts	$ 4,695	$ (2,176)	SG&A	$ 3,261	$ 1,340

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

Accumulated Other Comprehensive Income

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

	Nine Months Ended May 31, 2011	2010
Beginning balance, net of tax	$ (238)	$ 851
Changes in fair value	4,695	(2,176)
Gain reclassified to earnings	(3,261)	(1,340)
Ending balance, net of tax	$ 1,196	$ (2,665)

7. SEGMENT REPORTING

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

FactSet s reportable 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 reportable segments; U.S., Europe and Asia Pacific. FactSet believes this alignment helps it better manage the business and view the markets the Company serves, which are centered on providing integrated global financial and economic information. Sales, consulting, data collection and software engineering are the primary functional groups within the U.S., Europe and Asia Pacific segments that provide global financial and economic information to investment managers, investment banks and other financial services professionals. The U.S. segment services finance professionals including financial institutions throughout North America, while the European and Asia Pacific segments service investment professionals located throughout Europe and Asia.

The European segment is headquartered in London, England and maintains office locations in France, Germany, the Netherlands, Dubai and Italy. The Asia Pacific segment is headquartered in Tokyo, Japan with office locations in Hong Kong, Australia, India and the Philippines. Segment revenues reflect direct sales to clients based in their respective geographic locations. There are no intersegment or intercompany sales of the FactSet service. Each segment records compensation, including stock-based compensation, data collection costs, 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 and corporate headquarters charges are recorded by the U.S. segment and are not allocated to the other segments. Of the total $229 million of goodwill reported by the Company at May 31, 2011, 64% was recorded in the U.S. segment, 34% in the European segment and the remaining 2% in the Asia Pacific segment.

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

For the three months ended May 31, 2011	U.S.	Europe	Asia Pacific	Total
Revenues from clients	125,963	44,944	12,740	183,647
Segment operating profit	35,218	20,659	5,946	61,823
Total assets	385,885	270,070	28,676	684,631
Capital expenditures	4,296	1,073	2,004	7,373

For the three months ended May 31, 2010	U.S.	Europe	Asia Pacific	Total
Revenues from clients	108,593	40,694	11,014	160,301
Segment operating profit	29,926	19,716	6,042	55,684
Total assets	398,931	180,661	25,123	604,715
Capital expenditures	3,528	198	899	4,625

For the nine months ended May 31, 2011	U.S.	Europe	Asia Pacific	Total
Revenues from clients	365,737	132,000	36,834	534,571
Segment operating profit	102,832	59,377	17,136	179,345
Capital expenditures	16,425	1,418	4,963	22,806

For the nine months ended May 31, 2010	U.S.	Europe	Asia Pacific	Total
Revenues from clients	320,681	119,561	32,583	472,825
Segment operating profit	92,640	53,433	18,131	164,204
Capital expenditures	8,400	544	4,732	13,676

8. GOODWILL

On an ongoing basis, the Company evaluates goodwill at the reporting unit level for indications of potential impairment. Goodwill is tested for impairment based on the present value of discounted cash flows, and, if impaired, written down to fair value based on discounted cash flows. The Company has three reporting units, which are consistent with the operating segments reported because there is no discrete financial information available for the subsidiaries within each operating segment. The Company s reporting units evaluated for potential impairment were U.S., Europe and Asia Pacific, which reflects the level of internal reporting the Company uses to manage its business and operations. The Company performed an annual goodwill impairment test during the fourth quarter of fiscal years 2010, 2009, and 2008 and determined that there were no reporting units that were deemed at risk and there had been no impairment.

There was no goodwill acquired during fiscal 2011. Changes in the carrying amount of goodwill by segment for the nine months ended May 31, 2011 are as follows (in thousands):

	U.S.	Europe	Asia Pacific	Total
Balance at August 31, 2010	$ 145,826	$ 72,278	$ 3,887	$ 221,991
Goodwill acquired during the period	0	0	0	0
Foreign currency translations	0	6,438	130	6,568
Balance at May 31, 2011	$ 145,826	$ 78,716	$ 4,017	$ 228,559

9. INTANGIBLE ASSETS

The Company s identifiable intangible assets consist of acquired content databases, client relationships, software technology, non-compete agreements and trade names resulting from previous acquisitions, which have been fully integrated into the Company s operations. The weighted average useful life of all acquired intangible assets is 12.1 years at May 31, 2011.

The Company amortizes intangible assets over their estimated useful lives. Amortizable intangible assets are tested for impairment based on undiscounted cash flows, and, if impaired, written down to fair value based on either discounted cash flows or appraised values. No impairment of intangible assets has been identified during any of the periods presented. These intangible assets have no assigned residual values.

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

At May 31, 2011	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Data content	$ 52,670	$ 15,877	$ 36,793
Client relationships	21,129	12,221	8,908
Software technology	19,127	17,919	1,208
Non-compete agreements	1,750	350	1,400
Trade names	571	302	269
Total	$ 95,247	$ 46,669	$ 48,578

At August 31, 2010	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Data content	$ 49,278	$ 11,907	$ 37,371
Client relationships	20,348	9,776	10,572
Software technology	18,575	16,386	2,189
Non-compete agreements	1,813	150	1,663
Trade names	571	187	384
Total	$ 90,585	$ 38,406	$ 52,179

There were no intangible assets acquired during fiscal 2011. The increase in the gross carrying amount of intangible assets at May 31, 2011 as compared to August 31, 2010 was due to foreign currency translations.

Amortization expense recorded for intangible assets was $2.1 million and $1.9 million for the three months ended May 31, 2011 and 2010, respectively. Amortization expense recorded for intangible assets was $6.4 million and $6.0 million for the nine months ended May 31, 2011 and 2010, respectively. As of May 31, 2011, estimated intangible asset amortization expense for each of the next five years and thereafter are as follows (in thousands):

Fiscal Year	Estimated Amortization Expense
2011 (remaining three months)	$ 2,072
2012	7,450
2013	5,931
2014	4,850
2015	4,137
Thereafter	24,138
Total	$ 48,578

10. COMMON STOCK AND EARNINGS PER SHARE

On May 9, 2011, the Company s Board of Directors approved a 17% increase in the regular quarterly dividend, beginning with the Company s dividend payment in June 2011 of $0.27 per share, or $1.08 per share per annum. The cash dividend of $12.3 million was paid on June 21, 2011, to common stockholders of record on May 31, 2011. Shares of common stock outstanding were as follows (in thousands):

	Nine Months Ended May 31,

	2011	2010
Balance at September 1	46,024	46,740
Common stock issued for employee stock plans	1,168	1,829
Repurchase of common stock	(1,362)	(2,243)
Balance at May 31	45,830	46,326

Earnings per Share

Basic EPS is computed by dividing net income by the number of weighted average common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the number of weighted average common shares outstanding during the period increased by the dilutive effect of potential common shares outstanding during the period.

The number of potential common shares outstanding has been determined in accordance with the treasury stock method to the extent they are dilutive. Common share equivalents consist of common shares issuable upon the exercise of outstanding share-based compensation awards, including employee stock options and restricted stock.

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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 May 31, 2011			
Basic EPS			
Income available to common stockholders	$ 43,311	45,969	$ 0.94
Diluted EPS			
Dilutive effect of stock options and restricted stock		1,185	
Income available to common stockholders plus assumed conversions	$ 43,311	47,154	$ 0.92
For the three months ended May 31, 2010			
Basic EPS			
Income available to common stockholders	$ 38,658	46,544	$ 0.83
Diluted EPS			
Dilutive effect of stock options and restricted stock		1,181	
Income available to common stockholders plus assumed conversions	$ 38,658	47,725	$ 0.81
For the nine months ended May 31, 2011			
Basic EPS			
Income available to common stockholders	$ 130,166	46,145	$ 2.82
Diluted EPS			
Dilutive effect of stock options and restricted stock		1,273	
Income available to common stockholders plus assumed conversions	$ 130,166	47,418	$ 2.75
For the nine months ended May 31, 2010			
Basic EPS			
Income available to common stockholders	$ 110,920	46,872	$ 2.37
Diluted EPS			
Dilutive effect of stock options and restricted stock		1,311	
Income available to common stockholders plus assumed conversions	$ 110,920	48,183	$ 2.30

Dilutive potential common shares consist of stock options and unvested restricted stock awards. No stock options were excluded from the calculation of diluted earnings per share for the three months ended May 31, 2011 and for the three and nine months ended May 31, 2010. However, for the nine months ended May 31, 2011, there were 1,424 stock options excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. No restricted stock awards were excluded from the calculation of diluted earnings per share for the three months ended May 31, 2011 and for the three and nine months ended May 31, 2010. However, for the nine months ended May 31, 2011, there were 5,015 restricted stock awards excluded from the calculation of diluted earnings per share.

For the three and nine months ended May 31, 2011, the number of performance-based stock option grants excluded from the calculation of diluted earnings per share was 2,514,891. Similarly, 1,878,408 performance-based stock option grants were excluded from the calculation of diluted earnings per share for the three and nine months ended May 31, 2010. Performance-based stock options should be omitted from the calculation of diluted earnings per share until the performance criteria have been met. The criteria had not yet been met at May 31, 2011 and 2010 for performance-based stock options granted in fiscal 2011 and 2010.

11. STOCKHOLDERS EQUITY

Share Repurchase Program

On June 13, 2011, the Company s Board of Directors approved a $200 million expansion to the existing share repurchase program. During the first nine months of fiscal 2011, the Company repurchased 1,362,236 shares for $133 million under the existing share repurchase program. Including the $200 million expansion, $226 million remains authorized for future share repurchases. Repurchases will be made from time to time in the open market and privately negotiated transactions, subject to market conditions. No minimum number of shares to be repurchased has been fixed. There is no timeframe to complete the

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repurchase program and it is expected that share repurchases will be paid using existing and future cash generated by operations.

Preferred Stock

At May 31, 2011 and August 31, 2010, 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.

Dividends

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

Declaration Date	Dividends Per Share of Common Stock	Type	Record Date	Total $ Amount (in thousands)	Payment Date
May 9, 2011	$ 0.27	Regular (cash)	May 31, 2011	$ 12,374	June 21, 2011
February 9, 2011	$ 0.23	Regular (cash)	February 28, 2011	$ 10,612	March 15, 2011
November 10, 2010	$ 0.23	Regular (cash)	November 30, 2010	$ 10,660	December 21, 2010
August 10, 2010	$ 0.23	Regular (cash)	August 31, 2010	$ 10,586	September 21, 2010
May 14, 2010	$ 0.23	Regular (cash)	May 28, 2010	$ 10,655	June 15, 2010
February 9, 2010	$ 0.20	Regular (cash)	February 26, 2010	$ 9,329	March 16, 2010
November 10, 2009	$ 0.20	Regular (cash)	November 30, 2009	$ 9,423	December 15, 2009

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.

Restricted Stock Awards

During the first nine months of fiscal 2011, the Company granted 153,189 restricted stock awards which entitle the holder to shares of common stock as the awards vest over time. The Company s restricted stock awards granted in fiscal 2011 vest between three and six years and are amortized to stock-based compensation expense over the vesting period.

12. COMPREHENSIVE INCOME

Comprehensive Income

The components of comprehensive income were as follows for the periods presented (in thousands):

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2011	2010	2011	2010
Net income	$ 43,311	$ 38,658	$ 130,166	$ 110,920
Other comprehensive income, net of tax:				
Net unrealized (loss) gain on cash flow hedges	(473)	(2,665)	1,434	(3,516)
Foreign currency translation adjustments	4,379	(9,548)	16,112	(18,579)
Comprehensive income	$ 47,217	$ 26,445	$ 147,712	$ 88,825

Accumulated Other Comprehensive Loss

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

	May 31, 2011	August 31, 2010
Accumulated unrealized gain (loss) on cash flow hedges, net of tax	$ 1,196	$ (238)
Accumulated foreign currency translation adjustments	(5,035)	(21,147)
Total accumulated other comprehensive loss	$ (3,839)	$ (21,385)

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13. EMPLOYEE STOCK OPTION AND RETIREMENT PLANS

At the Company s annual meeting of stockholders held on December 14, 2010, the stockholders of FactSet voted on and approved the Amended and Restated FactSet Research Systems Inc. 2004 Stock Option and Award Plan (the Plan), including the reservation of an additional 4,000,000 shares of common stock for issuance thereunder. The terms and conditions of the Plan are more fully described in FactSet s revised proxy statement filed December 6, 2010.

Stock Options

Stock Option Awards

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

General Stock Option Activity

In the first nine months of fiscal 2011, FactSet granted 965,682 stock options at a weighted average exercise price of $89.27 to existing employees of the Company.

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, 2010	6,451	$	47.73
Granted non performance-based	85		88.40
Granted performance-based	809		88.40
Exercised	(605)		31.54
Forfeited	(22)		60.07
Balance at November 30, 2010	6,718	$	54.56
Granted non performance-based	0		0
Granted performance-based	65		99.78
Granted non-employee Directors grant	15		95.05
Exercised	(283)		31.15
Forfeited	(36)		65.91
Balance at February 28, 2011	6,479	$	56.07
Granted non performance-based	6		103.30
Exercised	(224)		36.46
Forfeited	(27)		70.75
Balance at May 31, 2011	6,234		56.76

The total number of in-the-money options exercisable as of May 31, 2011 was 2.6 million with a weighted average exercise price of $37.99. As of August 31, 2010, 3.3 million in-the-money outstanding options were exercisable with a weighted average exercise price of $34.49. The aggregate intrinsic value of in-the-money stock options exercisable at May 31, 2011 and August 31, 2010 was $190.4 million and $130.1 million, respectively. Aggregate intrinsic value represents the difference between the Company s closing stock price of $110.86 at May 31, 2011 and the exercise price multiplied by the number of options exercisable as of that date. The total pre-tax intrinsic value of stock options exercised during the three months ended May 31, 2011 and 2010 was $15.5 million and $12.4 million, respectively. The total pre-tax intrinsic value of stock options exercised during the nine months ended May 31, 2011 and 2010 was $65.0 million and $74.2 million, respectively.

Performance-based Stock Options

Performance-based stock options require management to make assumptions regarding the likelihood of achieving Company performance targets. The number of performance-based options that vest will be predicated on the Company achieving performance levels for both organic ASV and diluted earnings per share during the two fiscal years subsequent to the date of grant. Dependent on the financial performance levels attained by FactSet during the two subsequent fiscal years, 0%, 20%, 60% or 100% of the performance-based stock options will vest to the grantees of those stock options. However, there is no current guarantee that such options will vest in whole or in part.

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October 2009 Annual Employee Performance-based Option Grant Review

In October 2009, the Company granted 900,665 performance-based employee stock options. The number of performance-based options that vest is based on the Company achieving performance levels for both organic ASV and diluted earnings per share during the two fiscal years ended August 31, 2011. At May 31, 2011, FactSet estimated that it was probable the Company would achieve ASV and diluted earnings per share growth of between 8% - 10% on a compounded annual basis for the two years ended August 31, 2011. As such, at May 31, 2011, the Company has estimated that 60% or 540,399 of the performance-based stock options will vest.

However, a change from the current expected outcome of the October 2009 performance-based stock options due to accelerating ASV and diluted EPS growth rates during the fourth quarter of fiscal 2011 would require the Company to record an incremental $3.4 million of stock-based compensation during the fourth quarter (equal to approximately $0.05 per diluted share). A change in the expected outcome would only result if the Company s ASV and diluted EPS growth rates during the two fiscal years ended August 31, 2011 exceeded 10%. The amount of additional stock-based compensation equal to $3.4 million represents the one-time cumulative adjustment to be recorded if there had been a change in the vesting percentage from 60% to 100% as of May 31, 2011. The one-time cumulative adjustment would also increase the total unamortized stock-based compensation expense to be recognized over the remaining vesting period from $4.1 million to $6.8 million.

November 2010 Annual Employee Performance-based Option Grant Review

In November 2010, the Company granted 734,334 performance-based employee stock options. The number of performance-based options that vest is based on the Company achieving performance levels for both organic ASV and diluted earnings per share during the two fiscal years ended August 31, 2012. At May 31, 2011, the Company estimated that 20% or 146,867 of the performance-based stock options will vest which results in unamortized stock-based compensation expense of $2.5 million to be recognized over the remaining vesting period.

A change in the actual financial performance levels achieved by FactSet could result in the following changes to the Company s current estimate of the vesting percentage and related expense (in thousands):

Vesting Percentage	Total Unamortized Stock-based Compensation Expense at May 31, 2011	One-time Adjustment*	Average Remaining Quarterly Expense to be Recognized
0%	$ 0	$ (532)	$ 0
20%	$ 2,495	$ 0	$ 141
60%	$ 7,487	$ 1,064	$ 423
100%	$ 12,478	$ 2,128	$ 705

* Amounts represent the one-time cumulative adjustment to be recorded if there had been a change in the vesting percentage as of May 31, 2011. The one-time cumulative adjustment increments each quarter by approximately the amount stated in the average remaining quarterly expense to be recognized column.

Other Performance-based Option Grants

Between June 2010 and January 2011, the Company granted 960,331 performance-based employee stock options that vest based on FactSet achieving certain ASV targets over a six year period. At May 31, 2011, the Company estimated that 194,306 of the performance-based stock options will vest which results in unamortized stock-based compensation expense of $3.4 million to be recognized over the remaining vesting period.

A change from the current expected outcome of these performance-based stock options due to accelerating ASV growth rates during the fourth quarter of fiscal 2011 would require the Company to record an incremental $1.3 million of stock-based compensation during the fourth quarter (equal to approximately $0.02 per diluted share). The amount of additional stock-based compensation represents the one-time cumulative adjustment to be recorded if there had been a change in the vesting period based on achieving ASV targets earlier than estimated. If 100% of the 960,331 performance-based stock options granted between June 2010 and January 2011 were to vest, the Company would incur an incremental $16.0 million of stock-based compensation over the vesting period of six years.

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Restricted Stock and Stock Unit Awards

The Company s option plan permits the issuance of restricted stock and restricted stock units. Restricted stock awards are subject to continued employment over a specified period. A summary of restricted stock award activity is as follows (in thousands, except per award data): During the first six months of fiscal 2011, the following restricted stock awards were granted.

	Number Outstanding	Weighted Average Grant Date Fair Value Per Award	
Balance at August 31, 2010	261	$	61.65
Granted (restricted stock and stock units)	121	$	84.36
Vested	0	$	0
Canceled/forfeited	(1)	$	67.04
Balance at November 30, 2010	381	$	68.85
Granted (restricted stock and stock units)	2	$	94.63
Vested	0	$	0
Canceled/forfeited	(2)	$	69.51
Balance at February 28, 2011	381	$	69.00
Granted (restricted stock and stock units)	30	$	99.75
Vested	0	$	0
Canceled/forfeited	(2)	$	73.01
Balance at May 31, 2011	409	$	71.24

November 2010 Employee Restricted Stock Award

In November 2010, the Company granted 117,723 restricted stock awards which entitle the holder to shares of common stock as the awards vest over time. The Company s restricted stock awards cliff vest 60% after three years and the remaining 40% after five years. Restricted stock grants are amortized to expense over the vesting period using the straight-line attribution method. Employees granted restricted stock awards in November 2010 are not entitled to dividends declared on the underlying shares while the restricted stock is unvested. As such, the grant date fair value of the award was 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 shares during the requisite service period, discounted at the appropriate risk-free interest rate. The closing price of FactSet common stock on the grant date of $88.40 was reduced to reflect the loss of future dividends (non-dividend protection right). The resulting fair value of the restricted stock awards granted on November 8, 2010 was $84.38. As of May 31, 2011, unamortized stock-based compensation expense of $7.3 million is to be amortized to compensation expense over the remaining vesting period.

April 2011 Employee Restricted Stock Award

On April 14, 2011, the Company granted 30,090 restricted stock awards to employees which entitle the holder to shares of common stock as the award vests over time, but are not entitled to dividends declared on the underlying shares while the restricted stock is unvested. The restricted stock awards cliff vest 100% after three years and are amortized to expense over the vesting period using the straight-line attribution method. The grant date fair value of the awards were 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 shares during the requisite service period, discounted at the appropriate risk-free interest rate. As such, the closing price of FactSet common stock on the grant date of $103.30 was reduced to reflect the loss of future dividends (non-dividend protection right). The resulting weighted average fair value of the restricted stock awards granted on April 14, 2011 was $99.75. As of May 31, 2011, unamortized stock-based compensation expense of $2.9 million is to be amortized to compensation expense over the remaining vesting period.

January 2011 Employee Restricted Stock Award

In January 2011, the Company granted 366 shares of restricted stock with a fair value of $95.24, which entitle the holder to shares of common stock as the awards vest over time. The Company s restricted stock awards cliff vest 60% after three years and the remaining 40% after five years. Restricted stock grants are amortized to expense over the vesting period using the straight-line attribution method. And are not entitled to dividends declared on the underlying shares while the restricted stock is unvested. As of May 31, 2011, unamortized stock-based compensation expense of less than $0.1 million is to be amortized ratably to compensation expense over the remaining vesting period.

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Other Employee Restricted Stock Units Granted (Performance-based)

Between June 2010 and January 2011, the Company granted 20,010 restricted stock units which entitle the holder to shares of common stock as the awards vest over time. A restricted stock unit is a promise to deliver shares to the employee at a future date if certain vesting conditions are met. The primary difference between a restricted stock unit and restricted stock is the timing of the delivery of the underlying shares. FactSet is not required to deliver the shares to the employees until the vesting conditions are met. The Company s restricted stock units are performance-based and cliff vest 25% when serviced ASV targets are achieved during a six year period. Restricted stock units are amortized to expense based on a graded-vesting attribution approach over the vesting period. The closing price of FactSet common stock on the grant date was reduced to reflect the loss of future dividends with the resulting fair value of $68.69. As of May 31, 2011, unamortized stock-based compensation expense of $1.0 million is to be amortized to compensation expense over the remaining vesting period.

A change from the current expected outcome of these performance-based restricted stock units due to accelerating ASV growth rates during the fourth quarter of fiscal 2011 would require the Company to record an incremental $0.4 million of stock-based compensation during the fourth quarter (equal to approximately $0.01 per diluted share). The amount of additional stock-based compensation represents the one-time cumulative adjustment to be recorded if there had been a change in the vesting period based on achieving ASV targets earlier than estimated.

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, 2010	2,216	162
Granted non performance-based options	(85)	0
Granted performance-based options	(809)	0
Restricted stock awards granted*	(303)	0
Share-based awards canceled/forfeited	25	0
Share-based awards expired	0	0
Balance at November 30, 2010	1,044	162
Amendment to the 2004 Stock Option and Award Plan to increase the number of shares available for issuance**	4,000	0
Granted non performance-based options	0	0
Granted performance-based options	(65)	0
Granted non-employee Directors grant	0	(15)
Restricted stock awards granted*	(5)	0
Share-based awards canceled/forfeited	41	0
Share-based awards expired	0	0
Balance at February 28, 2011	5,015	147
Granted non performance-based options	(6)	0
Granted performance-based options	0	0
Restricted stock awards granted*	(75)	0
Share-based awards canceled/forfeited	32	0
Share-based awards expired	0	0
Balance at May 31, 2011	4,966	147

* As reflected in the preceding table, for each share awarded as restricted stock under the Company s option plan, an equivalent of 2.5 shares were deducted from the available share-based awards balance.

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

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Employee Stock Purchase Plan

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

Employees purchased 56,659 shares at a price of $75.58 during the first nine months of fiscal 2011. During the three months ended May 31, 2011, employees purchased 18,053 shares at a weighted average price of $87.02 as compared to 22,510 shares at a weighted average price of $57.46 in the same period a year ago. At May 31, 2011, 299,597 shares were reserved for future issuance under the Purchase Plan.

401(k) Plan

The Company established a 401(k) Plan (the 401(k) Plan) in fiscal 1993. The 401(k) Plan is a defined contribution plan covering all full-time, U.S. employees of the Company and is subject to the provisions of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986. Each year, participants may contribute up to 60% of their eligible annual compensation, subject to annual limitations established by the Internal Revenue Code. The Company matches up to 4% of employees earnings, capped at the IRS annual maximum. Company matching contributions are subject to a five year graduated vesting schedule. All full-time, U.S. employees are eligible for the matching contribution by the Company. The Company contributed $4.3 million and $3.8 million in matching contributions to employee 401(k) accounts during the nine months ended May 31, 2011 and 2010, respectively.

14. STOCK-BASED COMPENSATION

Accounting guidance requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including stock options, restricted stock and common shares acquired under employee stock purchases based on estimated fair values of the share awards that are scheduled to vest during the period. As stock-based compensation expense recognized is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based primarily on historical experience.

The following table summarizes stock-based compensation expense for the three and nine months ended May 31, 2011 and 2010 (in thousands):

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2011	2010	2011	2010
Stock-based compensation	$ 4,975	$ 4,142	$ 15,352	$ 10,239
Tax impact of stock-based compensation	(1,542)	(1,389)	(4,811)	(3,442)
Stock-based compensation, net of tax	$ 3,433	$ 2,753	$ 10,541	$ 6.797

As of May 31, 2011, $47.6 million of total unrecognized compensation expense related to non-vested awards is expected to be recognized over a weighted average period of 3.6 years. There was no stock-based compensation capitalized as of May 31, 2011 or August 31, 2010, respectively.

Employee Stock Option Fair Value Determinations

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

Fiscal 2011

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

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

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

Fiscal 2010

Q1 2010 32,476 non performance-based employee stock options and 900,665 performance-based employee stock options were granted at a weighted average exercise price of $66.46 and a weighted average estimated fair value of $19.99 per share.

Q2 2010 297,483 non performance-based employee stock options were granted at a weighted average exercise price of $63.09 and a weighted average estimated fair value of $21.01 per share.

Q3 2010 there were no stock options granted during the third quarter of fiscal 2010.

The weighted average estimated fair value of employee stock options granted was determined using the binomial model with the following weighted average assumptions:

	Three Months Ended May 31, 2011	Nine Months Ended May 31, 2011	Nine Months Ended May 31, 2010
Term structure of risk-free interest rate	0.19% - 1.00%	0.18% - 1.88%	0.15% - 3.30%
Expected life	4.0 years	4.0 - 6.5 years	4.0 - 6.7 years
Term structure of volatility	23% - 35%	23% - 35%	27% - 36%
Dividend yield	1.07%	1.25%	1.58%
Weighted average estimated fair value	$23.41	$24.72	$20.24

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

Non-Employee Director Stock Option Fair Value Determinations

On December 16, 2008, the Company s stockholders approved the 2008 Non-Employee Directors Stock Option Plan (the Directors Plan) that provides for the grant of share-based awards, including stock options, to non-employee directors of FactSet. The ratification of the Directors Plan replaced the FactSet 1998 Non-Employee Directors Stock Option Plan, which had expired on November 1, 2007, except with respect to outstanding options previously granted thereunder. A total of 250,000 shares of FactSet common stock have been reserved for issuance under the Directors Plan. The expiration date of the Directors Plan is December 1, 2018. The shares of common stock to be issued may be either authorized and unissued shares or shares held by the Company in its treasury.

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

Fiscal 2011

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

Risk-free interest rate	2.13%
Expected life	5.43 years
Expected volatility	31.1%
Dividend yield	1.18%

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Fiscal 2010

On January 15, 2010, 18,510 stock options were granted to the Company s non-employee Directors with a weighted average estimated fair value of $21.06 per share, using the Black-Scholes option-pricing model with the following weighted average assumptions:

Risk-free interest rate	2.54%
Expected life	5.43 years
Expected volatility	35.4%
Dividend yield	1.42%

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

Restricted Stock Fair Value Determinations

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

Fiscal 2011

117,723 shares of restricted stock with a fair value of $84.38 were granted on November 8, 2010.

366 shares of restricted stock with a fair value of $95.24 were granted on January 27, 2011.

3,291 restricted stock units with a fair value of $83.49 were granted on November 8, 2010.

1,719 restricted stock units with a fair value of $94.50 were granted on January 27, 2011.

30,090 restricted stock units with a fair value of $99.75 were granted on April 14, 2011.

Fiscal 2010

161,794 shares of restricted stock with a fair value of $62.85 were granted on October 23, 2009.

90,030 restricted stock awards with a fair value of $59.42 were granted on February 9, 2010. Of the total number of restricted stock awards granted, 55,572 cliff vest 100% after three years. The remaining 34,458 restricted stock awards cliff vest 50% after four years and the other 50% after six years.

Employee Stock Purchase Plan Fair Value Determinations

Employees purchased 56,659 shares at a price of $75.58 during the first nine months of fiscal 2011. During the three months ended May 31, 2011, employees purchased 18,053 shares at a weighted average price of $87.02 as compared to 22,510 shares at a weighted average price of $57.46 in the same period a year ago.

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 May 31, 2011 and 2010 were $16.97 and $11.50 per share, respectively, with the following weighted average assumptions:

	Three Months Ended May 31,	
	2011	2010
Risk-free interest rate	0.07%	0.17%
Expected life	3 months	3 months
Expected volatility	9.8%	12.6%
Dividend yield	0.9%	1.4%

The weighted average estimated fair value of employee stock purchase plan grants during the nine months ended May 31, 2011 and 2010 were $14.71 and $11.14 per share, respectively, with the following weighted average assumptions:

	Nine Months Ended May 31, 2011	2010
Risk-free interest rate	0.12%	0.11%
Expected life	3 months	3 months
Expected volatility	9.7%	14.2%
Dividend yield	1.0%	1.3%

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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 by geographic operations is as follows (in thousands):

	Three months ended May 31,			Nine months ended May 31,		
	2011	2010	Change	2011	2010	Change
U.S. operations	$ 52,172	$ 47,961	8.8%	$ 151,743	$ 145,626	4.2%
Non-U.S. operations	9,823	7,809	25.8%	28,031	19,053	47.1