FACTSET RESEARCH SYSTEMS INC
Form 10-Q
January 09, 2018

**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, 2017

**OR**

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

For the transition period from ______to ______

**Commission File Number: 1-11869**

**FACTSET RESEARCH SYSTEMS INC.**

**(Exact name of registrant as specified in its charter)**

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

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

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

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

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

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

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

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

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

The number of shares outstanding of the registrant's common stock, $.01 par value, as of December 31, 2017 was 39,023,879.

**FactSet Research Systems Inc.**

**Form 10-Q**

**For the Quarter Ended November 30, 2017**

**Index**

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**

| | Three Months Ended November 30, | |
|---|---|---|
| *(In thousands, except per share data)* | 2017 | 2016 |
| Revenues | $329,141 | $288,063 |
| Operating expenses | | |
| Cost of services | 161,524 | 127,250 |
| Selling, general and administrative | 78,519 | 70,494 |
| Total operating expenses | 240,043 | 197,744 |
| Operating income | 89,098 | 90,319 |
| Other expense | (2,919) | (499) |
| Income before income taxes | 86,179 | 89,820 |
| Provision for income taxes | 15,800 | 23,237 |
| Net income | $70,379 | $66,583 |
| Basic earnings per common share | $1.80 | $1.67 |
| Diluted earnings per common share | $1.77 | $1.66 |
| Basic weighted average common shares | 39,085 | 39,827 |
| Diluted weighted average common shares | 39,680 | 40,100 |

*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)* | 2017 | 2016 |
| Net income | $70,379 | $66,583 |
| Other comprehensive income (loss), net of tax | | |
| Net unrealized (loss) gain on cash flow hedges* | (476) | 447 |
| Foreign currency translation adjustments | 8,466 | (11,497) |
| Other comprehensive income (loss) | 7,990 | (11,050) |
| Comprehensive income | $78,369 | $55,533 |

*For the three months ended November 30, 2017, the unrealized loss on cash flow hedges was net of tax benefits of $288. For the three months ended November 30, 2016, the unrealized gain on cash flow hedges was net of tax expense of $261.

*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, 2017 *(Unaudited)* | August 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $221,933 | $194,731 |
| Investments | 31,677 | 32,444 |
| Accounts receivable, net of reserves of $2,920 at November 30, 2017 and $2,738 at August 31, 2017 | 144,848 | 148,331 |
| Prepaid taxes | — | 7,076 |
| Deferred taxes | — | 2,668 |
| Prepaid expenses and other current assets | 28,554 | 24,126 |
| Total current assets | 427,012 | 409,376 |
| Property, equipment and leasehold improvements, net | 98,731 | 100,454 |
| Goodwill | 712,476 | 707,560 |
| Intangible assets, net | 168,874 | 173,543 |
| Deferred taxes | 6,975 | 7,412 |
| Other assets | 16,534 | 14,970 |
| **TOTAL ASSETS** | $1,430,602 | $1,413,315 |
| | | |
| **LIABILITIES** | | |
| Accounts payable and accrued expenses | $67,669 | $59,214 |
| Accrued compensation | 20,658 | 61,083 |
| Deferred fees | 43,423 | 47,495 |
| Deferred taxes | — | 2,382 |
| Taxes payable | 7,948 | 9,112 |
| Dividends payable | 21,902 | 21,853 |
| Total current liabilities | 161,600 | 201,139 |
| Long-term debt | 574,666 | 575,000 |
| Deferred taxes | 25,028 | 24,892 |
| Deferred fees | 4,713 | 3,921 |
| Taxes payable | 9,465 | 11,484 |
| Deferred rent and other non-current liabilities | 36,913 | 37,188 |
| **TOTAL LIABILITIES** | $812,385 | $853,624 |
| Commitments and contingencies (See Note 17) | | |
| **STOCKHOLDERS' EQUITY** | | |
| Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued | $— | $— |
| Common stock, $.01 par value, 150,000,000 shares authorized, 52,101,426 and 51,845,132 shares issued; 39,110,080 and 39,023,032 shares outstanding at November 30, 2017 and August 31, 2017, respectively | 521 | 518 |
| Additional paid-in capital | 775,509 | 741,748 |

| | | |
|---|---|---|
| Treasury stock, at cost: 12,991,346 and 12,822,100 shares at November 30, 2017 and August 31, 2017, respectively | (1,638,384) | (1,606,678) |
| Retained earnings | 1,507,301 | 1,458,823 |
| Accumulated other comprehensive loss | (26,730) | (34,720) |
| **TOTAL STOCKHOLDERS' EQUITY** | $618,217 | $559,691 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $1,430,602 | $1,413,315 |

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

**FactSet Research Systems Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS – Unaudited**

| | Three months Ended | |
|---|---|---|
| *(in thousands)* | November 30, 2017 | November 30, 2016 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $70,379 | $66,583 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 14,286 | 10,016 |
| Stock-based compensation expense | 7,481 | 6,385 |
| Deferred income taxes | 875 | 4,907 |
| Loss on sale of assets | 17 | — |
| Tax benefits from share-based payment arrangements | — | (5,511) |
| Changes in assets and liabilities, net of effects of acquisitions | | |
| Accounts receivable, net of reserves | 3,511 | (9,985) |
| Accounts payable and accrued expenses | 8,604 | 2,043 |
| Accrued compensation | (40,384) | (34,261) |
| Deferred fees | (3,531) | (3,118) |
| Taxes payable, net of prepaid taxes | 7,401 | 13,786 |
| Prepaid expenses and other assets | (6,716) | (2,805) |
| Deferred rent and other non-current liabilities | (845) | 3,225 |
| Other working capital accounts, net | 65 | (152) |
| **Net cash provided by operating activities** | 61,143 | 51,113 |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of businesses, net of cash acquired | — | (71,689) |
| Purchases of investments | (6,942) | (16,700) |
| Proceeds from sales of investments | 7,409 | 19,501 |
| Purchases of property, equipment and leasehold improvements, net of proceeds from dispositions | (5,912) | (12,537) |
| **Net cash used in investing activities** | (5,445) | (81,425) |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Dividend payments | (21,682) | (19,867) |
| Repurchases of common stock | (31,706) | (84,860) |
| Proceeds from debt | — | 65,000 |
| Purchase of business | 442 | — |
| Proceeds from employee stock plans | 22,132 | 16,685 |
| Tax benefits from share-based payment arrangements | — | 5,511 |
| **Net cash used by financing activities** | (30,814) | (17,531) |

| | | |
|---|---|---|
| Effect of exchange rate changes on cash and cash equivalents | 2,318 | (7,276 ) |
| Net increase (decrease) in cash and cash equivalents | 27,202 | (55,119 ) |
| Cash and cash equivalents at beginning of period | 194,731 | 228,407 |
| Cash and cash equivalents at end of period | $ 221,933 | $ 173,288 |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FactSet Research Systems Inc.

November 30, 2017

(Unaudited)

## 1. ORGANIZATION AND NATURE OF BUSINESS

FactSet Research Systems Inc. (the “Company” or “FactSet”) is a global provider of integrated financial information, analytical applications and industry-leading service for the global investment community. The Company delivers insight and information to investment professionals through its analytics, services, content, and technology. These professionals include portfolio managers, investment research professionals, investment bankers, risk and performance analysts, and wealth advisors. From streaming real-time data to historical information, including quotes, estimates, news and commentary, FactSet offers unique and third-party content through desktop, web, mobile and off-platform solutions. The Company’s broad application suite offers tools and resources including company and industry analyses, full screening tools, portfolio analysis, risk profiles, alpha-testing, portfolio optimization and research management solutions. With recent acquisitions, FactSet has continued to expand its solutions across the investment lifecycle from idea generation to performance and client reporting. The Company’s revenues are derived from subscriptions to products and services such as workstations, analytics, enterprise data, research management, and trade execution.

## 2. BASIS OF PRESENTATION

FactSet conducts business globally and is managed on a geographic basis. The 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 unaudited condensed consolidated financial statements of FactSet and the accompanying notes included in this Quarterly Report on Form 10-Q are prepared in accordance with generally accepted accounting principles in the United States ("GAAP").  In the opinion of management, the accompanying condensed consolidated financial statements include all normal recurring adjustments, transactions or events discretely impacting the interim periods considered necessary to fairly state our results of operations, financial position and cash flows. 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, 2017.

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 2018, 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 2018 that had a material impact on the consolidated financial statements.

**New Accounting Standards or Updates Recently Adopted**

*Balance Sheet Classification of Deferred Taxes*

During the first quarter of fiscal 2018, FactSet adopted the accounting standard update issued by the FASB in November 2015 to simplify the presentation of deferred taxes on the balance sheet. This accounting standard update requires an entity to present all deferred tax assets and deferred tax liabilities as non-current on the balance sheet. Under the previous guidance, entities were 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 accounting standard update is a change to the balance sheet presentation only. The changes have been applied prospectively as permitted by the standard and prior periods have not been restated.

*Share-Based Payments*

During the first quarter of fiscal 2018, FactSet adopted the accounting standard update issued by the FASB in March 2016, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. This accounting standard update will increase the volatility within the Company's provision for income taxes as all excess tax benefits or deficiencies related to share-based payments, that were previously reported within equity, are now recognized in the consolidated statement of income. In addition, this standard changes the classification of excess tax benefits presented in the Company's consolidated statements of cash flows from a financing activity to an operating activity, which has be applied on a prospective basis as permitted by the standard and prior periods have not been restated. Share-based payment expense will continue to reflect estimated forfeitures of share-based payment awards. The adoption of this standard resulted in the recognition of $4.1 million of excess tax benefits to FactSet's provision for income taxes during the first quarter of fiscal 2018. The recognition of these benefits contributed $0.09 to diluted earnings per share for the three months ended November 30, 2017. The remaining provisions of this standard did not have a material impact on the Company's consolidated financial statements.

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

*Revenue Recognition*

In May 2014 and July 2015, the FASB issued accounting standard updates, which provide clarified principles for recognizing revenue arising from contracts with clients and supersede most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to clients in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. These accounting standard updates will be effective for FactSet beginning in the first quarter of fiscal 2019, with early adoption in fiscal 2018 permitted and allow for either full retrospective or modified retrospective adoption. The Company plans to adopt the standard on September 1, 2018 and is currently evaluating the impact of these accounting standard updates on its consolidated financial statements and the method of adoption.

*Recognition and Measurement of Financial Assets and Financial Liabilities*

In January 2016, the FASB issued an accounting standard update to amend its current guidance on the classification and measurement of certain financial instruments. The accounting standard update significantly revises an entity's accounting related to the presentation of certain fair value changes for financial liabilities measured at fair value. This guidance also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance will be effective for FactSet beginning in the first quarter of fiscal 2019. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

*Leases*

In February 2016, the FASB issued an accounting standard update related to accounting for leases. The guidance introduces a lessee model that requires most leases to be reported on the balance sheet. The accounting standard update aligns many of the underlying principles of the new lessor model with those in the FASB's new revenue recognition standard. The guidance also eliminates the requirement in current U.S. GAAP for an entity to use bright-line tests in determining lease classification. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2020, with early adoption in fiscal 2019 permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

*Share-Based Payments*

In May 2017, the FASB issued an accounting standard update, which amends the scope of modification accounting for share-based payment arrangements. The guidance focuses on changes to the terms or conditions of share-based payment awards that would require the application of modification accounting and specifies that an entity would not apply modification accounting if the fair value, vesting conditions and classification of the awards are the same immediately before and after the modification. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2019, with early adoption permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

*Cash Flow Simplification*

In August 2016, the FASB issued an accounting standard update, which simplifies how certain transactions are classified in the statement of cash flows. This includes revised guidance on the cash flow classification of debt prepayments and debt extinguishment costs, contingent consideration payments made after a business combination and distributions received from equity method investments. The guidance is intended to reduce diversity in practice across all industries. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2019. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

*Income Taxes on Intra-Entity Transfers of Assets*

In October 2016, the FASB issued an accounting standard update, which removes the prohibition against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The guidance is intended to reduce diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2019. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

*Goodwill Impairment Test*

In January 2017, the FASB issued an accounting standard update, which removes the requirement for companies to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This accounting standard update will be effective for FactSet beginning in the first quarter of fiscal 2021, with early adoption permitted for any impairment tests performed after January 1, 2017. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

*Hedge Accounting Simplification*

In August 2017, the FASB issued an accounting standard update to reduce the complexity of and simplify the application of hedging accounting. The guidance refines and expands hedge accounting for both financial and nonfinancial risk components, eliminates the need to separately measure and report hedge ineffectiveness, and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This guidance will be effective for FactSet beginning in the first quarter of fiscal 2020, with early adoption permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

No other new accounting pronouncements issued or effective as of November 30, 2017 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, mutual funds 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, 2017 or August 31, 2017.

***(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, 2017 and August 31, 2017:

| | Fair Value Measurements at November 30, 2017 | | | |
|---|---|---|---|---|
| *(in thousands)* | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Corporate money market funds [1] | $47,741 | $— | $ — | $47,741 |
| Mutual funds [2] | — | 20,475 | — | 20,475 |
| Certificates of deposit [3] | — | 11,202 | — | 11,202 |
| Derivative instruments [4] | — | 5,375 | — | 5,375 |
| *Total assets measured at fair value* | $47,741 | $37,052 | $ — | $84,793 |
| Liabilities | | | | |
| Derivative instruments [4] | $— | $— | $ — | $— |
| *Total liabilities measured at fair value* | $— | $— | $ — | $— |

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| (in thousands) | Fair Value Measurements at August 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Corporate money market funds (1) | $26,677 | $— | $ — | $26,677 |
| Mutual Funds (2) | — | 18,364 | — | 18,364 |
| Certificates of deposit (3) | — | 14,080 | — | 14,080 |
| Derivative instruments (4) | — | 6,142 | — | 6,142 |
| *Total assets measured at fair value* | $26,677 | $38,586 | $ — | $65,263 |
| Liabilities | | | | |
| Derivative instruments (4) | $— | $— | $ — | $— |
| *Total liabilities measured at fair value* | $— | $— | $ — | $— |

*(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 mutual funds have a fair value based on the fair value of the underlying investments held by the mutual funds allocated to each share of the mutual fund using a net asset value approach. The fair value of the underlying investments is based on observable inputs. As such, the Company's mutual funds are classified as Level 2 and are classified as investments (short-term) on the Consolidated Balance Sheets.*

*(3) 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.*

*(4) 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, 2017, 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, 2017 and August 31, 2017, the fair value of the Company’s long-term debt was $575 million, respectively, which approximated its carrying amount given its floating interest rate basis. The fair value of the Company’s long-term debt was determined based on quoted market prices for debt with a similar maturity, and thus categorized as Level 2 in the fair value hierarchy.

**5. DERIVATIVE INSTRUMENTS**

**Cash Flow Hedges**

FactSet conducts business outside the U.S. in several currencies including the British Pound Sterling, Euro, Indian Rupee, Japanese Yen and Philippine Peso. As such, it is exposed to movements in foreign currency exchange rates compared to the U.S. dollar. The Company utilizes derivative instruments (foreign currency forward contracts) to manage the exposures related to the effects of foreign exchange rate fluctuations and reduce the volatility of earnings and cash flows associated with changes in foreign currency. The Company does not enter into foreign currency forward contracts for trading or speculative purposes. In designing a specific hedging approach, FactSet considered several factors, including offsetting exposures, the significance of exposures, the forecasting of risk and the potential effectiveness of the hedge. The gains and losses on foreign currency forward contracts offset the variability in operating expenses associated with currency movements. The changes in fair value for these foreign currency forward contracts are initially reported as a component of accumulated other comprehensive loss ("AOCL") and subsequently reclassified into operating expenses when the hedged exposure affects earnings. There was no discontinuance of cash flow hedges during the first three months of fiscal 2018 and 2017, 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, 2017, FactSet maintained the following foreign currency forward contracts to hedge approximately 75% of its Indian Rupee exposure through the third quarter of fiscal 2019.

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) | November 30, 2017 | August 31, 2017 | November 30, 2017 | August 31, 2017 |
| Indian Rupee | 43,860 | 51,000 | 5,375 | 6,142 |
| *Total* | $43,860 | $51,000 | $5,375 | $6,142 |

As of November 30, 2017, the gross notional value of foreign currency forward contracts to purchase Indian Rupees with U.S. dollars was Rs. 3.3 billion.

**Counterparty Credit Risk**

As a result of the use of derivative instruments, the Company is exposed to counterparty credit risk. FactSet has incorporated counterparty risk into the fair value of its derivative assets and its own credit risk into the value of the Company's derivative liabilities, when applicable. 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. As 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 table provides the fair value of derivative instruments:

| *(in thousands)* Designation of Derivatives | Balance Sheet Location | November 30, 2017 | August 31, 2017 |
|---|---|---|---|
| Derivatives designated as hedging instruments | Assets: Foreign Currency Forward Contracts | | |
| | Prepaid expenses and other current assets | $ 3,943 | $3,796 |
| | Other assets | $ 1,432 | $2,346 |
| | Liabilities: Foreign Currency Forward Contracts | | |
| | Accounts payable and accrued expenses | $ — | $— |

All derivatives were designated as hedging instruments as of November 30, 2017 and August 31, 2017, 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, 2017 and 2016:

| *(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 | 2017 | 2016 | | 2017 | 2016 |
| Foreign currency forward contracts | $(1) | $(649) | SG&A | $763 | $(1,357) |

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, 2017, FactSet estimates that approximately $3.9 million of net derivative gains 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, 2017 and August 31, 2017, there were no net settlements recorded on Consolidated Balance Sheets.

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

The components of other comprehensive income and amounts reclassified out of AOCL into earnings during the three months ended November 30, 2017 and 2016 are as follows:

| | November 30, 2017 | | November 30, 2016 | |
|---|---|---|---|---|
| *(in thousands)* | Pre-tax | Net of tax | Pre-tax | Net of tax |
| Foreign currency translation adjustments | $8,466 | $8,466 | $(11,497) | $(11,497) |
| Realized (gain) loss on cash flow hedges reclassified to earnings [(1)] | (763) | (476) | 1,357 | 857 |
| Unrealized (loss) gain on cash flow hedges recognized in AOCL | (1) | — | (649) | (410) |
| *Other comprehensive income (loss)* | $7,702 | $7,990 | $(10,789) | $(11,050) |

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

The components of AOCL are as follows:

| *(in thousands)* | November 30, 2017 | August 31, 2017 |
|---|---|---|
| Accumulated unrealized gains on cash flow hedges, net of tax | $3,326 | $3,802 |
| Accumulated foreign currency translation adjustments | (30,056) | (38,522) |
| *Total accumulated other comprehensive loss* | $(26,730) | $(34,720) |

**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 to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Financial information at the operating segment level is reviewed jointly by the Chief Executive Officer (“CEO”) and senior management. Senior management consists of certain executives who directly report to the CEO, consisting of the Chief Financial Officer, Chief Operating Officer, Chief Technology and Product Officer, Global Head of Sales and Client Solutions, General Counsel and Chief Human Resources Officer. Senior management, along with the CEO, constitute FactSet’s chief operating decision making group (“CODMG”) and 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 CODMG, manages the business and the demographic markets in which FactSet serves. The Company’s internal financial reporting structure is based on three segments; the U.S., Europe and Asia Pacific. FactSet believes this alignment helps it better manage the business and view the markets the Company serves, which are centered on providing integrated global financial and economic information. Sales, consulting, data collection, product development and software engineering are the primary functional groups within the U.S., Europe and Asia Pacific segments that provide global financial and economic information to investment managers, investment banks and other financial services professionals.

The U.S. segment services investment professionals including financial institutions throughout the Americas. The European and Asia Pacific segments service investment professionals located throughout Europe and the Asia Pacific region, respectively. The European segment maintains office locations in England, Bulgaria, Dubai, France, Germany, Italy, Latvia, the Netherlands, Spain, and Switzerland. The Asia Pacific segment has office locations in Australia, Hong Kong, India, Japan, the Philippines, Singapore and South Africa. Segment revenues reflect direct sales to clients based in their respective geographic locations. 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, office and other direct expenses.

Expenditures associated with the Company’s data centers, third party data costs and corporate 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 $712.5 million of goodwill reported by the Company at November 30, 2017, 54% was recorded in the U.S. segment, 45% in the European segment and the remaining 1% in the Asia Pacific segment.

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

*(in thousands)*

| | U.S. | Europe | Asia Pacific | Total |
|---|---|---|---|---|
| For the three months ended November 30, 2017 | | | | |
| Revenues from clients | $208,768 | $91,727 | $28,646 | $329,141 |
| Segment operating profit | 40,771 | 32,970 | 15,357 | 89,098 |
| Total assets | 719,491 | 603,848 | 107,263 | 1,430,602 |
| Capital expenditures | 3,545 | 1,524 | 843 | 5,912 |

| For the three months ended November 30, 2016 | U.S. | Europe | Asia Pacific | Total |
|---|---|---|---|---|
| Revenues from clients | $190,627 | $71,863 | $25,573 | $288,063 |
| Segment operating profit | 40,005 | 36,584 | 13,730 | 90,319 |
| Total assets | 698,328 | 262,523 | 85,314 | 1,046,165 |
| Capital expenditures | 11,125 | 491 | 921 | 12,537 |

**8. BUSINESS COMBINATIONS**

**BISAM**

On March 17, 2017, FactSet acquired BI-SAM Technologies ("BISAM") for a total purchase price of $217.6 million. BISAM is a global provider of portfolio performance and attribution, multi-asset risk, GIPS composites management and reporting. BISAM's product offerings include B-One, BISAM's cross-asset solution, which will serve as a complement to both FactSet's portfolio analytics suite and client reporting solutions, and Cognity, which enhances FactSet's risk analysis for derivatives and quantitative portfolio construction. These factors contributed to a purchase price in excess of fair value of BISAM's net tangible and intangible assets, leading to the recognition of goodwill. At the time of acquisition, BISAM employed over 160 employees based primarily in its New York, Boston, Paris, London and Sofia offices. Total transaction costs related to the acquisition were $3.2 million in fiscal 2017 and were recorded within Selling, General and Administrative ("SG&A") expenses in the Consolidated Statements of Income.

Allocation of the purchase price to the assets acquired and liabilities assumed was finalized during the fourth quarter of fiscal 2017. There were no significant adjustments between the preliminary and final allocation. The total purchase price was allocated to BISAM's net tangible and intangible assets based upon their estimated fair value as of the date of acquisition.

| *(in thousands)* | |
|---|---|
| Tangible assets acquired | $27,583 |
| Amortizable intangible assets | |
| Software technology | 18,261 |
| Client relationships | 37,597 |
| Trade name | 741 |
| Goodwill | 173,898 |
| *Total assets acquired* | $258,080 |
| Liabilities assumed | (40,443 ) |
| *Net assets acquired* | $217,637 |

Intangible assets of $56.6 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 five years using a straight-line amortization method; and a trade name, amortized over four years using a straight-line amortization method.

Goodwill totaling $173.9 million represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. Goodwill generated from the BISAM acquisition is included in the US and European segments and is not deductible for income tax purposes. The results of operations of BISAM have been included in the Company’s Consolidated Statements of Income since the completion of the acquisition on March 17, 2017. Pro forma information has not been presented because the effect of the BISAM acquisition is not material to the Company’s consolidated financial results.