NETSCOUT SYSTEMS INC
Form 10-Q
November 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
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 000-26251

NETSCOUT SYSTEMS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	04-2837575
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

310 Littleton Road, Westford, MA 01886
(978) 614-4000

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) YES x NO ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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. (Check one):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨		
Smaller reporting company	¨	Emerging growth 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, par value $0.001 per share, as of October 31, 2018 was 77,704,724.

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FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2018
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Unless the context suggests otherwise, references in this Quarterly Report on Form 10-Q, or Quarterly Report, to "NetScout," the "Company," "we," "us," and "our" refer to NetScout Systems, Inc. and, where appropriate, our consolidated subsidiaries.

NetScout, the NetScout logo, Adaptive Service Intelligence and other trademarks or service marks of NetScout appearing in this Quarterly Report are the property of NetScout Systems, Inc. and/or its subsidiaries and/or affiliates in the United States and/or other countries. Any third-party trade names, trademarks and service marks appearing in this Quarterly Report are the property of their respective holders.

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Cautionary Statement Concerning Forward-Looking Statements

In addition to historical information, the following discussion and other parts of this Quarterly Report contain forward-looking statements under Section 21E of the Securities Exchange Act of 1934, as amended, and other federal securities laws. These forward-looking statements involve risks and uncertainties. These statements relate to future events or our future financial performance and are identified by terminology such as "may," "will," "could," "should," "expects," "plans," "intends," "seeks," "anticipates," "believes," "estimates," "potential" or "continue," or the negative of such terms or other comparable terminology. These statements are only predictions. You should not place undue reliance on these forward-looking statements. Actual events or results may differ materially due to competitive factors and other factors, including those referred to in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for our fiscal year ended March 31, 2018, filed with the Securities and Exchange Commission, and elsewhere in this Quarterly Report. These factors may cause our actual results to differ materially from any forward-looking statement. We are under no duty to update any of these forward-looking statements after the date of this Quarterly Report or to conform these statements to actual results or revised expectations.

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PART I: FINANCIAL INFORMATION
Item 1. Unaudited Financial Statements
NetScout Systems, Inc.
Consolidated Balance Sheets
(In thousands, except share and per share data)

	September 30, 2018 (Unaudited)	March 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 332,183	$ 369,821
Marketable securities	119,935	77,941
Accounts receivable and unbilled costs, net of allowance for doubtful accounts of $1,209 and $1,991 at September 30, 2018 and March 31, 2018, respectively	184,156	213,438
Inventories and deferred costs	30,985	34,774
Prepaid income taxes	25,143	22,932
Prepaid expenses and other current assets (related party balances of $1,468 and $3,187 at September 30, 2018 and March 31, 2018, respectively)	27,429	33,502
Total current assets	719,831	752,408
Fixed assets, net	63,617	52,511
Goodwill	1,712,962	1,712,764
Intangible assets, net	720,949	831,374
Deferred income taxes	5,640	6,685
Other assets	20,006	12,866
Total assets	$ 3,243,005	$ 3,368,608
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable (related party balances of $366 and $369 at September 30, 2018 and March 31, 2018, respectively)	$ 22,102	$ 30,133
Accrued compensation	54,258	46,552
Accrued other	32,364	33,164
Income taxes payable	210	1,526
Deferred revenue and customer deposits	230,098	301,925
Total current liabilities	339,032	413,300
Other long-term liabilities	20,449	8,308
Deferred tax liability	135,738	151,563
Accrued long-term retirement benefits	34,053	35,246
Long-term deferred revenue and customer deposits	77,135	91,409
Long-term debt	600,000	600,000
Total liabilities	1,206,407	1,299,826
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, $0.001 par value:		
5,000,000 shares authorized; no shares issued or outstanding at September 30, 2018 and March 31, 2018	—	—
Common stock, $0.001 par value:		
	119	117

300,000,000 shares authorized; 119,231,287 and 117,744,913 shares issued and 77,704,724 and 80,270,023 shares outstanding at September 30, 2018 and March 31, 2018, respectively		
Additional paid-in capital	2,796,695	2,665,120
Accumulated other comprehensive income	555	2,895
Treasury stock at cost, 41,526,563 and 37,474,890 shares at September 30, 2018 and March 31, 2018, respectively	(1,102,481)	(995,843)
Retained earnings	341,710	396,493
Total stockholders' equity	2,036,598	2,068,782
Total liabilities and stockholders' equity	$ 3,243,005	$ 3,368,608

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

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NetScout Systems, Inc.
Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
Revenue:				
Product	$110,753	$142,973	$207,680	$251,632
Service	113,044	113,890	221,228	230,987
Total revenue	223,797	256,863	428,908	482,619
Cost of revenue:				
Product (related party balances of $0, $0, $0 and $245, respectively)	34,492	44,371	67,457	80,833
Service (related party balances of $146, $259, $320 and $288, respectively)	29,488	29,872	58,550	59,972
Total cost of revenue	63,980	74,243	126,007	140,805
Gross profit	159,817	182,620	302,901	341,814
Operating expenses:				
Research and development (related party balances of $0, $0, $2 and $3, respectively)	55,959	58,509	111,422	117,475
Sales and marketing (related party balances of $0, $0, $0 and $2, respectively)	72,051	77,266	150,183	162,627
General and administrative (related party balances of $2, $700, $15 and $944, respectively)	25,294	29,495	51,353	59,367
Amortization of acquired intangible assets	17,981	18,298	41,446	36,681
Restructuring charges	2,472	291	3,619	458
Impairment of intangible assets	—	—	35,871	—
Loss on divestiture of business	9,177	—	9,177	—
Total operating expenses	182,934	183,859	403,071	376,608
Loss from operations	(23,117)	(1,239)	(100,170)	(34,794)
Interest and other expense, net:				
Interest income	1,293	410	2,233	890
Interest expense	(6,427)	(2,565)	(12,315)	(5,116)
Other expense	(812)	(1,168)	(557)	(2,232)
Total interest and other expense, net	(5,946)	(3,323)	(10,639)	(6,458)
Loss before income tax benefit	(29,063)	(4,562)	(110,809)	(41,252)
Income tax benefit	(2,635)	(2,094)	(21,877)	(14,562)
Net loss	$(26,428)	$(2,468)	$(88,932)	$(26,690)
Basic net loss per share	$(0.34)	$(0.03)	$(1.12)	$(0.30)
Diluted net loss per share	$(0.34)	$(0.03)	$(1.12)	$(0.30)
Weighted average common shares outstanding used in computing:				
Net loss per share - basic	78,631	88,589	79,490	89,878
Net loss per share - diluted	78,631	88,589	79,490	89,878

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

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NetScout Systems, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net loss	$(26,428)	$(2,468)	$(88,932)	$(26,690)
Other comprehensive income (loss):				
Cumulative translation adjustments	559	2,495	(2,149)	3,630
Changes in market value of investments:				
Changes in unrealized gains (losses), net of (benefit) taxes of ($20), $8, $9 and $5, respectively	(5)	13	23	9
Total net change in market value of investments	(5)	13	23	9
Changes in market value of derivatives:				
Changes in market value of derivatives, net of (benefit) taxes of ($14), $153, ($140) and $343, respectively	(45)	262	(438)	566
Reclassification adjustment for net gains (losses) included in net loss, net of taxes (benefit) of $49, ($143), $72 and ($139), respectively	153	(236)	224	(228)
Total net change in market value of derivatives	108	26	(214)	338
Other comprehensive income (loss)	662	2,534	(2,340)	3,977
Total comprehensive income (loss)	$(25,766)	$66	$(91,272)	$(22,713)

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

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NetScout Systems, Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended September 30, 2018	Six Months Ended September 30, 2017
Cash flows from operating activities:		
Net loss	$(88,932)	$(26,690)
Adjustments to reconcile net loss to cash provided by operating activities, net of the effects of acquisitions:		
Depreciation and amortization	74,558	75,209
Loss on divestiture of business	7,390	—
Loss on disposal of fixed assets	174	421
Deal-related compensation expense and accretion charges	76	76
Share-based compensation expense	30,383	22,829
Accretion of contingent consideration	(10)	—
Impairment of intangible assets	35,871	—
Deferred income taxes	(22,289)	(17,335)
Other (gains) losses	(208)	732
Changes in assets and liabilities		
Accounts receivable and unbilled costs	29,325	82,280
Due from related party	1,719	554
Inventories	892	(1,048)
Prepaid expenses and other assets	4,751	(1,668)
Accounts payable	(9,518)	(8,092)
Accrued compensation and other expenses	15,413	(8,080)
Due to related party	(3)	168
Income taxes payable	(1,759)	1,769
Deferred revenue	(45,127)	(49,064)
Net cash provided by operating activities	32,706	72,061
Cash flows from investing activities:		
Purchase of marketable securities	(136,019)	(57,776)
Proceeds from maturity of marketable securities	94,057	155,741
Purchase of fixed assets	(12,207)	(7,554)
Payments related to the divestiture of business	(2,911)	—
Purchase of intangible assets	—	(505)
(Increase) decrease in deposits	(97)	30
Acquisition of businesses, net of cash acquired	—	(8,334)
Contingent purchase consideration	—	523
Capitalized software development costs	—	(110)
Net cash (used in) provided by investing activities	(57,177)	82,015
Cash flows from financing activities:		
Issuance of common stock under stock plans	2	—
Payment of contingent consideration	(523)	(660)
Treasury stock repurchases	—	(200,000)
Tax withholding on restricted stock units	(9,854)	(11,027)
Net cash used in financing activities	(10,375)	(211,687)

Effect of exchange rate changes on cash and cash equivalents	(3,515)	4,299
Net decrease in cash and cash equivalents	(38,361)	(53,312)
Cash and cash equivalents and restricted cash, beginning of period	370,731	305,726
Cash and cash equivalents and restricted cash, end of period	$332,370	$252,414
Supplemental disclosures:		
Non-cash transactions:		
Transfers of inventory to fixed assets	$2,152	$5,556
Additions to property, plant and equipment included in accounts payable	$1,929	$(417)
Tenant improvement allowance	$10,171	$—
Issuance of common stock under employee stock plans	$7,575	$8,603
Contingent consideration related to acquisition	$—	$523
Fair value of contingent consideration received as partial consideration for divestiture of business	$2,257	$—

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

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NetScout Systems, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared by NetScout Systems, Inc. (NetScout or the Company). Certain information and footnote disclosures normally included in financial statements prepared under United States generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In the opinion of management, the unaudited interim consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the Company's financial position, results of operations and cash flows. The year-end consolidated balance sheet data was derived from the Company's audited financial statements, but does not include all disclosures required by GAAP. The results reported in these unaudited interim consolidated financial statements are not necessarily indicative of results that may be expected for the entire year. All significant intercompany accounts and transactions are eliminated in consolidation.

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018 filed with the Securities and Exchange Commission on May 21, 2018.

Certain amounts for the three and six months ended September 30, 2017 have been reclassified to conform to the current period presentation. These reclassifications had no effect on the reported results of operations.

Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU 2018-15). This ASU clarifies the accounting treatment for implementation costs for cloud computing arrangements (hosting arrangements) that is a service contract. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. The Company adopted ASU 2018-15 effective July 1, 2018. The adoption has had an immaterial impact to the consolidated financial statements for the three months ended September 30, 2018.

In August 2018, the FASB issued ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. This ASU adds, modifies and clarifies several disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance is effective for fiscal years ending after December 15, 2020. ASU 2018-14 is effective for NetScout beginning April 1, 2021. Early adoption is permitted. The Company is currently assessing the effect that ASU 2018-14 will have on its financial position, results of operations, and disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 adds, modifies and removes several disclosure requirements relative to the three levels of inputs used to measure fair value in accordance with Topic 820, Fair Value Measurement. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. ASU 2018-13 is effective for NetScout beginning April 1, 2020. Early adoption is permitted. The Company is currently assessing the effect that ASU 2018-13 will have on its financial position, results of operations, and disclosures.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income (ASU 2018-02). ASU 2018-02 amends ASC 220, Income Statement - Reporting Comprehensive Income, to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (Tax Legislation). In addition, under the ASU 2018-02, the Company may be required to provide certain disclosures regarding stranded tax effects. ASU 2018-02 is effective for years beginning after December 15, 2018, and interim periods within those fiscal years. ASU 2018-02 is effective for NetScout beginning April 1, 2019. Early adoption is permitted. The Company does not believe the adoption of ASU 2018-02 will have a material impact on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). ASU 2017-12 provides guidance to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both non-financial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This standard is effective for financial statements issued for fiscal years beginning after December 15, 2018, with early adoption permitted. ASU 2017-12 is effective for the Company beginning April 1, 2019. The Company is currently assessing the potential impact of the adoption of ASU 2017-12 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) Section A - Leases: Amendments to the FASB Accounting Standards Codification (ASU 2016-02), its new standard on accounting for leases. This update requires the recognition of leased assets and lease obligations by lessees for those leases currently classified as operating leases under existing lease guidance. Short term leases with a term of 12 months or less are not required to be recognized. The update also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements and ASU 2018-10, Codification Improvements to Topic 842, Leases. ASU 2016-02 and the subsequent modifications are identified as ASC 842. ASC 842 will be effective for fiscal years beginning after December 15, 2018, including interim periods within such fiscal years. ASC 842 requires a modified retrospective transition method with the option to elect a package of practical expedients. Early adoption is permitted. The Company expects the adoption to increase the assets and liabilities recorded on its consolidated balance sheet and increase the level of disclosures related to leases. In addition, the Company is in the process of identifying appropriate changes to its accounting policies, information technology systems, business processes, and related internal controls to support recognition and disclosure requirements under ASC 842. The Company expects to design any necessary changes to its business processes, controls and systems in the near future and implement the changes over the remainder of fiscal year 2019. ASC 842 is effective for the Company beginning April 1, 2019.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606 (Topic 606). Topic 606 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Company adopted Topic 606 as of April 1, 2018 using the modified retrospective transition method. Please refer to Note 2, "Revenue Recognition" for further details.

NOTE 2 – REVENUE RECOGNITION

Revenue from Contracts with Customers

In May 2014, the FASB issued Topic 606, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Topic 606 replaced most existing revenue recognition guidance under GAAP. The new standard introduces a five-step process to be followed in determining the amount and timing of revenue recognition. It also provides guidance on accounting for costs incurred to obtain or fulfill contracts with customers and establishes disclosure requirements which are more extensive than those required under prior GAAP.

Topic 606 became effective for the Company on April 1, 2018. The Company elected to use the modified retrospective transition approach. Therefore, the comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods.

Revenue Recognition Policy

The Company exercises judgment and uses estimates in connection with determining the amounts of product and service revenues to be recognized in each accounting period.

The Company derives revenues primarily from the sale of network management tools and security solutions for service provider and enterprise customers, which include hardware, software and service offerings. The majority of its product sales consist of hardware products with embedded software that are essential to providing customers the intended functionality of the solutions. The Company also sells stand-alone software solutions to provide customers with enhanced functionality. In addition, the Company sells hardware bundled with a software license.

The Company accounts for revenue once a legally enforceable contract with a customer has been approved by the parties and the related promises to transfer products or services have been identified. A contract is defined by the Company as an arrangement with commercial substance identifying payment terms, each party’s rights and obligations regarding the products or services to be transferred and collection is probable. Customer contracts may include promises to transfer multiple products and services to a customer. Determining whether the products and services are considered distinct performance obligations that should be accounted for separately or as one combined performance obligation may require significant judgment. Revenue is recognized when control of the products or services are transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for products and services.

Product revenue is recognized upon shipment, provided a legally enforceable contract exists, control has passed to the customer, and in the case of software products, when the customer has the rights and ability to access the software, and collection of the related receivable is probable. If any significant obligations to the customer remain post-delivery, typically involving obligations relating to installation and acceptance by the customer, revenue recognition is deferred until such

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obligations have been fulfilled. The Company's service offerings include installation, integration, extended warranty and maintenance services, post-contract customer support, stand-ready software-as-a-service (SAAS) and other professional services including consulting and training. The Company generally provides software and/or hardware support as part of product sales. Revenue related to the initial bundled software and hardware support is recognized ratably over the support period. In addition, customers can elect to purchase extended support agreements for periods after the initial software/hardware warranty expiration. Support services generally include rights to unspecified upgrades (when and if available), telephone and internet-based support, updates, bug fixes and hardware repair and replacement. Consulting services are recognized upon delivery or completion of performance depending on the terms of the underlying contract. SAAS services are recognized ratably over the contract term beginning on the commencement of services. Reimbursements of out-of-pocket expenditures incurred in connection with providing consulting services are included in services revenue, with the offsetting expense recorded in cost of service revenue. Training services include on-site and classroom training. Training revenues are recognized upon delivery of the training.

Generally, the Company's contracts are accounted for individually. However, when contracts are closely interrelated and dependent on each other, it may be necessary to account for two or more contracts as one to reflect the substance of the group of contracts.

Bundled arrangements are concurrent customer purchases of a combination of our product and service offerings that may be delivered at various points in time. The Company allocates the transaction price among the performance obligations in an amount that depicts the relative standalone selling prices (SSP) of each obligation. Judgment is required to determine the SSP for each distinct performance obligation. The Company uses a range of amounts to estimate SSP when it sells each of the products and services separately based on the element’s historical pricing. The Company also considers its overall pricing objectives and practices across different sales channels and geographies, and market conditions. Generally, the Company has established SSP for a majority of its service elements based on historical standalone sales. In certain instances, the Company has established SSP for services based upon an estimate of profitability and the underlying cost to fulfill those services. Further, for certain service engagements, the Company considers quoted prices as part of multi element arrangements of those engagements as a basis for establishing SSP. SSP has been established for product elements as the average or median selling price the element was recently sold for, whether sold alone or sold as part of a multiple element transaction. The Company reviews sales of the product elements on a quarterly basis and updates, when appropriate, its SSP for such elements to ensure that it reflects recent pricing experience. The Company's products are distributed through its direct sales force and indirect distribution channels through alliances with resellers and distributors. Revenue arrangements with resellers and distributors are recognized on a sell-in basis; that is, product is delivered to the reseller or distributor. The Company records consideration given to a reseller or distributor as a reduction of revenue to the extent they have recorded revenue from the reseller or distributor. With limited exceptions, the Company's return policy does not allow product returns for a refund. Returns have been insignificant to date. In addition, the Company has a history of successfully collecting receivables from its resellers and distributors.

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Financial Statement Impact of Adoption

The cumulative impact of applying Topic 606 to all contracts with outstanding performance obligations as of April 1, 2018 was recorded as an adjustment to retained earnings as of the adoption date. As a result of applying the modified retrospective approach to adopt the new standard, the following adjustments were made to accounts on the consolidated balance sheet at April 1, 2018 (in thousands):

	Balance at March 31, 2018	Adjustments from Adopting Topic 606	Balance at April 1, 2018
ASSETS:			
Accounts receivable and unbilled costs	$213,438	$ 1,195	$214,633
Prepaid expenses and other current assets	33,502	4,626	38,128
Other assets	12,866	4,748	17,614
LIABILITIES:			
Deferred revenue and customer deposits	301,925	(30,227)	271,698
Deferred tax liability	151,563	7,899	159,462
Long-term deferred revenue and customer deposits	91,409	(1,252)	90,157
STOCKHOLDERS' EQUITY:			
Retained earnings	396,493	34,149	430,642

In connection with the adoption of Topic 606, the Company increased its retained earnings by $34.1 million, due to uncompleted contracts at April 1, 2018, of which $34.9 million of revenue will not be recognized in future periods under the new standard. The Company capitalized $7.1 million of incremental sales commission costs on the adoption date directly related to obtaining customer contracts and is amortizing these costs as it satisfies the underlying performance obligations, which for certain contracts can include anticipated renewal periods. As of April 1, 2018, the acceleration of revenue that was deferred under prior guidance was primarily attributable to no longer requiring the separation of promised goods or services, such as software licenses, technical support, specified and unspecified upgrade rights on the basis of vendor specific objective evidence, and the impact of allocating the transaction price to the software performance obligations in the contract on a relative basis using standalone selling price rather than allocating under the residual method, which allocates the entire arrangement discount to the delivered performance obligations. In addition, revenue from perpetual licenses and associated hardware with extended payment terms and term licenses are now recognized when control is transferred to the customer, the point in time when the customer can use and benefit from the license. Previously the Company recognized revenue over the term of the agreements as payments became due or earlier if prepaid.

The net change in deferred income taxes of $7.9 million is primarily due to the deferred tax effects resulting from the adjustment to retained earnings for the cumulative effect of applying Topic 606 to active contracts as of the adoption date.

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Impact of Topic 606 on Financial Statement Line Items

The impact of adoption of Topic 606 on the Company's consolidated balance sheet at September 30, 2018 and on the Company's consolidated statement of operations for the three and six months ended September 30, 2018 was as follows (in thousands):

	September 30, 2018		
	As Reported	Balance without Adoption of Topic 606	Effect of Change Higher (Lower)
ASSETS:			
Accounts receivable and unbilled costs	$184,156	$181,123	$3,033
Inventories and deferred costs	30,985	31,231	(246)
Prepaid expenses and other current assets	27,429	23,845	3,584
Other assets	20,006	14,315	5,691
LIABILITIES:			
Deferred revenue and customer deposits	230,098	248,632	(18,534)
Deferred tax liability	135,738	129,484	6,254
Long-term deferred revenue and customer deposits	77,135	88,683	(11,548)
STOCKHOLDERS' EQUITY:			
Retained earnings	341,710	314,246	27,464

	Three Months Ended September 30, 2018			Six Months Ended September 30, 2018		
	As Reported	Balance without Adoption of Topic 606	Effect of Change Higher (Lower)	As Reported	Balance without Adoption of Topic 606	Effect of Change Higher (Lower)
Total revenues	$223,797	$215,993	$ 7,804	$428,908	$419,346	$ 9,562
Total cost of revenue	63,980	63,734	246	126,007	125,761	246
Sales and marketing expense	72,051	71,672	379	150,183	149,197	986
Income tax provision	(2,635)	(3,286)	651	(21,877)	(23,522)	1,645
Net loss	(26,428)	(32,956)	6,528	(88,932)	(95,617)	6,685
Basic net loss per share	$(0.34)	$(0.42)	$ 0.08	$(1.12)	$(1.20)	$ 0.08
Diluted net loss per share	$(0.34)	$(0.42)	$ 0.08	$(1.12)	$(1.20)	$ 0.08

The adoption of Topic 606 had no impact to net cash provided by or used in operating, investing and financing activities on the Company’s consolidated statements of cash flows during the six months ended September 30, 2018.

Performance Obligations

Customer contracts may include promises to transfer multiple products and services to a customer. Determining whether the products and services are considered distinct performance obligations that should be accounted for separately or as one combined performance obligation may require significant judgment. The transaction price is allocated among performance obligations in bundled contracts in an amount that depicts the relative standalone selling prices of each obligation.

For contracts involving distinct hardware and software licenses, the performance obligations are satisfied at a point in time when control is transferred to the customer. For standalone maintenance and post-contract support (PCS) the performance obligation is satisfied ratably over the contract term as a stand-ready obligation. For consulting and training services, the performance obligation may be satisfied over the contract term as a stand-ready obligation, satisfied over a period of time as those services are delivered, or satisfied at the completion of the service when control has transferred or the services have expired unused.

Payments for hardware, software licenses, one-year maintenance, PCS and consulting services, are typically due up front with payment terms of 30 to 90 days. However, the Company does have contracts pursuant to which billings occur ratably over a period of years following the transfer of control for the contracted performance obligations. Payments on multi-year

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maintenance, PCS and consulting services are typically due in annual installments over the contract term. The Company did not have any material variable consideration such as obligations for returns, refunds or warranties at September 30, 2018.

At September 30, 2018, the Company had total deferred revenue of $307.2 million, which represents the aggregate total contract price allocated to undelivered performance obligations. The Company expects to recognize $230.1 million, or 75%, of this revenue during the next 12 months, and expects to recognize the remaining $77.1 million, or 25%, of this revenue thereafter.

Because of NetScout's revenue recognition policies, there are circumstances for which the Company does not recognize revenue relating to sales transactions that have been billed, but the related account receivable has not been collected. While the receivable represents an enforceable obligation, for balance sheet presentation purposes, the Company has not recognized the deferred revenue or the related account receivable and no amounts appear in the consolidated balance sheets for such transactions. The aggregate amount of unrecognized accounts receivable and deferred revenue was $10.0 million and $20.0 million at September 30, 2018 and March 31, 2018, respectively. NetScout expects that the amount of billed and unbilled deferred revenue will change from quarter to quarter for several reasons, including the specific timing, duration and size of large customer support and service agreements, varying billing cycles of such agreements, the specific timing of customer renewals, and foreign currency fluctuations. The Company did not have any significant financing components, or variable consideration or performance obligations satisfied in a prior period recognized during the three and six months ended September 30, 2018.

Contract Balances

The Company receives payments from customers based on a billing schedule as established by the Company's contracts. Contract assets relate to performance obligations in advance of scheduled billings. Upon adoption, the Company recorded unbilled accounts receivable representing the right to consideration in exchange for goods or services that have been transferred to a customer conditional on the passage of time. The Company did not record any contract assets upon adoption. Deferred revenue relates to payments received in advance of performance under the contract. The following table provides information about contract assets and liabilities (in thousands):

	April 1, 2018	September 30, 2018	Increase/ (Decrease)
ASSETS:			
Customer accounts receivable	$205,299	$190,903	$(14,396)
Unbilled receivables	4,338	4,402	64
Other receivables	4,996	3,287	(1,709)
Long-term unbilled receivables	2,254	3,754	1,500
	$216,887	$202,346	$(14,541)
LIABILITIES:			
Deferred revenue	$271,698	$230,098	$(41,600)
Deferred revenue, long-term	90,157	77,135	(13,022)
	$361,855	$307,233	$(54,622)

Changes in deferred revenue during the six months ended September 30, 2018 were as follows (in thousands):

Balance at April 1, 2018	$361,855
Revenue recognized in the period	(206,512)
Additions to customer deposits and contract liabilities	159,265
Reclassifications and other adjustments	594
Divestiture of the HNT tools business	(7,969)
Balance at September 30, 2018	$307,233

Costs to Obtain Contracts

The Company has determined that the only significant incremental costs incurred to obtain contracts with clients within the scope of Topic 606 are sales commissions paid to its associates. Sales commissions are recorded as an asset and amortized to expense ratably over the remaining performance periods of the related contracts with remaining performance obligations.

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The Company applies the practical expedient in Topic 606 and expenses costs as incurred for sales commissions when the amortization period would have been one year or less.

At September 30, 2018, the consolidated balance sheet included $5.6 million in assets related to sales commissions to be expensed in future periods. A balance of $3.6 million was included in prepaid expenses and other current assets, and a balance of $2.0 million was included as other assets in the Company's consolidated balance sheet at September 30, 2018.

During the three and six months ended September 30, 2018, the Company recognized $1.8 million and $3.3 million of amortization related to this sales commission asset, which is included in the sales and marketing expense line in the Company's consolidated statements of operations.

NOTE 3 – CONCENTRATION OF CREDIT RISK AND SIGNIFICANT CUSTOMERS

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of investments, trade accounts receivable and accounts payable. The Company's cash, cash equivalents, and marketable securities are placed with financial institutions with high credit standings.

At September 30, 2018 the Company had one direct customer, Verizon, who accounted for more than 10% of the accounts receivable balance, while no indirect channel partner accounted for more than 10% of the accounts receivable balance. At March 31, 2018, the Company had no direct customers or indirect channel partners which accounted for more than 10% of the accounts receivable balance.

During the three and six months ended September 30, 2018 and September 30, 2017, no direct customers or indirect channel partners accounted for more than 10% of the Company's total revenue.

As disclosed parenthetically within the Company's consolidated balance sheet, the Company has receivables from related parties included within prepaid expenses and other current assets that represent a concentration of credit risk of $1.5 million and $3.2 million at September 30, 2018 and March 31, 2018, respectively.

Historically, the Company has not experienced any significant failure of its customers' ability to meet their payment obligations nor does the Company anticipate material non-performance by its customers in the future; accordingly, the Company does not require collateral from its customers. However, if the Company's assumptions are incorrect, there could be an adverse impact on its allowance for doubtful accounts.

NOTE 4 – SHARE-BASED COMPENSATION

The following is a summary of share-based compensation expense including restricted stock units granted pursuant to the Company's 2007 Equity Incentive Plan, as amended, and employee stock purchases made under the Company's 2011 Employee Stock Purchase Plan, as amended, (ESPP) based on estimated fair values within the applicable cost and expense lines identified below (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
Cost of product revenue	$544	$293	$813	$506
Cost of service revenue	1,845	1,294	3,175	2,310
Research and development	5,414	3,915	9,565	7,090
Sales and marketing	6,043	4,147	10,402	7,591
General and administrative	3,572	2,949	6,428	5,332
	$17,418	$12,598	$30,383	$22,829

Employee Stock Purchase Plan – The Company maintains the ESPP for all eligible employees as described in the Company's Annual Report on Form 10-K for the year ended March 31, 2018. Under the ESPP, shares of the Company's common stock may be purchased on the last day of each bi-annual offering period at 85% of the fair value on the last day of such offering period. The offering periods run from March 1st through August 31st and from September 1st through the last day of February each year. During the six months ended September 30, 2018, employees purchased 302,994 shares under the ESPP and the value per share was $25.00.

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NOTE 5 – CASH, CASH EQUIVALENTS, RESTRICTED CASH AND MARKETABLE SECURITIES
The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents and those investments with original maturities greater than three months to be marketable securities. Cash and cash equivalents consisted of money market instruments and cash maintained with various financial institutions at September 30, 2018 and March 31, 2018.

Cash, Cash Equivalents and Restricted Cash
The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows (in thousands):

	September 30, 2018		March 31, 2018	September 30, 2017	March 31, 2017
Cash and cash equivalents	$	332,183	$ 369,821	$ 251,505	$ 304,880
Restricted cash	187		910	909	846
Total cash, cash equivalents and restricted cash	Gross Carrying Amount				

Accumulated Amortization

Net Carrying Amount

Data content	$52,438	$16,849	$35,589
Client relationships	21,088	12,782	8,306
Software technology	19,093	18,222	871
Non-compete agreements	1,750	437	1,313
Trade names	572	341	231
Total	$94,941	$48,631	$46,310

There were no intangible assets acquired during fiscal 2012. The change in the gross carrying amount of intangible assets at May 31, 2012 as compared to August 31, 2011 was due to foreign currency translations.

Amortization expense recorded for intangible assets was $1.8 million and $2.1 million for the three months ended May 31, 2012 and 2011, respectively. Amortization expense recorded for intangible assets was $5.5 million and $6.4 million for the nine months ended May 31, 2012 and 2011, respectively. As of May 31, 2012, estimated intangible asset amortization expense for each of the next five years and thereafter are as follows (in thousands):

Fiscal Year	Estimated Amortization Expense
2012 (remaining three months)	$1,766
2013	5,717
2014	4,644
2015	3,955
2016	2,463
Thereafter	19,753
Total	$38,298

10. COMMON STOCK AND EARNINGS PER SHARE

On May 8, 2012, FactSet's Board of Directors approved a 15% increase in the regular quarterly dividend, beginning with the Company's dividend payment in June 2012 of $0.31 per share, or $1.24 per share per annum. The cash dividend of $13.9 million was paid on June 19, 2012, to common stockholders of record on May 31, 2012. Shares of common stock outstanding were as follows (in thousands):

	Nine Months Ended May 31,	
	2012	2011
Balance at September 1	45,055	46,024
Common stock issued for employee stock plans	694	1,168
Repurchase of common stock	(934)	(1,362)
Balance at May 31, 2012 and 2011, respectively	44,815	45,830

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

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, 2012			
Basic EPS			
Income available to common stockholders	$47,980	44,791	$1.07
Diluted EPS			
Dilutive effect of stock options and restricted stock		945	
Income available to common stockholders plus assumed conversions	$47,980	45,736	$1.05
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 nine months ended May 31, 2012			
Basic EPS			
Income available to common stockholders	$140,270	44,926	$3.12
Diluted EPS			
Dilutive effect of stock options and restricted stock		1,045	
Income available to common stockholders plus assumed conversions	$140,270	45,971	$3.05
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

Dilutive potential common shares consist of stock options and unvested restricted stock awards. The number of stock options excluded from the calculation of diluted earnings per share for the three and nine months ended May 31, 2012 was 6,408 and 347,272, respectively, because their inclusion would have been anti-dilutive. No stock options were excluded from the calculation of diluted earnings per share for the three months ended May 31, 2011. However, for the nine months ended May 31, 2011, there were 1,424 stock options excluded from the calculation of diluted earnings per share. The number of restricted stock awards excluded from the calculation of diluted earnings per share for the three months ended May 31, 2012 was 30,090. No restricted stock awards were excluded from the calculation of diluted earnings per share for the three months ended May 31, 2011. For the nine months ended May 31, 2012 and 2011, the number of restricted stock awards excluded was 30,456 and 5,015, respectively.

For the three and nine months ended May 31, 2012, the number of performance-based stock option grants excluded from the calculation of diluted earnings per share was 2,295,768. Similarly, 2,514,891 performance-based stock option grants were excluded from the calculation of diluted earnings per share for the three and nine months ended May 31, 2011. 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, 2012 and 2011 for these performance-based stock options.

11. STOCKHOLDERS' EQUITY

Preferred Stock

At May 31, 2012 and August 31, 2011, there were 10,000,000 shares of preferred stock ($.01 par value per share) authorized, of which no shares were issued and outstanding. FactSet's Board of Directors may from time to time authorize the issuance of one or more series of preferred stock and, in connection with the creation of such series, determine the characteristics of each such series including, without limitation, the preference and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions of the series.

Common Stock

At the fiscal 2011 Annual Meeting of Stockholders (the "Meeting") of FactSet held on December 13, 2011, the stockholders of FactSet voted on and approved an amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of common stock, par value $0.01, of FactSet from 100,000,000 to 150,000,000 shares. Such amendment to FactSet's Restated Certificate of Incorporation had previously been approved on October 24, 2011, by the Company's Board of Directors. On December 16, 2011, a Certificate of Amendment was filed with the Secretary of State of Delaware to effect, as of such date, the foregoing amendment of the Company's Restated Certificate of Incorporation. The newly authorized shares of common stock are issuable for any proper corporate purpose, including future stock splits, stock dividends, acquisitions, raising equity capital or to adopt additional employee benefit plans. These additional shares provide the Company the flexibility to issue shares for future corporate needs without potential expense or delay incident to obtaining stockholder approval for any particular issuance.

Treasury Stock

On December 31, 2011, FactSet retired 16,658,741 shares of treasury stock. These retired shares are now included in the Company's pool of authorized but unissued shares. The retired treasury stock was initially recorded using the cost method and had a carrying value of $850.9 million at December 31, 2011. The Company's accounting policy upon the formal retirement of treasury stock is to deduct its par value from common stock ($0.2 million), reduce additional paid-in capital ("APIC") by the amount recorded in APIC when the stock was originally issued ($361.4 million) and any remaining excess of cost as a deduction from retained earnings ($489.3 million).

Share Repurchase Program

On May 8, 2012, FactSet's Board of Directors approved a $200 million expansion to the existing share repurchase program. During the first nine months of fiscal 2012, the Company repurchased 933,800 shares for $86.9 million under the existing share repurchase program, including 276,000 shares repurchased for $27.3 million during the third quarter of fiscal 2012. At May 31, 2012, $256 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 repurchase program and it is expected that share repurchases will be paid using existing and future cash generated by operations.

Restricted Stock

Restricted stock awards entitle the holder to shares of common stock as the awards vest over time. During the first nine months of fiscal 2012, FactSet did not grant restricted stock awards. The Company's restricted stock awards granted in fiscal 2011 vest between five and six years and are amortized to stock-based compensation expense over the vesting period.

Dividends

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

Declaration Date	Dividends Per Share of Common Stock		Type	Record Date	Total $ Amount (in thousands)		Payment Date
May 8, 2012	$	0.31	Regular (cash)	May 31, 2012	$	13,893	June 19, 2012
February 14, 2012	$	0.27	Regular (cash)	February 29, 2012	$	12,085	March 20, 2012
November 10, 2011	$	0.27	Regular (cash)	November 30, 2011	$	12,181	December 20, 2011
August 11, 2011	$	0.27	Regular (cash)	August 31, 2011	$	12,165	September 20, 2011
May 9, 2011	$	0.27	Regular (cash)	May 31, 2011	$	12,374	June 21, 2011
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.

12. COMPREHENSIVE INCOME

Comprehensive Income

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

	Three Months Ended	Nine Months Ended

	May 31, 2012	2011	May 31, 2012	2011
Net income	$47,980	$43,311	$140,270	$130,166
Other comprehensive income, net of tax:				
Net unrealized (loss) gain on cash flow hedges	(1,815)	(473)	(2,921)	1,434
Foreign currency translation adjustments	(12,742)	4,379	(21,555)	16,112
Comprehensive income	$33,423	$47,217	$115,794	$147,712

Accumulated Other Comprehensive Loss

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

	May 31, 2012	Aug 31, 2011
Accumulated unrealized (loss) gain on cash flow hedges, net of tax	$(2,331)	$590
Accumulated foreign currency translation adjustments	(27,805)	(6,250)
Total accumulated other comprehensive loss	$(30,136)	$(5,660)

13. EMPLOYEE STOCK OPTION AND RETIREMENT PLANS

During the first nine months of fiscal 2012, FactSet granted 1,085,144 stock options at a weighted average exercise price of $94.84 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, 2011	6,132	$ 57.28
Granted – non performance-based	420	94.84
Granted – performance-based	666	94.84
Exercised	(188)	29.40
Forfeited	(25)	71.49
Balance at November 30, 2011	7,005	$ 63.79
Granted – non-employee Directors grant	21	87.26
Exercised	(135)	35.34
Forfeited	(13)	86.13
Balance at February 29, 2012	6,878	$ 64.38
Exercised	(308)	39.96
Forfeited	(50)	82.59
Balance at May 31, 2012	6,520	$ 65.39

The total number of in-the-money options exercisable as of May 31, 2012 was 2.7 million with a weighted average exercise price of $46.16. As of August 31, 2011, 2.6 million in-the-money outstanding options were exercisable with a weighted average exercise price of $38.99. The aggregate intrinsic value of in-the-money stock options exercisable at May 31, 2012 and August 31, 2011 was $160.3 million and $129.3 million, respectively. Aggregate intrinsic value represents the difference between the Company's closing stock price of $105.43 at May 31, 2012 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, 2012 and 2011 was $18.9 million and $15.5 million, respectively. The total pre-tax intrinsic value of stock options exercised during the nine months ended May 31, 2012 and 2011 was $37.5 million and $65.0 million, respectively.

Performance-based Stock Options

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

November 2010 Annual Employee Performance-based Option Grant Review

In November 2010, 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, 2012, the Company estimated that 20% or 146,867 of the performance-based stock options would vest which results in unamortized stock-based compensation expense of $1.6 million to be recognized over the remaining vesting period of 3.4 years.

Organic ASV growth by the Company of less than $32 million during the fourth quarter of fiscal 2012 would result in a two year annual compounded growth rate of less than 11%. This outcome would be below expectations and require FactSet to reverse $1.4 million of previously recognized stock-based compensation expense during the fourth quarter (equal to approximately $0.02 per diluted share). The amount of the stock-based compensation reversal equal to $1.4 million represents the one-time cumulative adjustment to be recorded if there had been a change in the vesting percentage from 20% to 0% as of May 31, 2012. The one-time cumulative adjustment would also decrease the total unamortized stock-based compensation expense to be recognized over the remaining vesting period from $1.6 million to zero.

November 2011 Annual Employee Performance-based Option Grant Review
In November 2011, the Company granted 665,551 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, 2013. During the third quarter of fiscal 2012, FactSet estimated that it was not probable the Company would achieve the required ASV and diluted earnings per share growth due to the Company's decelerating ASV growth rate. This revised estimate reflects a lower performance level than previously estimated and accordingly, decreased the number of performance-based options that are estimated to vest at the end of fiscal 2013 to zero. As such, at May 31, 2012, the Company has estimated that none (0%) of the performance-based stock options will vest, down from 20% or 133,110 performance-based stock options in previous periods. The change in the expected outcome of performance-based stock options required the Company to reverse $0.4 million of stock-based compensation in the third quarter of fiscal 2012.

A further change in the actual financial performance levels achieved by FactSet due to an acceleration in ASV growth rates in future periods 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, 2012	Cumulative Catch-up Adjustment*	Average Remaining Quarterly Expense to be Recognized
0%	$0	$0	$0
20%	$3,000	$640	$170
60%	$9,000	$1,920	$510
100%	$15,000	$3,200	$850

* Amounts represent the cumulative catch-up adjustment to be recorded if there had been a change in the vesting percentage as of May 31, 2012. The 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 July 2011, the Company granted 950,923 performance-based employee stock options that vest based on FactSet achieving certain ASV targets. At May 31, 2012, the Company estimated that 204,508 of the performance-based stock options will vest which results in unamortized stock-based compensation expense of $0.8 million to be recognized over the remaining vesting period of approximately 1.4 years.

A change in the actual financial performance levels achieved by FactSet due to unforeseen significant ASV growth in future fiscal years could result in the following changes to the Company's current estimate of the vesting percentage and related expense (in thousands):

Vesting Percentage	Cumulative Catch-up Adjustment*	Remaining Expense to be Recognized
0%	$ 0	$ 0
50%	$ 2,994	$ 4,631
100%	$ 7,506	$ 7,744

* Amounts represent the cumulative catch-up adjustment to be recorded if there had been a change in the vesting percentage as of May 31, 2012.

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):

	Number Outstanding		Weighted Average Grant Date Fair Value Per Award
Balance at August 31, 2011	407	$	71.31
Granted (restricted stock and stock units)	0	$	0
Vested	0	$	0
Canceled/forfeited	(2)	$	70.66
Balance at November 30, 2011	405	$	71.31
Granted (restricted stock and stock units)	0	$	0
Vested	0	$	0
Canceled/forfeited	(1)	$	73.90
Balance at February 29, 2012	404	$	71.30
Granted (restricted stock and stock units)	0	$	0
Vested	0	$	0
Canceled/forfeited	(5)	$	74.17
Balance at May 31, 2012	399	$	71.26

There were no restricted stock awards granted during the first nine months of fiscal 2012.

During the first nine months of fiscal 2011, the following restricted stock award was granted.

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 resulting fair value of the restricted stock awards granted in November 2010 was $84.38. As of May 31, 2012, unamortized stock-based compensation expense of $5.7 million is to be amortized to compensation expense over the remaining vesting period of 3.4 years.

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 weighted average fair value of the restricted stock awards granted on April 14, 2011 was $99.75. As of May 31, 2012, unamortized stock-based compensation expense of $1.9 million is to be amortized to compensation expense over the remaining vesting period of 1.9 years.

Other Employee Restricted Stock and Stock Unit Awards
Between November 2010 and January 2011, the Company granted 5,376 restricted stock awards which entitle the holder to shares of common stock as the awards vest over time. As of May 31, 2012, unamortized stock-based compensation expense of $0.1 million is to be amortized to compensation expense over the remaining vesting period of 1.7 years.

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, 2011	4,977	147
Granted – non performance-based options	(666)	0
Granted – performance-based options	(420)	0
Share-based awards canceled/forfeited*	31	0
Balance at November 30, 2011	3,922	147
Granted – non-employee Directors grant	0	(21)
Share-based awards canceled/forfeited*	16	0
Balance at February 29, 2012	3,938	126
Share-based awards canceled/forfeited*	61	0

Balance at May 31, 2012	3,999	126

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

Employee Stock Purchase Plan

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

During the three months ended May 31, 2012, employees purchased 22,011 shares at a weighted average price of $74.60 as compared to 18,053 shares at a weighted average price of $87.02 in the same period a year ago. At May 31, 2012, 215,671 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 $4.9 million and $4.3 million in matching contributions to employee 401(k) accounts during the nine months ended May 31, 2012 and 2011, 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 on historical experience.

The following table summarizes stock-based compensation expense for the three and nine months ended May 31, 2012 and 2011 (in thousands):

	Three Months Ended May 31,		Nine Months Ended May 31	
	2012	2011	2012	2011
Stock-based compensation	$5,149	$4,975	$17,074	$15,352
Tax effect of stock-based compensation*	(1,565)	(1,500)	(5,321)	(4,752)
Stock-based compensation, net of tax	$3,584	$3,475	$11,753	$10,600

* For the purposes of calculating the tax effect above, stock-based compensation was taxed at the effective tax rates. For the three months ended May 31, 2012, the effective tax rate was 30.4%. For the three months ended May 31, 2011, the effective tax rate was 30.1%.

As of May 31, 2012, $40.1 million of total unrecognized compensation expense related to non-vested awards is expected to be recognized over a weighted average period of 3.1 years. There was no stock-based compensation capitalized as of May 31, 2012 or August 31, 2011, 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 2012

- Q1 2012 – 419,593 non performance-based employee stock options and 665,551 performance-based employee stock options were granted at a weighted average exercise price of $94.84 and a weighted average estimated fair value of $32.08 per share.
- Q2 2012 – There were no employee stock options granted during the three months ended February 29, 2012.
- Q3 2012 – There were no employee stock options granted during the three months ended May 31, 2012.

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.
- 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.

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,		Nine Months Ended May 31,	
	2012	2011	2012	2011
Term structure of risk-free interest rate	n/a	0.19% - 1.00 %	0.13% - 2.41 %	0.18% - 1.88 %
Expected life	n/a	4.0 years	7.6 – 7.8 years	4.0 - 6.5 years
Term structure of volatility	n/a	23% - 35%	30% - 36 %	23% - 35 %
Dividend yield	n/a	1.07 %	1.11 %	1.25 %
Weighted average estimated fair value	n/a	$ 23.41	$ 32.08	$ 24.72

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

Non-Employee Director Stock Option Fair Value Determinations
The 2008 Non-Employee Directors’ Stock Option Plan (the “Directors’ Plan”) provides for the grant of share-based awards, including stock options, to non-employee directors of FactSet. A total of 250,000 shares of FactSet common stock have been reserved for issuance under the Directors’ Plan. The expiration date of the Directors’ Plan is December 1, 2018.

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

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

Risk-free interest rate	0.94 %

Expected life		5.43 years
Expected volatility	33.6	%
Dividend yield	1.11	%

Fiscal 2011

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

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

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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 2012

– There were no restricted stocks awards granted during fiscal 2012.

Fiscal 2011

– 117,723 shares of restricted stock with a fair value of $84.38 were granted on November 8, 2010.
– 3,291 restricted stock units with a fair value of $83.49 were granted on November 8, 2010.
– 1,719 restricted stock units with a fair value of $94.50 were granted on January 27, 2011.
– 366 shares of restricted stock with a fair value of $95.24 were granted on January 27, 2011.
– 30,090 restricted stock units with a fair value of $99.75 were granted on April 14, 2011.

Employee Stock Purchase Plan Fair Value Determinations
During the three months ended May 31, 2012, employees purchased 22,011 shares at a weighted average price of $74.60 as compared to 18,053 shares at a weighted average price of $87.02 in the same period a year ago. During the first nine months of fiscal 2012, employees purchased 64,867 shares at a weighted average price of $74.17 as compared to 56,659 shares at a weighted average price of $75.58 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, 2012 and 2011 were $14.84 and $16.97 per share, respectively, with the following weighted average assumptions:

	Three Months Ended May 31,			
	2012		2011	
Risk-free interest rate	0.09	%	0.07	%
Expected life	3 months		3 months	
Expected volatility	12.1	%	9.8	%
Dividend yield	1.4	%	0.9	%

The weighted average estimated fair value of employee stock purchase plan grants during the nine months ended May 31, 2012 and 2011 were $15.40 and $14.71 per share, respectively, with the following weighted average assumptions:

	Nine Months Ended May 31,			
	2012		2011	
Risk-free interest rate	0.05	%	0.12	%

Expected life	3 months		3 months	
Expected volatility	14.1	%	9.7	%
Dividend yield	1.3	%	1.0	%

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, 2012	Three Months Ended May 31, 2011	Change	Nine Months Ended May 31, 2012	Nine Months Ended May 31, 2011	Change
U.S. operations	$ 58,517	$ 52,172	12.2 %	$ 172,619	$ 151,743	13.8 %
Non-U.S. operations	10,460	9,823	6.5 %	31,000	28,031	10.6 %
Income before income taxes	$ 68,977	$ 61,995	11.3 %	$ 203,619	$ 179,774	13.3 %
U.S. operations	$ 18,507	$ 16,519	12.0 %	$ 56,576	$ 42,945	31.7 %
Non-U.S. operations	2,490	2,165	15.0 %	6,773	6,663	1.7 %
Total provision for income taxes	$ 20,997	$ 18,684	12.4 %	$ 63,349	$ 49,608	27.7 %
Effective tax rate	30.4 %	30.1 %		31.1 %	27.6 %	

The following table provides details of income taxes (in thousands, except percentages):

	Three Months Ended May 31, 2012	Three Months Ended May 31, 2011	Nine Months Ended May 31, 2012	Nine Months Ended May 31, 2011
Income before income taxes	$68,977	$61,995	$203,619	$179,774
Provision for income taxes	$20,997	$18,684	$63,349	$49,608
Effective tax rate	30.4 % *	30.1 %	31.1 % *	27.6 % **

* The expiration of the U.S. Federal R&D tax credit on December 31, 2011 increased the annual effective tax rate by 1.3%.

** The Company's annual effective tax rate before discrete items for fiscal 2011 was 31.0%. During the second quarter of fiscal 2011, FactSet recorded $4.9 million of income tax benefits from the reenactment of the U.S. Federal R&D credit in December 2010, which resulted in an actual effective tax rate of 27.6% for the nine months ended May 31, 2011.

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

	Nine Months Ended May 31, 2012	Nine Months Ended May 31, 2011
Current:		
U.S. federal	$54,720	$38,876
U.S. state and local	2,864	3,670
Non-U.S.	7,167	7,314

Total current taxes	$64,751	$49,860
Deferred:		
U.S. federal	$(893)	$359
U.S. state and local	(114)	40
Non-U.S.	(395)	(651)
Total deferred taxes	$(1,402)	$(252)
Total tax provision	$63,349	$49,608

Deferred Tax Assets and Liabilities

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

	May 31, 2012	Aug 31, 2011
Deferred tax assets		
Current		
Receivable reserve	$695	$736
Deferred rent	3,108	3,272
Net current deferred taxes	$3,803	$4,008
Non-current		
Depreciation on property, equipment and leasehold improvements	2,165	2,437
Deferred rent	2,774	2,793
Stock-based compensation	21,972	18,096
Purchased intangible assets, including acquired technology	(5,502)	(4,549)
Other	935	1,389
Net non-current deferred taxes	22,344	20,166
Total deferred tax assets	$26,147	$24,174

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

	May 31, 2012	Aug 31, 2011
Deferred tax liabilities (non-current)		
Purchased intangible assets, including acquired technology	$2,957	$3,712
Stock-based compensation	(421)	0
Total deferred tax liabilities (non-current)	$2,536	$3,712

A provision has not been made for additional U.S. Federal taxes as of May 31, 2012 on undistributed earnings of foreign subsidiaries, except for France, because the Company intends to reinvest these funds indefinitely to support foreign growth opportunities. The amount of such undistributed earnings of foreign subsidiaries included in consolidated retained earnings was immaterial at May 31, 2012 and August 31, 2011. It is not practicable to estimate the unrecognized deferred tax liability on these undistributed earnings. These earnings could become subject to additional tax if they are remitted as dividends, loaned to FactSet, or upon sale of the subsidiary’s stock.

Unrecognized Tax Positions

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

As of May 31, 2012, the Company had gross unrecognized tax benefits totaling $5.3 million, including $0.9 million of accrued interest, recorded as non-current taxes payable in the consolidated balance sheet. Unrecognized tax benefits represent tax positions taken on tax returns but not yet recognized in the consolidated financial statements. When applicable, the Company adjusts the previously recorded tax expense to reflect examination results when the position is effectively settled. The Company regularly engages in discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. It is reasonably possible that certain federal, foreign, and state tax matters may be concluded in the next 12 months. However, FactSet has no reason to believe that such audits will result in the payment of additional taxes and/or penalties that would have a material adverse effect on the Company's results of operations or financial position, beyond current estimates. Any changes in accounting estimates resulting from new developments with respect to uncertain tax positions will be recorded as appropriate. The Company does not currently anticipate that the total amounts of unrecognized tax benefits will significantly change within the next 12 months.

The following table summarizes the changes in the balance of gross unrecognized tax benefits during the first nine months of fiscal 2012 (in thousands):

Unrecognized tax benefits at August 31, 2011	$7,204
Additions based on tax positions related to the current year	583
Additions for tax positions of prior years	363
Reductions from settlements with taxing authorities	(2,288)
Statute of limitations lapse	(613)
Unrecognized income tax benefits at May 31, 2012	$5,249

In the normal course of business, the Company's tax filings are subject to audit by federal, state and foreign tax authorities. At May 31, 2012, the Company remained subject to examination in the following major tax jurisdictions for the tax years as indicated below:

Major Tax Jurisdictions	Open Tax Years
U.S.	
Federal	2009 through 2012
State (various)	2008 through 2012
Europe	
France	2010 through 2012
United Kingdom	2008 through 2012

16. COMMITMENTS AND CONTINGENCIES

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

Lease Commitments
At May 31, 2012, the Company leases approximately 193,000 square feet of office space at its headquarters in Norwalk, Connecticut. In addition, FactSet leases office space for its U.S. reportable segment in New York, New York; Boston, Massachusetts; Chicago, Illinois; San Mateo, California; Austin, Texas; Tuscaloosa, Alabama; Newark and Piscataway, New Jersey; Manchester, New Hampshire; and Reston, Virginia. The Company's European segment operates in leased office space in London, England; Paris and Avon, France; Amsterdam, the Netherlands; Frankfurt, Germany; Dubai, United Arab Emirates; and Milan, Italy. Office space in Tokyo, Japan; Hong Kong; Mumbai, India; and Sydney, Australia are leased by FactSet for its Asia Pacific operating segment. The data content collection centers located in Hyderabad, India and Manila, the Philippines benefit all of the Companies operating segments. The leases expire on various dates through March 2021. Total minimum rental payments associated with the leases are recorded as rent expense (a component of selling, general and administrative expenses) on a straight-line basis over the periods of the respective non-cancelable lease terms. The Company believes that its leased office space is adequate for its current needs and that additional space is available for lease to meet any future needs.

During the first nine months of fiscal 2012, FactSet entered into the following new lease agreements:

- Norwalk, CT: A new lease agreement to expand FactSet's corporate headquarters in Norwalk, CT was entered into during November 2011. The new lease results in incremental future minimum rental payments of $3.8 million over the non-cancelable lease term of eight years.

- New York, New York: New lease agreements for additional space to support the Company's operations were entered into during first quarter 2012, which result in incremental future minimum rental payments of $6.3 million over the non-cancelable lease term of approximately 3.5 years.

Partially offsetting new lease agreements entered into during fiscal 2012 was the consolidation of the East Grinstead office into the larger London office. This consolidation was completed in March 2012 and resulted in a reduction in leased office space by 3,853 rentable square feet. At the time FactSet exited the office space in East Grinstead in March 2012, there were seven months remaining on the lease and less than $0.1 million in remaining rental payments due.

Including the new lease agreements entered into during the first nine months of fiscal 2012, the Company's worldwide leased office space increased to approximately 763,200 square feet at May 31, 2012, up 5% from August 31, 2011.

At May 31, 2012, the Company’s lease commitments for office space provide for the following future minimum rental payments under non-cancelable operating leases with remaining terms in excess of one year (in thousands):

Years Ended August 31,		Minimum Lease Payments
2012 (remaining three months)	$	6,578
2013		25,477
2014		24,206
2015		19,923
2016		14,146
Thereafter		47,315
Total	$	137,645

During the three months ended May 31, 2012 and 2011, rent expense for all operating leases amounted to $8.6 million and $8.7 million, respectively. Rent expense for all operating leases for the first nine months of fiscal 2012 and 2011 amounted to $25.8 million and $24.3 million, respectively. Approximately $4.3 million of standby letters of credit have been issued during the ordinary course of business in connection with the Company’s current leased office space as of May 31, 2012. These standby letters of credit contain covenants that, among other things, require the Company to maintain minimum levels of consolidated net worth and certain leverage and fixed charge ratios. As of May 31, 2012, FactSet was in compliance with all covenants contained in the standby letters of credit.

Purchase Commitments with Suppliers
Purchase obligations represent payment due in future periods in respect of commitments to the Company’s various data vendors as well as commitments to purchase goods and services such as telecommunication and computer maintenance services. These purchase commitments are agreements that are enforceable and legally binding on FactSet and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. As of August 31, 2011, the Company had total purchase commitments of $47.8 million. There were no material changes in FactSet’s purchase commitments during the first nine months of fiscal 2012.

Contingencies

Legal Matters
FactSet accrues non income-tax liabilities for contingencies when management believes that a loss is probable and the amounts can be reasonably estimated, while contingent gains are recognized only when realized. The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business, including intellectual property litigation. Based on currently available information at May 31, 2012, FactSet’s management does not believe that the ultimate outcome of these unresolved matters against the Company, individually or in the aggregate, is likely to have a material adverse effect on the Company’s consolidated financial position, its results of operations or its cash flows.

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

are less than the ultimate assessment, a further charge to expense would result.

Indemnifications

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

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

Accounts Receivable - Accounts receivable are unsecured and are derived from revenues earned from clients located around the globe. FactSet performs ongoing credit evaluations of its clients and does not require collateral from its clients. The Company maintains reserves for potential write-offs and these losses have historically been within expectations. No single client represented 10% or more of FactSet’s total revenues in any fiscal year presented. At May 31, 2012, the Company’s largest individual client accounted for 2% of total subscriptions and annual subscriptions from the ten largest clients did not surpass 16% of total client subscriptions, consistent with August 31, 2011. At May 31, 2012 and August 31, 2011, the receivable reserve was $1.9 and $2.0 million, respectively.

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

17. SUBSEQUENT EVENTS

FactSet has performed an evaluation of subsequent events occurring subsequent to the end of the Company’s fiscal 2012 third quarter and through the date the consolidated financial statements were issued based on the accounting guidance for subsequent events.

Acquisition of StreetAccount LLC

On June 29, 2012, FactSet acquired StreetAccount LLC. Founded in 2003 and headquartered in Jackson, Wyoming, StreetAccount was purchased by FactSet to compliment the Company's news offering with distilled and crucial market moving information for buy-side and sell-side institutions. Known for their timely and informative news summaries, StreetAccount provides investment professionals with an efficient method for managing news flow and includes real-time company updates, portfolio and sector filtering, email alerts, and market summaries. Content is written by financial professionals and can be customized for portfolio, index, sector, market, time of day (i.e., Overnight Summaries), and category (i.e., Top Stories, Market Summaries, Economic, M&A). FactSet is now the sole distributor of StreetAccount news and current FactSet users can gain immediate, integrated access to StreetAccount through the FactSet workstation and iPad application.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

- Executive Overview
- Results of Operations
- Use of Non-GAAP Financial Measures
- Foreign Currency
- Liquidity
- Capital Resources
- Off-Balance Sheet Arrangements
- Contractual Obligations
- Share Repurchase Program
- Dividends
- Significant Accounting Policies and Critical Accounting Estimates
- New Accounting Pronouncements
- Market Trends
- Forward-Looking Factors

Executive Overview

FactSet is a provider of integrated financial information and analytical applications to the global investment community. We combine 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. By consolidating content from hundreds of databases with powerful analytics, FactSet supports the investment process from initial research to published results for buy and sell-side professionals. These professionals include portfolio managers, research and performance analysts, risk managers, marketing professionals, sell-side equity research professionals, investment bankers and fixed income professionals. Our applications provide users access to company analysis, multicompany comparisons, industry analysis, company screening, portfolio analysis, predictive risk measurements, alphatesting, portfolio optimization and simulation, real-time news and quotes and tools to value and analyze fixed income securities and portfolios. With Microsoft Office integration, wireless access and customizable options, we offer a complete financial workflow solution. Our revenues are derived from month-to-month subscriptions to services, databases and financial applications. We generate 80% of our revenues from investment management clients and the remainder is from investment banking firms who perform M&A advisory work and equity research.

As of May 31, 2012, we employed 5,455 employees, up 14% or 650 employees from a year ago. Of these employees, 1,742 were located in the U.S., 594 in Europe and 3,119 in Asia Pacific. Approximately 54% of employees are involved with content collection, 24% work in product development, software and systems engineering, another 19% conduct sales and consulting services and the remaining 3% provide administrative support.

While the economy continues to remain volatile in 2012, all of our key metrics continued to tick upwards as diluted EPS, ASV, revenues, users and net client count all increased during the third quarter of fiscal 2012. In just the past three months we generated over $70 million in free cash flow, which was 46% higher than our net income. Our just completed third quarter results marked yet another milestone for FactSet as we surpassed $200 million in quarterly revenues. Our company culture is such that we're dedicated to our clients and client service, not just on a daily basis in dealing with their immediate needs, but also on a long-term basis. We continue to release new applications and data on our system and whether from our own or from another source, such as the new bank loan data from Markit for our fixed income in Portfolio Analysis ("PA") product as well as acquiring the StreetAccount business to complement our news offering with distilled company news and market summaries. This acquisition resulted in FactSet becoming the sole distributor of SA news and our users gained immediate, integrated access to SA through the FactSet workstation and iPad application. Also, on May 10, 2012, The Wall Street Journal released its results of the annual Best on the Street Analysts, which marked our fourth consecutive year as the data provider.

Results of Operations

For an understanding of the significant factors that influenced our performance during the three and nine months ended May 31, 2012 and 2011, respectively, the following discussion should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements presented in this Quarterly Report on Form 10-Q.

	Three Months Ended May 31,				Nine Months Ended May 31,			
(in thousands, except per share data)	2012	2011	Change		2012	2011	Change	
Revenues	$202,311	$183,647	10.2	%	$598,130	$534,571	11.9	%
Cost of services	68,878	62,224	10.7	%	203,243	179,146	13.5	%
Selling, general and administrative	64,939	59,600	9.0	%	192,524	176,080	9.3	%
Operating income	68,494	61,823	10.8	%	202,363	179,345	12.8	%
Net income	$47,980	$43,311	10.8	%	$140,270	$130,166	7.8	%
Diluted earnings per common share	$1.05	$0.92	14.1	%	$3.05	$2.75	10.9	%
Diluted weighted average common shares	45,736	47,154			45,971	47,418		

Revenues

Revenues for the three months ended May 31, 2012 were $202.3 million, up 10.2% compared to the prior year. For the first nine months of fiscal 2012, revenues increased 11.9% to $598.1 million. During the third quarter of fiscal 2012, users increased by 1,100 to 48,400, we added 11 net new clients and annual subscriptions rose by $8 million. Our revenue growth drivers during fiscal 2012 were broad-based growth across all geographies, continued use of our advanced applications such as Portfolio Analysis expanded deployment of our proprietary data, growth in the number of clients and users, increased usage of FactSet in Excel by both buy and sell-side users and an annual price increase which impacted the majority of our non-U.S. investment management clients. These revenue drivers were partially offset by a cancellation of an earnings estimates feed to TheMarkets.com as a result of its acquisition by Standard & Poor's Capital IQ.

Broad-based growth across all geographies

Our sales and consulting staff continued to sell our broad range of products across each geographic region. We gained new clients at traditional money managers, regional broker dealers and among research and sales departments both in the U.S. and internationally. Revenues generated by each of our segments experienced double-digit growth compared to the year ago quarter, as U.S. revenues were up 10%, European revenues advanced 10% and Asia Pacific revenues grew 15%. Our investment management clients represented 80% of our total ASV as of May 31, 2012 consistent with a year ago.

Clients continue to license our advanced applications

Our Portfolio Analytics suite of products, including our Fixed Income in PA product, continued to be a source of revenue growth in the past three months. Equity portfolio analysis, SPAR, Fixed Income in PA and quantitative tools have been among the many value-added applications that continue to be in demand by existing clients as well as an attractive selling point for new clients. In the last 12 months, both PA users and clients have increased by double digits as this suite is comprehensive and includes the applications for portfolio attribution, risk, quantitative analysis, portfolio publishing and returns based, style analysis. Portfolio Publisher was successful in the third quarter of fiscal

2012 as quantitative analysis groups have found value from this suite of risk models and portfolio optimizers fully integrated and offered by FactSet.

Expanded deployment of our proprietary data

FactSet proprietary content has been a solid contributor to our total revenue growth in fiscal 2012. We have been successful in licensing proprietary FactSet data and in particular, FactSet Fundamentals and FactSet Estimates. The types of data licensed in feed form includes Ownership, Transcripts, M&A and Corporate Hierarchy data, among others. Data feeds are consumed by a range of clients, including existing large FactSet clients and some who do not manage money or provide sell-side services.

Growth in the number of clients and users of FactSet

For the tenth consecutive quarter, we experienced net new client growth. The total number of FactSet clients as of May 31, 2012 was 2,335, a net increase of 11 clients during the past three months and brings the net new client growth total to 98 since the beginning of the fiscal 2012 year. It is rewarding to see net new client growth for ten consecutive quarters against a backdrop of economic volatility where we have seen uncertain economic times stifle new firm creation and extend the timeframes clients take to make large spending decisions. The addition of new clients is important to FactSet as we anticipate that it lays the groundwork for future additional services, consistent with our strategy of increasing sales of workstations, applications and content at existing clients.

At May 31, 2012, there were 48,400 professionals using FactSet, an increase of 1,100 users in the last three months and up 2,800 users from a year ago. Our user count growth of 1,100 users during the third quarter of fiscal 2012 was driven by replacing a competitor at a global sell-side banking firm. This win helped grow our total user count by 2,800 or 6% over the past 12 months, which was comprised of approximately 2,000 new users at investment management clients who utilize advanced FactSet applications including real-time news and quotes and our vast array of proprietary data and 800 new users from global investment banking firms.

Increased usage of FactSet in Excel by both buy and sell-side users
We've been pleased by the increased usage of FactSet in Excel by both buy and sell-side users. This increased client engagement level was brought about by the release of Sidebar a year ago, which is new FactSet for Excel. Sidebar enhances the workflow of the user by making it simple and easy to customize and derive great value straight from Excel, one of the most widely-used software platforms in our industry.

Annual Price Increase
As FactSet has done for the past couple years, we issued our annual price increase for non-U.S. investment management clients during March 2012. This price increase resulted in ASV growth during the third quarter of fiscal 2012 of $3 million, as compared to the prior year price increase of $2 million. The annual price increase in March 2012 grew revenues by $0.7 million during the third quarter of fiscal 2012.

In addition, we issued our annual price increase for our U.S. investment management clients during the second quarter of fiscal 2012, which grew revenues by $2.5 million during the third quarter of fiscal 2012.

Partially offsetting the positive revenue drivers discussed above was a cancellation of an earnings estimates feed to TheMarkets.com as a result of its acquisition by S&P Capital IQ. In late 2010, Capital IQ, a Standard & Poor's business and a subsidiary of The McGraw-Hill Companies, acquired the research and estimates business of TheMarkets.com. FactSet had previously negotiated an agreement to provide TheMarkets.com with an earnings estimates feed, and this agreement was subsequently cancelled in the third quarter of fiscal 2012, reducing ASV by $4.1 million. However, total user count was not impacted as a result of the cancellation because the agreement provided an earnings estimates feed without any workstations.

Revenues by Geographic Region

	Three Months Ended May 31,				Nine Months Ended May 31,			
(in thousands)	2012	2011	Change		2012	2011	Change	
U.S.	$138,213	$125,963	9.7	%	$409,105	$365,737	11.9	%
% of revenues	68.3 %	68.6 %			68.4 %	68.4 %		
Europe	$49,451	$44,944	10.0	%	$146,380	$132,000	10.9	%
Asia Pacific	14,647	12,740	15.0	%	42,645	36,834	15.8	%
International	$64,098	$57,684	11.1	%	$189,025	$168,834	12.0	%
% of revenues	31.7 %	31.4 %			31.6 %	31.6 %		
Consolidated	$202,311	$183,647	10.2	%	$598,130	$534,571	11.9	%

Three months ended May 31, 2012 (Quarter-to-date)

Revenues from our U.S. segment increased 9.7% to $138.2 million during the three months ended May 31, 2012 compared to the same period a year ago. Our revenue growth rates in the U.S. reflect client and user count growth, annual price increases, the expanded deployment of our proprietary content and an increase in the number of PA users. Over the past 12 months, we increased prices which impacted the majority of our U.S. investment management clients and a smaller percentage of our U.S. banking and brokerage clients. These annual price increases resulted in revenue growth during the third quarter of fiscal 2012 of $2.5 million.

International revenues in the third quarter of fiscal 2012 were $64.1 million, an increase of 11.1% from $57.7 million in the prior year period. Foreign currency had no material impact on international revenues year over year. European revenues advanced 10.0% to $49.5 million due to offering a broader selection of global proprietary content, an annual price increase for the majority of our non-U.S. investment management clients in March 2012, increases in user and client counts and clients licensing our advanced applications. Asia Pacific revenues grew to $14.6 million, up 15.0% from the same period a year ago, largely due to growth in our global content offering, the expansion of our real-time news and quotes that services the needs of a global investor, our ability to sell additional services to existing clients and new client and user growth over the last 12 months. In March 2012, we issued our annual price increase for the majority of our non-U.S. investment management clients resulting in incremental revenue of $0.7 million during the third quarter of fiscal 2012. Revenues from international operations accounted for 31.7% of our consolidated revenues during the third quarter of fiscal 2012, up from 31.4% in the year ago quarter.

Nine months ended May 31, 2012 (Year-to-date)

Our U.S. segment revenue increased 11.9% to $409.1 million during the first nine months of fiscal 2012 as compared to $365.7 million in the same period a year ago. International revenues increased 12.0% to $189.0 million during the nine months ended May 31, 2012 compared to $168.8 million in the prior year period. The impact from foreign currency increased international revenues by $0.5 million year over year. European revenues advanced 10.9% to $146.4 million due to offering a broader selection of global proprietary content coupled with user and client growth. Asia Pacific revenues grew to $42.6 million, up 15.8% from the same period a year ago. Excluding the impact of foreign currency, Asia Pacific revenue growth was 14.3% year over year. The annual price increases in March 2012 and 2011 increased revenues by $1.7 million during fiscal 2012 as compared to the first nine months of fiscal 2011.

Annual Subscription Value ("ASV")

ASV at a given point in time represents the forward-looking revenues for the next 12 months from all subscription services being supplied to our clients. With proper notice to us, our clients are able to add to, delete portions of, or terminate service at any time. At May 31, 2012, ASV was $811 million, up 9% over the prior year. ASV from our U.S. operations was $549 million, up $42 million from a year ago. ASV from international operations increased from $234 million at May 31, 2011 to $262 million at May 31, 2012, representing 32% of our Company-wide total.

ASV advanced $8 million during the third quarter of fiscal 2012, driven by increased sales of our PA suite of products, additional users and an annual price increase in March 2012, which impacted the majority of our non-U.S. investment management clients and grew total ASV by $3 million, as compared to the prior year price increase of $2 million. The percentage of our total ASV derived from buy-side clients decreased from 81% at February 29, 2012 to 80% at May 31, 2012 due to replacing a competitor at a global sell-side banking firm. Our percentage of 80% at May 31, 2012 is consistent with a year ago.

Users and Clients

Client count was 2,335 as of May 31, 2012, a net increase of 11 clients during the quarter as compared to 26 net new clients added in the third quarter of fiscal 2011. At May 31, 2012, our largest individual client accounted for 2% of total subscriptions and annual subscriptions from the ten largest clients did not surpass 16% of total client subscriptions, consistent with August 31, 2011 and May 31, 2011. Professionals using FactSet was 48,400 at May 31, 2012, an increase of 1,100 over the past three months and was primarily from additions at sell-side firms. The user growth illustrates our opportunity to sell more at both investment management and investment banking firms. Although users increased among both sell-side and buy-side clients, the overall user count growth of 1,100 was driven by replacing a competitor at a global sell-side banking firm. Our clients continue to be cautious in fiscal 2012 as they closely review and scrutinize their user populations based on how they perceive market opportunities. Many of them have experienced headcount reductions, which lowers user count.

Consistent with past quarters and with last year, our annual client retention was greater than 95% of ASV at May 31, 2012. As a percentage of actual clients, the annual retention rate was 92% at May 31, 2012, also consistent with the year ago quarter. We believe these statistics, which have remained consistent since last year despite concerns over the global economy, demonstrate to us that our clients continue to be engaged with our services and derive value from them.

Operating Expenses

	Three Months Ended May 31,			Nine Months Ended May 31,		
(in thousands)	2012	2011	Change	2012	2011	Change
Cost of services	$68,878	$62,224	10.7 %	$203,243	$179,146	13.5 %
Selling, general and administrative ("SG&A")	64,939	59,600	9.0 %	192,524	176,080	9.3 %
Total operating expenses*	$133,817	$121,824	9.8 %	$395,767	$355,226	11.4 %
Operating income	$68,494	$61,823	10.8 %	$202,363	$179,345	12.8 %
Operating Margin*	33.9 %	33.7 %		33.8 %	33.5 %	

* Included in operating expenses for the nine months ended May 31, 2011 was an incremental $2.5 million of stock-based compensation from a change in the expected outcome of performance-based stock options. During the second quarter of fiscal 2011, we estimated that it was probable that the Company would achieve ASV and diluted earnings per share growth of at least 8% on a compounded annual basis for the two years ended August 31, 2011 due to our accelerating ASV and diluted EPS growth rates. This revised estimate reflects a higher performance level than previously estimated and accordingly, increased the number of performance-based options that are estimated to vest at the end of fiscal 2011. The charge related to stock-based compensation reduced GAAP operating margin by 50 basis points from 34.0% to 33.5% for the nine months ended May 31, 2011.

Cost of Services

Three months ended May 31, 2012 (Quarter-to-date)

For the three months ended May 31, 2012, cost of services increased 10.7% to $68.9 million as compared to $62.2 million in the same period a year ago. Cost of services expressed as a percentage of revenues was 34.0% during the third quarter of fiscal 2012, an increase of 16 basis points over the prior year due higher compensation expense associated with new hires in consulting, engineering and content as well as an uptick in data costs offset by lower depreciation and a decline in intangible assets amortization expense.

Employee compensation, including stock-based compensation, expressed as a percentage of revenues, increased 65 basis points for the three months ended May 31, 2012 compared to the same period a year ago due to the hiring of new classes of engineers and consultants in the past 12 months, continued expansion of our proprietary content collection operations in India and the Philippines, salary increases year over year and increased variable compensation. Over the last 12 months we have increased our content collection headcount by approximately 335 employees, primarily at our facilities in India and the Philippines. At May 31, 2012, approximately 54% of our employees were involved with content collection. In addition to the hiring of employees for our content collection operations, we grew by approximately 200 net new engineering and product development employees and 90 net new consultants in the past year, as we continue to improve our applications and service our existing client base. Data costs, expressed as a percentage of revenues, increased 45 basis points in the third quarter of fiscal 2012 compared to the same period a year ago due to our growing user base, the continued expansion of our third party data set offerings and incremental Market Metrics data collection costs. As the result of us adding 148 clients and more than 2,800 users in the past 12 months, we incurred incremental variable fees payable to data vendors based on deployment of their content over the FactSet platform.

Lower computer depreciation and amortization of intangible assets expense offset higher compensation and data costs during the third quarter of fiscal 2012 compared to the same period a year ago. Computer-related expenses, including depreciation and computer maintenance costs, decreased 75 basis points in the third quarter of fiscal 2012 as compared to a year ago due to the continued use of fully depreciated servers and the transition to more efficient and cost-effective servers in our data centers. The cost per server and related maintenance continues to decline as we have become more efficient in our data centers. Amortization of intangible assets declined 25 basis points from a year ago as we did not acquire any new intangible assets during the past 12 months, while revenues increased over the same period by 10%.

Nine months ended May 31, 2012 (Year-to-date)

Cost of services increased 13.5% to $203.2 million for the nine months ended May 31, 2012, as compared to $179.1 million in the same period a year ago. Expressed as a percentage of revenues, cost of services was 34.0% during fiscal 2012, an increase of 50 basis points from fiscal 2011. The increase was driven by higher employee compensation partially offset by lower levels of computer depreciation and amortization of intangible assets.

During fiscal 2012, employee compensation increased 130 basis points, expressed as a percentage of revenues, as we continued to increase employee headcount and incurred higher variable compensation. Since June 1, 2011, we have hired approximately 335 employees for our content collection operations, 200 net new software engineers and 90 net new consultants as we continue to improve our applications and service our existing client base.

Partially offsetting the growth in cost of services during fiscal 2012 were declines in computer depreciation and amortization of intangible assets. Computer depreciation expenses decreased 70 basis points in fiscal 2012 as compared to a year ago due to the transition to more efficient and cost-effective servers in our data centers over the past 12 months. Amortization of intangible assets declined 25 basis points as previously acquired assets became fully amortized during the past 12 months.

Selling, General and Administrative

Three months ended May 31, 2012 (Quarter-to-date)

For the three months ended May 31, 2012, SG&A expenses increased 9.0% to $64.9 million from $59.6 million in the same period a year ago. SG&A expenses, expressed as a percentage of revenues, decreased 35 basis points to 32.1% during the third quarter of fiscal 2012 due to lower travel and entertainment (“T&E”) expenses and occupancy costs partially offset by foreign currency hedging losses.

T&E costs, expressed as a percentage of revenues, decreased 130 basis points in the third quarter of fiscal 2012 compared to the same period in fiscal 2011 primarily due to lower interoffice travel and a prior year internal sales conference that did not reoccur in fiscal 2012. Occupancy costs, including rent and depreciation of furniture and fixtures, expressed as a percentage of revenues, decreased 60 basis points due to more efficient use of existing leased office space as we did not enter into any new agreements to lease office space during the past three months. However, lower occupancy costs are temporary and are being driven by the timing of acquiring new space to support a growing employee base and favorable currency rates.

Partially offsetting the decrease in SG&A expenses were realized losses recorded in the third quarter of fiscal 2012 from our hedges. During the first quarter of fiscal 2012, we entered into foreign currency forward contracts to hedge approximately 90% of our Indian Rupee exposure through the end of the first quarter of fiscal 2013. Since the date the forward contracts were entered into, the U.S. dollar has strengthened against the Indian Rupee, and as a result, we recorded a loss on derivatives of $0.4 million in SG&A during the third quarter of fiscal 2012. This loss compares to a gain of $1.9 million recorded in SG&A during the year ago quarter as a result of previously entered into foreign currency forward contracts to hedge our Euro and British Pound Sterling currency risk.

Nine months ended May 31, 2012 (Year-to-date)

SG&A expenses were $192.5 million for the nine months ended May 31, 2012, up 9.3% from $176.1 million in the same period a year ago. Expressed as a percentage of revenues, SG&A expenses decreased 75 basis points to 32.2% during fiscal 2012 and were driven by lower employee compensation, T&E spending and occupancy costs partially offset by foreign currency hedging losses.

Expressed as a percentage of revenues, employee compensation declined 30 basis points in fiscal 2012 due to 12% ASV growth in the past 12 months. T&E costs, expressed as a percentage of revenues, decreased 60 basis points in the third quarter of fiscal 2012 compared to the same period in fiscal 2011 primarily due to lower interoffice travel and a prior year internal sales conference that did not reoccur in fiscal 2012. Occupancy costs, expressed as a percentage of revenues, decreased 35 basis points due to more efficient use of existing leased office space. Partially offsetting the decrease in SG&A expenses were $0.3 million in realized losses recorded in fiscal 2012 from our hedges. As a result of forward contracts to hedge our foreign currency exposure, we recorded $0.3 million in realized losses during the first nine months of fiscal 2012 as compared to a gain of $3.3 million during fiscal 2011.

Operating Income and Operating Margin

Three months ended May 31, 2012 (Quarter-to-date)

Operating income advanced 10.8% to $68.5 million for the three months ended May 31, 2012 compared to the prior year period. Our operating margin during the third quarter of fiscal 2012 was 33.9%, up 20 basis points from 33.7% a year ago due to lower T&E expenses, more efficient occupancy costs and a decline in computer depreciation and the amortization of intangible assets. These reductions in expenses were partially offset by higher employee compensation due to expanding the number of employees in all areas throughout the world, including within our content operations, engineering, product development and consulting groups. The continued investment in our personnel resulted in employee count growth year over year of 14% to 5,455 as of May 31, 2012 and was driven by hiring in our India and Philippines operations, as well as the hiring of consultants and software engineers in each geographic region.

Nine months ended May 31, 2012 (Year-to-date)

During the first nine months of fiscal 2012 operating income advanced 12.8% to $202.4 million compared to the prior year period. Our operating margin during fiscal 2012 was up 30 basis points to 33.8% due to lower stock-based compensation, a reduction in T&E spending, more efficient occupancy costs and a decline in computer depreciation and the amortization of intangible assets partially offset by higher employee compensation within cost of services. Included in fiscal 2011 was an incremental $2.5 million of stock-based compensation from a change in the expected outcome of performance-based stock options. This charge reduced fiscal 2011 GAAP operating income by $2.5 million and GAAP operating margin decreased by 50 basis points from 34.0% to 33.5%.

Operating Income by Segment

	Three Months Ended May 31,				Nine Months Ended May 31,			
(in thousands)	2012	2011	Change		2012	2011	Change	
U.S.	$37,651	$35,218	6.9	%	$111,653	$102,832	8.6	%
Europe	23,374	20,659	13.1	%	69,691	59,377	17.4	%
Asia Pacific	7,469	5,946	25.6	%	21,019	17,136	22.7	%
Consolidated	$68,494	$61,823			$202,363	$179,345		

Our reportable segments are aligned with how we, including our chief operating decision maker, manage the business and the demographic markets in which we serve. Our internal financial reporting structure is based on three reportable segments; U.S., Europe and Asia Pacific, which we believe helps us better manage the business and view the markets we serve. Sales, consulting, data collection and software engineering are the primary functional groups within each segment. 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.

Operating income from our U.S. business increased 6.9% to $37.7 million during the three months ended May 31, 2012 compared to $35.2 million in the same period a year ago. For the nine months ended May 31, 2012, U.S. operating income advanced 8.6% to $111.7 million compared to the year ago period. The increase in operating income was primarily due to $12.3 million of incremental revenues, lower interoffice T&E, a prior year internal U.S. sales conference that did not reoccur in fiscal 2012, lower computer depreciation and a decline in intangible asset amortization expense partially offset by higher employee compensation within cost of services and an uptick in data costs. Our revenue growth in the U.S. reflects continued client and user growth, expanded deployment of our proprietary data, clients continuing to purchase our PA suite of products and our annual price increases in the past 12 months. Computer depreciation costs decreased due to the continued use of fully depreciated servers. U.S. employee headcount increased 12% over the prior year leading to higher employee compensation costs in fiscal 2012.

European operating income increased 13.1% to $23.4 million during the three months ended May 31, 2012 compared to the same period a year ago. For the nine months ended May 31, 2012, European operating income advanced 17.4% to $69.7 million. The increase in European operating income is due to a $4.5 million increase in revenues and lower T&E. European revenues advanced 10.0% to $49.5 million due to increases in user and client counts, offering a broader selection of global proprietary content, clients licensing our advanced applications and an annual price increase in March 2012.

Asia Pacific operating income increased 25.6% to $7.5 million during the three months ended May 31, 2012 compared to $5.9 million in the same period a year ago. For the nine months ended May 31, 2012, Asia Pacific operating income advanced 22.7% to $21.0 million. The increase in Asia Pacific operating income was from $1.9 million of incremental revenues year over year and a more disciplined approach to controlling operating expenses, including T&E.

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

(in thousands, except per share data)	Three Months Ended May 31, 2012	Three Months Ended May 31, 2011	Change	Nine Months Ended May 31, 2012	Nine Months Ended May 31, 2011	Change
Other income	$483	$172	180.8 %	$1,256	$429	192.8 %
Provision for income taxes	$20,997	$18,684	12.4 %	$63,349	$49,608	27.7 %
Net income	$47,980	$43,311	10.8 %	$140,270	$130,166	7.8 %
Diluted earnings per common share	$1.05	$0.92	14.1 %	$3.05	$2.75	10.9 %
Effective tax rate	30.4 %*	30.1 %**		31.1 %*	27.6 %**	

* The U.S. Federal R&D tax credit expired on December 31, 2011. We expect that it will be reenacted as it has been for the past 30 years. However, we are not permitted to factor it into our effective tax rate unless it is part of currently enacted tax law. As such, the expiration of the R&D credit impacted our fiscal 2012 annual effective tax rate by 1.3%.

** Our projected annual effective tax rate before discrete items for fiscal 2011 was 31.0%. Included in the provision for income taxes during the nine months ended May 31, 2011 were income tax benefits of $4.9 million from the reenactment of the U.S. Federal R&D credit in December 2010. Our effective tax rate is based on current enacted tax laws and as such, prior to the second quarter of fiscal 2011, it did not reflect the R&D tax credit in any months of fiscal 2011 as the R&D credit expired on December 31, 2009. The reenactment of the credit was retroactive to January 1, 2010 and resulted in an actual effective tax rate of 27.6% for the nine months ended May 31, 2011.

Other Income

Other income rose by $0.3 million during the third quarter of fiscal 2012 and by $0.8 million year-to-date due to our $15 million purchase of short-term certificates of deposit in October 2011. These deposits have maturities of less than one year and resulted in interest income of $0.3 million during the current quarter and $0.8 million year-to-date. Excluding our returns on the short-term certificates of deposit, which average 9.4%, our average annualized return on cash and cash equivalents improved from 33 basis points in fiscal 2011 to 39 basis points during fiscal 2012. At no time during fiscal 2012 and 2011 did a component of our cash, cash equivalents and investments portfolio experience a decline in value due to a ratings change, default or increase in counterparty credit risk.

Income Taxes

For the three months ended May 31, 2012, the provision for income taxes increased 12.4% to $21.0 million as compared to the same period a year ago due to an 11.3% increase in income before income taxes year over year and the expiration of the R&D tax credit on December 31, 2011, which increased our fiscal 2012 annual effective tax rate by 1.3%.

For the first nine months of fiscal 2012, the provision for income taxes was $63.3 million, up 27.7% from $49.6 million in fiscal 2011 due to $4.9 million of income tax benefits recorded in the second quarter of fiscal 2011 from the reenactment of the U.S. Federal R&D credit in December 2010 and a 13.3% increase in income before income taxes year over year.

Net Income and Earnings per Share

Net income rose 10.8% to $48.0 million and diluted earnings per share increased 14.1% to $1.05 for the three months ended May 31, 2012. During the first nine months of fiscal 2012, net income rose 7.8% to $140.3 million and diluted earnings per share increased 10.9% to $3.05 compared to the same period a year ago. Included in fiscal 2011 were income tax benefits of $0.10 per diluted share from the reenactment of the U.S. Federal R&D credit and a pre-tax charge of $2.5 million or $0.04 per diluted share related to an increase in the estimated number of performance-based stock options that were eligible to vest in August 2011. Drivers of net income and diluted earnings per share growth were higher levels of revenue, lower T&E, decreased computer depreciation and amortization of intangible assets and a reduction in the diluted weighted average shares outstanding partially offset by higher compensation and a higher effective tax rate due to the expiration of the U.S. Federal R&D tax credit.

Use of Non-GAAP Financial Measures

We use the following non-GAAP financial measures, both in presenting our results to stockholders and the investment community, and in our internal evaluation and management of the businesses. We believe that these financial measures and the information they provide are useful to investors because it permits investors to view the Company's performance using the same tools that we use to gauge progress in achieving our goals. Investors may benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting and analyzing future periods and may also facilitate comparisons to our historical performance. The presentation of this financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP.

(in thousands, except per share data)	Three Months Ended May 31, 2012	2011	Change		Nine Months Ended May 31, 2012	2011	Change	
GAAP Net income	$47,980	$43,311	10.8	%	$140,270	$130,166	7.8	%
Stock-based compensation, net of tax(1)	3,584	3,475			11,753	10,600		
Amortization of intangible assets, net of tax(1)	1,259	1,462			3,786	4,397		
Income tax benefits(2)	0	0			0	(6,326)		
Non-GAAP Net income	$52,823	$48,248	9.5	%	$155,809	$138,837	12.2	%
GAAP Diluted earnings per common share	$1.05	$0.92	14.1	%	$3.05	$2.75	10.9	%
Stock-based compensation, net of tax	0.08	0.07			0.26	0.22		
Amortization of intangible assets, net of tax	0.03	0.03			0.08	0.09		
Income tax benefits	0.00	0.00			0.00	(0.13)		
Non-GAAP Diluted earnings per share(3)	$1.15	$1.02	12.7	%	$3.39	$2.93	15.7	%
Diluted weighted average common shares	45,736	47,154			45,971	47,418		

(1) For the purposes of calculating the non-GAAP measures above, stock-based compensation expense and amortization of intangible assets are taxed at the effective tax rates. For the three months ended May 31, 2012, the effective tax rate was 30.4%. For the three months ended May 31, 2011, the effective tax rate was 30.1%.

(2) Income tax benefits were from the reenactment of the U.S. Federal R&D credit in December 2010 and adjustments to certain reserves to appropriately reflect settlements with taxing authorities from previously filed tax returns.

(3) The sum of the diluted earnings per share may not equal the totals above due to rounding.

Foreign Currency

Certain wholly owned subsidiaries within the European and Asia Pacific segments operate under a functional currency different from the U.S. dollar. The financial statements of these foreign subsidiaries are translated into U.S. dollars using period-end rates of exchange for assets and liabilities and average rates for the period for revenues and expenses. Translation gains and losses that arise from translating assets, liabilities, revenues and expenses of foreign operations are recorded in accumulated other comprehensive (loss) income as a component of stockholders' equity. Transaction gains and losses that arise from the effect of exchange rate changes on transactions denominated in currencies other than the functional currency are included in determining net income for the period in which exchange rates change.

Our non-U.S. dollar denominated revenues expected to be recognized over the next twelve months are estimated to be $17 million while our non-U.S. dollar denominated expenses are $159 million, which translates into a net foreign currency exposure of $142 million per year. Our foreign currency exchange exposure is related to our operating expense base in countries outside the U.S., where approximately 68% of our employees are located. Foreign currency movements increased our operating expenses by $0.3 million and decreased operating income by $0.2 million during the third quarter of fiscal 2012 as compared to the same period a year ago. During the first nine months of fiscal 2012, foreign currency movements increased our operating expenses by $0.5 million and increased operating income by $0.1 million as compared to fiscal 2011.

During the first quarter of fiscal 2012, we entered into foreign currency forward contracts to hedge approximately 90% of our Indian Rupee exposure through the end of the first quarter of fiscal 2013. In the third quarter of fiscal 2012, additional forward contracts were entered into to hedge approximately 75% of our Indian Rupee exposure beginning in the second quarter of fiscal 2013 and through the end of the first quarter of fiscal 2014. At May 31, 2012 the notional principal and fair value of foreign exchange contracts to purchase Indian Rupees with U.S. dollars was $30.0 million and ($3.7) million, respectively.

At May 31, 2012, there were no other outstanding foreign exchange forward contracts as all of our previously entered into foreign currency forward contracts to hedge our Euro, British Pound Sterling and Japanese Yen exposure settled. A loss on derivatives for the three months ended May 31, 2012 of $0.4 million was recorded into operating income in our Consolidated Statements of Income as compared to a gain of $1.9 million in the same period a year ago. During the first nine months of fiscal 2012, a loss on derivatives of $0.3 million was recorded into operating income compared to a gain of $3.3 million in the same period a year ago.

Subsequent to the end of the third quarter of fiscal 2012, we entered into foreign currency forward contracts to hedge approximately 50% of our Euro exposure through the end of the second quarter of fiscal 2013. The notional amount of foreign exchange contracts to purchase Euros with U.S. dollars was €11.9 million at an average forward contract rate of 1.25.

Liquidity

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2012	2011	2012	2011
Net cash provided by operating activities	$76,437	$64,515	$174,896	$136,996
Capital expenditures (1)	(6,219)	(7,373)	(16,863)	(22,806)
Free cash flow (2)	$70,218	$57,142	$158,033	$114,190
Net cash used in investing activities	$(6,219)	$(7,373)	$(31,863)	$(22,806)
Net cash used in financing activities	$(20,217)	$(54,222)	$(85,378)	$(109,597)
Cash and cash equivalents at end of period	$228,530	$208,668		

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

(2) We define free cash flow as cash provided by operating activities, which includes the cash cost for taxes and changes in working capital, less capital expenditures. The presentation of free cash flow is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. We use this financial measure, both in presenting our results to stockholders and the investment community, and in our internal evaluation and management of the business. Management believes that this financial measure and the information we provide are useful to investors because it permits investors to view our performance using the same metric we use to gauge progress in achieving our goals and is an indication of cash flow that may be available to fund further investments in future growth initiatives.

Cash and cash equivalents aggregated to $228.5 million or 33% of our total assets at May 31, 2012, compared with $208.7 million or 30% of our total assets at May 31, 2011 and $181.7 million at August 31, 2011 or 28% of our total assets. All of our operating and capital expense requirements were financed entirely from cash generated from our operations. Our cash and cash equivalents increased $46.8 million since August 31, 2011 from cash provided by operations of $174.9 million, $27.5 million from the exercise of employee stock options and $10.4 million of tax benefits from share-based payment arrangements partially offset by cash outflows of $15.0 million from purchases of investments, $87.1 million related to stock repurchases, dividend payments of $36.2 million, capital expenditures of $16.7 million and $10.8 million from the effect of exchange rate changes on our foreign cash balances.

Free cash flow generated over the last twelve months was $221.6 million, up 25% over the prior year and exceeded net income by 22%. During the third quarter of fiscal 2012, free cash flow was $70.2 million, 23% higher than last year’s third quarter and driven by net income of $48.0 million and working capital changes of $23.5 million partially offset by $6.2 million in capital expenditures. Working capital improvements of $23.5 million were from stronger accounts receivable collections in the past three months, increased accrued compensation and a reduction in tax payments due to stock option exercises.

Consistent with prior years, we issued approximately $9.9 million in annual invoices during the second quarter of fiscal 2012, which resulted in our accounts receivable balance increasing by $6.6 million between November 30, 2011 and February 29, 2012. When our annual invoices are generated and issued for services to be provided over the next twelve months, we expect our accounts receivable balance to rise in the second quarter and subsequently decrease in the following third quarter as evidenced this year when in the third quarter of fiscal 2012 our accounts receivable balance decreased by $4.9 million. Over the past 12 months, accounts receivable has decreased by $1.0 million, while ASV is up $70 million over the same period, reflecting an improvement in our days sales outstanding (“DSO”) from 33 to 30 days. We have seen DSOs decrease substantially over the past several years as a result of increased investment in our highly motivated collection and information systems teams.

Net cash used in investing activities was $6.2 million in the third quarter of fiscal 2012 as compared to $7.4 million a year ago due to lower capital expenditures. In the first nine months of fiscal 2012, net cash used in investing activities was $31.9 million as compared to $22.8 million in fiscal 2011 because during the first quarter of fiscal 2012 we purchased $15.0 million of certificates of deposit with maturity dates ranging from six to twelve months from purchase date. Total capital expenditures during the third quarter of fiscal 2012 of $6.2 million included $3.6 million for additional furnishing of leased office space and $2.6 million for computer equipment, including laptops and peripherals for our growing employee base. Approximately 98% of the build-out costs incurred during the third quarter were to complete the construction and furnishing of our new office space in New York and Norwalk.

Net cash used in financing activities was $20.2 million in the third quarter of fiscal 2012 as compared to $54.2 million in the same period a year ago primarily due to a reduction in share repurchases of $30.5 million partially offset by higher dividend payments of $1.5 million based on a 15% increase in the regular quarterly dividend. In the first nine months of fiscal 2012, net cash used in investing activities was $85.4 million as compared to $109.6 million in fiscal 2011 primarily due to lower proceeds from employee stock plans and a reduction in share repurchases partially offset by higher dividend payments. In fiscal 2012, we repurchased 933,800 shares for $86.9 million under the program. In fiscal 2011, we repurchased 1,362,236 shares for $133.0 million. Proceeds from employee stock exercises decreased from $37.9 million in the first nine months of fiscal 2011 to $27.5 million in the current year as the number of employee stock option exercises decreased by 482,459 stock options. Through quarterly cash dividends and share repurchases, we have returned $219 million to our stockholders over the past 12 months.

We expect that for at least the next 12 months, our operating expenses will continue to constitute a significant use of our cash. As of May 31, 2012, our total cash and cash equivalents was $229 million with no outstanding borrowings. We believe our liquidity (including cash on hand, cash from operating activities and other cash flows that we expect to generate) will be sufficient to meet our short-term and longer-term operating requirements, as they occur, including working capital needs, capital expenditures, dividend payments, stock repurchases and financing activities.

Capital Resources

Capital Expenditures

Capital expenditures were $6.2 million for the quarter ended May 31, 2012, down from $7.4 million in the same period a year ago. Approximately $3.6 million or 60% of capital expenditures was for office expansions, primarily the build-out of our growing New York and Norwalk offices. The remaining 40% of capital expenditures was for computer equipment including adding additional Hewlett Packard and Dell equipment to our existing data centers and new laptop computers and peripherals for our employees.

During the first nine months of fiscal 2012 capital expenditures were $16.9 million compared to $22.8 million in the comparable prior year period. Of the $16.9 million, approximately 55% or $9.4 million related to computer equipment as we purchased more Hewlett Packard mainframe machines for our Virginia and New Jersey data centers during the first and third quarters of fiscal 2012. Capital spending levels were $5.9 million lower in the first nine months of fiscal 2012 primarily due to higher computer equipment purchases during fiscal 2011. Computer equipment expenditures were higher in fiscal 2011 compared to fiscal 2012 as we relocated our data center from New Hampshire to New Jersey in December 2010 and in that process we purchased several new blade servers and upgraded many other existing mainframe machines.

Capital Needs

We currently have no outstanding indebtedness, other than the letters of credit issued in the ordinary course of business. Approximately $4.3 million of standby letters of credit have been issued in connection with our current leased office space as of May 31, 2012. These standby letters of credit contain covenants that, among other things, require us to maintain minimum levels of consolidated net worth and certain leverage and fixed charge ratios. At May 31, 2012, we were in compliance with all covenants contained in the standby letters of credit. As of May 31, 2012 and August 31, 2011, we maintained a zero debt balance and were in compliance with all covenants.

Off-Balance Sheet Arrangements

At May 31, 2012 and August 31, 2011, we had no off-balance sheet financing or other arrangements with unconsolidated entities or financial partnerships (such as entities often referred to as structured finance or special purpose entities) established for purposes of facilitating off-balance sheet financing or other debt arrangements or for other contractually limited purposes.

Contractual Obligations

Fluctuations in our operating results, the degree of success of our accounts receivable collection efforts, the timing of tax and other payments as well as necessary capital expenditures to support growth of our operations will impact our liquidity and cash flows in future periods. The effect of our contractual obligations on our liquidity and capital resources in future periods should be considered in conjunction with the factors mentioned here. As of August 31, 2011, we had total purchase commitments of $47.8 million. There were no material changes in our purchase commitments during the first nine months of fiscal 2012.

During the first nine months of fiscal 2012, we entered into new lease agreements for additional office space in Norwalk and New York in the ordinary course of business to support our existing operations. At the time these new lease agreements were entered into, our future minimum rental payments increased by $10.1 million. However, our commitments under our operating leases decreased from $149.8 million at August 31, 2011 to $137.6 million at May 31, 2012 due to nine months of rent incurred and the effects of foreign currency.

With the exception of the new leases entered into in the ordinary course of business, there were no other significant changes to our contractual obligations during the three and nine months ended May 31, 2012.

Share Repurchase Program

During the first nine of fiscal 2012, we repurchased 933,800 shares for $86.9 million under the existing share repurchase program. On May 8, 2012, our Board of Directors approved a $200 million expansion of the existing share repurchase program. Including the expansion, $256 million remains authorized for future share repurchases at May 31, 2012. Repurchases will be made from time to time in the open market and privately negotiated transactions, subject to market conditions. No minimum number of shares to be repurchased has been fixed. There is no timeframe to complete the repurchase program and it is expected that share repurchases will be paid using existing and future cash generated by operations.

Dividends

On May 8, 2012, our Board of Directors approved a 15% increase in the regular quarterly dividend, beginning with our dividend payment in June 2012 of $0.31 per share, or $1.24 per share per annum. The cash dividend of $13.9 million was paid on June 19, 2012, to common stockholders of record on May 31, 2012. This is the seventh consecutive year that our annual dividend has been increased by more than 10%, translating into a five year annual dividend growth rate of 21%. With our dividends and our share repurchases, in the aggregate, we have returned $219 million to shareholders over the past 12 months. Future cash dividends will be paid using our existing and future cash generated by operations.

Significant Accounting Policies and Critical Accounting Estimates

We describe our significant accounting policies in Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended August 31, 2011.

We discuss our critical accounting estimates in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended August 31, 2011. There were no significant changes in our accounting policies or critical accounting estimates since the end of fiscal 2011.

New Accounting Pronouncements

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

Market Trends

In the ordinary course of business, we are exposed to financial risks involving foreign currency and interest rate fluctuations. Major equity indices (e.g., Dow Jones Industrials, Russell 1000, MSCI EAFE, S&P 500 and NASDAQ Composite) continue to experience volatility. Approximately 80% of our annual subscription value is derived from our investment management clients. The prosperity of these clients is tied to equity assets under management. An equity market decline not only depresses assets under management but could cause a significant increase in redemption requests to move money out of equities and into other asset classes. Moreover, extended declines in the equity markets may reduce new fund or client creation, resulting in lower demand for services from investment managers.

Our investment banking clients who perform M&A advisory work and equity research account for approximately 19% of our annual subscription value. A significant portion of these revenues relate to services deployed by large, bulge bracket banks. Credit continues to impact many of the large banking clients due to the amount of leverage deployed in past operations. Clients could encounter similar problems. A lack of confidence in the global banking system could cause declines in merger and acquisitions funded by debt. Additional uncertainty, consolidation and business failures in the global investment banking sector could adversely affect our financial results and future growth.

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

Forward-Looking Factors

Forward-Looking Statements

In addition to current and historical information, this Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results that are based on management's current expectations, estimates, forecast and projections about the industries in which we operate and the beliefs and assumptions of our management. All statements, other than statements of historical facts, are statements that could be deemed to be forward-looking statements. These include statements about our strategy for growth, product development, market position, subscriptions and expected expenditures and financial results. Forward-looking statements may be identified by words like "expects," "anticipates," "plans," "intends," "projects," "should," "indicates," "continues," "ASV," "subscriptions," "belie "may" and similar expressions. In addition, any statements that refer to projections of our future financial performance, our anticipated growth, trends in our business and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Therefore, actual results may differ materially from what is expressed or forecasted in such forward-looking statements. We will publicly update forward-looking statements as a result of new information or future events in accordance with applicable Securities and Exchange Commission regulations.

We intend that all forward-looking statements we make will be subject to safe harbor protection of the federal securities laws as found in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

These statements involve certain known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those listed below. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this Quarterly Report to reflect actual results or future events or circumstances.

Risk Factors

There were no material changes during the first nine months of fiscal 2012 to the risk factors identified in our fiscal 2011 Annual Report on Form 10-K.

Business Outlook

The following forward-looking statements reflect our expectations as of June 12, 2012. Given the number of risk factors, uncertainties and assumptions discussed above, actual results may differ materially. We do not intend to update our forward-looking statements until our next quarterly results announcement, other than in publicly available statements.

Fourth Quarter Fiscal 2012 Expectations

- Revenues are expected to range between $204 million and $208 million.
- Operating margin is expected to range between 33.5% and 34.0%.
- The effective tax rate is expected to range between 31.0% and 32.0%.
- GAAP diluted EPS should range between $1.06 and $1.08 and includes a $0.02 reduction to reflect the expiration of the U.S. Federal R&D tax credit on December 31, 2011.
- The acquisition of StreetAccount LLC is not expected to have a material impact on our fiscal 2012 fourth quarter or fiscal 2013 full year diluted EPS.

Financial Risk Management

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

Foreign Currency Exchange Risk
We are exposed to market risk from changes in foreign currency exchange rates, which could affect operating results, financial position and cash flows. We manage our exposure to foreign currency exchange risk through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge currency exposures as well as to reduce earnings volatility resulting from shifts in market rates. We only enter into foreign currency forward contracts to manage foreign currency exposures. Our foreign currency market exposures include the Euro, British Pound Sterling, Japanese Yen, Indian Rupee and Philippines Peso. The fair market values of all our derivative contracts change with fluctuations in currency rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes.

We are required to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. The level of volatility will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency markets during the period. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

By their nature, all derivative instruments involve, to varying degrees, elements of market and credit risk. The market risk associated with these instruments resulting from currency exchange movements is expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. We do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with these instruments because these transactions are executed with two major financial institutions. Further, our policy is to deal with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

Interest Rate Risk
The fair market value of our cash and cash equivalents at May 31, 2012 was $228.5 million. Our cash and cash equivalents consist of demand deposits and money market funds with maturities of three months or less at the date of acquisition and are reported at fair value. It is anticipated that the fair market value of our portfolio will continue to be immaterially affected by fluctuations in interest rates. Preservation of principal is the primary goal of our cash and investment policy. Pursuant to our established investment guidelines, we try to achieve high levels of credit quality, liquidity and diversification. Our investment guidelines do not permit us to invest in puts, calls, strips, short sales, straddles, options, commodities, precious metals, futures or investments on margin. Because we have a restrictive investment policy, our financial exposure to fluctuations in interest rates is expected to remain low. We do not believe that the value or liquidity of our cash and cash equivalents have been significantly impacted by current market events, including the recent credit crisis.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange Risk
We conduct business outside the U.S. in several currencies including the British Pound Sterling, Euro, Japanese Yen, Indian Rupee and Philippine Peso. The financial statements of these foreign subsidiaries are translated into U.S. dollars using period-end rates of exchange for assets and liabilities and average rates for the period for revenues and expenses. Our non-U.S. dollar denominated revenues expected to be recognized over the next twelve months are estimated to be $17 million while our non-U.S. dollar denominated expenses are $159 million, which translates into a net foreign currency exposure of $142 million per year. To the extent that our international activities recorded in local currencies increase in the future, our exposure to fluctuations in currency exchange rates will correspondingly increase. To manage the exposures related to the effects of foreign exchange rate fluctuations, we utilize derivative instruments (foreign currency forward contracts). Our primary objective in holding derivatives is to reduce the volatility of earnings associated with changes in foreign currency. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes.

During the first quarter of fiscal 2012, we entered into foreign currency forward contracts to hedge approximately 90% of our Indian Rupee exposure through the end of the first quarter of fiscal 2013. In the third quarter of fiscal 2012, additional forward contracts were entered into to hedge approximately 75% of our Indian Rupee exposure beginning in the second quarter of fiscal 2013 and through the end of the first quarter of fiscal 2014. At May 31, 2012 the notional principal and fair value of foreign exchange contracts to purchase Indian Rupees with U.S. dollars was $30.0 million and ($3.7) million, respectively. At May 31, 2012, there were no other outstanding foreign exchange forward contracts as all of our previously entered into foreign currency forward contracts to hedge our Euro, British Pound Sterling and Japanese Yen exposure settled.

The gains and losses on foreign currency forward contracts mitigate the variability in operating expenses associated with currency movements. These transactions are designated and accounted for as cash flow hedges in accordance with applicable accounting guidance. The changes in fair value for these foreign currency forward contracts are initially reported as a component of accumulated other comprehensive (loss) income and subsequently reclassified into operating expenses when the hedged exposure affects earnings.

A sensitivity analysis was performed based on the estimated fair value of all foreign currency forward contracts outstanding at May 31, 2012. If the U.S. dollar had been 10% weaker, the fair value of outstanding foreign currency forward contracts would have increased by $2.6 million, which would have had an immaterial impact on our consolidated balance sheet. Such a change in fair value of our financial instruments would be substantially offset by changes in our expense base. Had we not had any hedges in place as of May 31, 2012, a hypothetical 10% weaker U.S. dollar against all foreign currencies from the quoted foreign currency exchange rates at May 31, 2012, would result in a decrease in operating income by $13.0 million over the next twelve months. A hypothetical 10% weaker U.S. dollar against all foreign currencies at May 31, 2012 would increase the fair value of total assets by $27.9 million and equity by $25.9 million.

Interest Rate Risk
The fair market value of our cash and cash equivalents at May 31, 2012 was $228.5 million. Our cash and cash equivalents consist of demand deposits and money market funds with maturities of three months or less at the date of acquisition and are reported at fair value. It is anticipated that the fair market value of our portfolio will continue to be immaterially affected by fluctuations in interest rates. Preservation of principal is the primary goal of our cash and investment policy. Pursuant to our established investment guidelines, we try to achieve high levels of credit quality,

liquidity and diversification. Our investment guidelines do not permit us to invest in puts, calls, strips, short sales, straddles, options, commodities, precious metals, futures or investments on margin. Because we have a restrictive investment policy, our financial exposure to fluctuations in interest rates is expected to remain low. We do not believe that the value or liquidity of our cash and cash equivalents have been significantly impacted by current market events, including the recent credit crisis.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the principal executive officer and principal financial officer, the Company has evaluated the effectiveness of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on that evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's third quarter of fiscal 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under Note 16, Commitments and Contingencies, contained in the Notes to the Consolidated Financial Statements of this Quarterly Report on Form 10-Q is incorporated by reference in answer to this Item.

ITEM 1A. RISK FACTORS

There were no material changes during the first nine months of fiscal 2012 to the risk factors identified in the Company's fiscal 2011 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Items 2(a) and (b) are not applicable as there have been no unregistered sales of equity securities.

(c) Issuer Purchases of Equity Securities (in thousands, except per share data)

The following table provides a month-to-month summary of the share repurchase activity under the current stock repurchase program during the three months ended May 31, 2012:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly	Maximum number of shares (or approximate dollar value) that may yet be

			announced plans or programs	purchased under the plans or programs (in thousands)
March 2012	-	-	-	$82,832
April 2012	265,000	$98.57	265,000	$56,711
May 2012*	11,000	$102.80	11,000	$255,580
	276,000		276,000	$255,580

* On May 8, 2012, the Company's Board of Directors approved a $200 million expansion of the existing share repurchase program. At that time, the Company had $56 million remaining under the program. Including the $200 million expansion, $256 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 repurchase program and it is expected that share repurchases will be paid using existing and future cash generated by operations.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

(a) EXHIBITS:

EXHIBIT NUMBER	DESCRIPTION
31.1	Section 302 Certification of Principal Executive Officer
31.2	Section 302 Certification of Principal Financial Officer
32.1	Section 906 Certification of Principal Executive Officer
32.2	Section 906 Certification of Principal Financial Officer
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FACTSET RESEARCH SYSTEMS INC.
(Registrant)

Date: July 10, 2012

/s/ MAURIZIO NICOLELLI
Maurizio Nicolelli
Senior Vice President and Director of Finance
(Principal Financial Officer)

/s/ MATTHEW J. MCNULTY
Matthew J. McNulty
Vice President and Controller
(Principal Accounting Officer)

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
31.1	Section 302 Certification of Principal Executive Officer
31.2	Section 302 Certification of Principal Financial Officer
32.1	Section 906 Certification of Principal Executive Officer
32.2	Section 906 Certification of Principal Financial Officer
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or Prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.