

FACTSET RESEARCH SYSTEMS INC
Form 8-K
March 16, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): **March 16, 2004**

FactSet Research Systems Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1-11869
(Commission
File Number)

13-3362547
(I.R.S. Employer
Identification Number)

**One Greenwich Plaza
Greenwich, Connecticut 06830-6352**
(Address of principal executive offices)

(203) 863-1500
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Item 7. Financial Statements and Exhibits

(c) Exhibits

| Exhibit No. | Description |
|-------------|---|
| 99.1 | Press Release, dated as of March 16, 2004 |

Item 12. Results of Operations and Financial Condition

On March 16, 2004, FactSet Research Systems Inc. issued a press release announcing its results for the three months ended February 29, 2004. The press release is attached as Exhibit 99.1 to this report on Form 8-K. This information shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

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)

By:

Date: March 16, 2004

/s/ ERNEST S. WONG

Ernest S. Wong,
Senior Vice President, Chief Financial Officer,
Treasurer and Secretary

EXHIBIT 99.1

EXHIBIT INDEX

Exhibit

| No. | Description of Document |
|------|--|
| 99.1 | Press Release of Registrant, dated March 16, 2004 reporting the results of operations for the Registrant's second quarter ended February 29, 2004. |

FactSet Research Systems Inc.
 One Greenwich Plaza
 Greenwich, Connecticut 06830-6352
 203.863.1500/ 203.863.1501 Fax

News Release

FOR IMMEDIATE RELEASE

FactSet Research Systems Reports Record Results for Second Quarter of Fiscal 2004

Greenwich, Conn. March 16, 2004 FactSet Research Systems Inc. (NYSE: FDS), a major supplier of computer-based financial and economic data to the investment community, today announced its results for the second quarter of fiscal 2004. Revenues for the quarter rose 11.4% to \$61.4 million, net of clearing fees of \$1.6 million compared to the prior year period. Operating income increased 13.8% to \$21.5 million, net income advanced 21.3% to \$14.7 million and diluted earnings per share grew 22.9% to \$0.43. During the second quarter of fiscal 2004, an income tax benefit relating primarily to the settlement of prior year tax returns for certain state credits was recognized amounting to a \$0.02 increase to quarterly earnings per share.

For the six months ended February 29, 2004, revenue increased 11.8% compared to the prior year period to \$120.6 million, net of clearing fees of \$3.8 million. Operating income increased 15.8% to \$42.5 million, net income advanced 21.0% to \$28.6 million and diluted earnings per share grew 20.6% to \$0.82.

FactSet Research Systems Inc.
 Consolidated Statements of Income (Condensed and Unaudited)

| (In thousands, except per share data) | Three Months Ended Feb 29, 2004 and Feb 28, 2003 | | | Six Months Ended Feb 29, 2004 and Feb 28, 2003 | | |
|--|---|----------|--------|---|-----------|--------|
| | 2004 | 2003 | Change | 2004 | 2003 | Change |
| Revenues | \$61,371 | \$55,082 | 11.4 % | \$120,628 | \$107,900 | 11.8 % |
| Operating income | 21,502 | 18,887 | 13.8 | 42,541 | 36,752 | 15.8 |
| Net Income | 14,737 | 12,147 | 21.3 | 28,645 | 23,683 | 21.0 |
| Diluted earnings per share | \$0.43 | \$0.35 | 22.9 | \$0.82 | \$0.68 | 20.6 |
| Diluted weighted average common shares | 34,164 | 34,565 | | 34,871 | 34,626 | |

Our financial performance this past fiscal quarter once again affirms the value of FactSet's applications to our clients, said Philip A. Hadley, Chairman and CEO. Although the market environment has improved, we are cautiously optimistic as the financial services industry continues to recover from a difficult economic period.

As of February 29th, the Company's 992 clients, representing over 19,400 users, subscribed to services totaling \$249.2 million in subscriptions, an increase of 11.8% in the past year. Of this total, subscriptions from FactSet's overseas operations were \$50.5 million, up 14.8% since February 28, 2003. FactSet's client retention rate continued to be above 95%. Subscriptions at any given point in time represent the forward-looking revenues for the next 12 months from all services currently being supplied to clients.

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Other operational highlights of the second quarter of fiscal 2004 include:

Demand for FactSet's Portfolio Managers Workstation (PMW) applications rose to over 360 clients, consisting of approximately 2,700 users, subscribing to the service as of February 29, 2004.

Revenues from FactSet's European and Pacific Rim operations were \$9.6 million and \$2.8 million, up \$1.2 million and \$300,000, respectively, from the same period a year ago.

The Company entered into a 15-year global headquarters lease in January 2004, which will consolidate the Company's current Greenwich and Stamford offices into a single office in Norwalk, Connecticut. Occupancy is expected to begin at the end of fiscal 2004.

In January 2004, the Company purchased two million shares of its common stock from one of its co-founders, Howard E. Wille. The purchase reduced the Company's weighted average common shares by one million in the second quarter of fiscal 2004. In subsequent quarters, the purchase will decrease the Company's weighted average common shares by an additional one million.

In February 2004, the Company relocated one of its two primary data centers from Greenwich, Connecticut to Reston, Virginia which we expect to provide a new level of reliability, as well as substantial capacity for expansion.

In the fourth quarter of fiscal 2003, FactSet changed the presentation of its revenues in order to report them on a net rather than gross basis. This restatement at that time had no effect on the then previously reported operating income, net income, earnings per share or stockholders' equity for periods prior to the restatement. All the restated quarterly and annual amounts for prior required reporting periods have previously been presented in FactSet's Annual Report on Form 10-K for fiscal 2003. In the second quarter of fiscal 2004, revenue generated from cash paying clients totaled \$48.1 million and revenue generated from commission paying clients, net of \$1.6 million in clearing fees, amounted to \$13.3 million. For the first six months of fiscal 2004, revenue generated from cash paying clients totaled \$93.2 million and revenue generated from commission paying clients, net of \$3.8 million in clearing fees, amounted to \$27.4 million.

Business Outlook

The following forward-looking statements reflect FactSet's expectations as of March 16, 2004. Given the number of risk factors, uncertainties and assumptions discussed below, actual results may differ materially. The Company does not intend to update its forward-looking statements until its next quarterly results announcement, other than in publicly available statements.

Third Quarter Fiscal 2004 Expectations

Revenues are expected to range between \$62.5 million and \$64 million.

Operating margins are expected to range between 34.5% and 35.5%.

The effective tax rate is expected to range between 36.5% and 37.0%.

Full Year Fiscal 2004

Capital expenditures should total approximately \$35 million, net of landlord contributions to leasehold improvements.

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This news release contains forward-looking statements based on management's current expectations, estimates and projections. All statements that address expectations or projections about the future, including statements about the Company's strategy for growth, product development, market position, subscriptions and expected expenditures and financial results are forward-looking statements. Forward-looking statements may be identified by words like "expected," "anticipates," "plans," "intends," "projects," "should," "indicates," "continues," "subscriptions" and similar. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Many factors, including those discussed more fully elsewhere in this release and in FactSet's filings with the Securities and Exchange Commission, particularly its latest annual report on Form 10-K, as well as others, could cause results to differ materially from those stated. These factors include, but are not limited to, the ability to hire qualified personnel; maintenance of the Company's leading technological position; the impact of global market

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trends on the Company's revenue growth rate and future results of operations; the negotiation of contract terms with corporate vendors, data suppliers and potential landlords; retention of key clients; the successful resolution of ongoing audits by tax authorities; the continued employment of key personnel; the absence of U.S. or foreign governmental regulation restricting international business; and the sustainability of historical levels of profitability and growth rates in cash flow generation.

Conference Call

The Company will host a conference call today, March 16th, at 11:00 a.m. (EST) to review the second quarter fiscal 2004 earnings release. To listen, please visit the investor relations section of the Company's website at www.factset.com.

About FactSet

FactSet Research Systems Inc. is a leading provider of global financial and economic information, including fundamental data on tens of thousands of companies worldwide. Combining more than 200 databases into its own dedicated online service, the Company also provides the tools to download, combine and manipulate the data for investment analysis. The Company, headquartered in Greenwich, Connecticut, was formed in 1978 and now conducts operations from eighteen locations worldwide including Boston, New York, Chicago, San Mateo, London, Tokyo, Hong Kong, Sydney and Frankfurt. As of February 29, 2004, the Company had 841 employees worldwide.

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FactSet Research Systems Inc. Consolidated Statements of Financial Condition

| (In thousands and unaudited) | February 29, <u>2004</u> | August 31, <u>2003</u> |
|---|-----------------------------|---------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 36,811 | \$ 51,126 |
| Investments | 86,508 | 118,136 |
| Receivables from clients and clearing brokers, net | 38,779 | 35,704 |
| Deferred taxes | 5,086 | 5,493 |
| Other current assets | <u>2,651</u> | <u>1,888</u> |
| Total current assets | 169,835 | 212,347 |
| Property, equipment and leasehold improvements, net | 18,797 | 19,347 |
| Goodwill | 13,677 | 13,677 |
| Intangible assets, net | 4,813 | 5,195 |
| Deferred taxes | 5,511 | 3,467 |
| Other assets | <u>2,247</u> | <u>2,126</u> |
| Total assets | <u>\$214,880</u> | <u>\$256,159</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable and accrued expenses | \$ 13,373 | \$ 13,793 |
| Accrued compensation | 8,495 | 15,228 |
| Deferred fees | 8,354 | 9,876 |
| Dividends payable | 1,918 | 2,020 |
| Current taxes payable | <u>3,946</u> | <u>2,457</u> |
| Total current liabilities | 36,086 | 43,374 |
| Deferred rent and other liabilities | <u>7,204</u> | <u>556</u> |
| Total liabilities | 43,290 | 43,930 |
| Stockholders' Equity: | | |
| Common stock | 350 | 346 |
| Capital in excess of par value | 54,353 | 47,413 |
| Retained earnings | 218,308 | 193,611 |
| Treasury stock | (101,196) | (28,991) |
| Accumulated other comprehensive loss | <u>(225)</u> | <u>(150)</u> |
| Total stockholders' equity | <u>171,590</u> | <u>212,229</u> |

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| | | |
|--|-----------|-----------|
| Total liabilities and stockholders' equity | \$214,880 | \$256,159 |
| | ===== | ===== |

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FactSet Research Systems Inc.
Consolidated Statements of Income

| (In thousands, except per share data and unaudited) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | Feb 29, 2004 | Feb 28, 2003 | Feb 29, 2004 | Feb 28, 2003 |
| Revenues | \$61,371 | \$55,082 | \$120,628 | \$107,900 |
| Cost of services | 18,198 | 16,387 | 36,073 | 32,138 |
| Selling, general and administrative | 21,671 | 19,808 | 42,014 | 39,010 |
| Total operating expenses | 39,869 | 36,195 | 78,087 | 71,148 |
| Income from operations | 21,502 | 18,887 | 42,541 | 36,752 |
| Other income | 687 | 546 | 1,422 | 1,142 |
| Income before income taxes | 22,189 | 19,433 | 43,963 | 37,894 |
| Provision for income taxes | 7,452 | 7,286 | 15,318 | 14,211 |
| Net income | \$14,737 | \$12,147 | \$28,645 | \$23,683 |
| | ===== | ===== | ===== | ===== |
| Basic earnings per common share | \$0.45 | \$0.36 | \$0.86 | \$0.70 |
| | ===== | ===== | ===== | ===== |
| Diluted earnings per common share | \$0.43 | \$0.35 | \$0.82 | \$0.68 |
| | ===== | ===== | ===== | ===== |
| Weighted average common shares (Basic) | 32,928 | 33,617 | 33,364 | 33,711 |
| | ===== | ===== | ===== | ===== |
| Weighted average common shares (Diluted) | 34,164 | 34,565 | 34,871 | 34,626 |
| | ===== | ===== | ===== | ===== |

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FactSet Research Systems Inc.

Consolidated Statements of Cash Flows

(In thousands and unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES

| | Six Months Ended | |
|--|------------------|-----------------|
| | Feb 29, 2004 | Feb 28, 2003 |
| Net income | \$28,645 | \$23,683 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 7,549 | 8,664 |
| Deferred tax (benefit) provision | (1,637) | (226) |

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| | | |
|--|-----------------|-----------------|
| Gain on sale of equipment | (210) | |
| Accrued ESOP contribution | <u>1,320</u> | <u>1,164</u> |
| | 35,667 | 33,285 |
| Changes in assets and liabilities, net of acquired working capital | | |
| Receivables from clients and clearing brokers | (3,075) | (5,104) |
| Prepaid taxes | | (362) |
| Accounts payable and accrued expenses | (634) | 2,207 |
| Accrued compensation | (5,603) | (4,520) |
| Deferred fees | (1,522) | (3,432) |
| Current taxes payable | 1,489 | (1,523) |
| Other working capital accounts, net | (117) | (87) |
| Income tax benefits from stock option exercises | <u>479</u> | <u>103</u> |
| Net cash provided by operating activities | 26,684 | 20,567 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Sales (Purchases) of investments, net | 31,553 | (20,041) |
| Acquisition of business, net of working capital acquired | | (7,702) |
| Landlord contributions to leasehold improvements | 6,092 | |
| Purchases of property, equipment and leasehold improvements | <u>(6,405)</u> | <u>(3,928)</u> |
| Net cash provided by (used in) investing activities | 31,240 | (31,671) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividend payments | (3,856) | (3,196) |
| Repurchase of common stock | (72,205) | (16,428) |
| Proceeds from employee stock plans | <u>3,822</u> | <u>1,176</u> |
| Net cash used in financing activities | (72,239) | (18,448) |
| Net decrease in cash and cash equivalents | (14,315) | (29,552) |
| Cash and cash equivalents at beginning of period | <u>51,126</u> | <u>44,819</u> |
| Cash and cash equivalents at end of period | \$36,811 | \$15,267 |
| | ===== | ===== |