Form 10-Q

United States Securities And Exchange Commission
Washington, D.C. 20549

|X| Quarterly Report pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934 for the fiscal quarter ended May 31, 1999

|_| Transition Report pursuant to Section 13 or 15(D) of the Securities Exchange Act Of 1934 for the transition period from ____ to ____
Commission File Number: 1-11869

FactSet Research Systems Inc.
(Exact name of registrant as specified in its charter)

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

One Greenwich Plaza, Greenwich, Connecticut	06830
(Address of principal executive office)	(Zip Code)

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

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of each class	Outstanding at May 31, 1999
Common Stock, par value $.01	15,646,478

FactSet Research Systems Inc.

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Part II OTHER INFORMATION

FactSet Research Systems Inc.
CONSOLIDATED STATEMENTS OF INCOME
In thousands, except per share data and unaudited

	Three Months Ended May 31,		Nine Months Ended May 31,	
	1999	1998	1999	1998
Subscription Revenues				
Commissions	$10,091	$8,459	$29,613	$24,438
Cash Fees	16,360	11,737	45,903	32,309
Total subscription revenues	26,451	20,196	75,516	56,747
Expenses				
Cost of services	9,503	7,727	27,067	22,228
Selling, general, and administrative	9,641	7,056	27,594	19,652
Total operating expenses	19,144	14,783	54,661	41,880
Income from operations	7,307	5.413	20,855	14,867
Other income	461	380	1,406	1,131
Income before income taxes and extraordinary gain	7,768	5,793	22,261	15,998
Income taxes	2,922	2,526	8,580	7,027
Net income before extraordinary gain	4,846	3,267	13,681	8,971
Extraordinary gain	-	-	-	242
Net income	$4,846	$3,267	$13,681	$9,213
Weighted average common shares (Basic)	15,574	14,471	15,294	14,429
Weighted average common shares (Diluted)	17,045	16,562	16,595	16,428
Basic earnings per common share	$0.31	$0.23	$0.89	$0.64
Diluted earnings per common share	$0.28	$0.20	$0.82	$0.56

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

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
FactSet Research Systems Inc.

ASSETS

Unaudited and in thousands	May 31, 1999	August 31, 1998
CURRENT ASSETS		
Cash and cash equivalents	$47,916	$37,631
Receivables from clients and clearing brokers	14,710	11,121
Receivables from employees	617	533
Other receivables	2,374	0
Prepaid taxes	435	0
Deferred taxes	4,572	4,034
Other current assets	411	921
Total current assets	71,145	54,240
LONG-TERM ASSETS		
Property, equipment, and leasehold improvements, at cost	51,632	38,839
Less accumulated depreciation	(30,994)	(24,159)
Property, equipment, and leasehold improvements, net	20,638	14,680
OTHER NON-CURRENT ASSETS		
Deferred taxes	1,158	1,250
Other assets	167	386
TOTAL ASSETS	$92,998	$70,556

LIABILITIES AND STOCKHOLDERS' EQUITY

Unaudited and in thousands	May 31, 1999	August 31, 1998
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$6,814	$4,755
Accrued compensation	5,138	6,155
Deferred cash fees and commissions	6,515	4,546
Current taxes payable	0	2,842
Deferred rent	67	92
Total current liabilities	18,534	18,390
NON-CURRENT LIABILITIES		
Deferred rent	426	470
Total liabilities	18,960	18,860
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock	157	97
Capital in excess of par value	13,416	3,605
Retained earnings	61,347	48,439
Less treasury stock	(882)	(445)
Total stockholders' equity	74,148	51,696
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$92,998	$70,556

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FactSet Research Systems Inc.

Nine Months Ended May 31, Unaudited and in thousands	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$13,681	$9,213
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	6,835	4,564
Tax benefits from employee stock option plans	6,747	451
Deferred tax benefit	(446)	(107)
Gain on sale of investment	-	(433)
Accrued ESOP contribution	750	563
Net income adjusted for non-cash items	27,567	13,800
Changes in working capital		
Receivable from clients and clearing brokers	(3,589)	(2,987)
Other receivables	(2,374)	0
Prepaid taxes	(435)	0
Accounts payable and accrued expenses	2,059	1,662
Accrued compensation	(1,011)	588
Deferred fees and commissions	1,969	(152)
Current taxes payable	(2,843)	(1048)
Other working capital accounts, net	576	729
Net cash provided by operating activities	21,919	13,043
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, equipment, and leasehold improvements	(12,793)	(10,343)
Proceeds from sale of investments	-	1,389
Net cash used in investing activities	(12,793)	(8,954)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends Paid	(773)	-
Repurchase of common stock from employees	(437)	(5)
Proceeds from exercise of stock options	2,369	149
Net cash provided by financing activities	1,159	144
Net increase in cash and cash equivalents	10,285	4,233
Cash and cash equivalents at beginning of period	37,631	26,816
Cash and cash equivalents at end of period	$47,916	$31,049

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FactSet Research Systems Inc.
May 31, 1999
(Unaudited)

1. ORGANIZATION AND NATURE OF BUSINESS

FactSet Research Systems Inc. (the "Company") provides online integrated database services to the financial community. The Company's revenues are derived from subscription charges. Solely at the option of each client, these charges may be paid either in commissions on securities transactions (in which case subscription revenues are recorded as commissions) or on a cash basis (in which case subscription revenues are recorded as cash fees).

To facilitate the receipt of subscription revenues on a commission basis, the Company's wholly owned subsidiary, FactSet Data Systems, Inc. ("FDS"), is a member of the National Association of Securities Dealers, Inc. and is a registered broker-dealer under Section 15 of the Securities Exchange Act of 1934.

Subscription revenues paid in commissions are derived from securities transactions introduced and cleared on a fully disclosed basis primarily through two clearing brokers. That is, a client paying subscription charges on a commission basis directs the clearing broker, at the time the client executes a securities transaction, to credit the commission on the transaction to FDS's account.

FactSet Limited and FactSet Pacific, Inc. are wholly owned subsidiaries of the Company and are U.S. corporations with foreign branch operations in London, Tokyo, Hong Kong, and Sydney.

2. ACCOUNTING POLICIES

The accompanying interim consolidated financial statements of the Company have been prepared in conformity with generally accepted accounting principles, consistent in all material respects with those applied in the Annual Report on Form 10-K for the fiscal year ended August 31, 1998. Interim financial information is unaudited, but reflects all normal adjustments which are, in the opinion of management, necessary to present fairly the results for the interim periods presented. The interim financial statements should be read in connection with the audited financial statements (including the footnotes thereto) in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 1998.

The significant accounting policies of the Company and its subsidiaries are summarized below.

Financial Statement Presentation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany activity and balances have been eliminated from the consolidated financial statements. Immaterial reclassifications to prior year balances in the consolidated statements of income have been made to conform to the current fiscal year presentation.

Cost of services is composed of employee compensation and benefits for the applications engineering and consulting groups, clearing fees, data costs, computer maintenance and depreciation expenses, and communication costs. Selling, general, and administrative expenses include employee compensation and benefits for the sales, product development and various other support departments, promotional expenses, rent, amortization of leasehold improvements, depreciation of furniture and fixtures, office expenses, professional fees, and miscellaneous expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.
Actual results may differ from those estimates.

Revenue Recognition

Subscription charges are quoted to clients on an annual basis, but are earned monthly as services are provided. Subscription revenues recorded as commissions and subscription revenues recorded as cash fees are each recorded as earned each month, based on one-twelfth of the annual subscription charge quoted to each client. Amounts that have been earned but not yet paid through the receipt of commissions on securities transactions or through cash payments are reflected on the Consolidated Statements of Financial Condition as receivables from clients. Amounts that have been received through commissions on securities transactions or through cash payments that are in excess of earned subscription revenues are reflected on the Consolidated Statements of Financial Condition as deferred cash fees and commissions.

Clearing Fees

When subscription charges are paid on a commission basis, the Company incurs clearing fees, which are the charges imposed by the clearing brokers used to execute and settle clients' securities transactions.

Cash and Cash Equivalents

Cash and cash equivalents consists of demand deposits and money market investments.

Property, Equipment, and Leasehold Improvements

Depreciation of computers and related equipment acquired before September 1, 1994 is recognized using the double declining balance method over estimated useful lives of five years. Computers and related equipment acquired after September 1, 1994 are depreciated on a straight-line basis over estimated useful lives of three years. Depreciation of furniture and fixtures is recognized using the double declining balance method over estimated useful lives of five years. Leasehold improvements are amortized on a straight-line basis over the terms of the related leases or estimated useful lives of the improvements, whichever period is shorter.

Deferred Taxes

Deferred taxes are determined by calculating the future tax consequences associated with differences between financial accounting and tax bases of assets and liabilities. A valuation allowance is established to the extent management considers it more likely than not that some portion or all of the deferred tax assets will not be realized. The effect on deferred taxes from income tax law changes is recognized immediately upon enactment. The deferred tax provision is derived from changes in deferred taxes on the balance sheet and reflected on the Consolidated Statements of Income as a component of income taxes.

The Company records deferred taxes for such items as accrued expenses, deferred cash fees and commissions; deferred rent; and property, equipment, and leasehold improvements.

Earnings Per Share
The computation of basic earnings per share in each year is based on the weighted average number of common shares outstanding. The weighted average number of common shares outstanding includes shares issued to the Company's employee stock ownership plan at the date authorized by the Board of Directors. Diluted earnings per share is based on the weighted average number of common shares and common share equivalents outstanding. Shares available pursuant to grants made under the Company's stock option plans are included as common share equivalents using the treasury stock method.

A reconciliation between the weighted average shares outstanding used in the basic and diluted EPS computations is as follows:

In thousands, except per share data and unaudited	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the Quarter Ended May 31, 1999			
BASIC EPS			
Income available to common shareholders	$4,846	15,574	$0.31
Effect of dilutive stock options	0	1,471	
DILUTED EPS			
Income available to common shareholders	$4,846	17,045	$0.28
For the Quarter Ended May 31, 1998			
BASIC EPS			
Income available to common shareholders	$3,267	14,471	$0.23
Effect of dilutive stock options	0	2,091	
DILUTED EPS			
Income available to common shareholders	$3,267	16,562	$0.20
For the Nine Months Ended May 31, 1999			
BASIC EPS			
Income available to common shareholders	$13,681	15,294	$0.89
Effect of dilutive stock options	0	1,301	
DILUTED EPS			
Income available to common shareholders	$13,681	16,595	$0.82
For the Nine Months Ended May 31, 1998			
BASIC EPS			
Income available to common shareholders	$9,213	14,429	$0.64
Effect of dilutive stock options	0	1,999	
DILUTED EPS			
Income available to common shareholders	$9,213	16,428	$0.56

Stock-Based Compensation
The Company follows the disclosure-only provisions of Statement of Financial Accounting Standards "SFAS" No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION.

New Accounting Pronouncements
In March 1998, Statement of Position 98-1, ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE, was issued. This statement is effective for the Company's fiscal year ending in 2000. The impact from adopting this statement on the Company's results of operations and financial position is not expected to be material.

3. COMPREHENSIVE INCOME

In fiscal 1999, the Company adopted SFAS No. 130, REPORTING COMPREHENSIVE INCOME. SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components in the financial statements. For the quarter and nine months ending May 31, 1999, there were no differences between comprehensive income and net income. This statement did not have any effect on the Company's financial position or results of operation, as it requires only additions to current disclosures.

4. SEGMENTS

In fiscal 1998, the Company has adopted SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION. The Company has two reportable segments based on geographic operations: the United States and International. Each segment markets online integrated database services to investment managers, investment banks, and other financial services professionals. The U.S. segment consists of services provided to financial institutions throughout North America. The International segment consists of services provided to investment professionals primarily in Europe and the Pacific Rim. The International segment includes two foreign branch operations that are primarily staffed by sales and consulting personnel. Segment revenues reflect direct sales of products and services to clients based on their geographic location. There are no intersegment or intercompany sales. Each segment records compensation, travel, office, and other direct expenses related to its employees. Expenses for software development, expenditures related to the Company's computing centers, data costs, clearing fees, income taxes, and corporate headquarters charges are recorded by the U.S. segment and are not allocated to the foreign segments. The accounting policies of the segments are the same as those described in Note 2, "Accounting Policies."

Segment Information Thousands	U.S.	International	Total
Quarter Ended May 31, 1999			
Revenues from external clients	$22,693	$3,758	$26,451
Segment operating profit*	5,936	1,371	7,307
Total assets as of 5/31/99	86,442	6,556	92,998
Capital expenditures	2,133	1,498	3,631
Quarter Ended May 31, 1998			
Revenues from external clients	$17,510	$2,606	$20,196
Segment operating profit*	4,210	1,203	5,413
Total assets as of 5/31/98	58,619	3,443	62,062
Capital expenditures	3,368	113	3,481
For the Nine Months Ended May 31, 1999			
Revenues from external clients	$64,885	$10,631	$75,516
Segment operating profit*	16,464	4,391	20,855
Capital expenditures	10,628	2,165	12,793
For the Nine Months Ended May 31, 1998			
Revenues from external clients	$49,738	$7,009	$56,747
Segment operating profit*	11,703	3,164	14,867
Capital expenditures	10,045	298	10,343

* Expenses are not allocated or charged between segments. Expenditures associated with the Company's computer centers, software development costs, clearing fees, data fees, income taxes, and corporate headquarter charges are recorded by the U.S. segment.

Two separate regions (Europe and the Pacific Rim) were aggregated to form the International segment. The Europe and Pacific Rim segments have similar market characteristics and each offers identical products and services through a common distribution method to financial services institutions.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

	Three Months Ending May 31,			Nine Months Ending May 31,		
Unaudited and in thousands, except per share data	1999	1998	Change	1999	1998	Change
Revenues	$26,451	$20,196	31.0%	$75,516	$56,747	33.1%
Operating expenses	19,144	14,783	29.5	54,661	41,880	30.5
Income from operations	7,307	5,413	35.0	20,855	14,867	40.3
Income before income taxes and extraordinary gain	7,768	5,793	34.1	22,261	15,998	39.2
Net income before extraordinary gain	4,846	3,267	48.3	13,681	8,971	52.5
Extraordinary gain		-	-	-	242	
Net income	4,846	3,267	48.3	13,681	9,213	48.5
Diluted earnings per common share	$0.28	$0.20	40.0%	$0.82	$0.56	46.4%

Revenues
For the third quarter ending May 31, 1999, revenues increased 31.0% to $26.5 million versus $20.2 million for the same period a year ago. This marks the tenth consecutive fiscal quarter in which revenues have grown more than 30% over the comparable period revenues from a year earlier. Revenues during the first nine months of fiscal 1999 increased 33.1% from $56.7 million to $75.5 million. Subscriptions to additional services and databases by our existing 18,000 users, as well as the net addition of 72 new clients over the past twelve months drove this revenue growth.

Quarterly revenues from international operations were up 44.2% and totaled $3.8 million. Revenue growth from European operations was 37.7%. Asia Pacific revenues grew by 63.5%. Overseas revenues over the first nine months of fiscal 1999 increased 52.6% to $10.6 million versus the comparable period of fiscal 1998. Revenues from international sources accounted for over 14% of consolidated revenues for both the third fiscal quarter and the first nine months of fiscal 1999, up from 12% for the comparable periods a year earlier.

Client Retention & Commitments

Client retention for fiscal 1999, including the third quarter, continued at a rate in excess of 95%. Total client commitments at May 31, 1999 were $110.1 million, up 31.0% from May 31, 1998 ("Commitments" at a given point in time represent the forward-looking revenues for the next 12 months from all services currently being supplied to clients). The average commitment from the Company's 620 clients increased 16% to $178,000. As of May 31, 1999, no individual client accounted for more than 4% of total commitments, and commitments from the top ten clients did not exceed 15% of total commitments. As a matter of policy, the Company does not seek to enter into written contracts with its clients and clients can add or delete services at any time. Commitments have historically grown in virtually every month.

At May 31, 1999, the year over year increase in passwords was 36%. Password count at the beginning and end of fiscal 1999's third quarter was stable at 18,000. Recent fluctuations in password subscriptions among investment banking clients caused password growth to be flat, thereby reducing the likelihood that the quarterly commitment growth rate will remain above 30% in the short term.

Operating Expenses

Cost of Services
Cost of services for the quarter ended May 31, 1999 increased 23.0% to $9.5 million compared to the prior year period. For the first nine months of the year, cost of services increased 21.8% to $27.1 million. These increases are largely due to higher employee compensation and additional depreciation on computer equipment. For the quarter ended May 31, 1999, cost of services represented 35.9% of total revenues, a decrease of 2.3% from a year ago. For the first nine months of fiscal 1999, cost of services represented 35.8% of total revenues, a decrease of 3.3% from a year ago. These margin improvements were the result of declining data costs and clearing fees as a percentage of revenues, offset by additional compensation and depreciation expense.

Employee Compensation and Benefits
Employee compensation and benefits for the applications engineering and consulting groups increased $1.4 million for the quarter and rose $3.6 million for the nine months ended May 31, 1999. Employee additions and additional merit compensation drove this increase. In order to sustain the continuing growth and

the expanding client base of the Company, the applications engineering and consulting groups have increased staff by 40% since the third quarter of fiscal 1998.

Depreciation Expense

Depreciation expense on computer related equipment increased $289,000 for the quarter ended May 31, 1999 and $1.5 million for the first nine months of fiscal 1999. Increased depreciation expense is the result of continuing capital spending to add computer capacity.

Clearing Fees
Cash fees generate higher margins than commission revenues, although net revenues to the Company are approximately the same under both payment methods. Clients electing to pay using commissions on securities transactions are charged a higher amount than cash-paying clients in order to cover clearing broker fees paid by the Company. Over the past year, commissions as a percentage of total revenues have been declining. Commission revenues represented 38.2% of total revenues in the third quarter of fiscal 1999 compared to 41.9% for the year earlier period. The result of this decrease is declining clearing fees as a percentage of revenues for the quarter and for the first nine months ended May 31, 1999.

Data Costs
Data costs for the first nine months of fiscal 1999 declined as a percentage of revenues, primarily due to revenue growth in excess of 30% and changes in data fee payment arrangements. Prior to January 1, 1999, certain database charges were charged by FactSet and subsequently paid to the Company's data vendor. These charges are currently being paid directly to the database vendor by the Company's clients. This changeover had the positive effect of raising FactSet's operating margin for the quarter and first nine months of 1999.

Selling, General, and Administrative
For the third quarter of fiscal 1999, selling, general, and administrative (SG&A) expenses grew over 36% over the comparable period in the prior year, totaling $9.6 million. During the first nine months of fiscal 1999, SG&A expenses rose 40% to $27.6 million. For the quarter and nine months ended May 31, 1999, SG&A represented 36.5% of total revenues, up from 34.9% and 34.6% for the respective year ago periods. These increases were largely the result of additional employee compensation and expansion of office facilities.

Employee Compensation and Benefits
During the third quarter of fiscal 1999, employee compensation and benefits for the sales, product development, and various other support departments grew by $1.4 million. For the nine months ended May 31, 1999, employee compensation rose $3.6 million. These increases were the result of employee headcount growth of 25% during the 12 months ended May 31, 1999.

Rent Expense and Amortization of Leasehold Improvements
For the third quarter of fiscal 1999, rent and amortization expense increased $704,000 over the year earlier quarter. For the nine months ended May 31, 1999, rent and amortization expense increased $1.7 million. These increases were the result of office openings in New York, Stamford, Hong Kong and Sydney, and office expansions in San Mateo and Tokyo.

Foreign Currency
More than 95% of the Company's revenues are billed in U.S. dollars. The net monetary assets held by the Company's foreign offices during fiscal 1999 were immaterial. As a result, the Company's exposure to foreign currency fluctuations was insignificant.

Income Taxes
Income taxes decreased 1% as a percentage of revenues for the third quarter and nine months of fiscal 1999 versus the prior year. The Company's effective tax rate for fiscal year 1999 is expected to be approximately 39% compared to 43% a year ago. Included in the 1999 rate is the net effect from concluding two state income tax audits. Without considering the net effect of the audits, the effective tax rate would have approached 42%.

LIQUIDITY
For the nine months ended May 31, 1999, cash generated by operating activities increased 68% to $21.9 million. This was the result of improved profitability, increased deferred fees and commissions, and higher depreciation and amortization expenses.

Capital Expenditures
Cash used in investing activities for the nine months ended May 31, 1999 was $12.8 million, an increase of 42.9% over the prior year period. This increase is largely due to investments in mainframe equipment at the Company's two computer centers and the continued expansion of office space. During fiscal 1999, the Greenwich and New York computer centers underwent major upgrades of their 10 Compaq GS 140 mainframe systems, adding approximately 50% to capacity. The main memory at each of the systems was increased 60% to 16 gigabytes. System-wide disk storage space was boosted to 2 terabytes.

Financing Operations and Capital Needs
As of the quarter ended May 31, 1999, cash and cash equivalents totaled $47.9 million representing 53% of the Company's total assets. All of the Company's capital and operating expense requirements have been financed by cash from operations. The Company has no outstanding indebtedness.

Revolving Credit Facilities

In November 1998, the Company entered into two revolving credit facilities totaling $25 million for working capital and general corporate purposes. The Company has not drawn on either facility and has no present plans to utilize any portion of the available credit.

FORWARD-LOOKING FACTORS

Cash Dividend
On June 15, 1999, the Company announced that its board of directors approved a regular quarterly dividend of $0.05 per share. The cash dividend will be paid on September 20, 1999 to common stock holders of record at the close of business on August 31, 1999.

Capital Spending
In order to meet the requirements of its client user population and expand in the global marketplace, the Company has invested significantly in technology and its workforce. Capital spending, which amounted to $12 million in fiscal 1998, is scheduled to increase to $18 million for fiscal 1999. Leasehold improvements will account for approximately 25% of the total capital spending during fiscal 1999.

Recent Market Trends
During the past three fiscal years, the U.S. and European equity markets have increased and reached record highs. The results of the Company's operations and the performance of global equity markets have historically not been correlated. Although there has been little correlation in the past, an extended global stock market decline could negatively impact some of the Company's clients (investment management firms and investment banks) and increase the likelihood of personnel reductions among FactSet's potential user base.

YEAR 2000
Almost all companies are confronted with business risks associated with the Year 2000 ("Y2K") because many computer hardware systems and software programs use only two digits to indicate a year. These systems and programs, therefore, may incorrectly process dates beyond 1999, which may result in information errors or system failures. The effort at FactSet to address issues concerning Y2K has been in progress since the fall of 1997. During this time FactSet has made progress in insuring against significant problems resulting from Y2K related issues. The Y2K issue extends beyond the Company's internal back-office systems to its mainframe centers and related application programs that support the entire client base. Given the relative importance of this issue, the Company recognizes the need to remain vigilant and is pursuing its analysis, assessment, and planning for the Y2K issue.

The Company's State of Readiness
Three broad areas have been identified as potential concerns for Y2K related problems. They are (1) the FactSet online system, (2) FactSet's internal infrastructure and (3) client remediation efforts relating to Y2K.

The FactSet Online System
In contrast to most organizations, the core product that FactSet provides has an extremely tight dependency on its computer systems correctly handling and manipulating dates. This dependency is a critical aspect of FactSet's ability to do business. FactSet has taken a number of steps to make the FactSet Online System fully Y2K compliant.

With respect to Y2K compliance, the FactSet online system can be broken up into four components. They are: 1) the user interface, 2) the internal applications that deliver the data from databases to the end user's desktop, 3) the databases that contain the information we receive from vendors, and 4) the method of transmission of data from vendors to FactSet and from FactSet to clients. The Company has completed testing of the FactSet online system and believes that no further significant Y2K alterations are necessary to be Y2K compliant.

Determining the specific enhancements necessary to make the online system compliant was one immediate concern for the entire Y2K effort. Consequently, Y2K enhancements to the FactSet online system's user interface are in place. Having achieved this has enabled FactSet users to proceed with their own remediation efforts without concern for unexpected changes occurring in the behavior of the FactSet online system. The FactSet online system now universally accepts four-digit years wherever a year specification can be made.

Approximately 95% of all source code comprising the FactSet online system has been reviewed by application engineers. The code has been scrutinized to insure that wherever dates are manipulated, those beyond the year 2000 are being handled properly. To insure the completeness of the process an inventory of all system applications has been made to enable FactSet to confirm that all systems have been reviewed. Quality assurance testing is also being done on all the online applications to test for compliance problems. Completion of the source code review is expected in the third calendar quarter of 1999.

Underlying all of the FactSet online applications are the databases which provide the information upon which the applications operate. Many of the databases FactSet provides contain historical information, and therefore dates to which those data items correspond. As part of FactSet's compliance effort all such databases have been reviewed to insure that dates and historical data beyond the year 2000 can be accommodated. Many of the databases were already in an internally compliant format. Most of the more recently added databases were designed to store years as a full four-digit integer as opposed to a two-digit integer. A similar inventory of all FactSet databases has been made to manage the process of identifying databases which are compliant and which databases need to be made compliant. Approximately 95% of the FactSet databases are now internally Y2K compliant. Remediation efforts to make all databases compliant are expected to be complete in the third calendar quarter of 1999.

Databases on the online system contain information received from over 30 database vendors. A critical part of FactSet's compliance effort involves insuring that the flow of information from the database vendors to FactSet continues uninterrupted into the new millennium. Fortunately, FactSet has flexibility in processing the information that comes from the database vendors. As opposed to receiving tightly packaged "databases" from our vendors we received transmissions upon which programs are written to load the information contained therein into databases stored on the FactSet mainframes. These programs have all been written by in-house database engineers and can therefore be customized to accommodate any changes that a vendor may make to its transmission format in order to achieve compliance.

The assessment of Y2K readiness of data vendors is ongoing and will continue throughout 1999. The Company maintains regular discussions with its data vendors and has been encouraging them to prepare and transmit data that is Y2K compliant. Test transmissions were also requested where applicable to enable simulations of the update process with post-year 2000 data before it is contained in the live transmissions. FactSet also requested from each of its database providers written compliance statements confirming the expectation of uninterrupted transmissions into the new millennium. There has been no indication from correspondence with vendors that transmittal of data that is not Y2K complaint is anticipated.

Internal Infrastructure

FactSet is no different from many organizations in its dependence upon external systems that are a critical part of its infrastructure. These systems include but are not limited to: the mainframe systems, phone systems, accounting and payroll systems, and physical plant systems such as heating, air conditioning, and utilities.

FactSet has 10 Compaq GS 140 mainframe systems. FactSet has reviewed correspondence from Compaq stating that no interruption or failure is anticipated from Y2K issues. In addition, FactSet has conducted its own tests on the mainframe computer centers. The initial test was conducted during the second quarter of 1999 and additional tests are scheduled for the third and fourth quarters of 1999. No interruption of FactSet's service is planned during Y2K testing of mainframe systems.

The Company also faces Y2K issues with third-party telecommunications systems over which clients access its products and services. The Company has reviewed correspondence from each of its significant telecommunications providers concerning Y2K compliance. There has been no indication from such review that Y2K issues are anticipated to cause a significant failure or interruption of telecommunications services.

The suppliers of significant internal back-office systems (accounting and payroll) have been queried for confirmation that their software is Y2K ready. The Company has received written confirmations from these suppliers and to date there has been no indication that the systems/software provided by these suppliers would not be Y2K compliant.

Client Remediation Efforts

FactSet is concerned not only about insuring the compliance of its online system, but also insuring that the use of FactSet information by the end user does not encounter Y2K difficulties. The flexibility of the FactSet system provides its users the opportunity to create customized "models." These "models" can take the form of private databases, formulas, or universal screens. Users can program their use of FactSet much in the same way a programmer utilizes a programming language. The compliance of a programming language does not necessarily insure the compliance of all the programs written in that language. Some of FactSet's most sophisticated clients have thousands of proprietary models on the FactSet mainframes. A certain amount of remediation effort must still be undertaken by the Company's client base, regardless of what FactSet does to provide a seamless Y2K transition.

FactSet is proactively facilitating the remediation process of its users and has developed extensive tools for this purpose. FactSet has implemented a testbed to simulate the operation of the online system in a post-year 2000 environment. The "Y2K TestBed" provides users with the ability to perform remediation testing on their internal systems that may depend on information returned by FactSet's online system. The testbed effectively connects the live FactSet online system and all its applications to databases cast forward in time beyond the year 2000. This allows for testing of the entire process that takes the data from the mainframes, through the applications, and ultimately to the user desktop.

FactSet released Y2K Auditor in fiscal 1999, a software program developed in-house, to further facilitate remediation testing by users. The Y2K Auditor is an online application that quickly scans through client models searching for potential Y2K issues. Y2K Auditor analyzes each model, enabling the user to identify whether a given model should continue to behave properly, or whether some remediation is required.

FactSet has made efforts to heighten client awareness of its Y2K initiative. Documentation concerning Y2K has been made available. Clients have also been encouraged to attend one of the Y2K forums that are being held in over a dozen cities throughout the world. The forums present an overview of FactSet's compliance strategy as well as introducing the remediation facilities that have been provided to assist in the transition to the next millennium.

Contingency Plans

The Company's Y2K project team is continuing to develop contingency plans to address worst case scenarios regarding Y2K. These plans supplement many levels of redundancy already built into the FactSet information technology structure. Primarily, the New York and Greenwich, Connecticut data centers are operated as "hot" sites, each running at roughly 50% of capacity. If one data center should fail or require shutdown, the other will have sufficient capacity to carry the entire client base comfortably. Each data center is serviced by different public utilities, reducing the dependency on a single source of electric power. Nearly every client has at least two methods to access the data centers, reducing dependency on a single communications carrier. The extent of preparation and readiness for Y2K varies among the Company's data vendors. Contingency plans have been arranged by FactSet with a view that the Company will not rely on the ability of data vendors to provide Y2K compliant data. Programs have been tested and are planned to adjust data to be Y2K compliant if a data supplier does not provide it in a specifically compliant format. In the event of failure of the electronic information delivery mechanisms between FactSet and its data vendors, plans are also in development to secure data on tape from major vendors for separate upload to FactSet's data centers.

The Costs to Address Year 2000

Costs relating to Y2K projects principally relate to salaries of in-house software engineers and are not incremental to recurring operating expenses. Internal costs incurred are not separately tracked or recorded. However, based on estimated time incurred by FactSet staff, both past and future costs to prepare all FactSet systems to be Y2K compliant are approximately $1.5 million. Y2K changes take place at the Company's mainframe centers and do not require a separate program installation on each user's personal computer or supporting network. Y2K compliance matters have not delayed and are not expected to delay any critical information technology projects.

The Risks of Year 2000

The failure to correct a material Y2K problem could result in an interruption in, or a failure of, certain normal business activities. There can be no assurances that the databases distributed by the Company, or related applications, mainframe, communications, and back-office systems do not contain undetected errors or defects associated with Y2K date functions. Due to the general uncertainty inherent in the Y2K problem, resulting in part from the Y2K readiness of third parties beyond the control of FactSet, the Company is unable to determine at this time whether the Y2K problem will have a material impact on the Company. Although the Company believes its Y2K efforts will be successful and does not anticipate the cost of compliance to be material, any failure or delay to address Y2K issues could result in major disruption of its business, damage to the Company's reputation, and a material, adverse change in its results of operations, cash flows and financial position.

Office Facility Expansion

During fiscal 1999, the Company opened offices in New York, Stamford (Connecticut), Sydney and plans to expand the San Mateo and Tokyo facilities. Incremental rent expense from office facility expansion is not expected to be material.

Income Taxes

The Company previously reported in the first and second quarters of 1999 that its effective tax rate for fiscal 1999 was expected to be approximately 39%. For the latest quarter and for the first nine months of fiscal 1999, the effective tax rate of 39% reflects the net benefit of recently completed income tax audits in two state jurisdictions. Without considering the net effect of the audits, the effective tax rate for 1999 would have approached 42% and remain at that approximate rate for fiscal year 2000.

In the normal course of business, the Company's tax filings are subject to audit by federal and state tax authorities. Audits by two taxing authorities are currently ongoing. There is inherent uncertainty contained in the audit process but the Company has no reason to believe that such audits will result in additional tax payments that would have an adverse material effect on its results of operation, cash flows and financial position.

Accounting Pronouncements

In March 1998, Statement of Position 98-1, ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE, was issued. This statement is effective for the Company's fiscal year ending in 2000. The impact from adopting this statement on the Company's results of operations and financial position is not expected to be material.

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis contains forward-looking statements that are based on management's current expectations and beliefs. The phrases "commitments", "will be", "is likely", "will account", "could negatively", "likelihood", "may incorrectly", "may result", "believes", "is expected", "may make", "will continue", "are anticipated", "may depend", "should continue", "could result", "will have", "is not expected", "believes that", are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions which are difficult to predict ("future factors"). Therefore, actual results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to publicly update any forward-looking statements as a result of new information, future events, or otherwise.

Future factors include the ability to hire qualified personnel; maintenance of the Company's leading technological position; the impact of global market trends on the Company's revenue growth rate and future results of operations; the success of the Y2K compliance activities; the negotiation of contract terms supporting new and existing databases; 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.

Part II   OTHER INFORMATION

Item 1.   Legal Proceedings: None

Item 2.   Changes in Securities: None

Item 3.   Defaults Upon Senior Securities: None

Item 4.   Submission of Matters to a Vote of Security Holders: None

Item 5.   Other Information: None

Item 6.   Exhibits and Reports on Form 8-K

(a) Exhibits
Exhibit Number

3.1...................................Restated Certificate of Incorporation (1)
3.2..By-laws (1)
4.1..Form of Common Stock (1)
10.1...........................Form of Employment Agreement between the Company
and Howard E. Wille and Charles J. Snyder (1)
10.2.................Letter Agreement between the Company and Ernest S. Wong (1)
27...Financial Data Schedules
(1)Incorporated by reference to the Company's Registration Statement on Form S-1
(File No.333-4238)

(b) Reports on Form 8-K: None

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: July 15, 1999   BY: /s/ ERNEST S. WONG
Ernest S. Wong,
Senior Vice President, Chief Financial Officer
and Secretary

Exhibit 27

This schedule contains summary financial information extracted from FactSet Research Systems Inc. consolidated statement of financial condition, consolidated statement of income, and consolidated statement of cash flows for the period ending February 28, 1999, and is qualified in its entirety by reference to such financial statements.

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FactSet Research Systems Inc.
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9-MOS
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MAY-31-1999
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FOR PURPOSES OF THIS STATEMENT, PRIMARY MEANS BASIC.