UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K/A

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

Date of report (Date of earliest event reported): August 1, 2005

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

Delaware	1-11869	13-3362547
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

601 Merritt 7
Norwalk, Connecticut 06851-1091
(Address of principal executive offices)

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

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

FactSet Research Systems Inc. is filing this Current Report on Form 8-K/A in order to amend its Current Report on Form 8-K, filed on August 3, 2005, and incorporated herein by reference, to provide certain financial disclosures required by Item 9.01 with respect to the acquisition of all the outstanding capital stock of Derivative Solutions Inc.

Item 2.01 Completion of Acquisition or Disposition of Assets

On August 1, 2005, FactSet Research Systems Inc. ("FactSet" or "FRS") acquired all the outstanding capital stock of Derivative Solutions Inc. pursuant to a stock purchase agreement among FactSet Research Systems Inc., Derivative Solutions, Inc. ("DSI") and Douglas S. Wheeler (the "Stock Purchase Agreement") and other virtually identical stock purchase agreements with the other shareholders of DSI (the "Minority Purchase Agreements") all dated as of the same date. FRS acquired all the outstanding capital stock of DSI for $42,500,000 in cash and 305,748 shares of FRS common stock. The cash portion of the consideration is subject to adjustment based on agreed upon levels of working capital.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired.

Financial Statements of DSI, together with accompanying notes, are included in Exhibits 99.2 and are incorporated herein by reference.

(b) Pro Forma Financial Information.

The pro forma financial information required by this Item 9 is included within this filing.

UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

The following unaudited pro forma combined condensed financial statements have been prepared to give effect to the acquisition of DSI by FRS, using the purchase method of accounting and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma combined condensed financial statements. These pro forma statements were prepared as if this transaction had been completed as of September 1, 2003 for the combined condensed statements of income purposes and as of May 31, 2005 for balance sheet purposes.

The unaudited pro forma combined condensed financial statements are presented for illustrative purposes only and are not necessarily indicative of the financial position or results of operations that would have actually been reported had this transaction occurred on September 1, 2003 for statements of income purposes and as of May 31, 2005 for balance sheet purposes, nor is it necessarily indicative of the future financial position or results of operations. The pro forma combined condensed financial statements include adjustments to reflect the allocation of the purchase price to the acquired assets and assumed liabilities of DSI. The purchase price allocation for DSI is subject to revision as more detailed analysis is completed and additional information on the fair values of DSI's assets and liabilities becomes available. Any change in the fair value of the net assets of DSI will change the amount of the purchase price allocable to goodwill.

Included in the unaudited pro forma combined condensed statements of income of FRS and DSI for the year ended August 31, 2004 are the pro forma adjustments related to the acquisition of Decision Data System B.V. ("DDS") on September 1, 2004. Pursuant to a stock purchase agreement dated as of June 29, 2004, among FRS, FactSet Europe S.à.r.l., Decision Data Luxembourg S.A. and the seller's stockholder representative, FactSet Europe S.à.r.l. acquired from DDS all the outstanding stock of Decision Data System B.V., the Netherlands holding company that owns all the stock of the JCF Group of companies, in exchange for 385,601 shares of FRS common stock and €40,000,000. FactSet Europe S.à.r.l. is a wholly owned, Luxembourg-based subsidiary of FRS. Information regarding the purchase accounting of DDS is included in FactSet's Form 8-K filing dated November 12, 2004. The results of DDS have been included in the results of FRS since the date of acquisition. As a result, no pro-forma adjustment for DDS is required in the other financial statement presented herein.

UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET
As of May 31, 2005 (In thousands)

	Historical		Pro Forma	
	FactSet	DSI	Adjustments	Combined
ASSETS				
Cash and cash equivalents	$ 62,656	$ 2,511	$ (42,049)(g)	$ 23,118
Investments	27,919	—	—	27,919
Receivables from clients and clearing brokers, net	54,183	452	—	54,635
Deferred taxes	5,420	—	—	5,420
Other current assets	4,423	34	—	4,457
Total current assets	154,601	2,997	(42,049)	115,549
Property, equipment, and leasehold improvements, net	50,924	115		51,039
Goodwill	74,466	—	36,857(h)	111,323
Intangible assets, net	27,465	—	15,568(h)	43,033
Deferred taxes	224	—	510(i)	734
Other assets	2,697	61	—	2,758
Total assets	$ 310,377	$ 3,173	$ 10,886	$ 324,436
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable and accrued expenses	$ 18,369	$ 87	$ 1,085(j)	$ 19,541
Accrued compensation	13,798	550	—	14,348
Deferred fees	17,327	831	(150)(k)	18,008
Dividends payable	2,394	—	—	2,394
Taxes payable	3,319	381	—	3,700
Total current liabilities	55,207	1,849	935	57,991
Deferred taxes	6,851	—	—	6,851
Deferred rent and other non-current liabilities	9,137	—	—	9,137
Total liabilities	71,195	1,849	935	73,979
Stockholders' Equity:				
Common stock	543	476	3(l) (476)(l)	546
Capital in excess of par value	89,342	—	4,454(l)	93,796
Note receivable from common stock	—	(475)	475(l)	—
Retained earnings	289,407	1,323	(1,323)(l)	289,407
Treasury stock, at cost	(141,126)	—	6,818(l)	(134,308)
Accumulated other comprehensive gain	1,016	—	—	1,016
Total stockholders' equity	239,182	1,324	9,951	250,457
Total liabilities and stockholders' equity	$ 310,377	$ 3,173	$ 10,886	$ 324,436

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF INCOME

Year Ended August 31, 2004
(In thousands, except per share data)

	FactSet	DDS	DSI	Pro Forma DDS Adjustments	Pro Forma DSI Adjustments	Pro Forma Combined
Revenues	$251,910	$18,878	$8,935	$ (763)(e)	$ (150)(k)	$278,810
				(539)(a)		
Cost of services	74,191	6,132	4,007	1,936(a)	2,921(m)	88,648
Selling, general and administrative	90,116	10,286	4,977	(406)(b)	—	104,973
Total operating expenses	164,307	16,418	8,984	991	2,921	193,621
Income (loss) from operations	87,603	2,460	(49)	(1,754)	(3,071)	85,189
Other income	1,772	206	18	(810)(c)	(666)(g)	520
Income (loss) before income taxes	89,375	2,666	(31)	(2,564)	(3,737)	85,709
Provision for income taxes	31,358	989	57	(899)(f)	(1,353)(n)	30,152
Net income (loss)	$ 58,017	$ 1,677	$ (88)	$ (1,665)	$ (2,384)	$ 55,557
Basic earnings per common share	$ 1.20					1.13
Diluted earnings per common share	$ 1.15					1.08
Weighted average common shares (Basic)	48,408			386(d)	306(o)	49,100
Weighted average common shares (Diluted)	50,616			386(d)	306(o)	51,308

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF INCOME

Nine Months Ended May 31, 2005
(In thousands, except per share data)

	FactSet	DSI	Pro Forma Adjustments	Pro Forma Combined
Revenues	$229,877	$8,112	$ (150)(i)	$237,839
Cost of services	67,070	2,940	2,123(m)	72,133
Selling, general and administrative	82,563	3,580	—	86,143
Total operating expenses	149,633	6,520	2,123	158,276
Income from operations	80,244	1,592	(2,273)	79,563
Other income	700	40	(666)(g)	74
Income before income taxes	80,944	1,632	(2,939)	79,637
Provision for income taxes	27,826	223	(1,064)(n)	26,985
Net income	$ 53,118	$1,409	$ (1,875)	$ 52,652
Basic earnings per common share	$ 1.11			$ 1.09
Diluted earnings per common share	$ 1.06			$ 1.04
Weighted average common shares (Basic)	47,879		306(o)	48,185
Weighted average common shares (Diluted)	50,120		306(o)	50,426

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

1. Basis of Pro Forma Presentation

On August 1, 2005, FactSet Research Systems Inc. ("FRS") acquired all the outstanding capital stock of Derivative Solutions Inc. ("DSI") pursuant to a stock purchase agreement among FRS, DSI and Douglas S. Wheeler and other virtually identical stock purchase agreements with the other shareholders of DSI all dated as of the same date. FRS acquired all the outstanding capital stock of DSI for $42,500,000 in cash and 305,748 shares of FRS common stock. The cash portion of the consideration is subject to adjustment based on levels of working capital. To date, FRS has paid $1,872,000 based on an estimated level of working capital of DSI.

The unaudited pro forma condensed combined balance sheet at May 31, 2005 is presented to give effect to the acquisition of DSI by FRS had it been consummated on that date. The unaudited pro forma combined condensed statements of income of FRS and DSI for the year ended August 31, 2004 and the nine months ended May 31, 2005 are presented as if the transactions had been consummated on September 1, 2003.

The unaudited pro forma combined condensed financial statements reflect an estimated purchase price of $55.9 million. The total purchase price of the acquisition is as follows (in thousands):

Cash paid	$44,372
Fair value of FactSet common stock issued	11,275
Estimated direct acquisition costs	256
Total purchase price	$55,903

The final purchase price is dependent on the actual direct acquisition costs. Under the purchase method of accounting, the total estimated purchase price is allocated to DSI's net tangible and intangible assets based upon their estimated fair value as of the date of the acquisition. Based upon the purchase price and the valuation, the preliminary purchase price allocation, which is subject to change based on FactSet's final analysis, is as follows (in thousands):

Tangible assets acquired	$ 6,777
Amortizable intangible assets:	
Software technology	10,685
Customer relationships	4,515
Trade name	98
Non-competition agreements	270
Goodwill	36,857
Total assets acquired	59,202
Liabilities assumed	(3,299)
Net assets acquired	$55,903

Intangible assets of $15.6 million have been allocated to amortizable intangible assets consisting of software technology, amortized over five years using a straight-line amortization method; customer relationships, amortized over eight years using an accelerated amortization method; trade name, amortized over 2.5 years using a straight-line amortization method; and non-competition agreements, amortized over four years using a straight-line amortization method.

Goodwill totaling $36.9 million represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with Statement of Financial Accounting

Standards No. 142, Goodwill and Other Intangible Assets, goodwill will not be amortized and will be tested for impairment at least annually. Any change in the fair value of the net assets of DSI will change the amount of the purchase price allocable to goodwill. Final purchase accounting adjustments may therefore differ materially from the pro forma adjustments presented here. Goodwill generated from the DSI acquisition is deductible for income tax purposes.

Included in the unaudited pro forma combined condensed statements of income of FRS and DSI for the year ended August 31, 2004 are the pro forma adjustments related to the acquisition of Decision Data System B.V on September 1, 2004. Pursuant to a stock purchase agreement dated as of June 29, 2004, among FRS, FactSet Europe S.à.r.l., Decision Data Luxembourg S.A. and the seller's stockholder representative, FactSet Europe S.à.r.l. acquired from Decision Data Luxembourg S.A. all the outstanding stock of Decision Data System B.V., the Netherlands holding company that owns all the stock of the JCF Group of companies, in exchange for 385,601 shares of Common Stock of FactSet Research Systems Inc. and €40,000,000. FactSet Europe S.à.r.l. is a wholly owned, Luxembourg-based subsidiary of FactSet Research Systems Inc. Information regarding the purchase accounting of DDS is included in FactSet's Form 8-K filing dated November 12, 2004. The results of DDS have been included in the results of FRS since the date of acquisition. As a result, no pro-forma adjustment for DDS is required in the other financial statement presented herein.

2. Pro Forma Adjustments

DDS Pro Forma Adjustments

Certain reclassifications have been made to confirm DDS's historical amounts to FactSet's financial statement presentation.

The accompanying unaudited pro forma combined condensed financial statements have been prepared as if the acquisition was completed on May 31, 2005 for balance sheet purposes and as of September 1, 2003 for statements of income purposes and reflect the following pro forma adjustments:

(a) To eliminate the amortization of DDS historical goodwill and reflect amortization of the amortizable intangible assets from the acquisition. The weighted average life of amortizable intangible assets approximates 15 years.

(b) To adjust other current assets to include a prepaid commission asset to conform DDS's accounting policies to FRS's policies.

(c) To reflect the decrease in interest income resulting from the DDS acquisition.

(d) To include the 386,601 shares of FRS common stock paid as part of the acquisition purchase price.

(e) To adjust DDS deferred revenue to estimated fair value.

(f) To adjust the provision (benefit) for taxes to reflect the impact of DDS's pro forma adjustments. The adjustment has been calculated using the effective tax rate of the combined companies.

DSI Pro Forma Adjustments

Certain reclassifications have been made to confirm DSI's historical amounts to FRS's financial statement presentation.

The accompanying unaudited pro forma combined condensed financial statements have been prepared as if the acquisition was completed on May 31, 2005 for balance sheet purposes and as of September 1, 2003 for statements of income purposes and reflect the following pro forma adjustments:

(g) To reflect the cash payment for the DSI acquisition and the resulting decrease in interest income.

(h) To establish amortizable intangible assets and non-amortizable goodwill resulting from the acquisition.

(i) To record deferred tax asset arising from the temporary tax to book difference of DSI deferred fees.

(j) To record a contingent liability associated with the acquisition of DSI.

(k) To adjust DSI deferred revenue to estimated fair value.

(l) To eliminate the historical stockholders' equity of DSI and record the issuance of 305,748 shares of FRS common stock paid as part of the acquisition price.

(m) To reflect amortization of the amortizable intangible assets from the acquisition. The weighted average life of amortizable intangible assets approximates 6 years.

(n) To adjust the provision (benefit) for taxes to reflect the impact of DSI's pro forma adjustments. The adjustment has been calculated using the effective tax rate of the combined companies.

(o) To include the 305,748 shares of FRS common stock paid as part of the acquisition purchase price.

3. Pro Forma Combined Net Income

Shares used to calculate unaudited pro forma combined net income per basic and diluted share were computed using FDS's weighted average shares outstanding during the respective periods plus the issuance of 385,601 shares of FRS common stock in connection with the DDS acquisition and 305,748 shares of FRS common stock in connection with the DSI acquisition. Shares from the two acquisitions are included in full in FDS's weighted average shares outstanding as of September 1, 2003.

All shares of common stock and related per share amounts give retroactive effect for stock splits. A three-for-two common stock split, effected as a stock dividend, occurred on February 4, 2005.

(d) Exhibits.

Exhibit No.	Description
10.1	Stock Purchase Agreement, dated as of August 1, 2005, among FactSet Research Systems Inc., Derivative Solutions Inc. and Douglas S. Wheeler.*
23.1	Consent of Independent Accounting Firm
99.1	Press Release, dated as of August 3, 2005*
99.2	Audited Financial Statements as of December 31, 2004 of Derivative Solutions Inc.
99.3	Unaudited Financial Statements as of May 31, 2005 of Derivative Solutions Inc.

* Previously filed.

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 hereunto duly authorized.

FACTSET RESEARCH SYSTEMS INC.
(Registrant)

Date: October 14, 2005

By: /s/ PETER G. WALSH

Peter G. Walsh,
Senior Vice President, Chief Financial Officer
and Treasurer

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTING FIRM

We hereby consent to the inclusion on Form 8-K of FactSet Research Systems, Inc. of our report dated October 5, 2005 relating to the financial statements of Derivative Solutions, Inc. for the year ended December 31, 2004.

/s/ Plante & Moran, PLLC

Chicago, IL
October 14, 2005

EXHIBIT 99.2

Derivative Solutions, Inc.
Audited Financial Statements
For The Year Ended December 31, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
DERIVATIVE SOLUTIONS, INC.

We have audited the accompanying balance sheet of DERIVATIVE SOLUTIONS, INC. (the "Company") as of December 31, 2004 and the related statement of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Plante & Moran, PLLC

Chicago, IL
October 5, 2005

Derivative Solutions, Inc.
Balance Sheet

	December 31, 2004
Assets	
Current Assets	
Cash and Cash Equivalents	$ 165,050
Accounts receivable	89,105
Prepaid expenses and other current assets:	
Prepaid expenses	16,511
Accrued interest income - notes receivable for common stock	13,417
Total current assets	284,083
Deposits	61,451
Property and Equipment – Net	103,640
Total assets	**$ 449,174**
Liabilities and Stockholders' Equity	
Current Liabilities	
Accounts payable	$ 33,128
Loans and advances from majority stockholder	61,451
Accrued and other current liabilities:	
Taxes payable	181,112
Deferred revenue	109,954
Total current liabilities	385,645
Stockholders' Equity	
Common stock; No par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding	476,000
Notes receivable for common stock	(475,000)
Retained earnings	62,529
Total stockholders' equity	63,529
Total liabilities and stockholders' equity	**$ 449,174**

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

Derivative Solutions, Inc.
Statement of Operations

	Year Ended December 31 2004
Licensing fees	$9,892,169
Operating expenses	
Compensation	7,282,306
Employee benefits	1,791,639
Marketing	224,944
Occupancy	431,757
Administrative	221,766
Total operating expenses	9,952,412
Operating loss	(60,243)
Nonoperating income	
Interest	33,880
Total nonoperating income	33,880
Loss before income taxes	(26,363)
Income tax expense	72,789
Net loss	**$ (99,152)**

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

Derivative Solutions, Inc.
Statement of Stockholders' Equity

	Common Stock		Retained Earnings	Notes Receivable For Common Stock	Total
	Shares	Amount			
Balance - January 1, 2004	5,000,000	$ 1,000	$161,681	—	$162,681
Net loss	—	—	(99,152)	—	(99,152)
Exercise of stock options	400,000	475,000	—	$ (475,000)	—
Balance - December 31, 2004	5,400,000	$476,000	$ 62,529	$ (475,000)	$ 63,529

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

Derivative Solutions, Inc.
Statement of Cash Flows

	Year Ended December 31, 2004
Cash Flows from Operating Activities	
Net loss	$ (99,152)
Adjustments to reconcile net loss to net cash from operating activities:	
Depreciation	43,890
Interest accrued on notes receivable	(13,417)
Changes in operating assets and liabilities which provided (used) cash:	
Accounts receivable	98,895
Prepaid expenses and other	(2,213)
Accounts payable	20,616
Accrued liabilities and other	125,243
Net cash provided by operating activities	173,862
Cash Flows from Investing Activities	
Purchase of property and equipment	(51,590)
Net cash used in investing activities	(51,590)
Net Increase in Cash and Cash Equivalents	122,272
Cash and Cash Equivalents - Beginning of year	42,778
Cash and Cash Equivalents - End of year	**$ 165,050**

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

Note 1 – Nature of Business and Significant Accounting Policies

Derivative Solutions, Inc. (the “Company”) is engaged in licensing its fixed income portfolio management software to various financial institutions in the United States under one to two year agreements. In addition, the Company provides software support services to its clients.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition – The Company recognizes licensing fees ratably over the term of the respective contracts. Customers are invoiced at the beginning of each quarterly earning cycle and customer payments received in advance of recognition of the related revenue are deferred. Support service revenue is recognized at the time services are performed.

Cash Equivalents - The Company considers all highly-liquid instruments with original maturities of less than 90 days to be cash equivalents.

Accounts Receivable - Accounts receivable are stated at invoice amounts. Delinquent account balances are reviewed on a specific-item basis to determine an allowance for doubtful accounts. The Company has no allowance for doubtful accounts at December 31, 2004, as management considers all accounts receivable to be collectible.

Property and Equipment - Property and equipment are stated at cost. Depreciation is computed using straight-line and accelerated methods over estimated useful lives of five to seven years.

Notes Receivable - Notes receivable represent long-term notes received in exchange for the issuance of common stock in conjunction with an exercise of stock options during 2004. These notes are accounted as a reduction of stockholders’ equity in accordance with Emerging Issues Task Force 85-1 (EITF 85-1), *Classifying Notes Received for Capital Stock*.

Fair Value of Financial Instruments - The carrying value of accounts receivable, accounts payable and accrued liabilities, and loans and advances from stockholders approximates fair value due to the relatively short maturity of these instruments. The carrying value of the notes receivable–common stock approximates fair value based on the contract terms and an evaluation of expected cash flows.

Concentration of Products - The Company currently has one significant product that is presently marketed and licensed. Significant changes in technology could lead to new products or services that compete with the product offered by the Company. These changes could materially affect the price of the Company’s product or impair its marketability.

Software Development Costs - The Company accounts for research and software development costs in accordance the requirements of Statement of Financial Accounting Standards No. 2 (“SFAS 2”), *Accounting for Research and Development Costs*, and Statement of Financial Accounting Standards No. 86 (“SFAS 86”), *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed.* The Company’s research and development costs are charged to expense as incurred until technological feasibility is established. Costs incurred after technological feasibility was established for the Company’s current software were not material. Research and development expense in 2004 was approximately $400,000.

Stock-Based Compensation - The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (“SFAS 123”), *Accounting for Stock-Based Compensation*.

As permitted by SFAS 123, the Company accounts for its stock option plan using the intrinsic value method. Accordingly, no compensation expense has been recognized in connection with the Company’s outstanding stock options since the exercise price was equal to the fair market value of the Company stock at the date of grant. Had compensation cost for the Company’s stock option plan been determined pursuant to the fair value method under SFAS 123, the Company’s net loss would have been increased to the following pro forma amounts for the year ended December 31, 2004:

		Year Ended December 31, 2004
Net loss, as reported	$	(99,152)
Deduct: Stock-based employee compensation expense determined under fair value method for all awards, net of related income tax effects		102,771
Pro forma net loss	$	(201,923)

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in the twelve months ended December 31, 2004:

Risk-free interest rate	4.56%
Expected life	10 years
Expected volatility	0%
Dividend yield	0%

Income Taxes - The Company has elected to be taxed as an S Corporation. The income of an S Corporation is not subject to federal income tax at the corporate level. Rather, the stockholders are required to include their pro rata share of the corporation's taxable income or loss in their income tax returns. Accordingly, no provision for federal income taxes has been made in the accompanying financial statements. The Company is responsible for income taxes in state and local jurisdictions. Deferred income taxes for the Company are not material as there are no significant temporary differences.

Note 2 – Income Taxes

The provision for income taxes consists of the following:

Current expense – state	$72,789
Deferred expense – state	—
Total income tax expense	$72,789

A reconciliation of the provision for income taxes computed by applying the statutory United States federal tax rate to income before taxes is as follows:

Income tax expense computed using the federal statutory rate of 0%	$ 0
State income tax expense	$72,789
Total income tax expense	$72,789

Note 3 – Property and Equipment

Major classes of property and equipment at December 31, 2004 are as follows:

Furniture and fixtures	$ 112,236
Computer equipment	306,669
Total cost	418,905
Accumulated depreciation	(315,265)
Net property and equipment	$ 103,640

Depreciation expense was $43,890 for 2004.

Note 4 – Related Party Transactions

The Company has two outstanding notes receivable from a minority stockholder that total $475,000. These notes are collateralized by common stock, bear interest at 4%, have no specific repayment terms, and mature in various years through 2009. During 2004, the Company recorded $13,417 in accrued interest income related to these notes receivable. These notes were received in connection with stock options exercised in 2004 and have been classified as a deduction from stockholders' equity. These notes were repaid to the Company in connection with the sale of the Company's stock in 2005 (see Note 9).

The Company has a loan payable to a majority stockholder. The note is noninterest-bearing and due on demand. At December 31, 2004, the balance due under the note payable was $61,451. This note payable was repaid in 2005.

Note 5 – Benefit Plans

The Company maintains a retirement plan (the “Plan”) for all employees over 21 years of age and having six months of service. The Company matches 50% of a participant’s elective deferral up to a maximum of 4 percent. Matching contributions under the Plan were $31,911 for 2004. In addition, the Plan allows for discretionary profit-sharing contributions. No discretionary contributions were made to the Plan during 2004.

Note 6 – Operating Leases

The Company is obligated under certain operating leases for office facilities in Chicago and New York. The leases expire on various dates between January 2006 and February 2007. Total rent expense under these leases was approximately $408,000 for 2004.

The following is a schedule of future minimum lease payments under operating leases:

Years Ending December 31	Amount
2005	$313,000
2006	213,000
2007	34,000
Total	$560,000

Note 7 – Stock Option Plan

The Company has an incentive stock option plan under which certain employees receive options to purchase Company stock at a price specified at the date of each option grant. Under the plan, the Company may grant options for up to 1,250,000 shares of common stock. The options granted, which have a term of 10 years from the grant date, vest over a four-year period. The exercise price of options is equal to the fair market value of the Company’s stock on the date of the grant.

Following is a summary of the status of the incentive stock option plan during 2004:

	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2004	1,135,000	$ 1.38
Granted	50,000	$ 4.00
Exercised	(400,000)	$ (1.19)
Outstanding at December 31, 2004	785,000	$ 1.46
Options exercisable at December 31, 2004	715,500	$ 1.32

The following table summarizes information about stock options outstanding as of December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number of outstanding options at December 31, 2004	Weighted average remaining contract life (years)	Weighted average exercise price	Number exercisable at December 31, 2004	Weighted average exercise price
$1.00–$4.00	785,000	6.3	$ 1.46	715,500	$ 1.32

Note 8 – Supplemental Cash Flow Disclosure

The Company has two outstanding notes receivable from a stockholder in the total amount of $475,000. These notes were received in connection with the 2004 exercise of stock options to purchase 400,000 shares of the Company's common stock.

There were no material cash payments for income tax or interest during 2004.

Note 9 - Subsequent Events

On July 28, 2005, all of the Company's outstanding options were converted into shares of common stock of the Company in exchange for notes receivable totaling $1,000,000.

On August 1, 2005, the Company's stockholders sold all of the outstanding common stock of the Company for $42.5 million in cash and 305,748 shares of common stock of the purchaser. In connection with the sale, all of the stockholder notes receivable were repaid.

Derivative Solutions, Inc.
Unaudited Financial Statements
For The Five Months Ended May 31, 2005

Derivative Solutions, Inc.
Balance Sheet

	May 31, 2005
Assets	
Current Assets	
Cash and Cash Equivalents	$2,510,535
Accounts receivable	451,898
Prepaid expenses and other current assets:	
Prepaid expenses	13,834
Accrued interest income - notes receivable for common stock	20,542
Total current assets	2,996,809
Deposits	61,451
Property and Equipment - Net	115,141
Total assets	**$3,173,401**
Liabilities and Stockholders' Equity	
Current Liabilities	
Accounts payable	$ 25,597
Loans and advances from majority stockholder	61,451
Accrued and other current liabilities:	
Taxes payable	381,112
Accrued compensation	550,000
Deferred revenue	831,024
Total current liabilities	1,849,184
Stockholders' Equity	
Common stock; No par value, 50,000,000 shares authorized, 5,400,000 issued and outstanding	476,000
Notes receivable for common stock	(475,000)
Retained earnings	1,323,217
Total stockholders' equity	1,324,217
Total liabilities and stockholders' equity	**$3,173,401**

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

Derivative Solutions, Inc.
Statement of Operations

	Five Months Ended May 31, 2005
Licensing fees	$ 4,594,421
Operating expenses	
Compensation	2,503,144
Employee benefits	285,608
Marketing	33,655
Occupancy	229,829
Administrative	101,717
Total operating expenses	3,153,953
Operating income	1,440,468
Nonoperating income	
Interest	20,220
Total nonoperating income	20,220
Income before income taxes	1,460,688
Income tax expense	200,000
Net income	**$ 1,260,688**

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

Derivative Solutions, Inc.
Statement of Stockholders' Equity

	Common Stock		Retained Earnings	Notes Receivable For Common Stock	Total
	Shares	Amount			
Balance - January 1, 2005	5,400,000	$476,000	$ 62,529	$ (475,000)	$ 63,529
Net income	—	—	1,260,688	—	1,260,688
Balance - May 31, 2005	5,400,000	$476,000	$1,323,217	$ (475,000)	$1,324,217

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

Derivative Solutions, Inc.
Statement of Cash Flows

	Five Months Ended May 31, 2005
Cash Flows from Operating Activities	
Net income	$1,260,688
Adjustments to reconcile net loss to net cash from operating activities:	
Depreciation	23,775
Interest accrued on notes receivable	(7,125)
Changes in operating assets and liabilities which provided (used) cash:	
Accounts receivable	(362,793)
Prepaid expenses and other	2,677
Accounts payable	(7,531)
Accrued liabilities and other	1,471,070
Net cash provided by operating activities	2,380,761
Cash Flows from Investing Activities	
Purchase of property and equipment	(35,276)
Net cash used in investing activities	(35,276)
Net Increase in Cash and Cash Equivalents	2,345,485
Cash and Cash Equivalents –December 31, 2004	165,050
Cash and Cash Equivalents –May 31, 2005	**$2,510,535**

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

Note 1 – Nature of Business and Significant Accounting Policies

Derivative Solutions, Inc. (the "Company") is engaged in licensing its fixed income portfolio management software to various financial institutions in the United States under one to two year agreements. In addition, the Company provides software support services to its clients.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition – The Company recognizes licensing fees ratably over the term of the respective contracts. Customers are invoiced at the beginning of each quarterly earning cycle and customer payments received in advance of recognition of the related revenue are deferred. Support service revenue is recognized at the time services are performed.

Cash Equivalents - The Company considers all highly-liquid instruments with original maturities of less than 90 days to be cash equivalents.

Accounts Receivable - Accounts receivable are stated at invoice amounts. Delinquent account balances are reviewed on a specific-item basis to determine an allowance for doubtful accounts. The Company has no allowance for doubtful accounts at May 31, 2005, as management considers all accounts receivable to be collectible.

Property and Equipment - Property and equipment are stated at cost. Depreciation is computed using straight-line and accelerated methods over estimated useful lives of five to seven years.

Notes Receivable - Notes receivable represent long-term notes received in exchange for the issuance of common stock in conjunction with an exercise of stock options during 2004. These notes are accounted as a reduction of stockholders' equity in accordance with Emerging Issues Task Force 85-1 (EITF 85-1), *Classifying Notes Received for Capital Stock*.

Fair Value of Financial Instruments - The carrying value of accounts receivable, accounts payable and accrued liabilities, and loans and advances from stockholders approximates fair value due to the relatively short maturity of these instruments. The carrying value of the notes receivable–common stock approximates fair value based on the contract terms and an evaluation of expected cash flows.

Concentration of Products - The Company currently has one significant product that is presently marketed and licensed. Significant changes in technology could lead to new products or services that compete with the product offered by the Company. These changes could materially affect the price of the Company's product or impair its marketability.

Software Development Costs - The Company accounts for research and software development costs in accordance the requirements of Statement of Financial Accounting Standards No. 2 ("SFAS 2"), *Accounting for Research and Development Costs*, and Statement of Financial Accounting Standards No. 86 ("SFAS 86"), *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed.* The Company's research and development costs are charged to expense as incurred until technological feasibility is established. Costs incurred after technological feasibility was established for the Company's current software were not material. Research and development expense for the five months ended May 31, 2005 approximated $200,000.

Stock-Based Compensation - The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), *Accounting for Stock-Based Compensation*.

As permitted by SFAS 123, the Company accounts for its stock option plan using the intrinsic value method. Accordingly, no compensation expense has been recognized in connection with the Company's outstanding stock options since the exercise price was equal to the fair market value of the Company stock at the date of grant. Had compensation cost for the Company's stock option plan been determined pursuant to the fair value method under SFAS 123, the Company's net income would have been decreased to the following pro forma amounts for the five months ended May 31, 2005:

	Five Months Ended May 31, 2005
Net income, as reported	$ 1,260,688
Deduct: Stock-based employee compensation expense determined under fair value method for all awards, net of related income tax effects	(21,888)
Pro forma net income	$ 1,238,800

There were no new stock option grants during the five months ended May 31, 2005. The stock-based employee compensation determined under the fair value method is due to options granted in previous periods.

Income Taxes - The Company has elected to be taxed as an S Corporation. The income of an S Corporation is not subject to federal income tax at the corporate level. Rather, the stockholders are required to include their pro rata share of the corporation's taxable income or loss in their income tax returns. Accordingly, no provision for federal income taxes has been made in the accompanying financial statements. The Company is responsible for income taxes in state and local jurisdictions. Deferred income taxes for the Company are not material as there are no significant temporary differences.

Note 2 – Income Taxes

The provision for income taxes consists of the following:

Current expense – state	$200,000
Deferred expense – state	—
Total income tax expense	$200,000

A reconciliation of the provision for income taxes computed by applying the statutory United States federal tax rate to income before taxes is as follows:

Income tax expense computed using the federal statutory rate of 0%	$ 0
State income tax expense	200,000
Total income tax expense	$200,000

Note 3 – Property and Equipment

Major classes of property and equipment at May 31, 2005 are as follows:

	At May 31, 2005
Furniture and fixtures	$ 128,461
Computer equipment	325,720
Total cost	454,181
Accumulated depreciation	(339,040)
Net property and equipment	$ 115,141

Depreciation expense was $23,775 for the five months ended May 31, 2005.

Note 4 – Related Party Transactions

The Company has two outstanding notes receivable from a minority stockholder that total $475,000. These notes are collateralized by common stock, bear interest at 4%, have no specific repayment terms, and mature in various years through 2009. During the five months ended May 31, 2005, the Company recorded $7,125 in accrued interest income related to these notes receivable. These notes were received in connection with stock options exercised in 2004 and have been classified as a deduction from stockholders' equity. These notes were repaid to the Company in connection with sale of the Company's stock in 2005 (see Note 9).

The Company has a loan payable to a majority stockholder. The note is noninterest-bearing and due on demand. At May 31, 2005, the balance due under the note payable was $61,451. This note was repaid in July 2005.

Note 5 – Benefit Plans

The Company maintains a retirement plan (the "Plan") for all employees over 21 years of age and having six months of service. The Company matches 50% of a participant's elective deferral up to a maximum of 4 percent. Matching contributions under the plan were $15,250 for the five months ended May 31, 2005. In addition, the Plan allows for discretionary profit-sharing contributions. No discretionary contributions were made to the Plan during 2004.

Note 6 – Operating Leases

The Company is obligated under certain operating leases for office facilities in Chicago and New York. The leases expire on various dates between January 2006 and February 2007. Total rent expense under these leases was approximately $221,129 for the first five months of 2005.

The following is a schedule of future minimum lease payments under operating leases:

Years Ending May 31	Amount
2006	$276,000
2007	135,000
Total	$411,000

Note 7 – Stock Option Plan

The Company has an incentive stock option plan under which certain employees receive options to purchase Company stock at a price specified at the date of each option grant. Under the plan, the Company may grant options for up to 1,250,000 shares of common stock. The options granted, which have a term of 10 years from the grant date, vest over a four-year period. The exercise price of options is equal to the fair market value of the Company's stock on the date of the grant.

Following is a summary of the status of the incentive stock option plan for the five months ended May 31, 2005:

	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2005	785,000	$ 1.46
Granted	—	$ —
Exercised	—	$ —
Outstanding at May 31, 2005	785,000	$ 1.46
Options exercisable at May 31, 2005	715,500	$ 1.32

The following table summarizes information about stock options outstanding as of May 31, 2005:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number of outstanding options at May 31, 2005	Weighted average remaining contract life (years)	Weighted average exercise price	Number exercisable at May 31, 2005	Weighted average exercise price
$1.00–$4.00	785,000	5.9	$ 1.46	715,500	$ 1.32

Note 8 – Supplemental Cash Flow Disclosure

The Company has two outstanding notes receivable from a stockholder in the total amount of $475,000. These notes were received in connection with the 2004 exercise of stock options to purchase 400,000 shares of the Company's common stock.

There were no material cash payments for income tax or interest during the first five months of 2005.

Note 9 - Subsequent Events

On July 28, 2005, all of the Company's outstanding options were converted into shares of common stock of the Company in exchange for notes receivable totaling $1,000,000.

On August 1, 2005, the Company's stockholders sold all of the outstanding common stock of the Company for $42.5 million in cash and 305,748 shares of common stock of the purchaser. In connection with the sale, all of the stockholder notes receivable were repaid.