MSCI Inc.
Form 10-Q
October 01, 2009

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

FORM 10-Q

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

For the quarterly period ended August 31, 2009

OR

o 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 001-33812

MSCI INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State of Incorporation)	13-4038723 (I.R.S. Employer Identification Number)
Wall Street Plaza, 88 Pine Street New York, NY (Address of Principal Executive Offices)	10005 (Zip Code)

Registrant’s telephone number, including area code: (212) 804-3900

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller Reporting Company o

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

As of September 28, 2009, there were 100,166,271 shares of the Registrant’s Class A Common Stock, $0.01 par value, outstanding and no shares of Registrant’s Class B Common Stock, $0.01 par value, outstanding.

MSCI INC.
FORM 10-Q

FOR THE QUARTER ENDED AUGUST 31, 2009

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We own or have rights to use trademarks, trade names and service marks that we use in conjunction with the operation of our business, including, but not limited to: @CREDIT, @ENERGY, @INTEREST, ACWI, Aegis, Alphabuilder, Barra, Barra One, BarraOne, Cosmos, EAFE, FEA, GICS, IndexMap, Market Impact Model, MSCI, ProStorage, StructureTool, TotalRisk, VaRdelta and VaRworks. All other trademarks, trade names and service marks included in this Quarterly Report on Form 10-Q are property of their respective owners. For ease of reading, designations of trademarks and registered marks have been omitted from the text of this Quarterly Report on Form 10-Q.

AVAILABLE INFORMATION

MSCI Inc. files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including MSCI Inc.) file electronically with the SEC. MSCI Inc.'s electronic SEC filings are available to the public at the SEC's internet site, www.sec.gov.

MSCI Inc.'s internet site is www.mscibarra.com. You can access MSCI Inc.'s Investor Relations webpage at http://ir.msci.com. MSCI Inc. makes available free of charge, on or through its Investor Relations webpage, its proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. MSCI Inc. also makes available, through its Investor Relations webpage, via a link to the SEC's internet site, statements of beneficial ownership of MSCI Inc.'s equity securities filed by its directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

MSCI Inc. has a Corporate Governance webpage. You can access information about MSCI Inc.'s corporate governance at http://ir.msci.com /governance.cfm. MSCI Inc. posts the following on its Corporate Governance webpage:

- Charters for our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee;
- Corporate Governance Policies; and
- Code of Ethics and Business Conduct.

MSCI Inc.'s Code of Ethics and Business Conduct applies to all directors, officers and employees, including its Chief Executive Officer and its Chief Financial Officer. MSCI Inc. will post any amendments to the Code of Ethics and Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange, Inc. ("NYSE") on its internet site. You can request a copy of these documents, excluding exhibits, at no cost, by contacting MSCI Inc., c/o Investor Relations, Wall Street Plaza, 88 Pine Street, New York, NY 10005; (212) 804-1583. The information on MSCI Inc.'s internet site is not incorporated by reference into this report.

PART I

Item 1. Unaudited Condensed Consolidated Financial Statements

MSCI INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands, except share and per share data)

	As of	
	August 31, 2009 (unaudited)	November 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 111,701	$ 268,077
Short-term investments	250,061	—
Trade receivables (net of allowances of $824 and $712 as of August 31, 2009 and November 30, 2008, respectively)	76,511	85,723
Due from related parties	—	1,765
Deferred taxes	28,425	18,590
Prepaid and other assets	13,203	18,100
Total current assets	479,901	392,255
Property, equipment and leasehold improvements (net of accumulated depreciation of $23,598 and $14,069 at August 31, 2009 and November 30, 2008, respectively)	27,900	28,447
Goodwill	441,623	441,623
Intangible assets (net of accumulated amortization of $142,116 and $123,043 at August 31, 2009 and November 30, 2008, respectively)	126,458	145,907
Other non-current assets	6,683	6,816
Total assets	$ 1,082,565	$ 1,015,048
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 33,946	$ 900
Payable to related parties	—	34,992
Income taxes payable	17	—
Accrued compensation and related benefits	46,594	58,946
Other accrued liabilities	28,064	29,459
Current maturities of long-term debt	37,087	22,086
Deferred revenue	166,215	144,711
Total current liabilities	311,923	291,094
Long-term debt, net of current maturities	348,144	379,709
Deferred taxes	43,023	49,364
Other non-current liabilities	10,395	8,499
Total liabilities	713,485	728,666
Commitments and Contingencies (see Note 9)		
Shareholders' equity:		
Preferred stock (par value $0.01; 100,000,000 shares authorized; no shares issued)	—	—
Common stock (par value $0.01; 500,000,000 class A shares and 250,000,000 class B shares authorized; 100,204,051 and 72,377,599 class A shares issued and 100,146,690	1,002	1,001

and 72,354,383 class A shares outstanding at August 31, 2009 and November 30, 2008, respectively; 0 and 27,708,654 class B shares issued and outstanding at August 31, 2009 and November 30, 2008, respectively)		
Treasury shares, at cost (57,361 and 23,216 shares at August 31, 2009 and November 30, 2008, respectively)	(1,395)	(681)
Additional paid in capital	318,452	291,204
Retained earnings	59,478	2,212
Accumulated other comprehensive loss	(8,457)	(7,354)
Total shareholders' equity	369,080	286,382
Total liabilities and shareholders' equity	$ 1,082,565	$ 1,015,048

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2009	2008	2009	2008
	(unaudited)		(unaudited)	
Operating revenues (1)	$ 108,868	$ 110,399	$ 324,158	$ 323,545
Cost of services (1)	28,247	27,800	86,451	88,296
Selling, general and administrative (1)	33,525	36,687	102,293	106,012
Amortization of intangible assets	6,429	7,125	19,286	21,375
Depreciation and amortization of property, equipment and leasehold improvements	2,869	1,268	8,892	2,274
Total operating expenses	71,070	72,880	216,922	217,957
Operating income	37,798	37,519	107,236	105,588
Interest income (1)	(373)	(1,843)	(714)	(7,723)
Interest expense (1)	4,628	5,991	15,170	21,122
Other expense (income)	(168)	3,224	712	2,922
Other expense (income), net	4,087	7,372	15,168	16,321
Income before provision for income taxes	33,711	30,147	92,068	89,267
Provision for income taxes	12,787	11,269	34,802	33,824
Net income	$ 20,924	$ 18,878	$ 57,266	$ 55,443
Earnings per basic common share	$ 0.21	$ 0.19	$ 0.57	$ 0.55
Earnings per diluted common share	$ 0.20	$ 0.19	$ 0.56	$ 0.55
Weighted average shares outstanding used in computing earnings per share				
Basic	100,402	100,052	100,350	100,020
Diluted	102,717	101,698	102,034	101,236

(1) Amounts corresponding to Morgan Stanley as a related party are as follows:

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2009	2008	2009	2008
	(in thousands)		(in thousands)	
Operating revenues	$ —	$ 2,906	$ 5,284	$ 9,141
Cost of services	$ —	$ 1,544	$ 383	$ 7,578
Selling, general and administrative	$ —	$ 2,392	$ 1,336	$ 8,430
Interest income	$ —	$ 948	$ —	$ 5,332
Interest expense	$ —	$ 23	$ 413	$ 385

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended August 31, 2009	Nine Months Ended August 31, 2008
	(unaudited)	
Cash flows from operating activities		
Net income	$ 57,266	$ 55,443
Adjustments to reconcile net income to net cash provided by operating activities:		
Share based compensation	25,068	17,494
Amortization of intangible assets	19,286	21,375
Deferred taxes	(15,226)	(7,207)
Depreciation of property, equipment and leasehold improvements	8,892	2,274
Foreign currency loss	449	—
Loss on sale or disposal of property, equipment and leasehold improvements, net	274	76
Provision for (recovery of) bad debts	814	(1,060)
Amortization of debt origination fees	1,074	1,074
Amortization of discount on U.S. Treasury securities	(341)	—
Amortization of discount on long-term debt	123	124
Changes in assets and liabilities:		
Trade receivables	9,073	(6,300)
Due from related parties	1,765	(3,067)
Prepaid and other assets	5,235	1,581
Accounts payable	32,841	1,960
Payable to related parties	(34,992)	(1,906)
Deferred revenue	19,447	33,467
Accrued compensation and related benefits	(10,357)	(2,913)
Income taxes payable	459	4,415
Other accrued liabilities	686	2,951
Other	(992)	(8,217)
Net cash provided by operating activities	120,844	111,564
Cash flows from investing activities		
Purchase of investments	(409,205)	—
Proceeds from the maturity of investments	159,485	—
Cash deposited with related parties	—	137,625
Capital expenditures	(11,188)	(19,097)
Net cash (used in) provided by investing activities	(260,908)	118,528
Cash flows from financing activities		
Repayment of long-term debt	(16,687)	(16,687)
Repurchase of treasury shares	(714)	(586)
Proceeds from exercise of stock options	30	—
Expenses related to initial public offering	—	(21)
Net cash used in financing activities	(17,371)	(17,294)
Effect of exchange rate changes on cash and cash equivalents	1,059	(164)
Net (decrease) increase in cash	(156,376)	212,634

Cash and cash equivalents, beginning of period		268,077		33,818
Cash and cash equivalents, end of period	$	111,701	$	246,452
Supplemental disclosure of cash flow information				
Cash paid for interest	$	14,006	$	20,594
Cash paid for income taxes	$	41,775	$	51,574
Supplemental disclosure of non-cash investing activities				
Property, equipment and leasehold improvements in other accrued liabilities	$	1,513	$	984

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. INTRODUCTION AND BASIS OF PRESENTATION

Organization

MSCI Inc. together with its subsidiaries (the "Company" or "MSCI") is a leading global provider of investment decision support tools including indices and portfolio risk and performance analytics for use by institutions in managing investment portfolios. The Company's products are used by institutions investing in or trading equity, fixed income and multi-asset class instruments and portfolios around the world. The Company's flagship products are its international equity indices marketed under the MSCI brand and its equity and multi-asset class portfolio analytics marketed under the Barra brand. The Company's products are used in many areas of the investment process, including portfolio construction and optimization, performance benchmarking and attribution, risk management and analysis, index-linked investment product creation, asset allocation, investment manager selection and investment research.

The Company's primary products consist of equity indices, equity portfolio analytics and multi-asset class portfolio analytics. The Company also has product offerings in the areas of fixed income portfolio analytics and energy and commodity asset valuation analytics. The Company's products are generally comprised of proprietary index data, risk data and sophisticated software applications. The Company's index and risk data are created by applying its models and methodologies to market data. The Company's clients can use its data together with its proprietary software applications, third-party applications or their own applications in their investment processes. The Company's proprietary software applications offer its clients sophisticated portfolio analytics to perform in-depth analysis of their portfolios, using its risk data, the client's portfolio data and fundamental and market data.

Basis of Presentation and Use of Estimates

These condensed consolidated financial statements include the accounts of MSCI and include all adjustments necessary to present fairly the financial condition as of August 31, 2009 and November 30, 2008, the results of operations for the three and nine months ended August 31, 2009 and 2008 and cash flows for the nine months ended August 31, 2009 and 2008. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in MSCI's Annual Report on Form 10-K for the fiscal year ended November 30, 2008. The November 30, 2008 consolidated financial statement information has been derived from the 2008 audited consolidated financial statements. The results of operations for interim periods are not necessarily indicative of results for the entire year.

The Company's condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These accounting principles require the Company to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the condensed consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Significant estimates and assumptions made by management include the deferral and recognition of income, the allowance for doubtful accounts, impairment of long-lived assets, accounting for income taxes and other matters that affect the condensed consolidated financial statements and related disclosures. The Company believes that estimates used in the preparation of these condensed consolidated financial statements are reasonable; however, actual results could differ materially from these estimates.

The Condensed Consolidated Statements of Income reflect expense allocations for certain corporate functions historically provided by Morgan Stanley, including human resources, information technology, accounting, legal and

compliance, corporate services, treasury and other services. These allocations were based on what the Company and Morgan Stanley considered reasonable reflections of the utilization levels of these services required in support of the Company's business and were based on methods that include direct time tracking, headcount, inventory metrics and corporate overhead. As of May 22, 2009, Morgan Stanley no longer provided corporate functions for the Company and no additional expense allocations have been recorded by the Company since that date. (See Note 8, "Related Parties," for further information.)

Inter-company balances and transactions are eliminated in consolidation.

During the three and nine months ended August 31, 2009, certain balances for prior periods have been reclassified to conform to current period presentations. These include the reclassification of $331,000 and $926,000 from the cost of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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services category and $937,000 and $1,348,000 from the selling, general, and administrative category to the depreciation and amortization of property, equipment and leasehold improvements category on the Condensed Consolidated Statements of Income for the three and nine months ended August 31, 2008, respectively.

During the three months ended August 31, 2009, as a result of a one-time adjustment, the Company recorded a $3.3 million cumulative reduction to correct for revenues previously reported through May 31, 2009. The effect of recording this adjustment in the third quarter resulted in a one-time decrease to revenues and an increase in deferred revenues payable. This adjustment was made as a result of determining that the Company was not utilizing the correct exchange rates to amortize a portion of its deferred revenue. Based upon an evaluation of all relevant factors, management believes the correcting adjustments did not have a material impact on the Company's previously reported results and, accordingly, has determined that restatement of previously issued financial statements or information is not necessary.

Concentration of Credit Risk

Financial instruments that may potentially subject the Company to concentrations of credit risk consist principally of cash deposits and short-term investments. At August 31, 2009 and November 30, 2008, cash and cash equivalent amounts held primarily on deposit were $111.7 million and $268.1 million, respectively. At August 31, 2009, the Company had invested $250.1 million in U.S. Treasury Securities with maturity dates ranging from 91 to 365 days from the date of purchase.

The Company licenses its products and services primarily to investment managers principally in the United States, Europe and Asia (primarily Hong Kong and Japan). The Company evaluates the likelihood of default of outstanding customer receivables and maintains reserves for estimated losses.

For the three months ended August 31, 2009, Barclays PLC and its affiliates accounted for 11.1% of the Company’s operating revenues. For the nine months ended August 31, 2009, no single customer accounted for 10.0% or more of the Company’s operating revenues.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In March 2008, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (“SFAS No. 161”). SFAS No. 161 establishes, among other things, the disclosure requirements for derivative instruments and for hedging activities. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 did not have a material impact on the Company’s financial reporting.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities” (“FSP EITF 03-6-1”). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, “Earnings per Share.” Under the guidance in FSP EITF 03-6-1, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within

those fiscal years. All prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. The Company is currently evaluating the potential impact of adopting FSP EITF 03-6-1.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The Company early adopted the provisions of this statement. The adoption did not have a material effect on the Company's financial reporting.

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In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments," (FSP FAS 115-2) which amends the recognition guidance for other-than-temporary impairments (“OTTI”) of debt securities and expands the financial statement disclosures for OTTI on debt and equity securities. This FSP is effective for interim reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The Company early adopted the provisions of this statement. The adoption did not have a material effect on the Company’s financial reporting.

In April 2009, the FASB issued FSP SFAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” which provides additional guidance for establishing fair value when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. The guidance is effective for the periods ending after June 15, 2009 with early adoption permitted for the periods ending after March 15, 2009. The Company early adopted the provisions of this statement. The adoption did not have a material effect on the Company’s financial reporting.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (“SFAS No. 165”). SFAS No. 165 establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this statement sets forth: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of SFAS No. 165 as of August 31, 2009 did not have a material effect on the Company’s financial reporting. The Company evaluated subsequent events from August 31, 2009 through the October 1, 2009 issuance date of this Form 10-Q and determined that there were no reportable subsequent events to be disclosed.

In June 2009, FASB issued SFAS No. 168, “The FASB Accounting Standard Codifications and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 62.” The Accounting Standards Update and SFAS No. 168 make the FASB Codification the authoritative source of GAAP. The FASB Codification is effective for interim and annual reporting periods ending after September 15, 2009. The FASB Codification is not expected to have a material impact on the Company’s financial reporting.

3. EARNINGS PER COMMON SHARE

Basic and diluted earnings per common share (“EPS”) is computed by dividing net income by the weighted average number of common shares outstanding during the period. Common shares outstanding include common stock and vested restricted stock unit awards where recipients have satisfied either the explicit vesting terms or retirement-eligible requirements. Diluted weighted average common shares includes outstanding stock options and unvested restricted stock awards. There were no anti-dilutive stock options or restricted stock awards excluded from the calculation of diluted earnings per share for the three months ended August 31, 2009. There were 678,150 stock options excluded from the calculation of diluted earnings per share for the nine months ended August 31, 2009 because of their anti-dilutive effect. No stock options or restricted stock awards were excluded from the calculation of diluted earnings per share for the three or nine months ended August 31, 2008.

The following table sets forth the computation of earnings per share:

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2009	2008	2009	2008
	(in thousands, except per share data)			
Net income	$ 20,924	$ 18,878	$ 57,266	$ 55,443
Basic weighted average common shares outstanding	100,402	100,052	100,350	100,020

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Basic weighted average common shares outstanding	100,402	100,052	100,350	100,020
Effect of dilutive securities:				
Stock options and restricted stock units	2,315	1,646	1,684	1,216
Diluted weighted average common shares outstanding	102,717	101,698	102,034	101,236
Earnings per basic common share	$ 0.21	$ 0.19	$ 0.57	$ 0.55
Earnings per diluted common share	$ 0.20	$ 0.19	$ 0.56	$ 0.55

4. COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2009	2008	2009	2008
	(in thousands)			
Net income	$ 20,924	$ 18,878	$ 57,266	$ 55,443
Other comprehensive income, net of tax:				
Net changes in unrealized gains on cash flow hedges	193	(858)	(1,341)	1,305
Pension and other post-retirement adjustments	9	—	28	—
Foreign currency translation adjustments	(56)	(1,095)	210	(164)
Comprehensive income	$ 21,070	$ 16,925	$ 56,163	$ 56,584

5. SHORT-TERM INVESTMENTS

Short-term investments include U.S. Treasury securities with maturity dates ranging from 91 to 365 days from the date of purchase. Since the Company has the intent and ability to hold the investments to maturity, these investments are classified as held-to-maturity and are stated at amortized cost plus accrued interest. The changes in the value of these securities, other than impairment charges, are not reported on the condensed consolidated financial statements.

At August 31, 2009, the carrying value of the short-term investments was $250.1 million. The Company held no short-term investments at November 30, 2008.

The carrying value and fair value of securities held-to-maturity at August 31, 2009 were as follows:

In thousands	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Fair value

August 31, 2009				
Debt securities held-to-maturity				
U.S. Treasury securities	$ 250,061	$ 104	$ —	$ 250,165

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(UNAUDITED)

None of the Company's investments in held-to-maturity securities have been in an unrealized loss position as of August 31, 2009.

Evaluating Investments for Other-than-Temporary Impairments

If the fair value of the Company's U.S. Treasury security investments is less than the amortized cost at the balance sheet date, the Company assesses whether the impairment is other than temporary. As the Company currently invests only in U.S. Treasury securities with a short duration (less than one year) and intends to hold these investments to maturity, it would take a significant decline in fair value and U.S. economic conditions for the Company to determine that these investments are other than temporarily impaired.

Additionally, management assesses whether it intends to sell or would more-likely-than-not not be required to sell the investment before the expected recovery of the amortized cost basis. Management has asserted that it has no intent to sell and that it believes it is more-likely-than-not that it will not be required to sell the investment before recovery of its amortized cost basis.

As of August 31, 2009, no other than temporary impairment has been recorded on any of the Company's investments.

6. RELATED PARTY TRANSACTIONS

Prior to May 22, 2009, Morgan Stanley owned a controlling interest in the Company and, as such, was treated as a related party. On May 22, 2009, Morgan Stanley sold all of its remaining shares of the Company's stock. At that time, Morgan Stanley ceased to be a related party and all subsequent transactions between Morgan Stanley and MSCI are accounted for, and presented as, third party transactions.

Receivables from Related Parties and Interest Income. At August 31, 2009, there are no related party receivables. Receivable amounts from Morgan Stanley of $5.0 million are included in trade receivables at August 31, 2009. At November 30, 2008, related party receivables consisted of amounts due to the Company for sales of products and services to Morgan Stanley. The receivable amounts were unsecured, bore interest at Morgan Stanley's internal prevailing rates and were payable on demand. The Company did not earn interest from Morgan Stanley during the nine months ended August 31, 2009.

Prior to July 1, 2008, the Company deposited substantially all of its excess funds with Morgan Stanley. The Company received interest at Morgan Stanley's internal prevailing rates on its cash deposits. Interest earned on both cash on deposit with Morgan Stanley and related party receivables for the nine months ended August 31, 2008 totaled approximately $5.3 million.

Revenues. Morgan Stanley or its affiliates subscribe to, in the normal course of business, certain of the Company's products. For the three and nine months ended August 31, 2009, revenues of $2.7 million and $8.1 million, respectively, were from Morgan Stanley, $5.3 million of which was recognized prior to May 22, 2009 and was considered related party revenues. For the three and nine months ended August 31, 2008, revenues of $2.9 million and $9.1 million, respectively, were from Morgan Stanley.

Administrative Expenses. Morgan Stanley affiliates have invoiced administrative expenses to the Company relating to office space, equipment and staff services. In fiscal year 2009, the amounts invoiced as related party items by Morgan

Stanley affiliates for staff services prior to May 22, 2009 were $1.7 million. The amounts invoiced as related party items by Morgan Stanley affiliates for the three and nine months ended August 31, 2008 were $3.9 million and $16.0 million, respectively.

Payables to Related Parties. At August 31, 2009, there are no payables to related parties. Payable amounts to Morgan Stanley of $33.3 million are included in accounts payable at August 31, 2009. At November 30, 2008, payables to related

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parties consisted of amounts due to Morgan Stanley affiliates for the Company's expenses, income taxes and prepayments for the Company's services. The amounts outstanding were unsecured, bore interest at Morgan Stanley's internal prevailing rates and were payable on demand. In fiscal 2009, interest expense incurred on these payables prior to May 22, 2009 was $0.4 million. Interest expense incurred on these payables for the three and nine months ended August 31, 2008 was less than $0.1 million and $0.4 million, respectively.

7. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements at August 31, 2009 and November 30, 2008 consisted of the following:

	As of	
	August 31, 2009	November 30, 2008
	(in thousands)	
Computer & related equipment	$ 35,446	$ 28,112
Furniture & fixtures	2,765	2,163
Leasehold improvements	13,274	10,879
Work-in-process	13	1,362
Subtotal	51,498	42,516
Accumulated depreciation and amortization	(23,598)	(14,069)
Property, equipment and leasehold improvements, net	$ 27,900	$ 28,447

Depreciation and amortization expense of property, equipment and leasehold improvements was $2.9 million and $1.3 million for the three months ended August 31, 2009 and 2008, respectively. Depreciation and amortization expense of property, equipment and leasehold improvements was $8.9 million and $2.3 million for the nine months ended August 31, 2009 and 2008, respectively.

8. INTANGIBLE ASSETS

The Company amortizes definite-lived intangible assets over their estimated useful lives. Amortizable intangible assets are tested for impairment when impairment indicators are present, and, if impaired, written down to fair value based on either discounted cash flows or appraised values. No impairment of intangible assets has been identified during any of the periods presented. The Company has no indefinite-lived intangibles.

The gross carrying amounts and accumulated amortization totals related to the Company's identifiable intangible assets are as follows:

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
		(in thousands)	

As of August 31, 2009			
Technology/software	$ 140,474	$ (104,263)	$ 36,211
Trademarks	102,220	(25,429)	76,791
Customer relationships	25,880	(12,424)	13,456
Non-competes	—	—	—
Total intangible assets	$ 268,574	$ (142,116)	$ 126,458

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	Gross Carrying Value	Accumulated Amortization (in thousands)	Net Carrying Value
As of November 30, 2008			
Technology/software	$ 140,800	$ (90,077)	$ 50,723
Trademarks	102,220	(21,884)	80,336
Customer relationships	25,880	(11,032)	14,848
Non-competes	50	(50)	—
Total intangible assets	$ 268,950	$ (123,043)	$ 145,907

Amortization expense related to intangible assets for the three months ended August 31, 2009 and 2008 was $6.4 million and $7.1 million, respectively. Amortization expense related to intangible assets for the nine months ended August 31, 2009 and 2008 was $19.3 million and $21.4 million, respectively.

The estimated amortization expense for succeeding years is presented below:

Fiscal Year	Amortization Expense (in thousands)
Remainder of 2009	$ 6,268
2010	17,111
2011	17,111
2012	17,111
2013	6,582
Thereafter	62,275
Total	$ 126,458

9. COMMITMENTS AND CONTINGENCIES

Leases. The Company leases facilities under non-cancelable operating lease agreements. The terms of certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on the straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Rent expense for the three and nine months ended August 31, 2009 was $2.7 million and $7.6 million, respectively. For the three and nine months ended August 31, 2008, rent expense was $2.1 million and $8.0 million, respectively.

Long-term debt.   On November 14, 2007, the Company entered into a secured $500.0 million credit facility with Morgan Stanley Senior Funding, Inc. and Bank of America, N.A., as agents for a syndicate of lenders, and other lenders party thereto pursuant to a credit agreement dated as of November 20, 2007 (the “Credit Facility”). The Credit Facility consists of a $425.0 million term loan facility and a $75.0 million revolving credit facility. Outstanding borrowings under the Credit Facility initially accrued interest at (i) LIBOR plus a fixed margin of 2.50% in the case of the term loan A facility and the revolving credit facility and 3.00% in the case of the term loan B facility or (ii) the base rate plus a fixed margin of 1.50% in the case of the term loan A facility and the revolving credit facility and

2.00% in the case of the term loan B facility. In April 2008 and again in July 2008, the Company's fixed margin rate was reduced by 0.25%. During the three months ended February 28, 2009, the Company exercised its rights and chose to have a portion of both the term loan A facility and term loan B facility referenced to the one month LIBOR rates while the remaining portions continued to reference the three month LIBOR rates. The weighted average rate on the term loan A facility and term loan B facility was 3.27% and 3.82%, respectively, for the nine months ended August 31, 2009. The term loan A facility and the term loan B facility will mature on November 20, 2012 and November 20, 2014, respectively.

As of August 31, 2009, $386.1 million was outstanding and there was $75.0 million of unused credit under the revolving credit facility. The Company paid fees on the revolving credit facility of approximately $0.1 million for each of the three months ended August 31, 2009 and 2008 and $0.3 million for each of the nine months ended August 31, 2009 and 2008. Interest and principal repayment requirements are paid quarterly in February, May, August and November. The

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principal repayment requirements are paid quarterly until November 20, 2012, when the final payment of $50 million is due on the term loan A facility and November 20, 2014, when the final payment of $209.8 million is due on the term loan B facility.

The Credit Facility is guaranteed by each of the Company's direct and indirect wholly-owned domestic subsidiaries and secured by substantially all of the shares of the capital stock of the Company's present and future domestic subsidiaries and up to 65% of the shares of capital stock of its foreign subsidiaries, substantially all of the Company's and its domestic subsidiaries' present and future property and assets. In addition, the Credit Facility contains restrictive covenants.

Current maturities of long term debt at August 31, 2009 was $37.1 million, net of a $0.2 million discount. Long term debt, net of current maturities was $348.1 million, net of a $0.7 million discount at August 31, 2009. For each of the three month periods ended August 31, 2009 and 2008, less than $0.1 million of the debt discount had been amortized. For each of the nine month periods ended August 31, 2009 and 2008, $0.1 million of the debt discount had been amortized.

At August 31, 2009, the fair market value of the Company's debt obligations was $376.7 million. The fair market value was estimated based on actionable bid quotes available in the over the counter markets.

Derivative Instruments. The Company manages its interest rate risk by using derivative instruments in the form of interest rate swaps designed to reduce interest rate risk by effectively converting a portion of floating-rate debt into fixed rate debt. This action reduces the Company's risk of incurring higher interest costs in periods of rising interest rates and improves the overall balance between floating and fixed-rate debt. On February 13, 2008, the Company entered into interest rate swap agreements through the end of 2010 for an aggregate notional principal amount of $251.7 million. The effective fixed rate on the aggregate notional principal amount swapped of $232.1 million for the nine months ended August 31, 2009 was 5.27%. These interest rate swaps are designated as cash flow hedges and qualify for hedge accounting treatment under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133").

In accordance with SFAS No. 133, the Company's derivative instruments are recorded as assets or liabilities at fair value. Changes in fair value derivatives that have been designated as cash flow hedges are included in "unrealized losses on cash flow hedges" as a component of "other comprehensive income" to the extent of the effectiveness of such hedging instruments. Any ineffective portion of the change in fair value of such hedging instruments would be included in the Condensed Consolidated Statements of Income in "interest (income) expense." No hedge ineffectiveness on cash flow hedges was recognized during the nine months ended August 31, 2009. Gains and losses are reclassified from "accumulated other comprehensive loss" to the Condensed Consolidated Statement of Income in the period the hedged transaction affects earnings.

Amounts reported in "accumulated other comprehensive loss" related to derivatives will be reclassified to "interest expense" as interest payments are made on the Company's variable-rate debt. Over the next twelve months, the Company estimates that $5.1 million will be reclassified as an increase to interest expense.

The gross carrying values of the interest rate contracts as of August 31, 2009 were $5.9 million and were recorded in other accrued liabilities on the Condensed Consolidated Statements of Financial Condition.

For the three and nine months ended August 31, 2009, a gain of $0.3 million and a loss of $2.3 million, respectively, was recognized on the effective portion of these interest rate contracts in accumulated other comprehensive income on the Condensed Consolidated Statements of Financial Condition. For the three and nine months ended August 31, 2009, the amount of loss on the effective portion of these interest rate contracts reclassified from accumulated other comprehensive income into interest expense on the Condensed Consolidated Statements of Income was $1.3 million and $2.7 million, respectively.

Credit-risk-related contingent features. The Company has agreements with each of its derivative counterparties that contain cross-default provisions whereby if the Company defaults on any of its indebtedness, the Company could also be declared in default on its derivative obligations.

As of August 31, 2009, the fair value of derivatives in a liability position related to these agreements was $5.9 million. As of August 31, 2009, the Company has not posted any collateral related to these agreements. If the Company

breached any of these provisions it would be required to settle its obligations under the agreements at their termination value of $6.0 million.

10. EMPLOYEE BENEFITS

During the nine months ended August 31, 2009, the Company sponsored a 401(k) plan for eligible U.S. employees. The Company also participates in separate defined contribution pension plans that cover substantially all of its non-U.S. employees. During the nine months ended August 31, 2008, the Company participated in plans sponsored by Morgan Stanley and the associated costs were allocated by Morgan Stanley to the Company.

For the three months ended August 31, 2009 and 2008, costs relating to 401(k), pension and post-retirement benefit expenses were $1.6 million and $1.4 million, respectively. Of these amounts, $1.0 million and $0.9 million were recorded in cost of services and $0.6 million and $0.5 million were recorded in selling, general and administrative for the three months ended August 31, 2009 and 2008, respectively.

For the nine months ended August 31, 2009, costs relating to 401(k) and pension and other post-retirement benefit expenses were $6.1 million of which $3.3 million and $2.9 million were recorded in cost of services and selling, general and administrative, respectively. For the nine months ended August 31, 2008, costs relating to 401(k) and pension and other post-retirement benefit expenses were $4.0 million of which $2.7 million and $1.3 million were recorded in cost of services and selling, general and administrative, respectively.

401(k) Plan. Eligible employees may participate in the MSCI 401(k) Plan immediately upon hire. Eligible employees receive 401(k) matching contributions and an additional Company contribution of 3% of the employees' cash compensation, which is subject to vesting and certain other limitations. The Company's expenses associated with the 401(k) Plan for the three months ended August 31, 2009 and 2008 were approximately $0.5 million and $0.7 million, respectively. For the nine months ended August 31, 2009 and 2008, expenses associated with the 401(k) Plan were $2.9 million and $2.2 million, respectively.

Net Periodic Benefit Expense. Net periodic benefit expense related to pension and other postretirement costs was $1.1 million and $3.2 million for the three and nine months ended August 31, 2009, respectively. During the three and nine months ended August 31, 2008, the Company participated in Morgan Stanley sponsored plans and was allocated costs of $0.7 million and $1.8 million, respectively.

11. SHARE BASED COMPENSATION

On November 6, 2007, the Company's Board of Directors approved the award of founders grants to its employees in the form of restricted stock units and/or options ("Founders Grant Award"). The aggregate value of the grants, which were made on November 14, 2007, was approximately $68.0 million. The restricted stock units and options vest over a four year period, with 50% vesting on the second anniversary of the grant date and 25% vesting on each of the third and fourth anniversary of the grant date. The options have an exercise price per share of $18.00 and have a term of 10 years, subject to earlier cancellation in certain circumstances. The aggregate value of the options was calculated using the Black-Scholes valuation method consistent with SFAS No. 123 (revised 2004), "Share Based Payment" ("SFAS No. 123R").

On December 16, 2008, the Company, as a component of the 2008 annual bonus, awarded a portion of its employees with a grant in the form of restricted stock units ("2008 Bonus Award"). The aggregate value of the grants was approximately $9.5 million of restricted stock units. The restricted stock units vest over a three year period, with one-third vesting on January 8, 2010, January 10, 2011 and January 9, 2012, respectively. Approximately $4.2 million of this grant was awarded to retirement-eligible employees under the award terms. Based on interpretive guidance related to SFAS No. 123R, the Company accrues the estimated cost of these awards over the course of the fiscal year in which the award is earned. As such, the Company accrued the estimated cost of the fiscal 2008 Bonus Award granted to retirement-eligible employees over the 2008 fiscal year rather than expensing the awards on the date of grant.

For the Founders Grant Award, all or a portion of the award may be cancelled in certain limited situations, including termination for cause, if employment is terminated before the end of the relevant restriction period. For the 2008 Bonus

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Award, all or a portion of the award may be cancelled if employment is terminated for certain reasons before the end of the relevant restriction period for non-retirement-eligible employees.

During the nine months ended August 31, 2009, the Company awarded 13,703 shares in MSCI common stock and 7,824 restricted stock units to directors who were not employees of the Company or Morgan Stanley during the period. During the nine months ended August 31, 2008, the Company awarded 9,776 shares in MSCI common stock and 8,096 restricted stock units to directors who were not employees of the Company or Morgan Stanley during the period.

Share based compensation expense was $8.4 million and $25.1 million for the three and nine months ended August 31, 2009, of which $6.9 million and $20.4 million was related to the Founders Grant Award. Share based compensation expense for the three and nine months ended August 31, 2008 was $6.3 million and $20.1 million, of which $5.3 million and $17.0 million was related to the Founders Grant Award, respectively.

12. INCOME TAXES

The Company’s provision for income taxes was $12.8 million and $11.3 million for the three months ended August 31, 2009 and 2008, respectively, and $34.8 million and $33.8 million for the nine months ended August 31, 2009 and 2008, respectively. These amounts reflect effective tax rates of 37.9% and 37.4% for the three months ended August 31, 2009 and 2008, respectively, and 37.8% and 37.9% for the nine months ended August 31, 2009 and 2008, respectively. The effective tax rate of 37.8% for the nine months ended August 31, 2009 reflects the Company’s estimate of the effective annual tax rate adjusted for discrete events that occurred during the year.

The Company is under examination by the Internal Revenue Service (the “IRS”) and other tax authorities in certain countries, such as Japan and the United Kingdom, and states in which the Company has significant business operations, such as New York. The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions resulting from these open examinations and subsequent years’ examinations. The Company believes the resolution of tax matters will not have a material effect on the Condensed Consolidated Statement of Financial Position of the Company, although a resolution could have a material impact on the Company’s Condensed Consolidated Statement of Income for a particular future period and on the Company’s effective tax rate for any period in which such resolution occurs.

The following table summarizes the major taxing jurisdictions in which the Company and its affiliates operate and the open tax years for each major jurisdiction:

Tax Jurisdiction	Open Tax Years
United States	1999-2008
California	2004-2008
New York State and City	2002-2008
Hong Kong	2001-2008
Japan	2004-2008

13. SEGMENT INFORMATION

FASB Statement No. 131, “Disclosures about Segments of an Enterprise and Related Information,” establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Based on the Company’s integration and management strategies, the Company leverages common production and development teams to create, produce and license investment decision support tools to various types of investment organizations worldwide. On this basis, the Company assesses that it operates in a single business segment.

Revenue by geography is based on the shipping address of the customer.

The following table sets forth revenue for the periods indicated by geographic area:

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	Three Months Ended August 31,		Nine Months Ended August 31,	
	2009	2008	2009	2008
Revenues	(in thousands)		(in thousands)	
Americas:				
United States	$ 53,403	$ 55,180	$ 156,464	$ 159,370
Other	3,501	3,258	10,377	9,605