BARRA INC /CA
Form 10-Q
February 12, 2004

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended December 31, 2003 or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ___________ TO _____________

Commission file number 000-19690

BARRA, INC. (Exact name of registrant as specified in its charter)

Delaware	**94-2993326**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

2100 Milvia Street
Berkeley, California 94704-1113
(Address, including zip code, of principal executive offices)

(510) 548-5442
(Registrant's telephone number, including area code)

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 reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act) YES [X] NO [ ]

The number of shares of the registrant's Common Stock outstanding as of February 5, 2004 was 18,846,047.

Exhibit Index is located on page 42

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Quarter Ended December 31, 2003
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PART II. Other Information

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

BARRA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands except for share and per share amounts)

	December 31, 2003	March 31, 2003
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$36,555	$26,848
Investments in marketable equity trading securities	15,735	15,025
Investments in marketable debt securities available-for-sale	152,300	158,238

Accounts receivable (Less allowance for doubtful accounts of $729 and $916):		
Risk management products	7,523	9,379
POSIT royalties	4,125	2,975
Prepaid expenses	2,348	2,165
Total current assets	218,586	214,630
Investments in Unconsolidated Companies	3,250	3,358
Premises and Equipment:		
Computer and office equipment	15,843	14,482
Furniture and fixtures	4,767	4,948
Leasehold improvements	7,925	7,710
Total premises and equipment	28,535	27,140
Less accumulated depreciation and amortization	(21,594)	(18,510)
	6,941	8,630
Deferred Tax Assets	5,398	5,509
Computer Software (Less accumulated amortization of $4,098 and $3,481)	1,031	1,156
Other Assets	1,483	1,391
Goodwill and Other Intangibles (Less accumulated amortization of $6,875 and $5,825)	33,808	34,858
TOTAL ASSETS	$270,497	$269,532

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	$1,792	$929
Due to related party	600	1,106
Accrued expenses payable:		
Accrued compensation	6,713	8,334
Accrued income taxes	11,466	8,630
Other accrued expenses	7,018	7,808
Unearned revenues	33,678	32,253
Total current liabilities	61,267	59,060
Deferred Tax Liabilities	6,955	6,951
Stockholders' Equity:		
Preferred stock, no par, 10,000,000 shares authorized, none issued and outstanding;	--	--
Common stock, $.0001 par value, 75,000,000 shares authorized, 19,042,447 and 19,145,965 shares issued and outstanding	2	2
Additional paid-in capital	91,658	83,528
Retained earnings	110,655	119,440
Accumulated other comprehensive income (loss)	(40)	551
Total stockholders' equity	202,275	203,521
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$270,497	$269,532

The accompanying notes are an integral part of the BARRA, Inc. Condensed Consolidated Financial Statements.

BARRA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands except for share and per share amounts)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operating Revenues:				
Risk management products.....	$34,249	$31,159	$100,480	$90,846
POSIT royalties.............	3,934	4,027	13,460	14,023
Total operating revenues...	38,183	35,186	113,940	104,869
Operating Expenses:				
Communications, data and seminar	1,872	1,692	6,139	5,679
Compensation and benefits....	18,211	16,824	53,847	48,505
Occupancy...................	1,852	1,533	5,666	4,538
Amortization of acquired..... intangibles...............	350	--	1,050	--
Other operating expenses.....	4,623	4,364	12,642	12,879
Restructuring charges........	--	--	2,466	--
Total operating expenses...	26,908	24,413	81,810	71,601
Interest Income and Other......	1,417	1,120	3,345	6,471
Income Before Equity in Income and Loss of Unconsolidated Companies, Income Taxes and Discontinued Operations..	12,692	11,893	35,475	39,739
Equity in Income and Loss of Unconsolidated Companies.....	32	132	24	166
Income Before Income Taxes and Discontinued Operations..	12,724	12,025	35,499	39,905
Income Taxes..................	(4,072)	(3,400)	(11,359)	(12,587)
Income from Continuing Operations..................	8,652	8,625	24,140	27,318
Discontinued Operations:				
Gain on sale, net of income taxes.....................	2,506	--	4,608	--
Net Income	$11,158	$8,625	$28,748	$27,318

Income Per Share:				
Continuing operations:				
Basic........................	$0.45	$0.44	$1.25	$1.34
Diluted......................	$0.43	$0.42	$1.21	$1.29
Discontinued operations - gain on sale, net of income taxes:				
Basic........................	$0.13	$0.00	$0.24	$0.00
Diluted......................	$0.13	$0.00	$0.23	$0.00
Net income:				
Basic........................	$0.58	$0.44	$1.49	$1.34
Diluted......................	$0.56	$0.42	$1.44	$1.29
Shares used in net income per share calculation:				
Basic........................	19,387,907	19,781,236	19,293,528	20,415,865
Diluted......................	20,027,252	20,351,757	19,977,735	21,115,476

The accompanying notes are an integral part of the BARRA, Inc. Condensed Consolidated Financial Statements.

BARRA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended December 31,	
	2003	2002
	(Unaudited)	(Unaudited)
Cash Flows from Operating Activities:		
Net Income	$28,748	$27,318
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in income of investees................	(24)	(166)
Depreciation and amortization................	4,794	3,777

Unrealized gains on marketable equity securities held for trading................	(772)	(278)
Sale of marketable equity trading securities.	62	--
Deferred taxes.............................	115	1,345
Gain on sale of discontinued operations......	(7,433)	--
Other......................................	1,370	1,080
Changes in:		
Accounts receivable - Risk management products.................................	1,856	(1,459)
Accounts receivable - POSIT royalties........	(1,150)	1,560
Prepaid expenses...........................	(183)	(975)
Other assets...............................	(92)	(325)
Accrued income taxes.......................	2,836	3,165
Accounts payable, due to related party and accrued expenses.......................	(2,054)	(4,386)
Unearned revenues..........................	1,425	354
Net cash provided by operating activities.........	29,498	31,010
Cash Flows from Investing Activities:		
Capital expenditures............................	(1,932)	(1,847)
Sale of marketable debt securities - available for sale, net.................................	5,938	31,265
Acquisitions....................................	--	(22,341)
Proceeds from sale of discontinued operations.....	7,433	--
Net cash provided by investing activities	11,439	7,077
Cash Flows from Financing Activities:		
Proceeds from sales of common stock...............	7,033	4,254
Dividends paid to common shareholders............	(19,494)	--
Common stock repurchased.........................	(18,769)	(82,853)
Net cash used in financing activities	(31,230)	(78,599)
Net Increase (Decrease) in Cash and Cash Equivalents	9,707	(40,512)
Cash and Cash Equivalents at Beginning of Period...	26,848	58,499
Cash and Cash Equivalents at End of Period.........	$36,555	$17,987
Other Cash Flow Information:		
Cash paid during the period for:		
Income taxes...............................	$9,661	$4,977

The accompanying notes are an integral part of the BARRA, Inc. Condensed Consolidated Financial Statements.

BARRA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Barra, Inc. (the Company, which may be referred to as Barra, we, us or our) and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated. Certain reclassifications have been made to prior period financial statements to conform to the current period presentation.

In our opinion, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting of normal recurring entries) necessary to present fairly our financial position as of December 31, 2003 and the results of our operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America. The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. The March 31, 2003 condensed consolidated balance sheet is derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2003 (Form 10-K), but does not include all disclosures required by accounting principles generally accepted in the United States of America. We suggest that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and related notes included in the Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-Q.

2. COMPREHENSIVE INCOME

Comprehensive income includes unrealized gains and losses on investments in marketable debt securities available for sale. A summary of comprehensive income follows (in thousands):

	Three Months Ended December 31,	
	2003	2002
Net income	$11,158	$8,625
Unrealized gain (loss) on investments in marketable debt securities available for sale..................	(225)	365
Comprehensive income	$10,933	$8,990

	Nine Months Ended December 31,	
	2003	2002
Net income	$28,748	$27,318
Unrealized gain (loss) on investments in marketable debt securities available for sale..................	(592)	883
Comprehensive income	$28,156	$28,201

3. SEGMENT INFORMATION

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 when deciding how to allocate resources and when assessing performance. Our chief operating decision making group is the Executive Committee, which is comprised of the Chief Executive Officer and certain other Executive Officers (the Committee).

Barra's business segments are organized on the basis of differences in their related products and services. The Core Business segment consists of developing, marketing and supporting risk management products and services. The Barra Ventures Business segment consists of investments, joint ventures or significant licensing arrangements that leverage the ideas and intellectual property of the Core Business. The POSIT joint venture is our most significant Ventures Business. POSIT licenses institutional trading systems that allow institutional investors to trade portfolios of securities directly with each other in a confidential environment.

Segment income from operations is defined as segment revenues net of segment expenses, and equity in joint venture gains and losses for the current year. Segment expenses include costs for sales and client support activities, the cost of delivering the product or service including data and data processing costs, and allocated amounts of depreciation and amortization. Segment expenses also include allocated portions of research and development and general and administrative expenses for the current year.

For all years presented, segment expenses exclude income taxes and interest income.

There are no differences between the accounting policies used to measure profit and loss for segments and those used on a consolidated basis. Revenues are defined as revenues from external customers and there are no inter-segment revenues or expenses.

Our management does not identify or allocate its assets, including capital expenditures, by operating segment. Accordingly, assets are not being reported by segment because the information is not available by segment and is not reviewed by the Committee to make decisions about resources to be allocated to the segments, when assessing their performance. Depreciation and amortization is allocated to segments in order to determine segment profit or loss.

The following tables present information about reported segments for the three and nine month periods ended December 31, 2003 and 2002 (amounts in thousands):

For the three months ended December 31, 2003:

	BARRA CORE	BARRA VENTURES			
	Core	POSIT Joint Venture	Other	Total Ventures	Total
Risk Management Products....	$34,249				$34,249
POSIT......................		$3,934		3,934	3,934
Total segment revenues	34,249	3,934	--	3,934	38,183
Compensation and Benefits...	(17,759)	(452)		(452)	(18,211)
Other Segment expenses......	(8,212)	(135)		(135)	(8,347)
Amortization of acquired intangibles..............	(350)				(350)
Equity in net income of investees................		32	--	32	32

Total segment expenses	(26,321)	(555)	--	(555)	(26,876)
Segment income	$7,928	$3,379	--	$3,379	$11,307
Interest income and other...					1,417
Income before income taxes and discontinued operations................					$12,724
Depreciation and amortization	$1,596	$13	--	$13	$1,609

For the three months ended December 31, 2002:

	BARRA CORE	BARRA VENTURES			
	Core	POSIT Joint Venture	Other	Total Ventures	Total
Risk Management Products....	$31,159				$31,159
POSIT.......................		$4,027		4,027	4,027
Total segment revenues	31,159	4,027	--	4,027	35,186
Compensation and Benefits...	(16,233)	(591)		(591)	(16,824)
Other Segment expenses......	(7,356)	(233)		(233)	(7,589)
Equity in net income of investees................		132	--	132	132
Total segment expenses	(23,589)	(692)	--	(692)	(24,281)
Segment income	$7,570	$3,335	--	$3,335	$10,905
Interest income and other...					1,120
Income before income taxes and discontinued operations................					$12,025
Depreciation and amortization	$1,202	$22	--	$22	$1,224

For the nine months ended December 31, 2003:

	BARRA CORE	BARRA VENTURES			
	Core	POSIT Joint Venture	Other	Total Ventures	Total
Risk Management Products....	$100,480				$100,480
POSIT......................		$13,460		13,460	13,460
Total segment revenues	100,480	13,460	--	13,460	113,940
Compensation and Benefits...	(52,386)	(1,461)		(1,461)	(53,847)
Other Segment expenses......	(24,017)	(430)		(430)	(24,447)
Amortization of acquired intangibles..............	(1,050)				(1,050)
Restructuring charges.......	(2,466)				(2,466)
Equity in net income (loss) of investees.............		129	(105)	24	24
Total segment expenses	(79,919)	(1,762)	(105)	(1,867)	(81,786)
Segment income (loss)	$20,561	$11,698	($105)	$11,593	$32,154
Interest income and other...					3,345
Income before income taxes and discontinued operations................					$35,499
Depreciation and amortization	$4,748	$46	--	$46	$4,794

For the nine months ended December 31, 2002:

	BARRA CORE	BARRA VENTURES			
	Core	POSIT Joint Venture	Other	Total Ventures	Total
Risk Management Products....	$90,846				$90,846
POSIT......................		$14,023		14,023	14,023
Total segment revenues	90,846	14,023	--	14,023	104,869
Compensation and Benefits...	(47,024)	(1,481)		(1,481)	(48,505)
Other Segment expenses......	(22,395)	(701)		(701)	(23,096)
Equity in net income (loss) of investees.............		199	(33)	166	166
Total segment expenses	(69,419)	(1,983)	(33)	(2,016)	(71,435)
Segment income (loss)	$21,427	$12,040	($33)	$12,007	$33,434
Interest income and other...					6,471
Income before income taxes and discontinued operations................					$39,905
Depreciation and amortization	$3,709	$68	--	$68	$3,777

4. PER SHARE DATA

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share", basic earnings per share is based on the weighted-average number of common shares outstanding for the period. Diluted earnings per share data is based on the weighted-average number of common and dilutive potential common shares outstanding. Dilutive potential common shares result from the assumed exercise of outstanding stock options that have a dilutive effect when applying the treasury stock method. For all periods presented, the only difference between basic and diluted earnings per share for the Company is the inclusion of dilutive stock options in the denominator for purposes of calculating diluted earnings per share.

5. NEW ACCOUNTING STANDARDS

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. The Company adopted the provisions of SFAS No. 146 for restructuring activities initiated after December 31, 2002. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue No. 94-3, a liability for an exit cost was recognized at the date of the Company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation- Transition and Disclosure- an amendment to FASB No. 123. This Statement amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This Statement is effective for fiscal years ending after December 15, 2002. The disclosures required by SFAS No. 148 are included in our Condensed Consolidated Financial Statements or the accompanying Notes to our Condensed Consolidated Financial Statements. The Company is currently evaluating the various transition methods set forth in SFAS No. 148.

In January 2003, FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." In December 2003 the FASB issued FIN 46 (R), which made certain modifications to FIN 46 and required the consolidation of certain Special Purpose Entities (SPE). FIN 46 explains how to identify and assess variable interest entities and how to decide whether to consolidate such entities. FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks equally among the parties involved. Barra adopted FIN 46 (R) on December 31, 2003 and consolidated the POSIT joint venture. Adoption of FIN 46 (R) did not have a material impact on the on the financial position, results of operations or cash flows of the Company.

6. ACQUISITIONS

Barra acquired Financial Engineering Associates, Inc. (FEA), a developer of derivatives and risk analytics software for traders, risk managers, and financial analysts for a wide range of industries, on December 12, 2002 for $22.9 million in cash, plus approximately $5.8 million in assumed liabilities. Also, on December 23, 2002, we acquired Investment Performance Objects, Ltd. (IPO), an Australian company specializing in performance attribution products, for $3 million in cash, of which $2.4 million was paid on the acquisition date with the remaining amount recorded as due to a related party on the balance sheet. The acquisition price of FEA and IPO exceeded the tangible and identifiable intangible fair values of assets and liabilities resulting in goodwill of $20.0 million and $2.9 million, respectively. Approximately $3 million of the aggregate amount allocated to intangibles recorded as a result of these transactions is expected to be deductible for income tax purposes.

Operating results of FEA and IPO are included in our financial statements from the date of the acquisition. Pro forma statements of income have not been presented because the effect of the acquisitions were not material.

7. STOCK-BASED COMPENSATION

Stock-Based Awards to employees are accounted for using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, which is permitted by SFAS No. 123- Accounting for Stock-Based Compensation (SFAS No. 123). In December 2002, FASB issued SFAS No. 148- Accounting for Stock-Based Compensation- Transition and Disclosure - an amendment to FASB 123. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

Under SFAS 123, the fair value of stock based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from our stock option awards. These models also require subjective assumptions, including future stock volatility and expected time to exercise, which greatly affect the calculated values. Our calculations were made using the Black-Scholes option pricing model with the following weighted average assumptions: weighted average expected life, 72 months for all periods presented; stock volatility, 27% and 50% for the December 2003 and 2002 quarters, respectively, and 29% and 50% for the nine month periods ended December 31, 2003 and 2002, respectively; risk free interest rates, 3.8% and 3.9% for the December 2003 and 2002 quarters, respectively, and 3.5% and 3.9% for nine month periods ended December 31, 2003 and 2002, respectively; and a dividend rate of 1.5% and 0% for the December 2003 and 2002 quarters, respectively and 0.4% and 0% for the nine month periods ended December 31, 2003 and 2002, respectively. Had the computed fair values of the stock-based awards under our Stock Option Plans been amortized to expense over the vesting periods of the awards, pro forma amounts would have been as follows (in thousands, except for per share amounts):

	Three Months Ended December 31,	
	2003	2002
Net income, as reported........	$11,158	$8,625
Deduct stock-based compensation Expense (net of income tax)	(2,345)	(2,341)
Pro Forma net income	8,813	6,284
Per Share:		
Basic, as reported	$0.58	$0.44
Basic, pro forma	$0.45	$0.32
Diluted, as reported	$0.56	$0.42
Diluted, pro forma	$0.44	$0.31

	Nine Months Ende December 31,	
	2003	2002
Net income, as reported........	$28,748	$27,318
Deduct stock-based compensation Expense (net of income tax)	(7,363)	(7,111)
Pro Forma net income	21,385	20,207
Per Share:		
Basic, as reported	$1.49	$1.34
Basic, pro forma	$1.11	$0.99
Diluted, as reported	$1.44	$1.29
Diluted, pro forma	$1.07	$0.96

8. DISCONTINUED OPERATIONS

Gain on sale of discontinued operations for the quarter ended December 31, 2003 of $2.5 million, net of income taxes, represents a contingent payment received from the sale of our interest in Symphony Asset Management LLC (Symphony). The terms of the sale of our interest in Symphony to the John Nuveen Company included up to approximately $12 million in additional future payments, contingent on Symphony's business exceeding specific growth and profitability targets. Contingent payments are recorded only as received in accordance with generally accepted accounting principles. The December 2003 quarter marks the end of our potential to receive quarterly contingent payments. Since the sale of Symphony in July 2001 we have received gross contingent payments of approximately $9.7 million. We have the potential to receive up to an additional approximately $2.3 million in contingent consideration based on Symphony's annual financial performance over the five years following the sale. The next measurement date for additional contingent payments will at the end of September 2006.

9. RESTRUCTURING

In April 2003 we implemented a restructuring program that resulted in a workforce reduction of approximately 9%. We recorded and paid restructuring costs related to severance and benefits of $2,466,000 in the quarter ended June 30, 2003.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes (included elsewhere in this report), as well as with our Annual Report on

Form 10-K for the fiscal year ended March 31, 2003. This discussion and analysis and other parts of this Form 10-Q contain forward looking statements that involve risks and uncertainties, as well as assumptions made by us regarding our expectations and other future events. We make those forward-looking statements in reliance on the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. For further information regarding how to identify forward looking statements and the factors that could cause actual results to differ, please refer to the information under the heading "RISK FACTORS" below. Any or all of the forward-looking statements that we make in this Form 10-Q or any other public statements we issue may turn out to be wrong. It is also important to remember that other factors besides those we mention could also adversely affect us and our business, operating results or financial condition.

Critical Accounting Policies and Estimates

General

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies affect its more significant estimates and assumptions used in the preparation of its consolidated financial statements.

Revenue Recognition

Risk management products -

Subscription fees are initially deferred as unearned revenues when payment has been received and revenue is recognized ratably over the subscription term. Implementation fees are recorded as earned, generally on a time and materials basis. Perpetual license fees on derivative market risk assessment products are recorded as revenue upon shipment of the product. Maintenance fees are initially deferred as unearned revenues and ratably recognized over the maintenance term. The timing and certain methods of recognizing revenues require management to make estimates with respect to costs incurred, milestones reached and other factors.

POSIT

- POSIT revenues, which consist primarily of license royalties based on the trading volume of U.S. equities from the Portfolio System for Institutional Trading (POSIT) joint venture, are recognized as trades are executed on POSIT.

Allowance for Doubtful Accounts

We evaluate the collectability of our trade receivables on a combination of factors. When we become aware of a specific customer's inability to meet its financial obligation to us, such as in the case of bankruptcy filings or deterioration in the customer's financial position, we record a specific reserve for bad debt to reduce the related receivable to the amount we reasonably believe is collectible. We also record reserves for bad debt for all other customers based on a variety of factors, including the length of time the receivables are past due and historical experience. If circumstances related to specific customers change, our estimates of the recoverability of receivables could be further adjusted.

Investments in Unconsolidated Companies

We monitor our investments in unconsolidated companies for impairment on a periodic basis. In the event that the carrying value of an investment exceeds its fair value and the decline in value is determined to be other than temporary, an impairment charge is recorded and a new cost basis for the investment is established. Fair values for investments in privately held companies are estimated based on one or more of the following: pricing models using historical and forecasted financial information, liquidation values, the values of recent rounds of financing or quoted market prices of comparable public companies. In order to determine whether a decline in value is other than temporary, we evaluate, among other factors: the duration and extent to which the fair value has been less than the carrying value; the financial condition of and business outlook for the company, including key operational and cash flow metrics, current market conditions and future trends in the company's industry, and the company's relative competitive position within the industry; and our intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Incentive Compensation

Annual incentive bonuses are a significant part of Barra's compensation philosophy. These cash bonuses are generally tied to achieving certain firm-wide financial metrics and department level objectives. We generally accrue estimated annual bonus costs evenly over the fiscal year, with certain quarterly adjustments related to terminations and hiring and changes in expected financial or operational results. Incentive bonuses related to any fiscal year are generally paid on May 31 following the fiscal year end.

Accounting for Income Taxes

We make estimates related to our income taxes in each of the jurisdictions in which we operate. These estimates include the allocation of revenue, cost of revenue, depreciation, expenditures and tax credits within and between jurisdictions. Deferred taxes are determined by calculation of the future tax consequences associated with differences between financial accounting and tax bases of assets and liabilities. As a result of this process, we recognize deferred tax assets and liabilities, which are recorded in our Consolidated Balance Sheets. A valuation allowance is established to the extent that we consider it more likely than not that some portion or all of the deferred tax assets will not be realized. To the extent a valuation allowance is established or adjusted in a period, this amount is included in our Consolidated Statements of Income as an expense or benefit within the provision for income taxes.

GENERAL

Certain of the information required by this item has been previously reported under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Form 10-K.

Barra provides investment risk management solutions to financial professionals world-wide. We have two business units. Our Core Business provides portfolio risk management and enterprise risk management systems to investment professionals. Our Ventures Business develops new lines of business by leveraging our core research and development, generally through strategic partnerships.

Foreign Currency

As an international corporation, we generate revenue from clients throughout the world, maintain sales and representative offices worldwide and hold certain deposits and accounts in foreign currencies. Our revenue is generated from both United States and non-U.S. currencies. Our subscriptions in the United Kingdom and the European Community are priced in British pounds sterling (pounds) and euros, respectively. Additionally, our consolidated subsidiary, Barra Japan Co., Ltd. generates revenues, has expenses and has assets and liabilities in Japanese yen (yen). All other international clients are billed in U.S. dollars. The functional and reporting currency of all non-U.S. operations is the U.S. dollar. Accordingly, gains and losses on translation of current assets and liabilities denominated in foreign currencies to the U.S. reporting currency are included in other operating expenses.

The following table presents a summary of revenue by geographic region for the three months ended December 31, 2003 and 2002 (in thousands). Revenues are distributed to geographic areas based on the country in which the Barra sales office is located:

	2003		2002	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
Americas:				
United States............	$19,558	51%	$18,253	52%
Other....................	1,096	3	1,042	3
Total Americas...........	20,654	54	19,295	55
Europe and Africa:				
United Kingdom...........	9,918	26	7,260	20
Germany..................	1,757	5	2,062	6
Other....................	124	-	209	1
Total Europe and Africa..	11,799	31	9,531	27
Asia and Australia:				
Japan....................	4,071	11	5,075	14
Other....................	1,659	4	1,285	4
Total Asia and Australia.	5,730	15	6,360	18
TOTAL	$38,183	100%	$35,186	100%

All other things being equal, weakening of the U.S. dollar has a positive impact on profits, and strengthening of the U.S. dollar has a negative impact. We attempt to mitigate our exposure to foreign currency fluctuations through the use of forward commitments to sell certain foreign currencies. This hedging program is specifically designed to hedge our net assets denominated in pounds, euros and yen. Gains and losses related to the hedges are recorded in current operating results.

For the three month period ended December 31, 2003, when compared to the same period a year ago, the U.S. dollar weakened against the pound, euro and yen. This had the effect of increasing net revenues and net income by approximately $1,435,000 and $782,000, respectively; compared to exchange rates in effect for the three month period ended December 31, 2002.

Under current operating arrangements in the countries in which we do business (other than Brazil), there are no significant restrictions upon the flow of funds from our foreign subsidiaries to the parent company. In Brazil, our local subsidiary is required to register exchange agreements with the Brazilian Central Bank.

Liquidity and Capital Resources

As of December 31, 2003, our principal sources of liquidity were our cash and cash equivalents, marketable equity securities held for trading, and marketable debt securities available-for-sale totaling $205 million, representing an increase of $5 million from March 31, 2003. This increase is primarily attributable to cash collections on client accounts, offset by funds use to repurchase our common stock and pay a dividend to our shareholders.

During the December 2003 quarter, we initiated payment of a special dividend of $1.00 per share and announced our intention to pay a quarterly dividend of $0.125 per share beginning in the March 2004 quarter. Approximately $19.5 million in cash was used in payment of the special dividend and, beginning in the March 2004 quarter, we expect to use approximately $2.4 million of cash each quarter to pay our anticipated quarterly dividend.

In addition to our available cash and cash equivalents and marketable securities, we have a commitment from a bank for an unsecured short-term line of credit of up to $25 million, of which no amounts have been, or are presently anticipated to be, drawn down on that line of credit.

During the quarter ended December 31, 2003 we generated $7.0 million of cash from operating activities as compared to $8.1 million for the same period a year ago. Cash flows from operating activities continue to be our principal means of generating cash. (See our Condensed Consolidated Statements of Cash Flows in the accompanying financial statements.)

We believe that our cash flow from operations (including prepaid subscription fees), together with existing cash balances, will be sufficient to meet cash requirements for capital expenditures, expected dividend payments and other cash needs for ongoing business operations and existing financial commitments.

Principal Financial Commitments

Our principal financial commitments consist of obligations under operating leases and contracts for the use of computer and office facilities. Other than commitments described in this discussion and analysis and in the financial statements and notes, we have no present binding understandings or commitments with respect to any significant capital expenditures.

Stock Repurchase Plan

On November 20, 2003, our Board of Directors authorized Barra to repurchase up to a total of 2,000,000 shares of our Common Stock pursuant to our stock repurchase plan. As of December 31, 2003, 1,471,400 remained authorized to be repurchased. We are under no commitment to purchase any shares under our stock repurchase plan.

RESULTS OF OPERATIONS

References to the dollar and percentage increases or decreases set forth below in this discussion and analysis of our results of operations are derived from comparisons of our condensed consolidated statements of income and operating segment results for the three and nine month periods ended December 31, 2003 and December 31, 2002.

Core Business - Risk Management

Revenues:

Revenue growth for our Core Business has slowed significantly over the past fiscal year as a result of fewer subscription sales of our portfolio and enterprise risk products and higher cancellation rates on existing customer subscriptions as compared to previous periods. We believe these results reflect the general cost reduction measures many of our asset management clients have initiated in reaction to declining investment returns and increased competition as a result of over-capacity in the investment management industry.

Revenues from risk management products consist of annual subscription fees to portfolio and enterprise risk management products, license and maintenance fees on FEA products and royalty and other related revenues. A summary of the components of these revenues is as follows (amounts in thousands):

	Three Months Ended December 31,			Nine Months Ended December 31,		
	2003	2002	%Change	2003	2002	%Change
Core product subscriptions..	$31,543	$29,382	7	$92,425	$86,268	7
Implementation fees.........	528	739	(29)	1,181	1,765	(33)
Royalty and other...........	605	1,038	(42)	2,356	2,813	(16)
FEA revenue.................	1,573	--	--	4,518	--	--
TOTAL....................	$34,249	$31,159	10	$100,480	$90,846	11

Core product subscriptions

are revenues for our portfolio risk management and enterprise risk management products, including related data updates. We generally bill and collect fees on an annual basis, but recognize the revenue 1/12th per month over each year of the subscription period. The growth in annual subscription fees continues to be generated from a combination of obtaining new clients and increasing revenues from existing customers through the introduction of new products, features, users and other services along with the impact of changes in foreign currency translation rates. Annual subscription revenue for the quarter ended December 31, 2003 increased $2,161,000 or 7% compared to the same quarter a year ago and $6,157,000 or 7% compared to the same nine month period a year ago. Excluding the impact of changes in foreign currency translation rates, subscription revenues in the current quarter increased 2% compared to the same quarter a year ago and 3% compared to the same nine month period a year ago. The increase in subscription revenues over both periods is the result of adding new customers and subscriptions for our Enterprise Risk Management product, TotalRisk, offset in part by lower fees from our Equity and Fixed Income portfolio manager products due to higher cancellation rates within these product lines for the reasons discussed above.

Implementation fees

are revenues related to implementation services in connection with enterprise risk management system installations. Implementation fees are recorded as earned, generally on a time and materials basis. The timing of the recording of enterprise risk management implementation fees is governed by the terms of the implementation contracts and other factors that can cause significant variations from quarter to quarter. The decrease in implementation fees reflects a decline in the number of new enterprise risk system installations and general weakness in the demand for such services amidst spending constraints at some of our client installations.

Royalty and other

revenues include seminar and other one-time fees. The timing and number of seminars held in any particular period can significantly affect the amount of revenue recorded for the period.

FEA revenue

represents license and maintenance fees from our FEA subsidiary, which Barra acquired in December 2002. FEA develops derivative and risk analytics software for traders, risk managers and financial analysts, focusing on the energy, financial and commodities markets. Product license revenues for the quarter ended December 31, 2003 were $0.8 million and related maintenance revenues were also $0.8 million. For the nine month period ended December 31, 2003, product license revenues were $2.0 million and related maintenance revenues were $2.5 million.

Expenses:

A summary of core operating expenses is as follows (amounts in thousands):

	Three Months Ended December 31,			Nine Months Ended December 31,		
	2003	2002	%Change	2003	2002	%Change
Communication, data and seminar...................	$1,871	$1,690	11	$6,126	$5,668	8
Compensation and benefits...	17,759	16,233	9	52,386	47,024	11
Occupancy..................	1,785	1,473	21	5,452	4,368	25
Amortization of acquired intangibles..............	350	--	--	1,050	--	--
Other operating expenses....	4,556	4,194	9	12,439	12,359	1
Restructuring charges.......	--	--	--	2,466	--	--
TOTAL....................	$26,321	$23,590	12	$79,919	$69,419	15

Communication, data and seminar costs

consist of computer access and communication charges, software and data costs, computer leasing and seminar expenses. This component of expense increased $181,000 or 11% compared to the same quarter a year ago and increased $458,000 or 8% compared to the same nine month period a year ago. The increase in the current quarter primarily reflects higher software-related costs related to our BarraOne product, offset by lower seminar costs.

Compensation and benefits

increased $1,526,000 or 9% compared to the same quarter a year ago and increased $5,362,000 or 11% compared to the same nine month period a year ago. The increase reflects the payroll costs of the FEA business which was acquired in December 2002. Excluding FEA, compensation and benefits increased $238,000 or 1% in the current quarter and increased $1,578,000 or 3% compared to the same nine month period a year ago. The increases in both periods reflect lower average headcount as a result of the workforce reduction in April 2003 offset by higher costs for benefits and incentive compensation.

Occupancy

expense increased $312,000 or 21% compared to the same quarter a year ago and $1,084,000 or 25% compared to the same nine month period a year ago. The increase is due primarily to rental costs for FEA facilities, along with higher rental and utility costs for existing offices. Excluding FEA, occupancy costs for the current quarter increased $118,000 or 8% compared to the same quarter last year and increased $537,000 or 12% compared to the same nine month period a year ago.

Amortization of acquired intangibles

relates to intangibles with estimated remaining useful lives acquired in connection with the FEA and IPO transactions. These intangibles are being amortized over two to six years. At the beginning of fiscal 2002, we adopted SFAS No. 142 - Goodwill and Other Intangible Assets (SFAS No. 142), which prohibits the amortization of goodwill and indefinite-lived intangible assets. SFAS No. 142 requires these assets to be tested annually for impairment.

Other operating expenses

increased $362,000 or 9% compared to the same quarter a year ago and increased $80,000 or 1% for the same nine month period a year ago. Other operating expenses include travel, office, maintenance, depreciation, amortization, marketing, advertising, insurance, outside legal and accounting services, and other corporate expenses. The increase in the current quarter is primarily the result of higher insurance and travel costs and operating expenses associated with FEA, offset by lower legal costs. The increase in the nine month amount primarily reflects higher insurance, travel and FEA operating costs offset by lower advertising and legal costs.

Restructuring charges

represent costs, primarily severance, associated with a workforce reduction of approximately 9% of employees implemented in April 2003.

POSIT

Revenues:

POSIT revenues decreased $93,000 or 2% compared to the same quarter a year ago and decreased $563,000 or 4% compared to the same nine month period a year ago. Our revenues from POSIT come from royalties paid to the POSIT joint venture based on commissions generated by the trading volume in the various POSIT systems. The current quarter increase reflects a decline in U.S. POSIT royalties offset by higher European POSIT royalties. The increase in European POSIT royalties resulted from higher trading volumes and an increase in the royalty rate. The decline in the nine month period comparison reflects principally the impact of lower trading volumes on the U.S. POSIT trading system due to lower overall market trading volumes and increased price competition.

Expenses:

POSIT operating expenses represent costs incurred by Barra to fulfill our obligations to the POSIT joint venture with ITG, Inc. A summary of POSIT operating expenses incurred by Barra is as follows (amounts in thousands):

	Three Months Ended December 31,			Nine Months Ended December 31,		
	2003	2002	%Change	2003	2002	%Change
Communication, data and seminar	$1	$2	(50)	$13	$11	18

Compensation and benefits...	452	591	(24)	1,461	1,481	(1)
Occupancy..................	67	60	12	214	170	26
Other operating expenses....	67	170	(61)	203	520	(61)
TOTAL....................	$587	$823	(29)	$1,891	$2,182	(13)

Compensation and benefits

decreased $139,000 or 24% from the same quarter a year ago and decreased $20,000 or 1% compared to the same nine month period a year ago. The decrease in the current quarter reflects lower incentive compensation costs.

Occupancy

costs increased $7,000 or 12% compared to the same quarter a year ago and increased $44,000 or 26% compared to the same nine month period a year ago. The increases were due to higher rental and utility costs in the office where POSIT personnel are located.

Other operating expenses

decreased $103,000 or 61% compared to the same quarter a year ago and decreased $317,000 or 61% compared to the same nine month period a year ago. The decreases are due primarily to lower support costs and corporate expense allocations.

Equity in Income of Investees

Equity in income and loss of investees represents net gains from our equity investment in Australian POSIT.

Other Ventures

Equity in income and loss of investees represents net losses from our equity investment in Risk Reporting Limited.

Interest Income and Other

Interest income and other increased $297,000 or 27% compared to the same quarter a year ago and decreased $3,126,000 or 48% compared to the same nine month period a year ago. The increase in the current quarter reflects higher unrealized gains on marketable equity securities. The decrease in the nine month period was due to higher realized gains in the prior nine month period related to the sale of investments in marketable debt securities available for sale as a part of restructuring the investment portfolio in June and July of 2002.

Income Taxes

Our tax rate on income from continuing operations for the quarter and nine months ended December 31, 2003 was approximately 32% compared to 28% for the same quarter last year and 32% for the same nine month period a year ago. The 28% rate for quarter ended December 31, 2002 reflected an adjustment to bring the fiscal year to date 2003 year tax rate in line with the expected overall effective rate for the year.

Discontinued Operations - Gain on Sale, net

Gain on sale of discontinued operations for the quarter ended December 31, 2003 of $2.5 million, net of income taxes, represents a contingent payment received from the sale of our interest in Symphony Asset Management LLC (Symphony). The terms of the sale of our interest in Symphony to the John Nuveen Company included up to approximately $12 million in additional future payments, contingent on Symphony's business exceeding specific growth and profitability targets. Contingent payments are recorded only as received in accordance with generally accepted accounting principles. The December 2003 quarter marks the end of our potential to receive quarterly contingent payments. Since the sale of Symphony in July 2001 we have received gross contingent payments of approximately $9.7 million. We have the potential to receive up to an additional approximately $2.3 million in contingent consideration based on Symphony's annual financial performance over the five years following the sale, which will next be measured at the end of September 2006.

RISK FACTORS

This Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements give our current expectations or forecasts of future actions, events or results. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, expect, intend, believe, designed, future, forecast, perceive, possible, potential, may, will, would, could, should, forward, assure and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. Our forward-looking statements include statements concerning our future financial results, market activities, product development and business model. From time to time we may also provide oral or written forward-looking statements in other materials that become publicly available.

Any or all of the forward-looking statements that we make in this Form 10-Q or any other public statements we issue may turn out to be wrong. They can be affected by inaccurate assumptions that we might make or by known or unknown risks and uncertainties. Many factors described in this Risk Factors section and elsewhere in this Form 10-Q may cause our actual results to vary materially from our historical or expected results. Other factors, besides those discussed below could also adversely affect us or our business. Consequently, no forward-looking statement can be guaranteed.

We are under no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. We suggest, however, that you consult any future disclosures we make on related subjects in our subsequent Form 10-Q, 8-K and 10-K filings with the Securities and Exchange Commission (SEC).

Fluctuations in Quarterly Operating Results

Our revenues and results of operations are difficult to predict and may fluctuate substantially from quarter to quarter, as they have in the past. Factors specifically relating to our business segments are outlined below:

- <u>Core Business</u>

- Our Core Business revenues in any quarter depend substantially upon our total contracting activity (including renewals of existing contracts) and the related timing of when new subscriptions begin. We derive revenue from our Core Business primarily through annual subscriptions that automatically renew unless canceled. There is no assurance that these renewals will continue. In recent quarters we have experienced significant subscription cancellations at rates higher than our historical averages. Such cancellations can have a material adverse effect on our business, financial condition and results of operations. Annual subscription fees are recorded as revenues over each subscription period at the rate of $1/12^{th}$ per month. Sales of subscriptions in any one-month therefore impact reported revenues evenly over the next twelve months.

Sales of financial analytics by our FEA subsidiary potentially are subject to greater variability than our other product revenues. FEA sales historically have been made on a one-time perpetual license fee basis, and the fees from these perpetual licenses are recorded as revenues in the quarter in which the sale is completed. As a result, Core Business revenues from the sale of FEA products can be subject to quarterly fluctuations depending on our ability to close business in any particular quarter. FEA is in the process of changing its licensing model from the one-time perpetual license fee basis to an annual subscription basis. These annual subscription fees would be recorded as revenue over the duration of the subscription period at the rate of 1/12th per month. However, we may not be successful in transitioning FEA customers to this new license fee model, and revenues from our FEA subsidiary may therefore continue to be subject to greater variability than our other Core Business revenues.

We also include enterprise risk management system implementation consulting fees in our Core Business revenues. These fees reflect non-recurring, project driven revenues that are implemented in phases as contractual milestones are met. Accordingly, they can be susceptible to a large degree of variability depending on our ability to source new projects and the unpredictable nature and significance of fees associated with specific transactions.

Our earnings can be affected in our second fiscal quarter because of annual salary adjustments for our employees in July. In addition, our compensation policy historically has involved significant reliance on discretionary bonuses. Because compensation expense is a significant percentage of our operating expenses, the amount of, timing of and accrual for salary adjustments and discretionary bonuses could have a material effect on the net income of our Core Business.

- Ventures Business - Diverse factors cause variability of operating results in our POSIT Venture Business. The several POSIT systems can experience and have experienced major fluctuations in trading volume. Since approximately 10% of our operating revenue in the third quarter and nearly all of our Venture Business income in the third quarter came from this venture, these fluctuations can have and have had a significant impact on our revenue and operating income. POSIT trading volume is also directly affected by factors such as economic and political conditions that may lead to decreased trading activity and commission prices in the securities markets generally. For example, our revenues from POSIT declined 29% in fiscal 2003 as compared to the prior fiscal year, reflecting decreased trading activity that was largely attributable to the difficult market conditions and major declines in trading volumes during fiscal 2003. The future economic environment will be subject to periodic downturns, such as recessions. As we actually saw in fiscal 2003, these downturns could result in substantially reduced trading volume and prices, which could materially reduce our revenue and operating income.

Our operating expenses are based in part on our expectations regarding future revenue. Our consolidated operating results may be adversely affected if revenue does not develop in a quarter as anticipated. Since expenses are usually incurred before revenues are generated, and because only a small amount of expenses vary with revenue, our consolidated operating results may be impacted significantly by lower revenues. Various factors could cause these lower revenues and could affect quarter to quarter comparisons. Also, much of our revenues are earned under fixed price software subscriptions. Changes in our costs of providing those subscriptions could have a material adverse effect on our business, financial condition and results of operations.

Accounting standards and practices may require us to defer recognition of license revenue for a significant period after entering into a license agreement. Generally, the subscription fees for our Core Business products are initially deferred as unearned revenues when payment has been received, after which revenue is recognized ratably over the term of the subscription. Negotiated terms for some of our Core Business sales and consulting services, particularly enterprise risk management solutions, sometimes do not permit revenue recognition at the time of delivery or even as work on the project is completed.

Changes in General Economic Conditions

The U.S. and certain other economies in which we operate have experienced slower growth after an extended period of growth in previous years. As a result, assets under management have decreased, thereby decreasing the revenues to asset managers. Such reduced asset management revenues have placed pressure on our clients to cut their cost of services, which in turn has adversely impacted our sales, renewal rates and ability to increase or even maintain prices. These negative trends may continue.

Product Development and Technological Change

The markets in which we compete are characterized by rapidly changing technologies, extensive research, and new product introductions. Our future growth and financial performance will depend on our ability to continue to quickly develop and introduce new products and enhance our existing products in response to advances in finance theory and computer technology, changing market conditions and increasingly sophisticated customer requirements. We may not be able to enhance existing products or develop and introduce new products that receive market acceptance in a timely manner. Our failure to anticipate or respond adequately to changing market conditions could have a material adverse effect on our business, financial condition, or results of operations. Because we offer products across many geographic areas and many areas of specialization, we often must restrict our product development efforts to a limited number of products and operating platforms. There can be no assurance, however, that efforts we select will be successful or will achieve market acceptance. In addition, the cost of research and development efforts required to keep pace with technological changes may, at times, have a significant effect on our business, financial condition, or results of operations.

Dependence on Key Personnel

Our future success will depend in large part on our ability to attract, train and retain highly skilled managerial, research, development, sales, marketing, support, technical and services personnel. Competition for people in the software and financial services industries is intense. At times, we have experienced difficulty in locating candidates with appropriate qualifications and expertise. We also frequently compete with financial institutions and financial services organizations for personnel. These organizations generally have greater resources than we do and often offer significantly higher compensation packages to potential employees. In November 2003 we announced a succession plan for our Chief Executive Officer, Kamal Duggirala, who intends to resign his position when a successor is hired. There can be no assurance that we will be able attract qualified candidates to fill this critically important position in the near future. In general, our inability to attract, train and retain key personnel could have a material adverse effect on our business, financial condition, or results of operations.

Dependence on Availability of Data

We currently obtain data from over 120 third-party vendors that is used in our products and services. Any termination or interruption of our supply of data from a principal data vendor or vendors, or an interruption of our own data operations or data update processes could have a material adverse effect on our business, financial condition or results of operations. These adverse effects include, for example, our products or services becoming inoperable or their performance being materially reduced.

If any of our third-party vendors change their data offerings, we may need to incur additional costs to ensure continued performance of our products and services. In addition, if the cost of licensing any of these third-party data products materially increases, our gross margin levels could materially decrease.

International Operations

In the third quarter of fiscal 2004 over 49% of our revenues came from customers outside the United States. We anticipate that revenues from customers outside the U.S. will continue to be a significant part of our total revenues for the foreseeable future. Sales and operations outside the U.S. are subject to unique risks, including:

- unexpected changes in regulatory requirements;
- unexpected changes in exchange rates, tariffs and other trade barriers;
- political or economic instability;
- seasonal factors, particularly in Europe;
- difficulties in staffing, managing and integrating foreign operations;
- longer payment cycles;
- difficulties or delays in translating products and related documentation into foreign languages;
- currency fluctuations and conversion risks; and
- potentially adverse tax consequences.

Any of these factors could have a material adverse effect on our business, financial condition or results of operation.

Risks Associated with Business Combinations and Divestitures

As part of our overall strategy, we may continue to divest ourselves of certain businesses and assets, to acquire or invest in complementary companies, products, and technologies and to enter into joint ventures and strategic alliances with other businesses. For example, in fiscal 2003 we acquired two businesses - Financial Engineering Associates, Inc. (FEA) and Investment Performance Objects Pty Ltd. (IPO).

Some common risks associated with acquisitions and joint ventures include:

- the difficulty of assimilating the operations and personnel of the combined companies;
- the risk that we may not be able to integrate the acquired technologies or products with our own;
- the substantial management time devoted to such activities;
- undisclosed liabilities;
- the inability of management to maximize our financial and strategic position through the successful integration of acquired businesses;
- the risk that the acquired business will not achieve anticipated earnings and revenues;
- the failure to realize anticipated benefits (such as cost savings and synergies);
- customer dissatisfaction with, or problems caused by, the performance of any acquired technologies; and
- geographic dispersion of operations and the complexities of international operations.

Some common risks associated with divestitures include:

- the inability to fulfill representations and warranties made to a buyer;
- the risk that the divested business will not meet the revenues or earnings requirements necessary to achieve subsequent earn-out goals;
- the failure to remain within the scope of any non-competition undertakings requested by a buyer;
- the transitioning of the divested business to a stand-alone operation that is separate from the research, development and support services previously offered by Barra; and
- costly litigation stemming from post-closing disputes.

We may not be successful in overcoming these risks or any other problems encountered in these transactions.

Limited Protection of Intellectual Property and Proprietary Rights and Potential Infringement of Third Party Intellectual Property Rights

We consider certain aspects of our products, related internal data update processes and services to be proprietary. We rely primarily on a combination of trade secret, patent, copyright, trademark and other intellectual property laws, license agreements and technical measures to protect our rights in our intellectual property. Despite our efforts, a third party may still try to challenge, invalidate or circumvent the protective mechanisms that we select. We cannot assure that any of the rights granted under any copyright, trademark or patent that we may obtain will protect our competitive advantages. Our competitors may also independently develop and patent technology that is the same or similar to ours or may obtain access to our proprietary technology. In addition, the laws of certain foreign countries in which we operate do not protect our proprietary rights to the same extent as do the laws of the United States. Also, some elements of our products and services are not subject to intellectual property protection.

We believe that our products, processes and trademarks do not infringe the intellectual property rights of third parties. There can be no assurance, however, that the intellectual property which we have acquired or developed will not be challenged by infringement claims in the future. Such claims could require us to enter into royalty arrangements or could result in costly litigation.

- <u>Trademarks</u>

- We have registered "Barra" as a trademark in the U.S. and in certain foreign countries. We have also registered other product trademarks and certain service marks in the U.S. and in certain foreign countries. When we enter a new geographic market or introduce a new product brand, there can be no assurance that our existing trademark or mark of choice will be available.

- <u>Patents</u>

- Businesses operating in the financial services sector, including our competitors and potential competitors, have in recent years increasingly pursued patent protection for their technologies and business methods. We currently hold one design patent and our FEA subsidiary holds utility patents for four inventions. We are currently applying for four utility patents on certain of our proprietary technologies. Patent applications can be extremely costly to process and defend. We cannot assure that we will be issued any patents that we apply for, nor can we assure that any of the rights granted under any patent that we obtain will protect our competitive advantages. Under current law, we do not believe it is feasible to determine in advance whether any of our existing products or any of their components or a service or method infringes on the patent rights of others. From time to time we will receive notices from others containing claims or potential claims of intellectual property infringement, including patent infringement. We may also be called upon to defend a joint venture partner, customer, vendor or licensee against such third party claims under indemnification clauses in our contracts. Responding to these types of claims, regardless of merit, could consume valuable time, result in costly litigation or cause delays, all of which could have a material adverse effect on our business, operating results or financial condition. Responding to these claims could also require us to enter into royalty or licensing agreements with third parties claiming infringement. There can be no assurance that these licenses will be made, if at all, on terms acceptable to us.

- License Agreements

- The software and data products of our Core Business and Ventures Businesses are generally licensed to end users on a periodic subscription basis in a nontransferable license signed by the client. We also permit access to some products through the internet under on-line licenses that are acknowledged by the licensee. The enforceability of these on-line licenses has not been conclusively determined by the courts. We are frequently required to obtain licenses to the proprietary rights of third-party data and software vendors or others. There can be no assurance that these licenses will be made, if at all, on terms acceptable to us.

- Trade Secret and Copyright

- Existing trade secret and copyright laws only offer us limited protection for our proprietary assets. We believe that the rapid pace of technological change in the software and investment solution industries and the major increase of business method patents in these industries will only make trade secret and copyright protection less significant over time. We have not obtained registered copyright protection for any of our software applications or other intellectual property. Consequently, our competitors may independently develop and patent technologies that are substantially equivalent, or superior, to our technology. To protect the proprietary assets of our Core Business, we also rely on the following unique aspects of our business:

  - the development, maintenance, support and use of our products is dependent upon the knowledge, experience and ability of our highly skilled, educated and trained employees;

  - most of the software in our products is dependent upon (and of little value without) continuing access to the historical and current data in our proprietary databases; and

  - the nature of our proprietary database, aggregated and derived over the course of a quarter century, makes it extremely difficult to replicate.

- Confidentiality Undertakings

- Our license agreements restrict clients' disclosure of proprietary information contained in our products. Our joint venture and development agreements typically contain similar restrictions. It may be possible, however, for unauthorized parties to copy aspects of our products or to obtain and use information that we regard as proprietary. We also seek to protect our proprietary information through non-disclosure agreements with our employees. However, the enforceability of these agreements varies due to the many different jurisdictions in which our employees, joint venture or development partners and clients are located.

Competition

Each of the markets in which our Core and Ventures Businesses operate has become increasingly competitive in recent years, particularly in the last several quarters. These markets may continue to become more competitive in the future as a result of the activities of existing competitors and the entrance of new competitors into our markets. We have seen significantly greater competition recently in our Core Business from clients developing risk management systems in-house, as well as from firms offering competing products at lower rates. In some of our markets, our competitors have substantially greater name recognition, installed client bases, or financial, research, development or other resources. Our POSIT business in particular competes with services offered by a wide variety of organizations, including brokerage and transaction processing firms, securities exchanges, electronic communications networks (ECNs) and alternative trading systems (ATSs). Many of POSIT's competitors and potential competitors have substantially greater financial, research and development and other resources. In addition, some of these competitors offer services similar to POSIT at lower rates or have indicated that they may provide services similar to POSIT in the future. There can be no assurance that:

- we and/or our business partners will continue to have sufficient resources to succeed in our efforts and be successful in maintaining our competitive advantages;
- our competitors will not devote significantly more resources to competing activities;
- our competitors will not develop products or services that are perceived as being superior to ours; or
- increased competition will not lead to loss of market share or increased pricing pressure.

Web-Based Products and Services

Our BarraOne, Barra Credit and Risk Factor products make use of a web browser as the user interface in place of traditional desktop access through networked personal computers, and it is anticipated that future Barra products may also use a web interface. In addition, regular updates of data required to make our products properly function are frequently carried out via the internet. Access to software or data via the internet or an intranet involves numerous risks inherent in using the internet, including security, availability and reliability. In addition, there is a risk that customers will not be willing or able to implement internet-based applications. Barra may wish to offer its applications on future or existing user interfaces that achieve popularity within the financial application marketplace. These future or existing user interfaces may or may not be architecturally compatible with Barra's current software product design. Barra may not be able to support new user interfaces and achieve market acceptance of new user interfaces that it does support.

Security Risks and Concerns May Deter the Use of the Internet for Conduct of Business.

A significant barrier to commerce and communications over public networks is the secure transmission of confidential information. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments could result in compromises or breaches of our security systems or those of other web sites to protect proprietary information. If any well-publicized compromises of security were to occur, they could have the effect of substantially reducing the use of the internet for commerce and communications. Anyone who circumvents our security measures could misappropriate proprietary information or cause interruptions in our services or operations. The internet is a public network, and data is sent over this network from many sources. In the past, computer viruses (software programs that disable or impair computers) have been distributed and have rapidly spread over the internet. Computer viruses could be introduced into our systems or those of our clients or other third parties, which could disrupt or make it inaccessible to clients. We may be required to expend significant capital and other resources to protect against the threat of security breaches or to alleviate problems caused by breaches. To the extent that our activities may involve the storage and transmission of proprietary information, security breaches could expose us to a risk of loss or litigation and possible liability. Our security measures may be inadequate to prevent security breaches, and our business could be harmed if we do not prevent them.

Volatility of Stock Price; Risk of Litigation

The trading price of Barra common stock has in the past and may in the future be subject to significant fluctuations in response to many factors, some of which include:

- revenue, client cancellation rates, or results of operations in any quarter failing to meet the expectations (published or otherwise) of the investment community, and the timing of the announcements of such shortfalls;
- changes in recommendations or financial estimates by securities analysts;
- acquisitions or sales of significant businesses;
- timing of new product releases and announcements;
- conditions and trends generally in the industries in which we operate;
- adoption of new accounting standards affecting the software or financial services industries; and
- general market conditions.

Further, the stock market has experienced and may continue in the future to experience extreme price and volume fluctuations that particularly affect the market prices of equity securities of high technology and financial services companies. These fluctuations often are not related, or are disproportionate, to the operating performance of those companies. These broad market fluctuations, as well as general economic, political and market conditions, have had and may continue to have a material adverse effect on the trading price of Barra common stock. Fluctuations in the price of our common stock may expose us to the risk of securities class action lawsuits or claims. Any such suit or claim, even if the outcome were to be ultimately favorable to us, would involve a significant commitment of our management, personnel, financial and other resources. In addition, these sorts of claims and lawsuits could have a material adverse effect on our business, financial condition, or results of operations.

Management of Growth and Changes in Staffing

We have historically experienced periods of:

- revenue growth;
- growth into new foreign markets;
- expansion of our Core Business and Ventures Businesses, including POSIT; and
- substantial fluctuations in the number of our employees.

These changes have resulted in new and increased responsibilities for our management and have placed a significant strain on our operating and financial controls and other resources. To accommodate growth, compete effectively, and manage potential future growth, we must continue to implement and improve the speed and quality of our products and services, management decisions, reporting systems, procedures, and controls. Our personnel, procedures, systems, and controls may not be adequate to support our future operations.

Potential Liability Based on Use of Products and Services

Our products and services support the investment and/or risk management processes of clients that collectively manage trillions of dollars in assets. Our license and consulting agreements have provisions designed to limit our exposure to potential liability claims brought by our clients or other third parties based on the use of our products and services. However, these provisions could be invalidated by unfavorable judicial decisions or by federal, state, foreign or local laws. Use of our Core Business and Ventures Businesses products and services for the investment and/or risk management processes creates the risk that clients, or the parties whose funds are managed by our clients, may pursue a claim against us for massive dollar amounts. Any such claim, even if the outcome were to be ultimately favorable to us, would involve a significant commitment of our management, personnel, financial and other resources. In addition, these sorts of claims and lawsuits could have a material adverse effect on our business, financial condition, or results of operations.

Government Regulations

The financial services industry is subject to extensive regulation at the federal and state levels, as well as by foreign governments. It is very difficult to predict the future impact of the broad and expanding legislative and regulatory requirements affecting our businesses. If we fail to comply with any applicable laws, rules or regulations, we could be subject to fines, penalties, suspensions or revocations of licenses or permits. We believe that our existing products and services comply with all applicable laws, rules and regulations. However, there can be no assurance that these laws, rules or regulations will not change in the future, or that such changes will not materially adversely affect our business, financial condition or results of operations.

- <u>Soft Dollars</u>

  - A Soft Dollar arrangement is one in which a portion of the commission paid by a brokerage client to a broker-dealer is allocated to pay for research services. In Barra's case, brokerage clients including money managers, fund sponsors and consultants direct their brokers to use "soft dollars" generated by their advised accounts to purchase our Core Business products and services. Although the client enters into a contract with Barra directly (and remains ultimately responsible for payment), Barra receives its payment in cash from the broker. For several years the investment community has debated the purchase of goods and services with funds derived from soft dollar accounts, and the practice is regulated in the U.S. by the SEC and the Department of Labor. In recent months the SEC and Congress have placed increased scrutiny on soft dollar practices, and some commentators have advocated abolishing soft dollars entirely. For the nine months ending December 31, 2003, payments received by Barra that were attributable to soft dollar arrangements accounted for approximately 22% of our Core Business revenue. Legal or regulatory changes may restrict or prohibit us from providing services to money managers in soft dollar arrangements. Such changes, as well as the regulatory uncertainty surrounding any potential changes, could have a material adverse effect on our business, financial condition, or results of operations.

- <u>Investment Advisers Act</u>

- We believe and have adopted the position that our Core Business products do not provide investment advice for purposes of the Investment Advisers Act of 1940, the Advisers Act, or similar laws in states or foreign jurisdictions. Future developments in our product line or in the regulatory environment could cause this status to change. If that happens, we may have to broaden our disclosures to the relevant regulatory agencies and to adopt the strict compliance procedures mandated by these laws for a much broader segment of our business. These heightened obligations would likely entail substantial additional costs to us.

- <u>Data Privacy Legislation</u>

- Changes in legislative, regulatory or consumer environments relating to consumer privacy or information collection and use may affect our ability to collect and use data. There could be a material adverse impact on our direct marketing, data sales and business due to the enactment of legislation or industry regulations, or simply a change in customs, arising from public concern over consumer privacy issues. Restrictions could be placed upon the collection, management, aggregation and use of information that is currently legally available, in which case our cost of collecting some kinds of data could materially increase. It is also possible that we could be prohibited from collecting or disseminating certain types of data, which could in turn materially affect our ability to meet our clients' requirements.

- ATS

- Our joint venture partner ITG currently operates POSIT and a continuous trading system owned by our POSIT joint venture called TriAct as part of its broker-dealer operations in accordance with Regulation ATS. Accordingly, neither POSIT nor TriAct are registered with the SEC as an exchange. There can be no assurances that the SEC will not in the future seek to impose more stringent regulatory requirements on the operation of alternative trading systems such as POSIT or TriAct. In addition, certain of the securities exchanges have actively sought to have more stringent regulatory requirements imposed upon automated trade execution systems. There can be no assurance that Congress will not enact additional legislation applicable to alternative trading systems. Any such additional regulations or laws could undermine the feasibility of operating POSIT or TriAct. Loss of POSIT revenues would materially adversely affect our financial condition and results of operations.

Catastrophic Events

Our operations depend on our ability to protect our equipment and the information stored in our databases against fires, earthquakes and other natural disasters, as well as power losses, telecommunications failures, unauthorized intrusions, terrorist attacks on financial centers where we or our clients are located, and other catastrophic events. There is no assurance that the measures we have taken to reduce the risk of interruption in our operations caused by these events are sufficient. Such events could have a material adverse effect on our business, financial condition or results of operations. For example, our office in New York was temporarily closed due to the September 11, 2001 terrorist attacks. Immediately after the terrorist attacks, our clients who were located in the World Trade Center area were concentrating on disaster recovery rather than licensing additional risk management products. In addition, delivery of some of the data we receive from New York-based vendors was delayed. The grounding of transportation impaired our ability to conduct sales visits and deliver professional services at client sites. During the resulting temporary closure of the U.S. stock markets, POSIT clients were unable to trade over the system and some of the data updates supporting our Core Business were interrupted. These types of interruptions could affect our ability to sell and deliver products and services and could materially adversely affect our business, financial condition, or results of operations.

Possible Adverse Effects of Option Exercises

If holders of options to purchase our common stock exercise any significant number of these options and resell the underlying shares, the market price of Barra common stock could decline. At December 31, 2003, there were outstanding vested and exercisable options to purchase approximately 1.8 million shares of Barra common stock issued under various Barra stock option plans. As of that date, options (vested and unvested) to purchase about 2.2 million shares of Barra Common Stock had exercise prices below our closing common stock price on the last trading date of the fiscal quarter, December 31, 2003 ($35.57).

Effect of Certain Charter and Bylaw Provisions and Anti-Takeover Provisions; Possible Issuance of Preferred Stock

Our Certificate of Incorporation, Bylaws, and certain Delaware laws contain provisions that may discourage a third party from acquiring Barra. This may deprive stockholders of certain opportunities to receive a premium for their shares as part of an acquisition of Barra.

In addition, we have adopted a stockholder rights plan and declared a dividend distribution of one right for each outstanding share of common stock to stockholders of record as of September 7, 2001. Each right, when exercisable, entitles the holder to purchase one unit consisting of one one-thousandth of a share of our Series A Junior Participating Preferred Stock for $200 per unit. Under certain circumstances, if a person or group acquires 15% or more of our outstanding common stock, holders of the rights (other than the person or group triggering their exercise) will be able to purchase, in exchange for the $200 exercise price, shares of our common stock or of any company into which we are merged having a value of $400. The rights expire on September 7, 2011 unless extended by our board of directors. Because the rights may substantially dilute the stock ownership of a person or group attempting to acquire us without the approval of our board of directors, our rights plan makes it more difficult for a third party to acquire us (or a significant percentage of our outstanding capital stock) without first negotiating with our board of directors.

Impact of Legal and Regulatory Proceedings

Elsewhere in this Form 10-Q and in our most recent Form 10-K, we have made various disclosures regarding litigation proceedings, as well as the possibility of certain other legal and regulatory proceedings. See "Legal Proceedings" below. Many factors may affect the outcome of such proceedings. Accordingly, until such proceedings are finally resolved, it is difficult to determine the likelihood of a favorable outcome, the direct and indirect costs associated with the proceeding, or, in the event of an unfavorable outcome, the amount of any loss. Any proceeding, even if the outcome were to be ultimately favorable to us, could involve a significant commitment of our management, personnel, financial and other resources. This alone could have a material adverse effect on our business, financial condition, or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to the interest bearing portions of our direct investment portfolio. We place our direct investments with high quality credit issuers and, by policy, limit the amount of credit exposure to any one issuer. Our first priority is to reduce the risk of principal loss. Consequently, we seek to preserve our invested funds by limiting default risk, market risk, and re-investment risk. We attempt to mitigate default risk by investing only in high quality credit securities that we believe to be low risk and by positioning our portfolio to respond appropriately to a significant reduction in credit rating of any investment issuer or guarantor. The direct investment portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity.

Our direct interest bearing investment portfolio primarily consists of investments in short-term, high-credit quality money market funds and U.S. Treasury Securities. These investments totaled approximately $36.6 million at December 31, 2003 with an average interest rate of 0.8%. At December 31, 2003, the portfolio also had approximately $152.3 million of short-term, U.S.- backed debt securities with an average taxable equivalent interest rate of 1.67%. The short-term money market funds are not insured and, because of the short-term nature of the investments, are subject to credit risk, but are not likely to fluctuate significantly in market value.

Equity Market Risk

We had approximately $15.7 million at December 31, 2003 invested in investment products managed by our former Symphony venture. These investments are in primarily market-neutral programs, are non-interest bearing and consist principally of long and short positions placed directly through other fund managers in U.S. and non-U.S. equity securities of both public and private issuers. Although the intent of the managers of these funds is to structure portfolios that are hedged against general market movements, these investments can be subject to significant changes in market value and are not insured. All investment decisions with respect to these market neutral programs are made by professional investment advisers and the performance of the funds is reviewed periodically by our management.

Foreign Currency Risk

We invoice customers in Europe in both pounds and euros. In Japan, we bill our customers in yen. Excluding customers in these locations, we generally bill for our services in U.S. dollars. To the extent we invoice our customers in local currency (yen, pound and euro), our international revenues are subject to currency exchange fluctuation risk. To the extent that international revenues that are invoiced in local currencies increase in the future, our exposure to fluctuations in currency exchange rates will correspondingly increase. Currency fluctuations may also effectively increase the cost of our products and services in countries in which customers are invoiced in U.S. dollars.

We have a hedging program in place which is designed to reduce our exposure to fluctuations in certain foreign currency translation rates from holding net assets denominated in foreign currencies. The program utilizes forward contracts for the sale of foreign currencies to hedge our net asset exposure, consisting principally of cash and receivables denominated in pounds, euros and yen. Gains and losses on the contracts are accounted for as other operating expense, net each period. At December 31, 2003, we had one contract to sell 500 million yen at 106.98, maturing on February 3, 2004. Also at December 31, 2003, we had one contract to sell 5 million euro at 1.2507, maturing on February 3, 2004. Additionally, at December 31, 2003, we had one contract to sell 5 million pounds at 1.7684, maturing on February 3, 2004. We enter into forward currency contracts only with approved counter- parties and all hedging activities are reviewed by our Foreign Exchange Committee. Our hedging program is currently designed only to reduce our exposure to gains and losses that result from translating our foreign assets and liabilities into U.S dollars. It does not currently limit or reduce the exposure we have from fluctuations in currency exchange rates on our reported revenues that are billed in non-U.S. currencies.

We have no foreign debt and our non-U.S. dollar cash balances held overseas are generally kept at levels necessary to meet current operating and capitalization needs.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

As required by SEC Rule 13a - 15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

There have been no other material legal proceedings initiated since the date of our Form 10-K. From time to time, we may be involved in litigation incidental to the conduct of our business. Except as otherwise disclosed in our periodic filings, we are not currently a party to any legal proceedings that are material to our business.

ITEM 5. OTHER INFORMATION.

On November 20, 2003 our Board of Directors authorized the Company to repurchase up to a total of 2,000,000 shares of our Common Stock pursuant to our stock repurchase plan. During the December 2003 quarter the Company repurchased 528,600 shares. As of December 31, 2003, 1,471,400 shares remain authorized and unrepurchased under the plan.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

Exhibit Number	Exhibit Description
3.1	Certificate of Incorporation of Barra, Inc. (incorporated by reference to Exhibit 3.1 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
3.2	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of Barra, Inc. (incorporated by reference to Exhibit 3.2 of our Registration Statement on Form 8-A filed with the Securities and Exchange Commission on August 24, 2001).
3.3	Amended and Restated Bylaws of Barra, Inc. (incorporated by reference to Exhibit 3.3 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
4.1	Specimen stock certificate (incorporated by reference to Exhibit 4.3 of our Registration Statement on Form S-1 (No. 33-42951), filed with the Securities Exchange Commission on August 20, 1991, as amended).
4.2	Preferred Stock Rights Agreement, dated as of August 15, 2001, between Barra, Inc. and Mellon Investor Services LLC, including the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits B, and C, respectively (incorporated by reference to Exhibit 4.1 of our Registration Statement on Form 8-A filed with the Securities and Exchange Commission on August 24th, 2001).
4.3	Amendment No. 1 to the Preferred Stock Rights Agreement, dated as of February 12, 2003, between Barra, Inc. and the Mellon Investor Services LLC (incorporated by reference to Exhibit 4.2 of our Registration Statement on Form 8-A filed with the Securities and Exchange Commission on February 14, 2003).
31.1	Certifications of Kamal Duggirala, Chief Executive Officer of Barra, Inc., and Greg Stockett, Chief Financial Officer of Barra, Inc., pursuant to Rule 13a-14(a) and 15d-14(a).

32.1	Certifications of Kamal Duggirala, Chief Executive Officer of Barra, Inc., and Greg Stockett, Chief Financial Officer of Barra, Inc., pursuant to 18 U.S.C. 1350 (this exhibit is furnished solely for the information of the Securities Exchange Commission and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference to such filing).

(b) Reports on Form 8-K:

On October 22, 2003, the registrant filed a Current Report on Form 8-K announcing its financial results for the fiscal quarter ended September 30, 2003, and attaching a press release dated October 22, 2003.

SIGNATURES

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

BARRA, Inc.
(Registrant)

Dated: February 12, 2004

By: /s/ Kamal Duggirala

Kamal Duggirala
Chief Executive Officer

Dated: February 12, 2004

By: /s/ Greg Stockett

Greg Stockett
Chief Financial Officer

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