

MSCI Inc.  
Form 10-Q  
November 04, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2011

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 001-33812

**MSCI INC.**

(Exact Name of Registrant as Specified in its Charter)

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**Delaware**  
(State of Incorporation)

**13-4038723**  
(I.R.S. Employer

Identification Number)

**One Chase Manhattan Plaza, 44<sup>th</sup> Floor**

**New York, New York**  
(Address of Principal Executive Offices)

**10005**  
(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

As of October 31, 2011, there were 120,567,744 shares of the Registrant's class A common stock, \$0.01 par value, outstanding and no shares of the Registrant's class B common stock, \$0.01 par value, outstanding.

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**MSCI INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2011**

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AVAILABLE INFORMATION

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

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

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

Charters for our Audit Committee, Compensation Committee and Nominating and Governance Committee;

Corporate Governance Policies; and

Code of Ethics and Business Conduct.

MSCI Inc.'s Code of Ethics and Business Conduct applies to all directors, officers and employees, including its Chief Executive Officer and its Chief Financial Officer. MSCI Inc. will post any amendments to the Code of Ethics and Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange, Inc. (NYSE) on its internet site. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, One Chase Manhattan Plaza, 44<sup>th</sup> Floor, New York, NY 10005; (212) 804-5273. The information on MSCI Inc.'s internet site is not incorporated by reference into this report.

**Table of Contents****PART I****Item 1. Condensed Consolidated Financial Statements****MSCI INC.****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(in thousands, except share and per share data)

|                                                                                                                                                                     | September 30,<br>2011 | As of<br>November 30,<br>2010<br>(unaudited) |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------------------------------|
| <b>ASSETS</b>                                                                                                                                                       |                       |                                              |
| <b>Current assets:</b>                                                                                                                                              |                       |                                              |
| Cash and cash equivalents                                                                                                                                           | \$ 221,575            | \$ 226,575                                   |
| Short-term investments                                                                                                                                              | 142,754               | 73,891                                       |
| Trade receivables (net of allowances of \$1,073 and \$1,013 as of September 30, 2011 and November 30, 2010, respectively)                                           | 166,948               | 147,662                                      |
| Deferred taxes                                                                                                                                                      | 55,012                | 47,811                                       |
| Prepaid taxes                                                                                                                                                       | 19,132                | 21,010                                       |
| Prepaid and other assets                                                                                                                                            | 27,015                | 19,334                                       |
| <b>Total current assets</b>                                                                                                                                         | <b>632,436</b>        | <b>536,283</b>                               |
| Property, equipment and leasehold improvements (net of accumulated depreciation of \$57,027 and \$41,573 at September 30, 2011 and November 30, 2010, respectively) | 36,911                | 34,368                                       |
| Goodwill                                                                                                                                                            | 1,708,585             | 1,706,671                                    |
| Intangible assets (net of accumulated amortization of \$239,311 and \$190,311 at September 30, 2011 and November 30, 2010, respectively)                            | 661,149               | 716,250                                      |
| Other non-current assets                                                                                                                                            | 25,133                | 29,594                                       |
| <b>Total assets</b>                                                                                                                                                 | <b>\$ 3,064,214</b>   | <b>\$ 3,023,166</b>                          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                         |                       |                                              |
| <b>Current liabilities:</b>                                                                                                                                         |                       |                                              |
| Accounts payable                                                                                                                                                    | \$ 431                | \$ 2,162                                     |
| Accrued compensation and related benefits                                                                                                                           | 85,011                | 99,046                                       |
| Other accrued liabilities                                                                                                                                           | 47,073                | 39,500                                       |
| Current maturities of long-term debt                                                                                                                                | 10,334                | 54,916                                       |
| Deferred revenue                                                                                                                                                    | 291,045               | 271,300                                      |
| <b>Total current liabilities</b>                                                                                                                                    | <b>433,894</b>        | <b>466,924</b>                               |
| Long-term debt, net of current maturities                                                                                                                           | 1,104,116             | 1,207,881                                    |
| Deferred taxes                                                                                                                                                      | 236,372               | 240,944                                      |
| Other non-current liabilities                                                                                                                                       | 27,884                | 27,300                                       |
| <b>Total liabilities</b>                                                                                                                                            | <b>1,802,266</b>      | <b>1,943,049</b>                             |
| <b>Commitments and Contingencies (see Note 10)</b>                                                                                                                  |                       |                                              |
| <b>Shareholders' equity:</b>                                                                                                                                        |                       |                                              |
| Preferred stock (par value \$0.01; 100,000,000 shares authorized; no shares issued)                                                                                 | 1,217                 | 1,205                                        |

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Common stock (par value \$0.01; 500,000,000 class A shares and 250,000,000 class B shares authorized; 121,708,373 and 120,544,551 class A shares issued and 120,559,212 and 119,522,043 class A shares outstanding at September 30, 2011 and November 30, 2010, respectively; no class B shares issued and outstanding at September 30, 2011 and November 30, 2010, respectively)

|                                                                                                                     |          |          |
|---------------------------------------------------------------------------------------------------------------------|----------|----------|
| Treasury shares, at cost (1,149,161 and 1,022,508 shares at September 30, 2011 and November 30, 2010, respectively) | (38,142) | (33,319) |
| Additional paid in capital                                                                                          | 984,253  | 938,014  |
| Retained earnings                                                                                                   | 318,975  | 176,183  |
| Accumulated other comprehensive loss                                                                                | (4,355)  | (1,966)  |

|                                   |                  |                  |
|-----------------------------------|------------------|------------------|
| <b>Total shareholders' equity</b> | <b>1,261,948</b> | <b>1,080,117</b> |
|-----------------------------------|------------------|------------------|

|                                                   |                     |                     |
|---------------------------------------------------|---------------------|---------------------|
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 3,064,214</b> | <b>\$ 3,023,166</b> |
|---------------------------------------------------|---------------------|---------------------|

**See Notes to Unaudited Condensed Consolidated Financial Statements**

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

|                                                                                 | <b>Three Months Ended</b> |                   | <b>Nine Months Ended</b> |                   |
|---------------------------------------------------------------------------------|---------------------------|-------------------|--------------------------|-------------------|
|                                                                                 | <b>September 30,</b>      | <b>August 31,</b> | <b>September 30,</b>     | <b>August 31,</b> |
|                                                                                 | <b>2011</b>               | <b>2010</b>       | <b>2011</b>              | <b>2010</b>       |
|                                                                                 | <b>(unaudited)</b>        |                   |                          |                   |
| Operating revenues                                                              | \$ 225,026                | \$ 202,733        | \$ 674,807               | \$ 449,583        |
| Cost of services                                                                | 68,968                    | 69,741            | 208,026                  | 129,495           |
| Selling, general and administrative                                             | 53,724                    | 63,306            | 158,463                  | 140,944           |
| Restructuring                                                                   | (1,002)                   | 6,953             | 3,469                    | 6,953             |
| Amortization of intangible assets                                               | 16,422                    | 16,350            | 49,537                   | 24,905            |
| Depreciation and amortization of property, equipment and leasehold improvements | 4,669                     | 4,934             | 14,947                   | 11,883            |
| Total operating expenses                                                        | 142,781                   | 161,284           | 434,442                  | 314,180           |
| <b>Operating income</b>                                                         | <b>82,245</b>             | <b>41,449</b>     | <b>240,365</b>           | <b>135,403</b>    |
| Interest income                                                                 | (184)                     | (114)             | (513)                    | (865)             |
| Interest expense                                                                | 13,113                    | 20,415            | 42,552                   | 33,842            |
| Other expense (income)                                                          | (983)                     | 524               | 5,041                    | 14                |
| <b>Other expense (income), net</b>                                              | <b>11,946</b>             | <b>20,825</b>     | <b>47,080</b>            | <b>32,991</b>     |
| Income before provision for income taxes                                        | 70,299                    | 20,624            | 193,285                  | 102,412           |
| Provision for income taxes                                                      | 20,512                    | 10,305            | 64,317                   | 40,508            |
| <b>Net income</b>                                                               | <b>\$ 49,787</b>          | <b>\$ 10,319</b>  | <b>\$ 128,968</b>        | <b>\$ 61,904</b>  |
| Earnings per basic common share                                                 | \$ 0.41                   | \$ 0.09           | \$ 1.06                  | \$ 0.56           |
| Earnings per diluted common share                                               | \$ 0.40                   | \$ 0.08           | \$ 1.05                  | \$ 0.55           |
| Weighted average shares outstanding used in computing earnings per share        |                           |                   |                          |                   |
| Basic                                                                           | 120,831                   | 118,339           | 120,570                  | 109,672           |
| Diluted                                                                         | 122,303                   | 120,341           | 122,186                  | 110,762           |

**See Notes to Unaudited Condensed Consolidated Financial Statements**

**Table of Contents****MSCI INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)**

|                                                                                   | <b>Nine Months Ended</b> |                   |
|-----------------------------------------------------------------------------------|--------------------------|-------------------|
|                                                                                   | <b>September 30,</b>     | <b>August 31,</b> |
|                                                                                   | <b>2011</b>              | <b>2010</b>       |
|                                                                                   | <b>(unaudited)</b>       |                   |
| <b>Cash flows from operating activities</b>                                       |                          |                   |
| Net income                                                                        | \$ 128,968               | \$ 61,904         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |                   |
| Amortization of intangible assets                                                 | 49,537                   | 24,905            |
| Share-based compensation                                                          | 24,322                   | 22,944            |
| Depreciation of property, equipment and leasehold improvements                    | 14,947                   | 11,883            |
| Amortization of debt origination fees                                             | 4,405                    | 6,610             |
| Deferred taxes                                                                    | (12,950)                 | 4,861             |
| Amortization of discount on long-term debt                                        | 801                      | 1,064             |
| Excess tax benefits from share-based compensation                                 | (4,076)                  | (2,503)           |
| Other non-cash adjustments                                                        | 1,420                    | 321               |
| Changes in assets and liabilities, net of assets and liabilities acquired:        |                          |                   |
| Trade receivables                                                                 | (28,883)                 | (1,800)           |
| Prepaid income taxes                                                              | 4,860                    | (7,943)           |
| Prepaid and other assets                                                          | (9,649)                  | 1,835             |
| Accounts payable                                                                  | 237                      | (3,369)           |
| Deferred revenue                                                                  | 21,166                   | 16,042            |
| Accrued compensation and related benefits                                         | (15,139)                 | (7,377)           |
| Other accrued liabilities                                                         | (3,083)                  | (9,871)           |
| Other                                                                             | (1,953)                  | 1,732             |
| <b>Net cash provided by operating activities</b>                                  | <b>174,930</b>           | <b>121,238</b>    |
| <b>Cash flows from investing activities</b>                                       |                          |                   |
| Acquisitions, net of cash acquired                                                |                          | (1,100,943)       |
| Proceeds from redemption of short-term investments                                | 73,103                   | 375,044           |
| Purchase of investments                                                           | (142,896)                | (121,652)         |
| Capital expenditures                                                              | (16,842)                 | (7,095)           |
| Proceeds from the sale of property, equipment and leasehold improvements          |                          | 22                |
| <b>Net cash used in investing activities</b>                                      | <b>(86,635)</b>          | <b>(854,624)</b>  |
| <b>Cash flows from financing activities</b>                                       |                          |                   |
| Repayment of long-term debt                                                       | (1,274,249)              | (383,688)         |
| Proceeds from borrowing, net of discount                                          | 1,125,000                | 1,268,625         |
| Repayment of RiskMetrics Group, Inc. debt acquired                                |                          | (107,485)         |
| Payment of financing fees                                                         |                          | (34,029)          |
| Repurchase of treasury shares                                                     | (2,941)                  | (4,207)           |
| Proceeds from exercise of stock options                                           | 13,759                   | 14,166            |
| Excess tax benefits from share-based compensation                                 | 4,076                    | 2,503             |
| <b>Net cash provided by (used in) financing activities</b>                        | <b>(134,355)</b>         | <b>755,885</b>    |
| <b>Effect of exchange rate changes</b>                                            | <b>(1,788)</b>           | <b>(788)</b>      |

|                                                                                                                           |            |            |
|---------------------------------------------------------------------------------------------------------------------------|------------|------------|
| <b>Net increase (decrease) in cash</b>                                                                                    | (47,848)   | 21,711     |
| <b>Cash and cash equivalents, beginning of period</b>                                                                     | 269,423    | 176,024    |
| <b>Cash and cash equivalents, end of period</b>                                                                           | \$ 221,575 | \$ 197,735 |
| Supplemental disclosure of cash flow information:                                                                         |            |            |
| Cash paid for interest                                                                                                    | \$ 41,277  | \$ 24,148  |
| Cash paid for income taxes                                                                                                | \$ 72,280  | \$ 43,313  |
| Supplemental disclosure of non-cash investing activities:                                                                 |            |            |
| Property, equipment and leasehold improvements in other accrued liabilities                                               | \$ 2,271   | \$ 3,200   |
| Acquisition of RiskMetrics Group, Inc., class A common stock issued                                                       | \$         | \$ 371,815 |
| Fair value of stock options and restricted stock awards assumed in connection with acquisition of RiskMetrics Group, Inc. | \$         | \$ 53,879  |
| Unpaid portion of Measurisk, LLC acquisition price                                                                        | \$         | \$ 300     |

**See Notes to Unaudited Condensed Consolidated Financial Statements**

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### **MSCI INC.**

### **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **(UNAUDITED)**

## **1. INTRODUCTION AND BASIS OF PRESENTATION**

MSCI Inc. together with its wholly-owned subsidiaries (the Company or MSCI) is a global provider of investment decision support tools worldwide, including indices, portfolio risk and performance analytics and corporate governance products and services. The Company's flagship products are its global equity indices and environmental, social and governance (ESG) products marketed under the MSCI brand, its portfolio risk and performance analytics covering global equity and fixed income markets marketed under the Barra brand, its market and credit risk analytics marketed under the RiskMetrics and Barra brands, its governance research and outsourced proxy voting and reporting services marketed under the ISS brand, its valuation models and risk management software for the energy and commodities markets marketed under the FEA brand and its forensic accounting risk research, legal and regulatory risk assessment and due diligence products marketed under the CFRA brand.

MSCI operates as two segments, the Performance and Risk business and the Governance business. The Performance and Risk business is a global provider of investment decision support tools, including indices, portfolio risk and performance analytics, credit analytics and ESG products. The Governance business, which was included in MSCI's operations following MSCI's acquisition of RiskMetrics Group, Inc. (RiskMetrics), is a provider of corporate governance and specialized financial research and analysis services to institutional shareholders and corporations around the world. (See Note 3, Acquisitions, and Note 14, Segment Information, for further information about MSCI's acquisitions and operating segments.)

### **Change in Fiscal Year End**

On December 8, 2010, the Board of Directors of the Company approved a change in the Company's fiscal year end from November 30 to December 31 of each year. This change to the calendar year reporting cycle began January 1, 2011.

Financial information for the three months and nine months ended September 30, 2010 has not been included in this Form 10-Q for the following reasons: (i) the three months and nine months ended August 31, 2010, respectively, provide a meaningful comparison for the three and nine months ended September 30, 2011, respectively; (ii) there are no significant factors, seasonal or other, that would materially impact the comparability of information if the results for the three and nine months ended September 30, 2010, respectively, were presented in lieu of results for the three and nine months ended August 31, 2010, respectively; and (iii) it was not practicable or cost justified to prepare this information.

### **Basis of Presentation and Use of Estimates**

These unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries and include all adjustments of a normal, recurring nature necessary to present fairly the financial condition as of September 30, 2011 and November 30, 2010, the results of operations for the three and nine months ended September 30, 2011 and August 31, 2010 and cash flows for the nine months ended September 30, 2011 and August 31, 2010. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in MSCI's Annual Report on Form 10-K for the fiscal year ended November 30, 2010. The condensed consolidated financial statement information as of November 30, 2010 has been derived from the 2010 audited consolidated financial statements. The results of operations for interim periods are not necessarily indicative of results for the entire year.

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

Inter-company balances and transactions are eliminated in consolidation.

*Concentration of Credit Risk*

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### **MSCI INC.**

### **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **(UNAUDITED)**

The Company licenses its products and services primarily to investment managers principally in the United States, Europe and Asia. The Company evaluates the credit of its customers and does not require collateral. The Company maintains reserves on customer accounts where estimated losses may result from the inability of its customers to make required payments.

Financial instruments that may potentially subject the Company to concentrations of credit risk consist principally of cash deposits and short-term investments. At September 30, 2011 and November 30, 2010, cash and cash equivalents held primarily on deposit were \$221.6 million and \$226.6 million, respectively. At September 30, 2011 and November 30, 2010, the Company had invested \$142.8 million and \$73.9 million, respectively, in debt securities with maturity dates ranging from 91 to 365 days from the date of purchase.

For the three and nine months ended September 30, 2011 and for the three months ended August 31, 2010, no single customer accounted for 10.0% or more of the Company's operating revenues. For the nine months ended August 31, 2010, BlackRock Inc. accounted for 10.6% of the Company's operating revenues.

## **2. RECENT ACCOUNTING STANDARDS UPDATES**

In October 2009, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*, or ASU 2009-13. ASU 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how the arrangement consideration should be allocated among the separate units of accounting. The adoption of ASU 2009-13 did not have a material impact on the Company's condensed consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements*, or ASU 2009-14. ASU 2009-14 modifies the scope of the software revenue recognition guidance to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. The adoption of ASU 2009-14 did not have a material impact on the Company's condensed consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, *Intangibles—Goodwill and Other (Topic 350)*, or ASU 2010-28. This ASU amends ASC Topic 350. ASU 2010-28 clarifies the requirement to test for impairment of goodwill. ASC Topic 350 has required that goodwill be tested for impairment if the carrying amount of a reporting unit exceeds its fair value. Under ASU 2010-28, when the carrying amount of a reporting unit is zero or negative an entity must assume that it is more likely than not that a goodwill impairment exists, perform an additional test to determine whether goodwill has been impaired and calculate the amount of that impairment. The modifications to ASC Topic 350 resulting from the issuance of ASU 2010-28 are effective for fiscal years beginning after December 15, 2010 and interim periods within those years. The adoption of ASU 2010-28 did not have a material impact on the Company's condensed consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-29, *Business Combinations (Topic 805) Disclosure of Supplementary Pro Forma Information for Business Combinations*, or ASU 2010-29. This standard update clarifies that, when presenting comparative financial statements, SEC registrants should disclose revenue and earnings of the combined entity as though the current period business combinations had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for material (either on an individual or aggregate basis) business combinations entered into in fiscal years beginning on or after December 15, 2010. The adoption of ASU 2010-29 did not have a material impact on the Company's condensed consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*, or ASU 2011-05. The issuance of ASU 2011-05 is intended to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The guidance in ASU 2011-05 supersedes the presentation options in ASC Topic 220 and facilitates convergence of U.S. generally accepted accounting principles and International Financial Reporting Standards by eliminating the option to present

components of other comprehensive income as part of the statement of changes in stockholders' equity and requiring that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In October 2011, the FASB announced that they will discuss at a future meeting whether to delay the specific requirement under ASU 2011-05 to present items that are reclassified from other comprehensive income to net income alongside their respective components of net income and other comprehensive income.

**Table of Contents****MSCI INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

The provisions covered by ASU 2011-05 are effective for interim periods and years beginning after December 15, 2011 with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2011-05 on its condensed consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment*, or ASU 2011-08, which amends the guidance in ASC subtopic 350-20, *Intangibles Goodwill and Other Goodwill*. Under ASU 2011-08, entities have the option of performing a qualitative assessment before calculating the fair value of the reporting unit when testing goodwill for impairment. If the fair value of the reporting unit is determined, based on qualitative factors, to be more likely than not less than the carrying amount of the reporting unit, entities are then required to perform the two-step goodwill impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The Company adopted ASU 2011-08 during the quarter ended September 30, 2011. The adoption of ASU 2011-08 did not have a material impact on the Company's condensed consolidated financial statements. See Note 9, *Goodwill and Intangible Assets*, for further information regarding the Company's goodwill testing.

**3. ACQUISITIONS*****Acquisition of RiskMetrics***

On June 1, 2010, MSCI acquired RiskMetrics Group, Inc. ( *RiskMetrics* ). Under the terms of the Agreement and Plan of Merger dated as of February 28, 2010 by and among MSCI, Crossway Inc. ( *Merger Sub* ), a wholly owned subsidiary of MSCI, and RiskMetrics, Merger Sub merged with and into RiskMetrics, with RiskMetrics continuing as the surviving corporation and a wholly owned subsidiary of MSCI. MSCI and RiskMetrics began joint operations immediately after the merger became effective. MSCI acquired RiskMetrics to, among other things, offer clients a more expansive portfolio of investment decision support tools that will enable clients to understand risk across their entire investment processes as well as reduce the concentration of the Company's client base beyond asset owners, asset managers and broker dealers by including a greater number of hedge fund, mutual fund and bank clients.

The total purchase price for RiskMetrics was \$1,572.4 million and was comprised of:

| (in thousands)                                                                                           |              |
|----------------------------------------------------------------------------------------------------------|--------------|
| Cash                                                                                                     | \$ 1,146,702 |
| MSCI class A common stock valued using the New York Stock Exchange closing price on June 1, 2010         | 371,815      |
| Fair value of outstanding vested and unvested stock options and unvested restricted stock awards assumed | 53,879       |
| Total purchase price                                                                                     | \$ 1,572,396 |

MSCI issued approximately 12.6 million shares of class A common stock ( *Common Stock* ) and reserved approximately 4.3 million shares of Common Stock for outstanding vested and unvested stock options and unvested restricted stock awards assumed as part of the acquisition of RiskMetrics.

The fair values of stock options assumed were estimated using a Hull-White Lattice option-pricing model. The fair value of the unearned portion of the unvested RiskMetrics stock options and restricted stock awards will be recorded as operating expense over the remaining service periods, while the fair values of the earned portion of the vested and unvested stock options and unvested restricted stock awards are included in the total purchase price.

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During the nine months ended August 31, 2010, MSCI incurred approximately \$21.2 million in transaction related costs related to the acquisition of RiskMetrics. These costs are reflected in Selling, general and administrative on the Condensed Consolidated Statements of Income.

### *Purchase Price Allocation*

**Table of Contents****MSCI INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

The acquisition method of accounting is based on ASC Subtopic 805-10, *Business Combinations*, and uses the fair value concepts defined in ASC Subtopic 820-10, *Fair Value Measurements and Disclosures*, which MSCI has adopted as required. The total purchase price for RiskMetrics was allocated to the net tangible and intangible assets based upon their fair values as of June 1, 2010 as set forth below. The excess of the purchase price over the fair values of the net tangible assets and intangible assets was recorded as goodwill. The purchase price allocation for RiskMetrics, which was based upon a valuation, is as follows:

|                                        |                  |
|----------------------------------------|------------------|
| <b>(in thousands)</b>                  |                  |
| Cash and cash equivalents              | \$ 76,459        |
| Trade receivables                      | 33,577           |
| Other assets                           | 32,398           |
| Goodwill                               | 1,245,862        |
| Intangible assets                      | 628,120          |
| Accounts payable and other liabilities | (48,494)         |
| Debt                                   | (107,485)        |
| Deferred revenues                      | (114,686)        |
| Deferred tax liabilities, net          | (173,355)        |
| <br>Total purchase price               | <br>\$ 1,572,396 |

As a result of the finalization of the acquired income and non-income based tax valuations, Other assets, Goodwill, Accounts payable and other liabilities and Deferred tax liabilities, net increased.

MSCI generally does not expect the goodwill recognized to be deductible for income tax purposes. Approximately \$1,014.8 million and \$231.1 million of the goodwill was allocated to the Performance and Risk and the Governance segments, respectively. These balances changed during the three months ended June 30, 2011 from those reported at November 30, 2010 as a result of the finalization of the acquired income and non-income based tax valuations.

***Valuations of Intangible Assets Acquired***

The following table sets forth the components of intangible assets acquired in connection with the RiskMetrics acquisition:

|                        | <b>Estimated Fair Value<br/>(in thousands)</b> | <b>Estimated Useful Life</b> |
|------------------------|------------------------------------------------|------------------------------|
| Customer relationships | \$ 428,600                                     | 14 to 15 years               |
| Technology/Software    | 52,640                                         | 3 to 7 years                 |
| Proprietary processes  | 3,800                                          | 6 years                      |
| Trademarks/trade names | 140,300                                        | 10 to 20 years               |
| Non-compete agreements | 2,780                                          | 1.5 years                    |
| <br>Total              | <br>\$ 628,120                                 |                              |

***Actual Impact of RiskMetrics Acquisition***

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The following table presents the Company's estimates for information for RiskMetrics from the June 1, 2010 acquisition date that is included in MSCI's Condensed Consolidated Statements of Income:

**Table of Contents****MSCI INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)****RiskMetrics Operations Included in MSCI's Results**

|                | Three<br>Months<br>Ended<br>September 30,<br>2011 | Three Months<br>Ended<br>August 31,<br>2010 | Nine Months<br>Ended<br>September 30,<br>2011 | Nine Months<br>Ended<br>August 31,<br>2011 |
|----------------|---------------------------------------------------|---------------------------------------------|-----------------------------------------------|--------------------------------------------|
| (in thousands) |                                                   |                                             |                                               |                                            |
| Total revenues | \$ 77,515                                         | \$ 76,980                                   | \$ 234,799                                    | \$ 76,980                                  |
| Net income     | \$ 21,806                                         | \$ 4,293                                    | \$ 44,873                                     | \$ 4,293                                   |

**Acquisition of Measurisk**

On July 30, 2010, MSCI acquired Measurisk, LLC (Measurisk) to expand its product offerings to hedge fund investors. This was not deemed to be an individually significant acquisition. MSCI has accounted for this acquisition in accordance with the ASC Subtopic 805-10 and has included the financial results of Measurisk in its consolidated results from the July 30, 2010 acquisition date. For the three and nine months ended September 30, 2011, Measurisk contributed approximately \$3.8 million and \$10.9 million to MSCI's revenue, respectively. For the three and nine months ended August 31, 2010, Measurisk contributed approximately \$1.1 million to MSCI's revenue and \$0.3 million to MSCI's earnings. Other earnings contributions from Measurisk were not separately identifiable due to the Company's integration activities. The purchase price allocations for this acquisition were \$2.3 million for other assets, \$9.5 million for identifiable intangible assets, \$1.9 million for other liabilities and \$21.1 million for goodwill.

**Unaudited Pro Forma Financial Information**

The unaudited pro forma financial information in the table below summarizes the combined results of operations for MSCI and RiskMetrics as though the companies were combined as of December 1, 2009. The pro forma financial information for all periods presented also includes the business combination accounting effects resulting from the acquisition including the amortization charges from acquired intangible assets, adjustments to interest income for lower average cash balances, interest expense for borrowings and the amortization of deferred financing fees, debt discounts and prepaid agency fees and the related tax effects as though the aforementioned companies were combined as of December 1, 2009. No adjustments have been made for the Measurisk acquisition because it was not deemed to be an individually significant acquisition. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions and any borrowings undertaken to finance the RiskMetrics acquisition had taken place at December 1, 2009.

The unaudited pro forma financial information for the nine months ended August 31, 2010 combine the historical results of MSCI for the nine months ended August 31, 2010, the historical results of RiskMetrics for the three-month period ended March 31, 2010 and the historical results of RiskMetrics for the three-month period ended December 31, 2009 (due to differences in reporting periods), adjusted to reflect the accounting effects described above.

The unaudited pro forma financial information and the effects of the pro forma adjustments described above were as follows for the nine months ended August 31, 2010:

**Nine Months Ended  
August 31,  
2010**

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|                                                                                 |             |
|---------------------------------------------------------------------------------|-------------|
| (in thousands)                                                                  | (unaudited) |
| <b>Operating revenues</b>                                                       | \$ 603,101  |
| Cost of services                                                                | 203,808     |
| Selling, general and administrative                                             | 149,990     |
| Restructuring                                                                   | 6,953       |
| Amortization of intangible assets                                               | 48,710      |
| Depreciation and amortization of property, equipment and leasehold improvements | 16,130      |
| Total operating expenses                                                        | 425,591     |
| <b>Operating income</b>                                                         | 177,510     |
| <b>Other expense (income), net</b>                                              | 52,460      |
| Income before provision for income taxes                                        | 125,050     |
| Provision for income taxes                                                      | 44,395      |
| <b>Net income</b>                                                               | \$ 80,655   |
| Earnings per diluted common share                                               | \$ 0.67     |

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## MSCI INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The unaudited pro forma financial information by MSCI's operating segments and the effects of the pro forma adjustments listed above are presented in the table below (See Note 14, Segment Information, for further information about MSCI's operating segments):

| (in thousands)                                  | Nine Months Ended    |               |                  |
|-------------------------------------------------|----------------------|---------------|------------------|
|                                                 | August 31, 2010      |               |                  |
|                                                 |                      | (unaudited)   |                  |
|                                                 | Performance and Risk | Governance    | Total            |
| <b>Operating revenues</b>                       | \$ 508,146           | \$ 94,955     | \$ 603,101       |
| Cost of services                                | 151,675              | 52,133        | 203,808          |
| Selling, general and administrative             | 130,629              | 19,361        | 149,990          |
| Restructuring                                   | 6,032                | 921           | 6,953            |
| Amortization of intangible assets               | 38,660               | 10,050        | 48,710           |
| Depreciation expense                            | 13,427               | 2,703         | 16,130           |
| <b>Total operating expenses</b>                 | <b>340,423</b>       | <b>85,168</b> | <b>425,591</b>   |
| <b>Operating income</b>                         | <b>167,723</b>       | <b>9,787</b>  | <b>177,510</b>   |
| Other expense (income), net                     |                      |               | 52,460           |
| <b>Income before provision for income taxes</b> |                      |               | <b>125,050</b>   |
| Provision for income taxes                      |                      |               | 44,395           |
| <b>Net income</b>                               |                      |               | <b>\$ 80,655</b> |

**4. RESTRUCTURING**

During the fiscal year 2010, MSCI's management approved, committed to and initiated a plan to restructure the Company's operations due to its acquisition of RiskMetrics (the "Restructuring Plan") in order to eliminate overlapping positions, eliminate duplicative occupancy costs, terminate overlapping vendor contracts and discontinue the planned integration of a product into RiskMetrics' standard product offering suite. The Company accounts for restructuring costs in accordance with ASC Subtopic 420-10, *Exit or Disposal Cost Obligations*. The restructuring costs will be recorded to the Restructuring expense line item within the Company's Condensed Consolidated Statements of Income as they are recognized.

During the nine months ended September 30, 2011, the Company recorded \$3.5 million of restructuring expenses in connection with the Restructuring Plan, of which \$1.9 million was related to costs associated with the exit of certain leases, \$0.9 million was related to the write-off of assets associated with the exit of certain leases, \$0.7 million was related to severance and less than \$0.1 million was related to the accelerated vesting of share-based compensation awards triggered by the elimination of overlapping positions. During the three months ended September 30, 2011, the Company reversed approximately \$1.2 million of reserves that were associated with eliminating duplicative facilities as the final cost of exiting the facilities was lower than originally estimated. During the nine months ended August 31, 2010, the Company recorded \$7.0 million of restructuring expenses in connection with the Restructuring Plan, of which approximately \$3.4 million was

**Table of Contents****MSCI INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

related to severance and \$2.5 million was related to the accelerated vesting of share-based compensation awards triggered by the elimination of overlapping positions, \$0.9 million was related to costs associated with discontinuance of the planned integration of a product into RiskMetrics standard product offering suite and \$0.1 million was related to costs associated with the exit of certain leases. The accelerated vesting of share-based compensation awards is not accounted for as a restructuring liability under the line item Other accrued liabilities but is instead recorded under the line item Additional paid in capital in the Company's Condensed Consolidated Statement of Financial Condition.

During the nine months ended September 30, 2011, approximately \$1.6 million of the restructuring expenses were recorded under the Company's Performance and Risk operating segment and \$1.9 million were recorded under the Company's Governance operating segment. During the nine months ended August 31, 2010, approximately \$6.0 million of the restructuring expenses were recorded under the Company's Performance and Risk operating segment and \$0.9 million were recorded under the Company's Governance operating segment. The Company may incur additional future restructuring costs over the course of the current fiscal year. Any changes to the estimates in connection with executing the Restructuring Plan will be reflected in the Company's future results of operations.

The table below summarizes the accrual and charges incurred with respect to the Company's Restructuring Plan that are included in the line items Other accrued liabilities in the Company's Condensed Consolidated Statement of Financial Condition as of November 30, 2010 and September 30, 2011:

**MSCI Restructuring Plan**

| (in thousands)                             | Severance | Lease<br>termination | Other | Total    |
|--------------------------------------------|-----------|----------------------|-------|----------|
| <b>Accrued Balance, November 30, 2010</b>  | \$ 1,087  | \$ 1,297             | \$    | \$ 2,384 |
| Restructuring costs                        | 674       | 2,911                |       | 3,585    |
| Cash payments                              | (1,411)   | (3,227)              |       | (4,638)  |
| Other                                      |           | (39)                 |       | (39)     |
| <b>Accrued Balance, September 30, 2011</b> | \$ 350    | \$ 942               | \$    | \$ 1,292 |

**5. EARNINGS PER COMMON SHARE**

Basic EPS is computed by dividing income available to MSCI common shareholders by the weighted average number of common shares outstanding during the period. Common shares outstanding include common stock and vested restricted stock unit awards where recipients have satisfied either the explicit vesting terms or retirement-eligibility requirements. Diluted EPS reflects the assumed conversion of all dilutive securities. There were 32,757 and 17,174 anti-dilutive stock options excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2011, respectively. There were 456,748 and 152,249 anti-dilutive stock options excluded from the calculation of diluted EPS for the three and nine months ended August 31, 2010, respectively.

The Company computes EPS using the two-class method and determines whether instruments granted in share-based payment transactions are participating securities. The following table presents the computation of basic and diluted EPS:

**Table of Contents****MSCI INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

|                                                                                 | <b>Three Months Ended</b>                    |                            | <b>Nine Months Ended</b>      |                            |
|---------------------------------------------------------------------------------|----------------------------------------------|----------------------------|-------------------------------|----------------------------|
|                                                                                 | <b>September 30,<br/>2011</b>                | <b>August 31,<br/>2010</b> | <b>September 30,<br/>2011</b> | <b>August 31,<br/>2010</b> |
|                                                                                 | <b>(in thousands, except per share data)</b> |                            |                               |                            |
| Net income                                                                      | \$ 49,787                                    | \$ 10,319                  | \$ 128,968                    | \$ 61,904                  |
| Less: Allocations of earnings to unvested restricted stock units <sup>(1)</sup> | (483)                                        | (118)                      | (1,251)                       | (709)                      |
| Earnings available to MSCI common shareholders                                  | \$ 49,304                                    | \$ 10,201                  | \$ 127,717                    | \$ 61,195                  |
| Basic weighted average common shares outstanding                                | 120,831                                      | 118,339                    | 120,570                       | 109,672                    |
| Basic weighted average common shares outstanding                                | 120,831                                      | 118,339                    | 120,570                       | 109,672                    |
| Effect of dilutive securities:                                                  |                                              |                            |                               |                            |
| Stock options                                                                   | 1,472                                        | 2,002                      | 1,616                         | 1,090                      |
| Diluted weighted average common shares outstanding                              | 122,303                                      | 120,341                    | 122,186                       | 110,762                    |
| Earnings per basic common share                                                 | \$ 0.41                                      | \$ 0.09                    | \$ 1.06                       | \$ 0.56                    |
| Earnings per diluted common share                                               | \$ 0.40                                      | \$ 0.08                    | \$ 1.05                       | \$ 0.55                    |

<sup>(1)</sup> The restricted stock units participate in all of the earnings of the Company in the computation of basic EPS and, therefore, the restricted stock units are not included as incremental shares in the diluted EPS computation.

**6. COMPREHENSIVE INCOME**

The components of comprehensive income are as follows:

|                                                | <b>Three Months Ended</b>     |                            | <b>Nine Months Ended</b>      |                            |
|------------------------------------------------|-------------------------------|----------------------------|-------------------------------|----------------------------|
|                                                | <b>September 30,<br/>2011</b> | <b>August 31,<br/>2010</b> | <b>September 30,<br/>2011</b> | <b>August 31,<br/>2010</b> |
|                                                | <b>(in thousands)</b>         |                            |                               |                            |
| Net income                                     | \$ 49,787                     | \$ 10,319                  | \$ 128,968                    | \$ 61,904                  |
| Other comprehensive income (loss), before tax: |                               |                            |                               |                            |
| Foreign currency translation adjustments       | (6,753)                       | 1,211                      | (2,646)                       | 1,485                      |
| Income tax effect                              | 2,642                         | (474)                      | 1,035                         | (581)                      |
|                                                | (4,111)                       | 737                        | (1,611)                       | 904                        |
| Unrealized gains (losses) on cash flow hedges  | (617)                         | (2,074)                    | (3,140)                       | 3,305                      |
| Income tax effect                              | 242                           | 812                        | 1,229                         | (1,288)                    |

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|                                                   |           |          |            |           |
|---------------------------------------------------|-----------|----------|------------|-----------|
|                                                   | (375)     | (1,262)  | (1,911)    | 2,017     |
| Pension and other post-retirement adjustments     | 50        | 179      | 9          | 385       |
| Income tax effect                                 | (8)       | (40)     |            | (91)      |
|                                                   | 42        | 139      | 9          | 294       |
| Unrealized gains on available-for-sale securities |           | 2        | 1          | 5         |
| Income tax effect                                 |           | (1)      |            | (2)       |
|                                                   |           | 1        | 1          | 3         |
| Other comprehensive (loss) income, net of tax     | (4,444)   | (385)    | (3,512)    | 3,218     |
| Comprehensive income                              | \$ 45,343 | \$ 9,934 | \$ 125,456 | \$ 65,122 |

**Table of Contents****MSCI INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)****7. SHORT-TERM INVESTMENTS**

Short-term investments may include U.S. Treasury securities, state and municipal securities and highly rated corporate debt securities with maturity dates ranging from 91 to 365 days from the date of purchase.

The Company classifies its short-term investments as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of shareholders' equity. Fair value is determined based on observable quoted prices in active markets for identical assets. The cost of securities sold is based on the specific-identification method. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included as a component of interest income. Interest on securities classified as available-for-sale is included as a component of interest income.

The fair value and gross unrealized gains and losses of securities available-for-sale as of the dates indicated were as follows:

|                                           | Amortized<br>Cost plus<br>Accrued<br>Interest | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>Fair<br>value |
|-------------------------------------------|-----------------------------------------------|------------------------------|-------------------------------|----------------------------|
| <b>(in thousands)</b>                     |                                               |                              |                               |                            |
| <b>September 30, 2011</b>                 |                                               |                              |                               |                            |
| <b>Debt securities available-for-sale</b> |                                               |                              |                               |                            |
| U.S. Treasury securities                  | \$ 140,434                                    | \$ 21                        | \$ (5)                        | \$ 140,450                 |
| Tradable certificates of deposit          | 2,304                                         |                              |                               | 2,304                      |
| <b>Total</b>                              | <b>\$ 142,738</b>                             | <b>\$ 16</b>                 | <b>\$ (5)</b>                 | <b>\$ 142,754</b>          |
| <b>November 30, 2010</b>                  |                                               |                              |                               |                            |
| <b>Debt securities available-for-sale</b> |                                               |                              |                               |                            |
| U.S. Treasury securities                  | \$ 66,924                                     | \$ 3                         | \$                            | \$ 66,927                  |
| Commercial paper                          | 5,350                                         | 1                            |                               | 5,351                      |
| State and municipal securities            | 1,612                                         | 1                            |                               | 1,613                      |
| <b>Total</b>                              | <b>\$ 73,886</b>                              | <b>\$ 5</b>                  | <b>\$</b>                     | <b>\$ 73,891</b>           |

***Unrealized Losses on Investments***

Investments with continuous unrealized losses for less than 12 months and for 12 months or greater and their related fair values at September 30, 2011 were as follows:

|                          | Less than 12 Months |                      | 12 Months or Greater |                      | Total               |                               |
|--------------------------|---------------------|----------------------|----------------------|----------------------|---------------------|-------------------------------|
|                          | Fair Value          | Unrealized<br>Losses | Fair Value           | Unrealized<br>Losses | Total<br>Fair Value | Total<br>Unrealized<br>Losses |
| <b>(in thousands)</b>    |                     |                      |                      |                      |                     |                               |
| U.S. Treasury securities | \$ 45,829           | \$ (5)               | \$                   | \$                   | \$ 45,829           | \$ (5)                        |

|       |           |    |     |    |           |    |     |
|-------|-----------|----|-----|----|-----------|----|-----|
| Total | \$ 45,829 | \$ | (5) | \$ | \$ 45,829 | \$ | (5) |
|-------|-----------|----|-----|----|-----------|----|-----|

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The Company had no investments with continuous unrealized losses for less than 12 months and for 12 months or greater at September 30, 2011 or November 30, 2010.

***Evaluating Investments for Other-than-Temporary Impairments***

If the fair values of the Company's debt security investments are less than the amortized costs at the balance sheet date, the Company assesses whether the impairments are other than temporary. As the Company currently invests only in U.S. Treasury securities, state and municipal securities and highly rated corporate debt securities with a short duration (one year or less), it would take a significant decline in fair value and U.S. economic conditions for the Company to determine that these investments are other than temporarily impaired.

Additionally, management assesses whether it intends to sell or would more-likely-than-not be required to sell the investment before the expected recovery of the cost basis. Management has asserted that, given the short maturation period of the Company's investments, it believes it is more-likely-than-not that it will not be required to sell the investments before recovery of the cost basis.

As of September 30, 2011 and November 30, 2010, no other-than-temporary impairment had been recorded on any of the Company's investments.

**8. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Property, equipment and leasehold improvements at September 30, 2011 and November 30, 2010 consisted of the following:

|                                                     | As of                 |                      |
|-----------------------------------------------------|-----------------------|----------------------|
|                                                     | September 30,<br>2011 | November 30,<br>2010 |
|                                                     | (in thousands)        |                      |
| Computer & related equipment                        | \$ 65,331             | \$ 50,557            |
| Furniture & fixtures                                | 4,419                 | 4,571                |
| Leasehold improvements                              | 20,585                | 19,912               |
| Work-in-process                                     | 3,603                 | 901                  |
| Subtotal                                            | 93,938                | 75,941               |
| Accumulated depreciation and amortization           | (57,027)              | (41,573)             |
| Property, equipment and leasehold improvements, net | \$ 36,911             | \$ 34,368            |

Depreciation and amortization expense of property, equipment and leasehold improvements was \$4.7 million and \$4.9 million for the three months ended September 30, 2011 and August 31, 2010, respectively. Depreciation and amortization expense of property, equipment and leasehold improvements was \$14.9 million and \$11.9 million for the nine months ended September 30, 2011 and August 31, 2010, respectively.

**9. GOODWILL AND INTANGIBLE ASSETS*****Goodwill***

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The Company tests goodwill for impairment on an annual basis and on an interim basis when certain events and circumstances exist. The testing for impairment is performed at the reporting unit level, which is generally at the level of its business segments. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective book value. If the estimated fair value exceeds the book value, goodwill at the reporting unit level is not deemed to be impaired. If the estimated fair value is below book value, however, further analysis is required to determine the amount of impairment. Additionally, if the book value of a reporting unit is zero or a negative value and it is determined that it is more likely than not that the goodwill is impaired, further analysis is required.

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The Company's accounting policy was to conduct the annual goodwill impairment test as of June 1, with the most recent annual goodwill impairment test completed as of June 1, 2011. Effective in the quarter ended September 30, 2011, the Company elected to prospectively change its accounting policy to begin conducting the annual goodwill impairment test annually on July 1. As a result, during the fiscal year 2011, the Company tested goodwill for impairment as of June 1, 2011 and July 1, 2011 and concluded that there was no impairment of the carrying value of the goodwill. The change to the annual goodwill impairment testing date is preferable under the circumstances as the impairment testing became consistent with the testing date prior to the change in fiscal year end (first day of third quarter), the impairment testing will use financial information as of the beginning of a quarter, which will have been subject to the prior quarter's closing process; and the new date provides sufficient time to accurately complete the annual goodwill impairment testing prior to the Company's quarterly reporting, thus avoiding interruptions with the quarterly reporting process. The resulting change in accounting principle related to the annual testing date will not delay, accelerate, or avoid an impairment charge of the Company's goodwill. As it was impracticable to objectively determine the estimates and assumptions necessary to perform the annual goodwill impairment test as of each July 1 for periods prior to July 1, 2011, the Company has prospectively applied the change in the annual goodwill impairment testing date from July 1, 2011. The application of this change in accounting policy did not result in any impairment charges recognized in the Company's Condensed Consolidated Financial Statements in any periods presented.

Effective July 1, 2011, the Company adopted the provisions of ASU 2011-08 which allows the Company the option of performing a qualitative assessment before calculating the fair value of the reporting unit when testing goodwill for impairment. If the fair value of the reporting unit is determined, based on qualitative factors, to be more likely than not less than the carrying amount of the reporting unit, then entities are required to perform the two-step goodwill impairment test.

Changes in the carrying amount of the Company's goodwill for the nine months ended September 30, 2011 were as follows:

|                                    | <b>Total</b> |
|------------------------------------|--------------|
| Goodwill at November 30, 2010      | \$ 1,706,671 |
| Changes to goodwill <sup>(1)</sup> | 1,914        |
| Goodwill at September 30, 2011     | \$ 1,708,585 |

<sup>(1)</sup> Resulting from the finalization of the valuation of the acquired RiskMetrics assets and liabilities.

***Intangible Assets***

Intangible assets consist of those definite-lived intangibles from the acquisitions of Barra in June 2004, RiskMetrics in June 2010 and Measurisk in July 2010. The Company amortizes definite-lived intangible assets over their estimated useful lives. Amortizable intangible assets are tested for impairment when impairment indicators are present, and, if impaired, written down to fair value based on either discounted cash flows or appraised values. No impairment of intangible assets has been identified during any of the periods presented. The Company has no indefinite-lived intangibles.

Amortization expense related to intangible assets for both of the three months ended September 30, 2011 and August 31, 2010 was \$16.4 million. Amortization expense related to intangible assets for the nine months ended September 30, 2011 and August 31, 2010 was \$49.5 million and \$24.9 million, respectively.

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

|                             | <b>Gross<br/>Carrying<br/>Value</b> | <b>Accumulated<br/>Amortization<br/>(in thousands)</b> | <b>Net<br/>Carrying<br/>Value</b> |
|-----------------------------|-------------------------------------|--------------------------------------------------------|-----------------------------------|
| As of September 30, 2011    |                                     |                                                        |                                   |
| Customer relationships      | \$ 459,010                          | \$ (53,761)                                            | \$ 405,249                        |
| Trademarks/trade names      | 243,440                             | (43,426)                                               | 200,014                           |
| Technology/software         | 191,430                             | (138,809)                                              | 52,621                            |
| Proprietary process         | 3,800                               | (844)                                                  | 2,956                             |
| Non-compete agreements      | 2,780                               | (2,471)                                                | 309                               |
| Transition agreements       |                                     |                                                        |                                   |
| <br>Total intangible assets | <br>\$ 900,460                      | <br>\$ (239,311)                                       | <br>\$ 661,149                    |

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|                         | <b>Gross<br/>Carrying<br/>Value</b> | <b>Accumulated<br/>Amortization<br/>(in thousands)</b> | <b>Net<br/>Carrying<br/>Value</b> |
|-------------------------|-------------------------------------|--------------------------------------------------------|-----------------------------------|
| As of November 30, 2010 |                                     |                                                        |                                   |
| Customer relationships  | \$ 461,690                          | \$ (29,500)                                            | \$ 432,190                        |
| Trademarks/trade names  | 243,440                             | (35,381)                                               | 208,059                           |
| Technology/software     | 194,131                             | (123,824)                                              | 70,307                            |
| Proprietary process     | 3,800                               | (317)                                                  | 3,483                             |
| Non-compete agreements  | 2,780                               | (929)                                                  | 1,851                             |
| Transition agreements   | 720                                 | (360)                                                  | 360                               |
| Total intangible assets | \$ 906,561                          | \$ (190,311)                                           | \$ 716,250                        |

During the nine months ended September 30, 2011, the Company retired approximately \$2.7 million, \$2.7 million and \$0.7 million of fully amortized and expired intangible assets related to Customer relationships, Technology/software and transition agreements, respectively.

The estimated amortization expense for succeeding years is presented below:

| <b>Fiscal Year</b> | <b>Amortization Expense<br/>(in thousands)</b> |
|--------------------|------------------------------------------------|
| Remainder of 2011  | \$ 16,267                                      |
| 2012               | 63,835                                         |
| 2013               | 53,087                                         |
| 2014               | 52,864                                         |
| 2015               | 52,787                                         |
| 2016               | 50,803                                         |
| Thereafter         | 371,506                                        |
| Total              | \$ 661,149                                     |

**10. COMMITMENTS AND CONTINGENCIES**

*Legal matters.* From time to time, the Company is party to various litigation matters incidental to the conduct of its business. The Company is not presently party to any legal proceedings the resolution of which the Company believes would have a material effect on its business, operating results, financial condition or cash flows.

*Leases.* The Company leases facilities under non-cancelable operating lease agreements. The terms of certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on the straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Rent expense for both of the three months ended September 30, 2011 and August 31, 2010 was \$4.7 million. Rent expense for the nine months ended September 30, 2011 and August 31, 2010 was \$13.8 million and \$10.3 million, respectively.

On September 16, 2011, the Company entered into a new lease agreement with 7 World Trade Center, LLC, pursuant to which the Company will rent approximately 126,000 square feet of office space for its new corporate headquarters at 7 World Trade Center, New York, New York (the Lease). The Company will commence leasing its headquarters on or about February 1, 2012 (the Commencement Date), subject to certain

customary conditions.

The Lease is initially scheduled to expire on February 28, 2033, subject to the Company's option to renew the Lease for an additional ten years after the initial expiration date. The Company also has the option to terminate the Lease early on February 1, 2028, subject to compliance with the terms and conditions of the Lease, including the payment of a termination fee. The aggregate rent over the life of the Lease is approximately \$170.1 million plus certain customary expenses. From February 1, 2013 (the Rent Commencement Date) through and including January 31, 2018, the day preceding the fifth anniversary of

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the Rent Commencement Date, the annual rent paid will be approximately \$7.3 million. Thereafter, the annual rent to be paid increases 10% on each of the fifth, tenth and fifteenth anniversaries of the Rent Commencement Date.

*Long-term debt.* On November 14, 2007, the Company entered into a secured \$500.0 million credit facility that consisted of a \$425.0 million term loan facility and a \$75.0 million revolving credit facility (the 2007 Credit Facility). On April 1, 2010 and April 15, 2010, the Company prepaid principal balances on its term loan facility portion of the 2007 Credit Facility of approximately \$147.0 million and \$150.0 million, respectively. On June 1, 2010, the Company paid \$70.9 million to retire the 2007 Credit Facility.

On June 1, 2010, the Company entered into a senior secured credit agreement with Morgan Stanley Senior Funding, Inc., as administrative agent, Morgan Stanley & Co. Incorporated, as collateral agent, and the other lenders party thereto, which was comprised of (i) a \$1,275.0 million six-year term loan facility (the 2010 Term Loan) and (ii) a \$100.0 million five-year revolving credit facility, which included a \$25.0 million letter of credit subfacility and a \$10.0 million swingline loan subfacility (the Revolving Credit Facility) and together with the 2010 Term Loan, the New Credit Facility). The Company was required to repay 1.00% of the principal of the 2010 Term Loan per year in quarterly installments. The New Credit Facility also contained a number of mandatory prepayment requirements, including a requirement to repay a specified amount of the 2010 Term Loan annually from a portion of the Company's excess cash flows (as defined in the New Credit Facility, which varied based on the Company's leverage ratio). Any remaining principal of the 2010 Term Loan was to be payable on the final maturity date of the facility. In February 2011, the Company made a prepayment of \$56.0 million on the 2010 Term Loan from its excess cash flows.

On March 14, 2011, MSCI completed the repricing of the New Credit Facility pursuant to Amendment No. 2 to the New Credit Facility (Amendment No. 2). Amendment No. 2 provided for the incurrence of a new senior secured loan (the 2011 Term Loan) in an aggregate principal amount of \$1,125.0 million. The proceeds of the 2011 Term Loan, together with \$87.6 million of cash on hand, were used to repay the remaining \$1,212.6 million outstanding balance of the 2010 Term Loan in full. The 2011 Term Loan matures in March 2017. Amendment No. 2 decreased the interest rate applicable to the 2011 Term Loan from the London Interbank Offered Rate (LIBOR) plus 3.25% (with a leverage-based stepdown) to LIBOR plus 2.75% (with a leverage-based stepdown) and reduced the LIBOR floor applicable to the 2011 Term Loan from 1.50% to 1.00%. Prepayments or amendments of the 2011 Term Loan that constitute a repricing transaction (as defined in Amendment No. 2) will be subject to a premium of 1.00% of the 2011 Term Loan if prepaid or amended on or prior to March 14, 2012. Prepayments and repricings made after March 14, 2012 will not be subject to premium or penalty. For unused credit under the Revolving Credit Facility, the Company pays an annual 0.75% non-usage fee. The Company incurred \$6.1 million in fees associated with the repricing which are reflected in other expense (income) on the Company's Condensed Consolidated Statement of Income for the nine months ended September 30, 2011.

The obligations under the New Credit Facility, as amended, are guaranteed by each of our direct and indirect wholly-owned domestic subsidiaries, subject to limited exceptions. The obligations under the New Credit Facility, as amended, are secured by a lien on substantially all of the equity interests of MSCI's present and future domestic subsidiaries, up to 65% of the equity interests of MSCI's first-tier foreign subsidiaries, and substantially all of MSCI's and MSCI's domestic subsidiaries' present and future property and assets, subject to certain exceptions.

In connection with entering into the New Credit Facility, as amended, the Company recorded deferred financing fees which are being amortized over four to seven years. The Company amortized \$1.3 million and \$4.4 million of deferred financing fees associated with the New Credit Facility in interest expense during the three and nine months ended September 30, 2011, respectively. At September 30, 2011, \$26.2 million of the deferred financing fees remain unamortized, \$5.1 million of which is included in prepaid and other assets and \$21.1 million of which is included in other non-current assets on the Company's Condensed Consolidated Statement of Financial Condition.

Current maturities of long term debt at September 30, 2011 was \$10.3 million, net of a \$0.9 million discount. Long term debt, net of current maturities at September 30, 2011 was \$1,104.1 million, net of a \$4.0 million discount. Approximately \$0.2 million and \$0.8 million of the debt discount associated with the New Credit Facility, as amended, was amortized in interest expense during the three and nine months ended September 30, 2011.

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The fair market value of the Company's debt obligations were \$1,119.5 million and \$1,275.0 million at September 30, 2011 and November 30, 2010, respectively. The fair market value was estimated based on market bid quotes.

*Interest Rate Swaps and Derivative Instruments.* The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including

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interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. During the nine months ending September 30, 2011, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. As a result of the repayment of the 2010 Term Loan on March 14, 2011, the Company discontinued prospective hedge accounting on its then-existing interest rate swaps as they no longer met hedge accounting requirements. The Company will continue to report the net loss related to the discontinued cash flow hedges in Other Comprehensive Income and is expected to reclassify this amount into earnings during the contractual term of the swap agreements. On March 22, 2011, the Company terminated its then-existing interest rate swaps and simultaneously entered into new interest rate swaps to hedge its newly issued variable-rate debt. As of September 30, 2011, the Company had two outstanding interest rate swaps with a combined notional principal amount of \$420.8 million that were designated as cash flow hedges of interest rate risk.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. During the next twelve months, the Company estimates that an additional \$2.5 million will be reclassified as an increase to interest expense.

The following table presents the fair values of the Company's derivative instruments and the location in which they are presented on the Company's Condensed Consolidated Statements of Financial Condition:

| (In thousands)                                 | Condensed Consolidated<br>Statements of Financial<br>Condition Location | As of<br>September 30,<br>2011 | As of<br>November 30,<br>2010 |
|------------------------------------------------|-------------------------------------------------------------------------|--------------------------------|-------------------------------|
| Liability derivatives:                         |                                                                         |                                |                               |
| Derivatives designated as hedging instruments: |                                                                         |                                |                               |
| Interest rate swaps                            | Other accrued liabilities                                               | \$ (2,956)                     | \$ (1,772)                    |

The following tables present the effect of the Company's derivatives and the location in which they are presented on the Company's Condensed Consolidated Statements of Financial Condition and Condensed Consolidated Statements of Income:

| Derivatives in Cash | Amount of Gain or<br>(Loss)  | Location of Gain or<br>(Loss)           | Amount of Gain or<br>(Loss) | Location of Gain<br>or (Loss) | Amount of Gain<br>or (Loss) |
|---------------------|------------------------------|-----------------------------------------|-----------------------------|-------------------------------|-----------------------------|
| Flow Hedging        | Recognized in<br>Accumulated | (Loss) Reclassified<br>from Accumulated | Reclassified from           |                               | Recognized in<br>Income on  |
| Relationships       | Other Comprehensive          | Other                                   | Accumulated Other           | Recognized in<br>Income on    |                             |

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|                     | Income on Derivatives   |            | Comprehensive       | Comprehensive          |            | Derivatives      | Derivatives     |            |
|---------------------|-------------------------|------------|---------------------|------------------------|------------|------------------|-----------------|------------|
|                     | (Effective Portion) for |            | Income into Income  | into Income (Effective |            | (Ineffective     | Portion and     |            |
|                     | the                     |            | (Effective Portion) | Portion) for the Nine  |            | Portion and      | Amount          |            |
|                     | Nine Months Ended       |            |                     | Months Ended           |            | Amount Excluded  | Excluded from   |            |
|                     |                         |            |                     |                        |            | from             | Effectiveness   |            |
|                     |                         |            |                     |                        |            | Effectiveness    | Testing) for    |            |
|                     |                         |            |                     |                        |            | Testing)         | the Nine Months |            |
|                     | Ended                   |            |                     | Ended                  |            |                  | Ended           |            |
| (In thousands)      | September 30,           | August 31, |                     | September 30,          | August 31, |                  | September 30,   | August 31, |
|                     | 2011                    | 2010       |                     | 2011                   | 2010       |                  | 2011            | 2010       |
| Interest rate swaps | \$ (4,575)              | \$ (2,510) | Interest expense    | \$ (1,437)             | \$ (2,651) | Interest expense | \$ 35           | \$ (3,147) |

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## MSCI INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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|                                                                        |                                                                                                           |                                                                                                         |                                                                                                                                                         | Location of Gain or<br>(Loss) Recognized<br>in Income on<br>Derivatives<br>(Ineffective<br>Portion<br>and Amount<br>Excluded from<br>Effectiveness<br>Testing) | Amount of<br>Gain or (Loss)<br>Recognized in<br>Income on<br>Derivatives<br>(Ineffective<br>Portion and<br>Amount<br>Excluded from<br>Effectiveness<br>Testing) for<br>the Three<br>Months Ended |
|------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                        | Amount<br>of Gain or (Loss)<br>Recognized in<br>Accumulated Other<br>Comprehensive<br>Income on           | Location of Gain or<br>(Loss) Reclassified<br>from Accumulated<br>Other<br>Comprehensive<br>Income into | Amount of Gain or<br>(Loss)<br>Reclassified from<br>Accumulated Other<br>Comprehensive<br>Income into Income<br>(Effective<br>Portion) for the<br>Three |                                                                                                                                                                |                                                                                                                                                                                                  |
| Derivatives in Cash<br>Flow Hedging<br>Relationships<br>(In thousands) | Derivatives (Effective<br>Portion) for the Three<br>Months Ended<br>September 30, 2011<br>August 31, 2010 | Income into<br>Income (Effective<br>Portion)                                                            | Months Ended<br>September 30, 2011<br>August 31, 2010                                                                                                   | Testing)                                                                                                                                                       | September 30, 2011<br>August 31, 2010                                                                                                                                                            |
| Interest rate swaps                                                    | \$ (1,243)    \$ (2,213)                                                                                  | Interest expense                                                                                        | \$ (627)    \$ (139)                                                                                                                                    | Interest expense                                                                                                                                               | \$    \$                                                                                                                                                                                         |

*Credit-risk-related contingent features.* The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. As of September 30, 2011, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$3.3 million. As of September 30, 2011, the Company has not posted any collateral related to these agreements. If the Company breaches any of these provisions, it could be required to settle its obligations under the agreements at their termination value.

**11. EMPLOYEE BENEFITS**

The Company sponsors a 401(k) plan for eligible U.S. employees and defined contribution and defined benefit pension plans that cover substantially all of its non-U.S. employees. For the three months ended September 30, 2011 and August 31, 2010, 401(k), pension and post-retirement benefit expenses were \$3.3 million and \$2.0 million, respectively. Of these amounts, \$2.0 million and \$1.3 million were recorded in cost of services and \$1.3 million and \$0.7 million were recorded in selling, general and administrative for the three months ended September 30, 2011 and August 31, 2010, respectively.

For the nine months ended September 30, 2011 and August 31, 2010, 401(k), pension and post-retirement benefit expenses were \$11.6 million and \$6.4 million, respectively. Of these amounts, \$7.2 million and \$3.8 million were recorded in cost of services and \$4.4 million and \$2.6 million were recorded in selling, general and administrative for the nine months ended September 30, 2011 and August 31, 2010, respectively.

*401(k) and Other Defined Contribution Plans.* Eligible employees may participate in the MSCI 401(k) plan (or any other regional defined contribution plan sponsored by MSCI) immediately upon hire. Eligible employees receive 401(k) and other defined contribution plan matching contributions and, in the case of the MSCI 401(k) plan, an additional Company contribution of 3% of the employees' cash compensation, which is subject to vesting and certain other limitations. Prior to January 1, 2011, legacy RiskMetrics employees participated in the legacy RiskMetrics 401(k) plan (or any other regional defined contribution plan sponsored) and received 401(k) and other defined contribution plan matching contributions. The Company's expenses associated with the 401(k) plan and other defined contribution plans for the three months ended September 30, 2011 and August 31, 2010 were \$2.8 million and \$1.6 million, respectively. The Company's expenses associated with the 401(k) plan and other defined contribution plans for the nine months ended September 30, 2011 and August 31, 2010 were \$10.1 million and \$4.9 million, respectively.

million, respectively.

*Net Periodic Benefit Expense.* Net periodic benefit expense related to defined benefit pension plans was \$0.5 million and \$0.4 million for the three months ended September 30, 2011 and August 31, 2010, respectively. Net periodic benefit expense related to defined benefit pension plans was \$1.5 million for both of the nine months ended September 30, 2011 and August 31, 2010.

## **12. SHARE-BASED COMPENSATION**

On November 6, 2007, the Company's Board of Directors approved the award of founders grants to its employees in the form of restricted stock units and/or options ( Founders Grant Award ). The aggregate value of the grants, which were made on November 14, 2007, was approximately \$68.0 million. The restricted stock units and options vest over a four-year period, with 50% vesting on the second anniversary of the grant date and 25% vesting on each of the third and fourth anniversary of the grant date. The options have an exercise price per share of \$18.00 and have a term of 10 years, subject to earlier cancellation in certain circumstances. The aggregate value of the options was calculated using the Black-Scholes valuation

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method consistent with ASC Subtopic 718-10, *Compensation-Stock Compensation*. The final, unvested tranche of the Founders Grant Award, representing one-fourth of the total award, will vest on November 14, 2011.

On December 16, 2008, the Company, as a component of the 2008 annual bonus, awarded certain of its employees with a grant in the form of restricted stock units ( 2008 Bonus Award ). The aggregate value of the grants was approximately \$9.5 million of restricted stock units. The restricted stock units vest one-third per year over a three year period. Approximately \$4.2 million of this grant was awarded to retirement-eligible employees under the award terms. Based on interpretive guidance related to ASC Subtopic 718-10, the Company accrues the estimated cost of these awards over the course of the fiscal year in which the award is earned. As such, the Company accrued the estimated cost of the 2008 Bonus Award related to retirement-eligible employees over the 2008 fiscal year. The final tranche of the 2008 Bonus Award will vest on January 9, 2012.

On December 16, 2009, the Company, as a component of the 2009 annual bonus, awarded certain of its employees with a grant in the form of restricted stock units ( 2009 Bonus Award ). The aggregate value of the grants was approximately \$13.2 million of restricted stock units. The restricted stock units vest over a three year period, with one-third vesting on December 20, 2010, December 19, 2011 and December 17, 2012, respectively. Approximately \$5.1 million of this grant was awarded to retirement-eligible employees under the award terms. The Company accrued the estimated cost of the 2009 Bonus Award granted to retirement-eligible employees over the 2009 fiscal year. The first tranche of the 2009 Bonus Award vested on December 20, 2010.

On June 1, 2010, the Company reserved approximately 4.2 million shares of Common Stock for outstanding vested and unvested stock options and 0.1 million shares of Common Stock for outstanding unvested restricted stock awards assumed as part of the acquisition of RiskMetrics. Over an approximate three and a half year period from the date assumed, \$16.7 million is expected to be expensed for unvested stock options and \$1.3 million for unvested restricted stock awards.

On June 1, 2010, the Company awarded certain of its employees with a grant in the form of restricted stock units ( Performance Award ). The Performance Award will performance-vest based upon the Company achieving specific performance targets over a measurement period ending on December 31, 2012 and time-vest over a 31 month period, with one-half time-vesting on December 1, 2011 and December 31, 2012, respectively. The aggregate value of the grants was approximately \$15.9 million.

On December 14, 2010, the Company, as a component of the 2010 annual bonus, awarded a portion of its employees with a grant in the form of restricted stock units ( 2010 Bonus Award ). The aggregate value of the grants was approximately \$15.2 million. Approximately \$6.2 million was awarded to retirement eligible employees under the award terms, \$0.5 million of which was expensed during the one month ended December 31, 2010. A portion of the 2010 Bonus Award consisted of restricted stock units vesting over a three year period, with one-third vesting on each anniversary of the grant in 2011, 2012 and 2013, respectively. A smaller portion of the 2010 Bonus Award consisted of restricted stock units subject to achieving both specific performance targets over a measurement period ending on December 31, 2012 and a time-vesting period, with one-half time vesting on December 31, 2012 and December 31, 2013, respectively.

On December 10, 2010, the Compensation Committee of the Board of Directors of the Company approved the grant of a special one-time price and time vested stock option award of 208,175 units to the Company's Chief Executive Officer ( 2010 CEO Award ). The award was valued using a Monte Carlo simulation based on the closing price of the Company's Common Stock at the close of business on December 13, 2010. The CEO Award time-vests over a five year period, with approximately 25% of the award vesting on each of the second, third, fourth and fifth anniversaries of the grant and is subject to certain market performance conditions.

For the Founders Grant Award, the Performance Award and the 2010 CEO Award, all or a portion of the award may be cancelled in certain limited situations, including termination for cause, if employment is terminated before the end of the relevant restriction period. For the 2008, 2009 and 2010 Bonus Awards, all or a portion of the award may be cancelled if employment is terminated for certain reasons before the end of the relevant restriction period for non-retirement-eligible employees.

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During the nine months ended September 30, 2011, the Company awarded 7,840 shares in MSCI common stock and 21,259 restricted stock units to directors who were not employees of the Company during the period. During the nine months ended August 31, 2010, the Company awarded 8,427 shares in MSCI common stock and 9,770 restricted stock units to directors who were not employees of the Company or Morgan Stanley during the period.

Share-based compensation expense was \$7.9 million and \$24.3 million for the three and nine months ended September 30, 2011, respectively, of which \$0.9 million and \$2.5 million was related to the Founders Grant Award and \$0.4 million and \$4.2 million was related to the Performance Award for the three and nine months ended September 30, 2011,

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respectively. Share-based compensation expense was \$12.5 million and \$22.9 million for the three and nine months ended August 31, 2010, respectively, of which \$2.0 million and \$4.1 million was related to the Founders Grant Award for the three and nine months ended August 31, 2010, respectively. For both the three and nine months ended August 31, 2010, \$2.1 million of the share-based compensation expense was related to the Performance Award. No expense associated with the Performance Award was recognized prior to June 1, 2010.

**13. INCOME TAXES**

The Company's provision for income taxes was \$64.3 million and \$40.5 million for the nine months ended September 30, 2011 and August 31, 2010, respectively. These amounts reflect effective tax rates of 33.3% and 39.6% for the nine months ended September 30, 2011 and August 31, 2010, respectively.

The Company changed its intention to now permanently reinvest the undistributed earnings of MSCI Ltd. (except for the entities directly held by MSCI Ltd.), RiskMetrics (UK) Ltd., and RiskMetrics (Singapore) Pte Ltd. during the nine months ended September 30, 2011. With this change, the Company intends to permanently reinvest the undistributed earnings of all foreign operations indefinitely except for any entities that are branches of U.S. companies or check-the-box entities that have elected to be treated as disregarded entities for U.S. tax purposes and are held directly by a U.S. company or MSCI Ltd. As a result of this change, the Company no longer accrues for the U.S. taxes that would be recognized upon repatriation of these earnings.

The Company is under examination by the Internal Revenue Service and other tax authorities in certain countries, such as Japan and the United Kingdom, and states in which the Company has significant business operations, such as New York. The tax years currently under examination vary by jurisdiction. Additionally, during 2010 Morgan Stanley reached a preliminary settlement with New York State and New York City tax authorities on issues relating to years 2002-2006, a period of time when the Company was a member of the consolidated Morgan Stanley tax returns. The Company expects to settle during 2012 and to indemnify Morgan Stanley for any additional assessments deemed to be due in accordance with the Tax Sharing Agreement.

The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions resulting from these open examinations and subsequent years' examinations. The Company has established a liability for unrecognized tax benefits that the Company believes is adequate in relation to the potential for additional assessments. Once established, the Company adjusts unrecognized tax benefits only when more information is available or when an event occurs necessitating a change. It is reasonably possible that further significant changes in the gross balance of unrecognized tax benefits may occur within the next 12 months. At this time, however, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and the impact on the effective tax rate over the next 12 months.

The Company believes the resolution of tax matters will not have a material effect on the consolidated financial condition of the Company, although a resolution could have a material impact on the Company's Consolidated Statement of Income for a particular future period and on the Company's effective tax rate for any period in which such resolution occurs.

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

| <b>Tax Jurisdiction</b> | <b>Open Tax Years</b> |
|-------------------------|-----------------------|
| United States           | 2005-2010             |
| California              | 2004-2010             |
| New York State and City | 2002-2010             |
| Hong Kong               | 2003-2010             |
| United Kingdom          | 2007-2010             |

Canada  
Japan

2005-2010  
2009-2010

**14. SEGMENT INFORMATION**

ASC Subtopic 280-10, *Segment Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

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MSCI's Chief Executive Officer, who is considered to be its chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance. Prior to June 1, 2010, the Company assessed that it operated in a single business segment based on its historical integration and management strategies. As a result of MSCI's acquisition of RiskMetrics, MSCI began operating as two segments, the Performance and Risk business and the Governance business. These designations have been made as the discrete operating results of these segments are reviewed by the Company's CODM for purposes of making operating decisions and assessing financial performance.

The Performance and Risk business is a leading global provider of investment decision support tools, including indices, portfolio risk and performance analytics, credit analytics and ESG products. The business provides clients with a broad suite of products and services to assist them with managing equity, fixed income and multi-asset class portfolios. The products are used in many areas of the investment process, including portfolio construction and rebalancing, performance benchmarking and attribution, risk management and analysis, index-linked investment product creation, asset allocation, assessment of social responsibility, environmental stewardship and the effects of climate change on investments, investment manager selection and investment research.

The Governance business is a leading provider of corporate governance products and specialized financial research and analysis services to institutional shareholders and corporations around the world. Among other things, the Governance business facilitates the voting of proxies by institutional investors and provides in-depth research and analysis to help inform their voting decisions and identify issuer-specific risk. It offers both global security coverage and fully integrated products and services, including proxy voting, policy creation, research, vote recommendations, vote execution, post-vote disclosure and reporting and analytical tools. Within a firewall, a separate unit of the Governance business also provides products and services to corporate clients who may use those products and services to learn about and improve their governance and executive compensation practices.

Revenues and expenses directly associated with each respective segment are included in determining its operating results. Other expenses that are not directly attributable to a particular segment are allocated based upon the Company's allocation methodologies, generally based on each segment's respective net revenues, headcount or other relevant measures.

The CODM does not review any information regarding total assets on an operating segment basis. Operating segments do not record intersegment revenue, and, accordingly, there is none to be reported. The accounting policies for segment reporting are the same as for MSCI as a whole.

The following table presents MSCI's operating segments' results for the three and nine months ended September 30, 2011 and August 31, 2010:

|                                                                                                                              | <b>Three Months Ended</b> |                   | <b>Nine Months Ended</b> |                   |
|------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------------|--------------------------|-------------------|
|                                                                                                                              | <b>September 30,</b>      | <b>August 31,</b> | <b>September 30,</b>     | <b>August 31,</b> |
|                                                                                                                              | <b>2011</b>               | <b>2010</b>       | <b>2011</b>              | <b>2010</b>       |
| <b>Operating revenues</b>                                                                                                    |                           |                   |                          |                   |
| Performance and Risk                                                                                                         | \$ 196,230                | \$ 172,425        | \$ 583,788               | \$ 419,275        |
| Governance                                                                                                                   | 28,796                    | 30,308            | 91,019                   | 30,308            |
| Consolidated                                                                                                                 | \$ 225,026                | \$ 202,733        | \$ 674,807               | \$ 449,583        |
| <b>Amortization of intangible assets and depreciation and amortization of property, equipment and leasehold improvements</b> |                           |                   |                          |                   |
| Performance and Risk                                                                                                         | \$ 16,601                 | \$ 17,383         | \$ 51,036                | \$ 32,887         |
| Governance                                                                                                                   | 4,490                     | 3,901             | 13,448                   | 3,901             |

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|                         |           |           |            |            |
|-------------------------|-----------|-----------|------------|------------|
| Consolidated            | \$ 21,091 | \$ 21,284 | \$ 64,484  | \$ 36,788  |
| <b>Operating income</b> |           |           |            |            |
| Performance and Risk    | \$ 78,957 | \$ 38,672 | \$ 231,458 | \$ 132,626 |
| Governance              | 3,288     | 2,777     | 8,907      | 2,777      |
| Consolidated            | \$ 82,245 | \$ 41,449 | \$ 240,365 | \$ 135,403 |

**Table of Contents****MSCI INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

Revenue by geography is based on the shipping address of the customer. The following table sets forth revenue for the periods indicated by geographic area:

|                                   | <b>Three Months Ended</b>     |                            | <b>Nine Months Ended</b>      |                            |
|-----------------------------------|-------------------------------|----------------------------|-------------------------------|----------------------------|
|                                   | <b>September 30,<br/>2011</b> | <b>August 31,<br/>2010</b> | <b>September 30,<br/>2011</b> | <b>August 31,<br/>2010</b> |
|                                   | <b>(in thousands)</b>         |                            |                               |                            |
| <b>Revenues</b>                   |                               |                            |                               |                            |
| Americas:                         |                               |                            |                               |                            |
| United States                     | \$ 116,511                    | \$ 104,070                 | \$ 340,611                    | \$ 220,506                 |
| Other                             | 7,450                         | 7,576                      | 23,620                        | 15,724                     |
| <b>Total Americas</b>             | <b>123,961</b>                | <b>111,646</b>             | <b>364,231</b>                | <b>236,230</b>             |
| EMEA:                             |                               |                            |                               |                            |
| United Kingdom                    | 26,959                        | 24,270                     | 79,364                        | 58,378                     |
| Other                             | 44,361                        | 40,779                     | 143,519                       | 87,425                     |
| <b>Total EMEA</b>                 | <b>71,320</b>                 | <b>65,049</b>              | <b>222,883</b>                | <b>145,803</b>             |
| Asia & Australia:                 |                               |                            |                               |                            |
| Japan                             | 14,655                        | 12,179                     | 42,480                        | 34,093                     |
| Other                             | 15,090                        | 13,859                     | 45,213                        | 33,457                     |
| <b>Total Asia &amp; Australia</b> | <b>29,745</b>                 | <b>26,038</b>              | <b>87,693</b>                 | <b>67,550</b>              |
| <b>Total</b>                      | <b>\$ 225,026</b>             | <b>\$ 202,733</b>          | <b>\$ 674,807</b>             | <b>\$ 449,583</b>          |

Long-lived assets consist of property, equipment, leasehold improvements, goodwill and intangible assets, net of accumulated depreciation and amortization.

The following table sets forth long-lived assets on the dates indicated by geographic area:

**Table of Contents****MSCI INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

|                                   | September 30,<br>2011 | As of<br>November 30,<br>2010 |
|-----------------------------------|-----------------------|-------------------------------|
|                                   | (in thousands)        |                               |
| <b>Long-lived assets</b>          |                       |                               |
| Americas:                         |                       |                               |
| United States                     | \$ 2,386,671          | \$ 2,435,914                  |
| Other                             | 4,015                 | 2,424                         |
| <b>Total Americas</b>             | <b>2,390,686</b>      | <b>2,438,338</b>              |
| EMEA:                             |                       |                               |
| United Kingdom                    | 5,261                 | 4,740                         |
| Other                             | 5,640                 | 7,826                         |
| <b>Total EMEA</b>                 | <b>10,901</b>         | <b>12,566</b>                 |
| Asia & Australia:                 |                       |                               |
| Japan                             | 376                   | 452                           |
| Other                             | 4,682                 | 5,933                         |
| <b>Total Asia &amp; Australia</b> | <b>5,058</b>          | <b>6,385</b>                  |
| <b>Total</b>                      | <b>\$ 2,406,645</b>   | <b>\$ 2,457,289</b>           |

**15. SUBSEQUENT EVENTS**

Management of the Company evaluated subsequent events from October 1, 2011 through the issuance date of this Form 10-Q.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of MSCI Inc.:

We have reviewed the accompanying condensed consolidated statements of financial condition of MSCI Inc. and subsidiaries (the Company) as of September 30, 2011 and November 30, 2010; and the related condensed consolidated statements of income for the three and nine month periods ended September 30, 2011 and August 31, 2010; and the related condensed consolidated statements of cash flows for the nine month periods ended September 30, 2011 and August 31, 2010. These interim financial statements are the responsibility of the management of MSCI Inc.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of MSCI Inc. and subsidiaries as of November 30, 2010 and the related consolidated statements of income, comprehensive income, cash flows, and shareholders' equity for the fiscal year then ended (not presented herein); and in our report dated January 31, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of November 30, 2010 is fairly stated, in all material respects, in relation to the consolidated statement of financial condition from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York

November 4, 2011

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

*The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended November 30, 2010 (the "Form 10-K"). This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in Item 1A, Risk Factors, within this Form 10-Q and in our Form 10-K.*

**Overview**

We are a leading global provider of investment decision support tools, including indices, portfolio risk and performance analytics and corporate governance products and services. Our products and services address multiple markets, asset classes and geographies and are sold to a diverse client base, including asset owners such as pension funds, endowments, foundations, central banks, family offices and insurance companies; institutional and retail asset managers, such as managers of pension assets, mutual funds, exchange traded funds (ETFs), hedge funds and private wealth; financial intermediaries such as banks, broker-dealers, exchanges, custodians and investment consultants; and corporate clients. As of September 30, 2011, we had offices in 32 cities in 19 countries to help serve our diverse client base, with 54.0% of our revenue from clients in the Americas, 33.0% in Europe, the Middle East and Africa (EMEA) and 13.0% in Asia and Australia based on revenues for the nine months ended September 30, 2011.

Our principal sales model in both of our business segments is to license annual, recurring subscriptions to our products and services for use at specified locations, often by a given number of users or for a certain volume of services for an annual fee paid up front. Additionally, we have increasing recurring subscriptions to our managed services offering whereby we operate our Performance and Risk products on behalf of our clients at their direction. These fees are recorded as deferred revenues on our Condensed Consolidated Statement of Financial Condition and are recognized on our Condensed Consolidated Statement of Income as the service is rendered. Additionally, our revenues come from clients who use our indices as the basis for index-linked investment products such as ETFs. We derive revenues from certain institutional clients that use our indices as the basis for passively managed funds and separate accounts. These clients commonly pay us a license fee for the use of our intellectual property based on the investment product's assets. We generate a limited amount of our revenues from certain exchanges that use our indices as the basis for futures and options contracts and pay us a license fee for the use of our intellectual property based on their volume of trades. We also receive revenues from one-time fees related to implementation, historical or customized reports, advisory and consulting services and overages relating to the proxy research and voting services.

In evaluating our financial performance, we focus on revenue growth for the company in total and by product category as well as operating profit growth and the level of profitability as measured by our operating margin. Our business is not highly capital intensive and, as such, we expect to continue to convert a high percentage of our operating profits into excess cash in the future. Our revenue growth strategy includes: (a) expanding and deepening our relationships with investment institutions worldwide; (b) developing new and enhancing existing product offerings, including combining existing product features or data derived from our products to create new products; and (c) actively seeking to acquire products, technologies and companies that will enhance, complement or expand our client base and our product offerings. In furtherance of this revenue growth strategy, in June and July, 2010, respectively, we completed the acquisitions of RiskMetrics Group, Inc. (RiskMetrics) and Measurisk, LLC (Measurisk), as discussed below.

To maintain and accelerate our revenue and operating income growth, we will continue to invest in and expand our operating functions and infrastructure, including additional product management, sales and client support staff and facilities in locations around the world and additional staff and supporting technology for our research and our data operations and technology functions. At the same time, managing and controlling our operating expenses is very important to us and a distinct part of our culture. Over time, our goal is to keep the rate of growth of our operating expenses below the rate of growth of our revenues, allowing us to expand our operating margins. However, at times, because of significant market opportunities, it may be more important for us to invest in our business in order to support increased efforts to attract new clients and to develop new product offerings, rather than emphasize short-term operating margin expansion. Furthermore, in some periods our operating expense growth may exceed our operating revenue growth due to the variability of revenues from several of our products, including our equity indices licensed as the basis of ETFs and non-recurring fees.

**Operating Segments**

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Following our acquisition of RiskMetrics on June 1, 2010, we began operating as two segments: the Performance and Risk business and the Governance business. See Note 14, Segment Information, to the Condensed Consolidated Financial Statements for further information about MSCI's operating segments.

Our Performance and Risk business is a leading global provider of investment decision support tools, including indices and portfolio risk and performance analytics. Our Performance and Risk products are used in many areas of the investment process, including portfolio construction and rebalancing, performance benchmarking and attribution, risk management and analysis, index-linked investment product creation, asset allocation, assessment of social responsibility and environmental stewardship, investment manager selection, investment research and the effects of climate change on investments. The flagship products within our Performance and Risk business are our global equity indices and ESG products marketed under the MSCI brand, our market and credit risk analytics marketed under the RiskMetrics and Barra brands, our portfolio risk and performance analytics covering global equity and fixed income markets marketed under the Barra brand and our valuation models and risk management software for the energy and commodities markets marketed under the FEA brand.

Our Governance business is a leading provider of corporate governance and specialized financial research and analysis services to institutional investors and corporations around the world. Among other things, the Governance business facilitates the voting of proxies by institutional investors and provides in-depth research and analysis to help inform voting decisions and identify issuer-specific risk. The Governance business offers both global security coverage and fully integrated products and services, including proxy voting, policy creation, research, vote recommendations, vote execution, post-vote disclosure and reporting and analytical tools. Within a firewall, the Governance business also provides products and services to corporate clients who may use those products and services to learn about and improve their governance practices. The flagship products within our Governance business are our governance research and outsourced proxy voting and reporting services marketed under the ISS brand and our forensic accounting risk research, legal/regulatory risk assessment and due diligence products marketed under the CFRA brand.

Our Governance business serves both institutional and corporate clients and we recognize that there is a potential for conflicts of interest with respect to the provision of products and services to corporate issuers through ISS Corporate Services and the products and services we provide to our institutional investor clients through Institutional Shareholders Services Inc. (ISS). We have instituted multiple safeguards to mitigate any real or perceived conflicts of interests. We formed ISS Corporate Services as a subsidiary with distinct resources and a firewall that prevents the flow of information outside of ISS Corporate Services. Every ISS Corporate Services contract indicates that the purchase of corporate services will not result in preferential treatment from ISS and does not influence ISS's proxy recommendations or other research coverage. Recommendations and research coverage are based solely on the application of ISS's published policies and by an issuer's actual governance policies and practices.

Revenues and expenses directly associated with each respective segment are included in determining its operating results. Other expenses that are not directly attributable to a particular segment are allocated based upon allocation methodologies, generally based on each segment's respective net revenues, headcount or other relevant measures.

## **Factors Affecting the Comparability of Results**

### *Acquisition of RiskMetrics*

On June 1, 2010, we completed our acquisition of RiskMetrics in a cash-and-stock transaction valued at approximately \$1,572.4 million. In connection with the acquisition, we entered into a senior secured credit agreement, which was comprised of (i) a \$1,275.0 million six-year term loan facility (2010 Term Loan) and (ii) a \$100.0 million five-year revolving credit facility. We assigned a significant value to the intangible assets of RiskMetrics as part of the acquisition, which increased the amortization expense we recognized in the nine months ended September 30, 2011 and that we will recognize in the future. See Note 9, Goodwill and Intangible Assets, to the Condensed Consolidated Financial Statements for further information. We also have incurred increased interest expense as a result of the credit facility we entered into in connection with the acquisition.

### *Acquisition of Measurisk*

On July 30, 2010, we acquired Measurisk to expand our product offerings to hedge fund investors. The value we assigned to the intangible assets of Measurisk further increased the amortization expense that we recognized in the nine months ended September 30, 2011 and that we will recognize in the future. See Note 9, Goodwill and Intangible Assets, to the Condensed Consolidated Financial Statements for further information.



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The results of RiskMetrics and Measurisk were not included in our results of operations until their acquisition dates of June 1, 2010 and July 30, 2010, respectively. The RiskMetrics acquisition has had a significant impact on our results of operations and will affect the comparability of our results in the future.

*Restructuring*

In connection with the acquisition of RiskMetrics, we initiated a plan to restructure the Company's operations to eliminate overlapping positions and duplicative occupancy costs, terminate overlapping vendor contracts, and discontinue the planned integration of a product into RiskMetrics standard product offering suite. We initiated restructuring activities during the third quarter of 2010 and believe that the elimination of overlapping positions was substantially completed in the second quarter of 2011 and expect the elimination of leases or vendor contracts to be completed during the remainder of the current fiscal year. See *Restructuring* below and Note 4, *Restructuring*, to the Condensed Consolidated Financial Statements for further information about MSCI's restructuring-related activities and estimated costs.

The cumulative charges that we expect to incur in connection with the restructuring are subject to a number of assumptions, and actual results may differ significantly. We may also incur other charges not currently contemplated due to events that may occur as a result of, or associated with, the restructuring.

*Term Loan Repricing*

On March 14, 2011, we completed the repricing of the 2010 Term Loan. The repricing provided for the incurrence of a new senior secured loan (the 2011 Term Loan) in an aggregate principal amount of \$1,125.0 million. The proceeds of the 2011 Term Loan, together with \$87.6 million of cash on hand, were used to repay the remaining \$1,212.6 million outstanding balance of the 2010 Term Loan in full. The 2011 Term Loan matures in March 2017. The repricing decreased the interest rate applicable to the 2011 Term Loan from the London Interbank Offered Rate (LIBOR) plus 3.25% (with a leverage-based stepdown) to LIBOR plus 2.75% (with a leverage-based stepdown) and reduced the LIBOR floor applicable to the 2011 Term Loan from 1.50% to 1.00%. We incurred \$6.1 million in fees associated with the repricing which are reflected in other expense (income) on the Company's Condensed Consolidated Statement of Income for the nine months ended September 30, 2011.

**Change in Fiscal Year End**

In *Results of Operations* below, we compare the three-month and nine-month periods ended September 30, 2011 with the previously reported three-month and nine-month periods ended August 31, 2010. Financial information for the three and nine months ended September 30, 2010 has not been included in this Form 10-Q for the following reasons: (i) the three and nine months ended August 31, 2010 provide a meaningful comparison for the three and nine months ended September 30, 2011; (ii) there are no significant factors, seasonal or other, that would materially impact the comparability of information if the results for the three and nine months ended September 30, 2010 were presented in lieu of results for the three and nine months ended August 31, 2010; and (iii) it was not practicable or cost justified to prepare this information.

The discussion of our results of operations for the three and nine months ended September 30, 2011 and August 31, 2010 are presented below. The results of operations for interim periods may not be indicative of future results.

**Three Months Ended September 30, 2011 Compared to the Three Months Ended August 31, 2010****Results of Operations**

|                                     | Three Months Ended                    |                    |                     |          |
|-------------------------------------|---------------------------------------|--------------------|---------------------|----------|
|                                     | September 30,<br>2011                 | August 31,<br>2010 |                     |          |
|                                     | (in thousands, except per share data) |                    |                     |          |
|                                     |                                       |                    | Increase/(Decrease) |          |
| Operating revenues                  | \$ 225,026                            | \$ 202,733         | \$ 22,293           | 11.0%    |
| Operating expenses:                 |                                       |                    |                     |          |
| Cost of services                    | 68,968                                | 69,741             | (773)               | (1.1%)   |
| Selling, general and administrative | 53,724                                | 63,306             | (9,582)             | (15.1%)  |
| Restructuring                       | (1,002)                               | 6,953              | (7,955)             | (114.4%) |
| Amortization of intangible assets   | 16,422                                | 16,350             | 72                  | 0.4%     |
|                                     | 4,669                                 | 4,934              | (265)               | (5.4%)   |

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## Depreciation and amortization of property, equipment, and leasehold improvements

|                                   |           |           |           |         |
|-----------------------------------|-----------|-----------|-----------|---------|
| Total operating expenses          | 142,781   | 161,284   | (18,503)  | (11.5%) |
| Operating income                  | 82,245    | 41,449    | 40,796    | 98.4%   |
| Other expense (income), net       | 11,946    | 20,825    | (8,879)   | (42.6%) |
| Provision for income taxes        | 20,512    | 10,305    | 10,207    | 99.0%   |
| Net income                        | \$ 49,787 | \$ 10,319 | \$ 39,468 | 382.5%  |
| Earnings per basic common share   | \$ 0.41   | \$ 0.09   | \$ 0.32   | 355.6%  |
| Earnings per diluted common share | \$ 0.40   | \$ 0.08   | \$ 0.32   | 400.0%  |
| Operating margin                  | 36.5%     | 20.4%     |           |         |

**Table of Contents*****Operating Revenues***

Following our acquisition of RiskMetrics, we began operating as two segments: the Performance and Risk business and the Governance business. As a part of establishing the two operating segments and how they will be managed, we have realigned the grouping of our product categories. Our revenues are now grouped into the following five product and/or service categories:

Index and ESG products

Risk management analytics

Portfolio management analytics

Energy and commodity analytics

Governance

The Performance and Risk business is comprised of index and ESG, risk management analytics, portfolio management analytics and energy and commodity analytics products. The Governance business is comprised of the governance products.

The following table summarizes the revenue by product category for the three months ended September 30, 2011 compared to the three months ended August 31, 2010:

|                                | <b>Three Months Ended</b>     |                            | <b>Increase/(Decrease)</b> |         |
|--------------------------------|-------------------------------|----------------------------|----------------------------|---------|
|                                | <b>September 30,<br/>2011</b> | <b>August 31,<br/>2010</b> |                            |         |
|                                | <b>(in thousands)</b>         |                            |                            |         |
| Index and ESG products:        |                               |                            |                            |         |
| Subscriptions                  | \$ 66,279                     | \$ 58,979                  | \$ 7,300                   | 12.4%   |
| Asset based fees               | 35,030                        | 25,138                     | 9,892                      | 39.4%   |
| Total index and ESG products   | 101,309                       | 84,117                     | 17,192                     | 20.4%   |
| Risk management analytics      | 61,861                        | 54,594                     | 7,267                      | 13.3%   |
| Portfolio management analytics | 30,263                        | 30,424                     | (161)                      | (0.5%)  |
| Energy and commodity analytics | 2,797                         | 3,290                      | (493)                      | (15.0%) |
| Governance                     | 28,796                        | 30,308                     | (1,512)                    | (5.0%)  |
| Total operating revenues       | \$ 225,026                    | \$ 202,733                 | \$ 22,293                  | 11.0%   |

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Total operating revenues for the three months ended September 30, 2011 increased \$22.3 million, or 11.0%, to \$225.0 million compared to \$202.7 million for the three months ended August 31, 2010. The year-over-year growth was comprised of increases in asset based fees of \$9.9 million and subscription revenues of \$12.4 million. Subscription revenues consist of our revenues related to index and ESG subscriptions, risk management analytics, portfolio management analytics, energy and commodity analytics and governance products. Our revenues are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Had the U.S. dollar not weakened relative to exchange rates at the beginning of the year, our revenues for the three months ended September 30, 2011 would have been lower by \$1.4 million.

Our index and ESG products primarily consist of equity index subscriptions, equity index asset based fees products and ESG products. Our index and ESG products are used to benchmark investment performance, as a basis for index linked investment products, for research and for investment manager selection. We derive revenues from our index and ESG products through index data and ESG subscriptions, fees based on assets in investment products linked to our indices and non-recurring licenses of our index historical data. Revenues related to index products increased \$17.2 million to \$101.3 million for the three months ended September 30, 2011 compared to \$84.1 million for the three months ended August 31, 2010.

Subscription revenues from the index and ESG products were up 12.4% to \$66.3 million for the three months ended September 30, 2011 compared to \$59.0 million for the three months ended August 31, 2010. This increase was attributable to growth primarily in our benchmark and our derivative license products.

Asset based fee revenues attributable to the index and ESG products increased 39.4% to \$35.0 million for the three months ended September 30, 2011 compared to \$25.1 million for the three months ended August 31, 2010. The increase in the asset based fee revenues was primarily driven by the increased average values of assets in ETFs linked to MSCI equity indices. The average value of assets in ETFs linked to MSCI equity indices in the aggregate increased 30.6% to \$329.1 billion for the three months ended September 30, 2011 compared to \$252.0 billion for the three months ended August 31, 2010 and decreased 7.8% compared to \$356.8 billion for the three months ended June 30, 2011. The value of assets in ETFs linked to MSCI equity indices as of September 30, 2011 was \$290.1 billion, representing an increase of 12.1% from \$258.7 billion as of August 31, 2010 and a 19.5% decrease from \$360.5 billion for the three months ended June 30, 2011.

The three MSCI indices with the largest amount of ETF assets linked to them as of September 30, 2011 were the MSCI Emerging Markets, EAFE and U.S. Broad Market Indices with \$81.8 billion, \$42.4 billion and \$17.0 billion in assets, respectively.

The following table sets forth the value of assets in ETFs linked to MSCI indices and the sequential change of such assets as of the periods indicated:

|                                    | February 28,<br>2010 | May 31,<br>2010 | August 31,<br>2010 | November 30,<br>2010 | December 31,<br>2010 | March 31,<br>2011 | June 30,<br>2011 | September 30,<br>2011 |
|------------------------------------|----------------------|-----------------|--------------------|----------------------|----------------------|-------------------|------------------|-----------------------|
| <b>\$ in Billions</b>              |                      |                 |                    |                      |                      |                   |                  |                       |
| AUM in ETFs linked to MSCI Indices | \$ 233.5             | \$ 238.1        | \$ 258.7           | \$ 311.0             | \$ 333.3             | \$ 350.1          | \$ 360.5         | \$ 290.1              |
| Sequential Change (\$ in Billions) |                      |                 |                    |                      |                      |                   |                  |                       |
| Market Appreciation/(Depreciation) | \$ (8.6)             | \$ (4.4)        | \$ 6.8             | \$ 28.2              | \$ 18.9              | \$ 10.1           | \$ (3.8)         | \$ (70.4)             |
| Cash Inflow                        | 8.3                  | 9.0             | 13.8               | 24.1                 | 3.4                  | 6.7               | 14.2             |                       |
| Total Change                       | \$ (0.3)             | \$ 4.6          | \$ 20.6            | \$ 52.3              | \$ 22.3              | \$ 16.8           | \$ 10.4          | \$ (70.4)             |

Source: Bloomberg and MSCI

The following table sets forth the average value of assets in ETFs linked to MSCI indices for the periods indicated:

|                                    | Quarterly Average |          |          |          |          |  |          |           |
|------------------------------------|-------------------|----------|----------|----------|----------|--|----------|-----------|
|                                    | 2010              |          |          |          |          |  | 2011     |           |
| <b>\$ in Billions</b>              | February          | May      | August   | November | March    |  | June     | September |
| AUM in ETFs linked to MSCI Indices | \$ 239.3          | \$ 252.3 | \$ 252.0 | \$ 300.7 | \$ 337.6 |  | \$ 356.8 | \$ 329.1  |



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Source: Bloomberg and MSCI

The historical values of the assets in ETFs linked to our indices as of the last day of the month and the monthly average balance can be found under the link [AUM in ETFs Linked to MSCI Indices](http://ir.msci.com) on our website at <http://ir.msci.com>. This information is updated on the second U.S. business day of each month. Information contained on our website is not incorporated by reference into this Quarterly Report on Form 10-Q or any other report filed with the Securities and Exchange Commission.

Our risk management analytics products offer a consistent risk and performance assessment framework for managing and monitoring investments in a variety of asset classes and are based on our proprietary integrated fundamental multi-factor risk models, value-at-risk methodologies, performance attribution, and asset valuation models.

Revenues related to risk management analytics products increased \$7.3 million, or 13.3%, to \$61.9 million for the three months ended September 30, 2011 compared to \$54.6 million for the three months ended August 31, 2010. The increase primarily reflects growth in our multi-asset class and hedge fund risk reporting products. The increase in our hedge fund risk reporting products increase was driven by the inclusion of a full quarter of results from Measurisk in the three months ended September 30, 2011 compared to only one month in the same period of the prior year.

Our portfolio management analytics products consist of analytics tools for equity and fixed income portfolio management. Revenues related to portfolio management analytics products remained relatively flat at \$30.3 million for the three months ended September 30, 2011 compared to \$30.4 million for three months ended August 31, 2010.

Our energy and commodity analytics products consist of software applications that help users value and model physical assets and derivatives across a number of market segments that include energy and commodity assets. Revenues from energy and commodity analytics products decreased 15.0% to \$2.8 million for the three months ended September 30, 2011 compared to \$3.3 million for the three months ended August 31, 2010.

Our governance products consist of corporate governance products and services, including proxy research, recommendation and voting services for asset owners and asset managers as well as governance advisory and compensation services for corporations. It also includes forensic accounting research as well as class action monitoring and claims filing services to aid institutional investors in the recovery of funds from securities litigation. Governance products decreased \$1.5 million to \$28.8 million for the three months ended September 30, 2011 compared to \$30.3 million for the three months ended August 31, 2010. Within the governance products, recurring revenues decreased \$1.0 million to \$26.1 million and non-recurring revenues decreased \$0.5 million to \$2.7 million for the three months ended September 30, 2011.

### ***Run Rate***

At the end of any period, we generally have subscription and investment product license agreements in place for a large portion of our total revenues for the following 12 months. We measure the fees related to these agreements and refer to this as our *Run Rate*. The *Run Rate* at a particular point in time represents the forward-looking fees for the next 12 months from all subscriptions and investment product licenses we currently provide to our clients under renewable contracts assuming all contracts that come up for renewal are renewed and assuming then-current exchange rates. For any subscription or license where fees are linked to an investment product's assets or trading volume, the *Run Rate* calculation reflects an annualization of the most recent periodic fee earned under such subscription or license. The *Run Rate* does not include fees associated with one-time and other non-recurring transactions. In addition, we remove from the *Run Rate* the fees associated with any subscription or investment product license agreement with respect to which we have received a notice of termination or non-renewal during the period and we have determined that such notice evidences the client's final decision to terminate or not renew the applicable subscription or agreement, even though such notice is not effective until a later date.

Because the *Run Rate* represents potential future fees, there is typically a delayed impact on our operating revenues from changes in our *Run Rate*. In addition, the actual amount of revenues we will realize over the following 12 months will differ from the *Run Rate* because of:

revenues associated with new subscriptions and non-recurring sales;

modifications, cancellations and non-renewals of existing agreements, subject to specified notice requirements;

fluctuations in asset-based fees, which may result from market movements or from investment inflows into and outflows from investment products linked to our indices;

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fluctuations in fees based on trading volumes of futures and options contracts linked to our indices;

fluctuations in the number of hedge funds for which we provide investment information and risk analysis to hedge fund investors;

price changes;

revenue recognition differences under U.S. GAAP;

fluctuations in foreign exchange rates; and

the impact of acquisitions and dispositions.

Because of the impact of seasonality on our operating metrics, our Run Rates and Retention Rates have been restated to reflect the change in fiscal year end in order to provide a more meaningful comparison. We do not experience this seasonality with respect to the financial information reported in our Results of Operations. The restated Run Rates and Retention Rates assume the change in fiscal year end occurred on January 1, 2010.

The following tables set forth our Run Rates as of the dates indicated (as if we had completed the RiskMetrics acquisition as of the dates indicated) and the percentage growth over the periods indicated:

|                                | September 30,<br>2011 | As of<br>September 30,<br>2010<br>(in thousands) | June 30,<br>2011 | Year Over Year<br>Comparison | Sequential<br>Comparison |
|--------------------------------|-----------------------|--------------------------------------------------|------------------|------------------------------|--------------------------|
| <b>Run Rates</b>               |                       |                                                  |                  |                              |                          |
| Index and ESG products         |                       |                                                  |                  |                              |                          |
| Subscription                   | \$ 264,722            | \$ 229,323                                       | \$ 257,470       | 15.4%                        | 2.8%                     |
| Asset based fees               | 117,928               | 108,150                                          | 140,144          | 9.0%                         | (15.9)%                  |
| Index and ESG products total   | 382,650               | 337,473                                          | 397,614          | 13.4%                        | (3.8)%                   |
| Risk management analytics      | 251,804               | 229,099                                          | 249,048          | 9.9%                         | 1.1%                     |
| Portfolio management analytics | 119,220               | 122,323                                          | 118,452          | (2.5)%                       | 0.6%                     |
| Energy and commodity analytics | 15,343                | 15,170                                           | 15,074           | 1.1%                         | 1.8%                     |
| Governance                     | 107,152               | 106,228                                          | 107,755          | 0.9%                         | (0.6)%                   |
| Total Run Rate                 | \$ 876,169            | \$ 810,293                                       | \$ 887,943       | 8.1%                         | (1.3)%                   |
| Subscription total             | \$ 758,241            | \$ 702,143                                       | \$ 747,799       | 8.0%                         | 1.4%                     |
| Asset based fees total         | 117,928               | 108,150                                          | 140,144          | 9.0%                         | (15.9)%                  |
| Total Run Rate                 | \$ 876,169            | \$ 810,293                                       | \$ 887,943       | 8.1%                         | (1.3)%                   |

### Aggregate and Core Retention Rates

The following table sets forth our Aggregate Retention Rates by product category for the indicated three months ended as if we had completed the RiskMetrics acquisition as of the beginning of the periods indicated:



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|                                | September 30,<br>2011 | September 30,<br>2010 |
|--------------------------------|-----------------------|-----------------------|
| Index and ESG products         | 95.2%                 | 92.4%                 |
| Risk management analytics      | 92.1%                 | 87.7%                 |
| Portfolio management analytics | 86.6%                 | 82.2%                 |
| Energy and commodity analytics | 89.3%                 | 90.3%                 |
| Total Performance and Risk     | 92.2%                 | 88.3%                 |
| Governance                     | 86.2%                 | 87.1%                 |
| Total                          | 91.3%                 | 88.1%                 |

The following table sets forth our Core Retention Rates by product category for the indicated three months ended as if we had completed the RiskMetrics acquisition as of the beginning of the periods indicated:

|                                | September 30,<br>2011 | September 30,<br>2010 |
|--------------------------------|-----------------------|-----------------------|
| Index and ESG products         | 95.2%                 | 92.6%                 |
| Risk management analytics      | 92.1%                 | 90.0%                 |
| Portfolio management analytics | 88.3%                 | 86.0%                 |
| Energy and commodity analytics | 91.3%                 | 90.3%                 |
| Total Performance and Risk     | 92.6%                 | 90.1%                 |
| Governance                     | 86.3%                 | 87.1%                 |
| Total                          | 91.6%                 | 89.6%                 |

The quarterly Aggregate Retention Rates are calculated by annualizing the cancellations for which we have received a notice of termination or non-renewal during the quarter and have determined that such notice evidences the client's final decision to terminate or not renew the applicable subscription or agreement, even though such notice is not effective until a later date. This annualized cancellation figure is then divided by the subscription Run Rate at the beginning of the year to calculate a cancellation rate. This cancellation rate is then subtracted from 100% to derive the annualized Aggregate Retention Rate for the quarter. The Aggregate Retention Rate is computed on a product-by-product basis. Therefore, if a client reduces the number of products to which it subscribes or switches between our products, we treat it as a cancellation. In addition, we treat any reduction in fees resulting from renegotiated contracts as a cancellation in the calculation to the extent of the reduction. Aggregate Retention Rates are generally higher during the first three fiscal quarters and lower in the fourth fiscal quarter in our Performance and Risk business and are generally lower in the first fiscal quarter and higher during the last three fiscal quarters in our Governance business.

For the calculation of the Core Retention Rate the same methodology is used except the cancellations in the quarter are reduced by the amount of product swaps. We do not calculate Aggregate or Core Retention Rates for that portion of our Run Rate attributable to assets in investment products linked to our indices or to trading volumes of futures and options contracts linked to our indices.

**Operating Expenses**

We group our operating expenses into five categories:

Cost of services

Selling, general and administrative ( SG&A )

Restructuring

Amortization of intangible assets

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Depreciation of property, equipment, and leasehold improvements

In both the cost of services and SG&A expense categories, compensation and benefits represent the majority of our expenses. Other costs associated with the number of employees such as office space and professional services are included in both the cost of services and SG&A expense categories and are consistent with the allocation of employees to those respective areas.

The following table shows operating expenses by each of the categories:

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|                                                                                  | Three Months Ended    |                    | Increase/(Decrease) |          |
|----------------------------------------------------------------------------------|-----------------------|--------------------|---------------------|----------|
|                                                                                  | September 30,<br>2011 | August 31,<br>2010 |                     |          |
|                                                                                  | (in thousands)        |                    |                     |          |
| Cost of services:                                                                |                       |                    |                     |          |
| Compensation and benefits                                                        | \$ 50,584             | \$ 51,937          | \$ (1,353)          | (2.6%)   |
| Non-compensation expenses                                                        | 18,384                | 17,804             | 580                 | 3.3%     |
| Total cost of services                                                           | 68,968                | 69,741             | (773)               | (1.1%)   |
| Selling, general and administrative:                                             |                       |                    |                     |          |
| Compensation and benefits                                                        | 35,694                | 32,883             | 2,811               | 8.5%     |
| Non-compensation expenses                                                        | 18,030                | 30,423             | (12,393)            | (40.7%)  |
| Total selling, general and administrative                                        | 53,724                | 63,306             | (9,582)             | (15.1%)  |
| Restructuring                                                                    | (1,002)               | 6,953              | (7,955)             | (114.4%) |
| Amortization of intangible assets                                                | 16,422                | 16,350             | 72                  | 0.4%     |
| Depreciation and amortization of property, equipment, and leasehold improvements | 4,669                 | 4,934              | (265)               | (5.4%)   |
| Total operating expenses                                                         | \$ 142,781            | \$ 161,284         | \$ (18,503)         | (11.5%)  |
| Compensation and benefits                                                        | \$ 86,278             | \$ 84,820          | \$ 1,458            | 1.7%     |
| Non-compensation expenses                                                        | 36,414                | 48,227             | (11,813)            | (24.5%)  |
| Restructuring                                                                    | (1,002)               | 6,953              | (7,955)             | (114.4%) |
| Amortization of intangible assets                                                | 16,422                | 16,350             | 72                  | 0.4%     |
| Depreciation and amortization of property, equipment, and leasehold improvements | 4,669                 | 4,934              | (265)               | (5.4%)   |
| Total operating expenses                                                         | \$ 142,781            | \$ 161,284         | \$ (18,503)         | (11.5%)  |

Operating expenses were \$142.8 million for the three months ended September 30, 2011, a decrease of \$18.5 million, or 11.5%, compared to \$161.3 million for the three months ended August 31, 2010. The decrease primarily reflects the impact of costs related to the acquisition of RiskMetrics recognized in the three months ended August 31, 2010, while no similar costs were recognized in the three months ended September 30, 2011, as well as lower restructuring costs. Our operating expenses are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Had the U.S. dollar not weakened relative to exchange rates at the beginning of the year, our operating expense for the three months ended September 30, 2011 would have been lower by \$1.8 million.

Compensation and benefits expenses represent the majority of our expenses across all of our operating functions and typically have represented approximately 50% to 60% of our total operating expenses. These costs generally contribute to the majority of our expense increases from period to period, reflecting increased compensation and benefits expenses for current staff and increased staffing levels. Continued growth of our emerging market centers around the world is an important factor in our ability to manage and control the growth of our compensation and benefit expenses. As of September 30, 2011, approximately 37.6% of our employees were located in emerging market centers compared to 28.7% as of August 31, 2010.

During the three months ended September 30, 2011, compensation and benefits costs were \$86.3 million, an increase of \$1.5 million, or 1.7%, compared to \$84.8 million for the three months ended August 31, 2010. The increase primarily reflects \$3.2 million in higher costs related to current staff and increased staffing levels and \$0.4 million in post-retirement and other expenses, partially offset by \$2.1 million in lower stock based compensation expense.

Stock based compensation expense for the three months ended September 30, 2011 was \$7.6 million, a decrease of \$3.8 million, or 33.4%, compared to \$11.4 million for the three months ended August 31, 2010. The decrease reflects lower costs resulting from the vesting of portions of the Founders Grant, awards assumed upon the acquisition of RiskMetrics and awards made as part of the 2008 and 2009 annual bonus. It also reflects the impact of lower accruals for the Performance Award. Partially offsetting these factors were the costs associated with the awards granted as part of the 2010 annual bonus and increased costs for the awards to be granted to retirement eligible employees and to newly hired employees. Approximately \$0.9 million and \$2.1 million of the stock based compensation expense was related to the Founders Grant Award for the three months ended September 30, 2011 and August 31, 2010, respectively. Approximately \$0.4 million and \$2.1 million of the stock based

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compensation expense was related to the Performance Award for the three months ended September 30, 2011 and August 31, 2010, respectively. The decrease in the expense related to the Founders Grant Award, the 2008 and 2009

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annual bonus awards and the awards assumed upon the acquisition of RiskMetrics are primarily attributable to the vestings that occurred.

Non-compensation expenses for the three months ended September 30, 2011 were \$36.4 million, a decrease of \$11.8 million, or 24.5%, compared to \$48.2 million for the three months ended August 31, 2010. The decrease primarily reflects the impact of \$13.7 million in costs related to the acquisition of RiskMetrics recognized during the three months ended August 31, 2010. Partially offsetting this were increased costs associated with technology services, travel and entertainment and recruiting.

### ***Cost of Services***

Cost of services includes costs related to our research, data management and production, software engineering and product management functions. Costs in these areas include staff compensation and benefits, occupancy costs, market data fees and information technology services. Compensation and benefits generally contribute to a majority of our expense increases from period to period, reflecting increases for existing staff and increased staffing levels.

For the three months ended September 30, 2011, total cost of services decreased 1.1% to \$69.0 million compared to \$69.7 million for the three months ended August 31, 2010. The decrease was largely due to \$1.4 million in lower costs associated with compensation and benefits, partially offset by \$0.6 million in higher non-compensation expenses.

Compensation and benefits expenses for the three months ended September 30, 2011 decreased 2.6% to \$50.6 million compared to \$51.9 million for the three months ended August 31, 2010. The \$1.3 million decrease was largely due to lower stock based compensation expense.

Non-compensation expenses for the three months ended September 30, 2011 increased 3.3% to \$18.4 million compared to \$17.7 million for the three months ended August 31, 2010. The increase was largely due to increased occupancy, outside professional, travel and entertainment, market data and recruiting costs.

Our cost of services expenses are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Had the U.S. dollar not weakened relative to exchange rates at the beginning of the year, our cost of services for the nine months ended September 30, 2011 would have been lower by \$1.0 million.

### ***Selling, General and Administrative***

SG&A includes expenses for our sales and marketing staff, and our finance, human resources, legal and compliance, information technology infrastructure and corporate administration personnel. As with cost of services, the largest expense in this category relates to compensation and benefits. Other significant expenses are for occupancy costs, consulting services and information technology costs. For the three months ended September 30, 2011, SG&A was \$53.7 million, a decrease of \$9.6 million, or 15.1%, compared to \$63.3 million for the three months ended August 31, 2010. The decrease primarily reflects the impact of \$13.7 million in costs related to the acquisition of RiskMetrics recognized during the three months ended August 31, 2010. Partially offsetting this was an increase in compensation and benefits expenses.

Compensation and benefits expenses increased 8.5% to \$35.7 million for the three months ended September 30, 2011 compared to \$32.9 million for the three months ended August 31, 2010. The \$2.8 million increase was largely due to higher costs related to current staff and increased staffing levels partially offset by decreased stock based compensation expenses.

Non-compensation expenses for the three months ended September 30, 2011 decreased 40.7% to \$18.0 million compared to \$30.4 million for the three months ended August 31, 2010. The biggest driver of the decrease was the recognition of \$13.7 million in costs related to the acquisition of RiskMetrics in the three months ended August 31, 2010 while no similar costs were recognized in the three months ended September 30, 2011. In addition to this decrease, we recognized lower outside professional and occupancy costs during the three months ended September 30, 2011. Partially offsetting these were higher travel and entertainment, recruiting, information technology and other tax and license fee costs.

Our SG&A expenses are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Had the U.S. dollar not weakened relative to exchange rates at the beginning of the year, our SG&A expenses for the three months ended September 30, 2011 would have been lower by \$0.8 million.

### ***Restructuring***



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During the year ended November 30, 2010, MSCI's management approved, committed to and initiated a plan to restructure the Company's operations due to its acquisition of RiskMetrics. Restructuring includes expenses associated with the elimination of overlapping positions and duplicative occupancy costs and the termination of overlapping vendor contracts. Restructuring was a benefit of \$1.0 million for the three months ended September 30, 2011 compared to an expense of \$7.0 million for the three months ended August 31, 2010. During the three months ended September 30, 2011, we reversed approximately \$1.2 million of reserves that were associated with eliminating duplicative facilities as the final cost of exiting the facilities was lower than originally estimated. This was partially offset by costs incurred for severance and the write-off of assets associated with the exit of certain leases.

***Amortization of Intangibles***

Amortization of intangibles expense relates to the intangible assets arising from the acquisition of Barra in June 2004, RiskMetrics in June 2010 and Measurisk in July 2010. Amortization of intangibles expense totaled \$16.4 million for both of the three months ended September 30, 2011 and August 31, 2010.

***Depreciation and Amortization of Property, Equipment and Leasehold Improvements***

Depreciation and amortization of property, equipment, and leasehold improvements remained primarily unchanged year-over-year with expense amounts of \$4.7 million and \$4.9 million for the three months ended September 30, 2011 and August 31, 2010, respectively.

***Other Expense (Income), Net***

Other expense (income), net for the three months ended September 30, 2011 was \$11.9 million, a decrease of \$8.9 million compared to \$20.8 million for the three months ended August 31, 2010. The decrease primarily reflects lower interest expense resulting from lower average outstanding debt, lower rates from the term loan refinancing we entered into in March 2011 and higher foreign exchange gains.

***Income Taxes***

The provision for income tax expense for the three months ended September 30, 2011 was \$20.5 million, an increase of \$10.2 million, or 99.0%, compared to \$10.3 million for the three months ended August 31, 2010. This increase is primarily due to higher taxable income, partially offset by a lower effective tax rate. These amounts reflect effective tax rates of 29.2% and 50.0% for the three months ended September 30, 2011 and August 31, 2010, respectively. The effective tax rate of 29.2% for the three months ended September 30, 2011 reflects our estimate of the effective tax rate for the quarter, adjusted for several discrete items recognized during the quarter.

**Segment Results of Operations**

The results of operations by segment for the three months ended September 30, 2011 and August 31, 2010 are as follows:

|                                     | Three Months Ended September 30,<br>2011 |            |            | Three Months Ended August 31, 2010 |            |            |
|-------------------------------------|------------------------------------------|------------|------------|------------------------------------|------------|------------|
|                                     | Performance<br>and Risk                  | Governance | Total      | Performance<br>and Risk            | Governance | Total      |
| <b>Operating revenues</b>           | \$ 196,230                               | \$ 28,796  | \$ 225,026 | \$ 172,425                         | \$ 30,308  | \$ 202,733 |
| Cost of services                    | 54,996                                   | 13,972     | 68,968     | 51,962                             | 17,779     | 69,741     |
| Selling, general and administrative | 46,494                                   | 7,230      | 53,724     | 58,376                             | 4,930      | 63,306     |
| Restructuring                       | (818)                                    | (184)      | (1,002)    | 6,032                              | 921        | 6,953      |
| Amortization of intangible assets   | 13,072                                   | 3,350      | 16,422     | 13,000                             | 3,350      | 16,350     |
| Depreciation expense                | 3,529                                    | 1,140      | 4,669      | 4,383                              | 551        | 4,934      |
| <b>Total operating expenses</b>     | 117,273                                  | 25,508     | 142,781    | 133,753                            | 27,531     | 161,284    |
| Operating income                    | 78,957                                   | 3,288      | 82,245     | 38,672                             | 2,777      | 41,449     |
| Other expense (income), net         |                                          |            | 11,946     |                                    |            | 20,825     |

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|                                          |           |           |
|------------------------------------------|-----------|-----------|
| Income before provision for income taxes | 70,299    | 20,624    |
| Provision for income taxes               | 20,512    | 10,305    |
| Net income                               | \$ 49,787 | \$ 10,319 |

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### ***Performance and Risk***

Total operating revenues for the Performance and Risk business increased \$23.8 million, or 13.8%, to \$196.2 million for the three months ended September 30, 2011. The increase was primarily driven by higher revenues from MSCI's core benchmark indices, increased Index and ESG asset based fees and growth within our risk management analytics products.

Cost of services for the Performance and Risk business increased \$3.0 million, or 5.8%, to \$55.0 million for the three months ended September 30, 2011. Within cost of services, compensation and benefits expenses increased \$2.6 million to \$40.6 million as a result of higher costs related to current staff and increased staffing levels partially offset by decreased stock based compensation expenses. Non-compensation expenses increased \$0.4 million to \$14.4 million, driven primarily by higher occupancy costs.

SG&A expense for the Performance and Risk business decreased \$11.9 million, or 20.4%, to \$46.5 million for the three months ended September 30, 2011. Within SG&A, compensation and benefits expenses increased \$1.6 million to \$31.1 million as a result of higher costs related to current staff and increased staffing levels and increased post-retirement and other expenses partially offset by decreased stock based compensation expenses. Non-compensation expenses decreased \$13.5 million to \$15.4 million. The biggest driver of the decrease was recognition of \$13.7 million in costs related to the acquisition of RiskMetrics in the three months ended August 31, 2010 while no similar costs were recognized in the three months ended September 30, 2011.

Restructuring expense for the Performance and Risk business declined \$6.9 million for the three months ended September 30, 2011 compared to the three months ended August 31, 2010. We first took restructuring charges in the three months ended August 31, 2010 and, as the restructuring plans begin to come to a conclusion, we recognized a benefit \$0.8 million in the Performance and Risk business in the three months ended September 30, 2011 as estimated costs became more final.

### ***Governance***

Total operating revenues for the Governance business decreased \$1.5 million, or 5.0%, to \$28.8 million for the three months ended September 30, 2011. Within the governance products, recurring revenues decreased \$1.0 million to \$26.1 million and non-recurring revenues decreased \$0.5 million to \$2.7 million for the three months ended September 30, 2011.

Cost of services for the Governance business decreased \$3.8 million, or 21.4%, to \$14.0 million for the three months ended September 30, 2011. Compensation and benefits expenses decreased \$4.0 million to \$10.0 million while non-compensation expenses rose to \$4.0 million, driven primarily by higher outside professional costs.

SG&A expense for the Governance business increased \$2.3 million, or 46.7%, to \$7.2 million for the three months ended September 30, 2011. Within SG&A, compensation and benefits expenses increased \$1.2 million to \$4.6 million a result of higher costs related to current staff and increased staffing levels and increased post-retirement and other expenses partially offset by decreased stock based compensation expenses. Non-compensation expenses increased \$1.0 million to \$2.6 million driven by higher allocated costs not directly attributable to the Governance business as well as higher outside professional costs.

Restructuring expense for the Governance business declined \$1.1 million for the three months ended September 30, 2011 compared to the three months ended August 31, 2010. We first took restructuring charges in the three months ended August 31, 2010 and, as estimated costs became more final, we recognized a benefit of \$0.2 million in the Governance business in the three months ended September 30, 2011.

## **Nine Months Ended September 30, 2011 Compared to the Nine Months Ended August 31, 2010**

### **Results of Operations**

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|                                                                                  | Nine Months Ended     |                    | Increase/(Decrease)                   |         |
|----------------------------------------------------------------------------------|-----------------------|--------------------|---------------------------------------|---------|
|                                                                                  | September 30,<br>2011 | August 31,<br>2010 | (in thousands, except per share data) |         |
| Operating revenues                                                               | \$ 674,807            | \$ 449,583         | \$ 225,224                            | 50.1%   |
| Operating expenses:                                                              |                       |                    |                                       |         |
| Cost of services                                                                 | 208,026               | 129,495            | 78,531                                | 60.6%   |
| Selling, general and administrative                                              | 158,463               | 140,944            | 17,519                                | 12.4%   |
| Restructuring                                                                    | 3,469                 | 6,953              | (3,484)                               | (50.1%) |
| Amortization of intangible assets                                                | 49,537                | 24,905             | 24,632                                | 98.9%   |
| Depreciation and amortization of property, equipment, and leasehold improvements | 14,947                | 11,883             | 3,064                                 | 25.8%   |
| Total operating expenses                                                         | 434,442               | 314,180            | 120,262                               | 38.3%   |
| Operating income                                                                 | 240,365               | 135,403            | 104,962                               | 77.5%   |
| Other expense (income), net                                                      | 47,080                | 32,991             | 14,089                                | 42.7%   |
| Provision for income taxes                                                       | 64,317                | 40,508             | 23,809                                | 58.8%   |
| Net income                                                                       | \$ 128,968            | \$ 61,904          | \$ 67,064                             | 108.3%  |
| Earnings per basic common share                                                  | \$ 1.06               | \$ 0.56            | \$ 0.50                               | 89.3%   |
| Earnings per diluted common share                                                | \$ 1.05               | \$ 0.55            | \$ 0.50                               | 90.9%   |
| Operating margin                                                                 | 35.6%                 | 30.1%              |                                       |         |

**Operating Revenues**

The following table summarizes the revenue by product category for the nine months ended September 30, 2011 compared to the nine months ended August 31, 2010:

|                                | Nine Months Ended     |                    | Increase/(Decrease) |         |
|--------------------------------|-----------------------|--------------------|---------------------|---------|
|                                | September 30,<br>2011 | August 31,<br>2010 | (in thousands)      |         |
| Index and ESG:                 |                       |                    |                     |         |
| Subscriptions                  | \$ 194,713            | \$ 163,453         | \$ 31,260           | 19.1%   |
| Asset based fees               | 109,186               | 75,758             | 33,428              | 44.1%   |
| Total index and ESG products   | 303,899               | 239,211            | 64,688              | 27.0%   |
| Risk management analytics      | 181,533               | 76,558             | 104,975             | 137.1%  |
| Portfolio management analytics | 88,740                | 92,149             | (3,409)             | (3.7%)  |
| Energy and commodity analytics | 9,616                 | 11,357             | (1,741)             | (15.3%) |
| Governance                     | 91,019                | 30,308             | 60,711              | 200.3%  |
| Total operating revenues       | \$ 674,807            | \$ 449,583         | \$ 225,224          | 50.1%   |

Total operating revenues for the nine months ended September 30, 2011 increased \$225.2 million, or 50.1%, to \$674.8 million compared to \$449.6 million for the nine months ended August 31, 2010. Approximately \$169.5 million of the year-over-year growth was comprised of revenues contributed by the acquisitions made during the second half of the year ended November 30, 2010. The remaining \$56.2 million of growth was comprised of increases in asset based fees of \$32.6 million and subscription revenues of \$23.6 million. Our revenues are impacted by changes in exchange rates primarily as they relate



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to the U.S. dollar. Had the U.S. dollar not weakened relative to exchange rates at the beginning of the year, our revenues for the nine months ended September 30, 2011 would have been lower by \$2.9 million.

Revenues related to index and ESG products increased \$64.7 million, or 27.0%, to \$303.9 million for the nine months ended September 30, 2011 compared to \$239.2 million for the nine months ended August 31, 2010. Subscription revenues from the index and ESG products were up 19.1% to \$194.7 million for the nine months ended September 30, 2011 compared to \$163.5 million for the nine months ended August 31, 2010. Approximately \$9.3 million of the growth in the subscription revenues from the index and ESG products was comprised of revenues contributed by the acquisitions made during the second half of the year ended November 30, 2010. The remaining \$22.0 million increase was attributable to growth primarily in our benchmark products.

Asset based fee revenues attributable to the index and ESG products increased \$33.4 million, or 44.1%, to \$109.2 million for the nine months ended September 30, 2011 compared to \$75.8 million for the nine months ended August 31, 2010. The increase in the asset based fee revenues was primarily driven by the increased average values of assets in ETFs linked to MSCI equity indices. The average value of assets in ETFs linked to MSCI equity indices in the aggregate increased 37.7% to \$341.2 billion for the nine months ended September 30, 2011 compared to \$247.8 billion for the nine months ended August 31, 2010. The increase in asset based fees products sub-category also includes the impact of \$4.3 million of non-recurring revenue recognized during the nine months ended September 30, 2011.

Revenues related to risk management analytics products increased \$105.0 million, or 137.1%, to \$181.5 million for the nine months ended September 30, 2011 compared to \$76.5 million for the nine months ended August 31, 2010. Approximately \$98.2 million of the growth was comprised of revenues contributed by the acquisitions made during the second half of the year ended November 30, 2010. The remaining \$6.8 million of growth primarily reflects an increase of sales in our risk analytics products.

Revenues related to portfolio management analytics products decreased \$3.4 million, or 3.7%, to \$88.7 million for the nine months ended September 30, 2011 compared to \$92.1 million for the nine months ended August 31, 2010. Within portfolio management analytics, equity portfolio analytics decreased \$2.9 million to \$85.2 million and fixed income analytics decreased \$0.5 million to \$3.5 million.

Revenues from energy and commodity analytics products decreased 15.4% to \$9.6 million for the nine months ended September 30, 2011 compared to \$11.4 million for the nine months ended August 31, 2010. The decrease is primarily the result of the timing of new and recurring sales.

Governance products contributed approximately \$91.0 million to our operating revenues for the nine months ended September 30, 2011 and \$30.3 million for the nine months ended August 31, 2010. The governance product line was acquired with our purchase of RiskMetrics on June 1, 2010 and had no effect on our results of operations prior to that date.

### Aggregate and Core Retention Rates

The following table sets forth our Aggregate Retention Rates by product category for the indicated nine months ended as if we had completed the RiskMetrics acquisition as of the beginning of the periods indicated:

|                                | September 30, |       |
|--------------------------------|---------------|-------|
|                                | 2011          | 2010  |
| Index and ESG products         | 94.3%         | 92.3% |
| Risk management analytics      | 92.6%         | 88.1% |
| Portfolio management analytics | 88.8%         | 85.2% |
| Energy and commodity analytics | 85.0%         | 85.9% |
| Total Performance and Risk     | 92.4%         | 89.0% |
| Governance                     | 87.2%         | 85.8% |
| Total                          | 91.6%         | 88.5% |

The following table sets forth our Core Retention Rates by product category for the indicated nine months ended as if we had completed the RiskMetrics acquisition as of the beginning of the periods indicated:

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|                                | September 30, |       |
|--------------------------------|---------------|-------|
|                                | 2011          | 2010  |
| Index and ESG products         | 94.4%         | 92.8% |
| Risk management analytics      | 93.0%         | 89.6% |
| Portfolio management analytics | 90.5%         | 87.9% |
| Energy and commodity analytics | 85.7%         | 85.9% |
| Total Performance and Risk     | 92.9%         | 90.3% |
| Governance                     | 87.2%         | 85.8% |
| Total                          | 92.0%         | 89.6% |

The Aggregate Retention Rates for any nine-month period are calculated by annualizing the cancellations for which we have received a notice of termination or non-renewal during the period and have determined that such notice evidences the client's final decision to terminate or not renew the applicable subscription or agreement, even though such notice is not effective until a later date. This annualized cancellation figure is then divided by the subscription Run Rate at the beginning of the year to calculate a cancellation rate. This cancellation rate is then subtracted from 100% to derive the annualized Aggregate Retention Rate for the nine-month period. The Aggregate Retention Rate is computed on a product-by-product basis. Therefore, if a client reduces the number of products to which it subscribes or switches between our products, we treat it as a cancellation. In addition, we treat any reduction in fees resulting from renegotiated contracts as a cancellation in the calculation to the extent of the reduction. For the calculation of the Core Retention Rate the same methodology is used except the cancellations during the nine-month period are reduced by the amount of product swaps.

**Operating Expenses**

The following table shows operating expenses by each of the categories:

|                                                                                  | Nine Months Ended     |                    |                     |         |
|----------------------------------------------------------------------------------|-----------------------|--------------------|---------------------|---------|
|                                                                                  | September 30,<br>2011 | August 31,<br>2010 | Increase/(Decrease) |         |
|                                                                                  | (in thousands)        |                    |                     |         |
| Cost of services:                                                                |                       |                    |                     |         |
| Compensation and benefits                                                        | \$ 152,023            | \$ 96,657          | \$ 55,366           | 57.3%   |
| Non-compensation expenses                                                        | 56,003                | 32,838             | 23,165              | 70.5%   |
| Total cost of services                                                           | 208,026               | 129,495            | 78,531              | 60.6%   |
| Selling, general and administrative:                                             |                       |                    |                     |         |
| Compensation and benefits                                                        | 108,117               | 77,952             | 30,165              | 38.7%   |
| Non-compensation expenses                                                        | 50,346                | 62,992             | (12,646)            | (20.1%) |
| Total selling, general and administrative                                        | 158,463               | 140,944            | 17,519              | 12.4%   |
| Restructuring                                                                    | 3,469                 | 6,953              | (3,484)             | (50.1%) |
| Amortization of intangible assets                                                | 49,537                | 24,905             | 24,632              | 98.9%   |
| Depreciation and amortization of property, equipment, and leasehold improvements | 14,947                | 11,883             | 3,064               | 25.8%   |
| Total operating expenses                                                         | \$ 434,442            | \$ 314,180         | \$ 120,262          | 38.3%   |
| Compensation and benefits                                                        | \$ 260,140            | \$ 174,609         | \$ 85,531           | 49.0%   |
| Non-compensation expenses                                                        | 106,349               | 95,830             | 10,519              | 11.0%   |
| Restructuring                                                                    | 3,469                 | 6,953              | (3,484)             | (50.1%) |
| Amortization of intangible assets                                                | 49,537                | 24,905             | 24,632              | 98.9%   |
| Depreciation and amortization of property, equipment, and leasehold improvements | 14,947                | 11,883             | 3,064               | 25.8%   |
| Total operating expenses                                                         | \$ 434,442            | \$ 314,180         | \$ 120,262          | 38.3%   |

Operating expenses were \$434.4 million for the nine months ended September 30, 2011, an increase of 38.3%, compared to \$314.2 million for the nine months ended August 31, 2010. We estimate that approximately \$112.5 million of the year-over-year increase was comprised of

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expenses contributed by the acquisitions made during the second half of the year ended November 30, 2010. The remaining \$7.7 million increase primarily reflects higher compensation and benefits partially offset by lower non-compensation and restructuring costs. Our operating expenses are impacted by changes in exchange rates

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primarily as they relate to the U.S. dollar. Had the U.S. dollar not weakened relative to exchange rates at the beginning of the year, our operating expense for the nine months ended September 30, 2011 would have been lower by \$4.2 million.

During the nine months ended September 30, 2011, compensation and benefits costs were \$260.1 million, an increase of \$85.5 million, or 49.0%, compared to \$174.6 million for the nine months ended August 31, 2010. We estimate that approximately \$63.5 million of the increase was comprised of expenses contributed by the acquisitions made during the second half of the year ended November 30, 2010. The remaining \$22.0 million increase primarily reflects \$19.7 million in higher costs related to current staff and increased staffing levels and \$2.6 million in higher stock based compensation expense, partially offset by \$0.3 million in lower post-retirement and other expense.

Stock based compensation expense for the nine months ended September 30, 2011 was \$23.7 million, an increase of \$2.2 million, or 10.1%, compared to \$21.5 million for the nine months ended August 31, 2010. The increase included expense associated with the amortization of restricted stock units granted as a component of the 2010 annual bonus, the amortization of the Performance Award granted in June 2010 to certain of our employees and increased costs for the awards to be granted to retirement eligible employees and to newly hired employees. Partially offsetting these were decreased expense associated with the amortization of the Founders Grant Award, restricted stock units granted as a component of the 2008 and 2009 annual bonus and the amortization of awards assumed upon the acquisition of RiskMetrics. Approximately \$2.5 million and \$6.3 million of the stock based compensation expense was related to the Founders Grant Award for the nine months ended September 30, 2011 and August 31, 2010, respectively. Approximately \$4.2 million and \$2.1 million of the stock based compensation expense was related to the Performance Award for the nine months ended September 30, 2011 and August 31, 2010, respectively. The decrease in the expense related to the Founders Grant Award, the 2008 and 2009 annual bonus awards and the awards assumed upon the acquisition of RiskMetrics are primarily attributable to the vestings that occurred.

Non-compensation expenses for the nine months ended September 30, 2011 was \$106.3 million, an increase of \$10.5 million, or 11.0%, compared to \$95.8 million for the nine months ended August 31, 2010. The increase reflects \$23.5 million of expenses contributed by the acquisitions made during the second half of the year ended November 30, 2010 as well as increased outside professional, travel and entertainment, market data, information technology and recruiting costs. Partially offsetting this increase were lower other taxes and license fees and the recognition during the nine months ended August 31, 2010, of \$21.2 million in costs related to the acquisition of RiskMetrics while no similar costs were recognized during the nine months ended September 30, 2011.

### ***Cost of Services***

For the nine months ended September 30, 2011, total cost of services increased \$78.5 million, or 60.6%, to \$208.0 million compared to \$129.5 million for the nine months ended August 31, 2010. Approximately \$60.1 million of the increase was comprised of expenses contributed by the acquisitions made during the second half of the year ended November 30, 2010. The remaining \$18.4 million increase was largely due to an increase in costs associated with compensation and benefits, travel and entertainment, information technology, market data and recruiting costs.

Compensation and benefits expenses for the nine months ended September 30, 2011 increased 57.3% to \$152.0 million from \$96.7 million for the nine months ended August 31, 2010. Approximately \$42.3 million of the increase was comprised of expenses contributed by the acquisitions made during the second half of the year ended November 30, 2010. The remaining \$13.0 million increase was largely due to higher costs related to current staff and increased staffing levels and increased stock based compensation expense, partially offset by lower post-retirement and other expenses.

Non-compensation expenses for the nine months ended September 30, 2011 increased \$23.2 million to \$56.0 million compared to \$32.8 million for the nine months ended August 31, 2010. Approximately \$17.9 million of the increase was comprised of expenses contributed by the acquisitions made during the second half of the year ended November 30, 2010. The remaining \$5.3 million increase was largely due to increased travel and entertainment, information technology, market data and recruiting costs.

Our cost of services expenses are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Had the U.S. dollar not weakened relative to exchange rates at the beginning of the year, our cost of services for the nine months ended September 30, 2011 would have been lower by \$2.0 million.

### ***Selling, General and Administrative***

For the nine months ended September 30, 2011, SG&A was \$158.5 million, an increase of 12.4% from \$140.9 million for the nine months ended August 31, 2010. Approximately \$26.8 million of the increase was comprised of expenses contributed by the acquisitions made during the second half of the year ended November 30, 2010 as well as \$9.0 million of



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increased costs associated with compensation and benefits, partially offset by lower costs directly attributable to the RiskMetrics acquisition as well as lower information technology, occupancy, market data and other tax and license fee costs.

Compensation and benefits expenses increased 38.7% to \$108.1 million for the nine months ended September 30, 2011 compared to \$78.0 million for the nine months ended August 31, 2010. Approximately \$21.1 million of the increase was the result of the acquisitions made during the second half of the year ended November 30, 2010. The remaining \$9.0 million increase was largely due to higher costs related to current staff and increased staffing levels and increased stock based compensation expense.

Non-compensation expenses for the nine months ended September 30, 2011 decreased 20.1% to \$50.3 million compared to \$63.0 million for the nine months ended August 31, 2010. In the nine months ended August 31, 2010, we recognized \$21.2 million in costs related to the acquisition of RiskMetrics while no similar costs were recognized during the nine months ended September 30, 2011. In addition to this decrease, we recognized lower information technology, occupancy, market data and other tax and license fee costs during the nine months ended September 30, 2011. Partially offsetting this decrease were higher outside professional fees and approximately \$5.6 million of cost increases related to the acquisitions made during the second half of the year ended November 30, 2010.

Our SG&A expenses are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Had the U.S. dollar not weakened relative to exchange rates at the beginning of the year, our SG&A expenses for the nine months ended September 30, 2011 would have been lower by \$1.9 million.

### ***Restructuring***

During the year ended November 30, 2010, MSCI's management approved, committed to and initiated a plan to restructure the Company's operations due to its acquisition of RiskMetrics. Restructuring includes expenses associated with the elimination of overlapping positions and duplicative occupancy costs and the termination of overlapping vendor contracts. Restructuring expense was \$3.5 million for the nine months ended September 30, 2011. Approximately \$0.7 million of the expense was associated with the elimination of overlapping positions and \$2.8 million of the expense was associated with eliminating duplicative occupancy costs.

### ***Amortization of Intangibles***

Amortization of intangibles expense relates to the intangible assets arising from the acquisition of Barra in June 2004, RiskMetrics in June 2010 and Measurisk in July 2010. Amortization of intangibles expense totaled \$49.5 million and \$24.9 million for the nine months ended September 30, 2011 and August 31, 2010, respectively. The increase of \$24.6 million was the result of increased amortization associated with the acquisitions of RiskMetrics and Measurisk made during the second half of the year ended November 30, 2010.

### ***Depreciation and Amortization of Property, Equipment and Leasehold Improvements***

Depreciation and amortization of property, equipment, and leasehold improvements totaled \$14.9 million and \$11.9 million for the nine months ended September 30, 2011 and August 31, 2010, respectively. The increase is primarily the result of depreciating equipment associated with the acquisitions made during the second half of the year ended November 30, 2010.

### ***Other Expense (Income), Net***

Other expense (income), net for the nine months ended September 30, 2011 was \$47.1 million, an increase of \$14.1 million compared to \$33.0 million for the nine months ended August 31, 2010. The increase primarily reflects higher interest expense resulting from the senior secured term loan we entered into on June 1, 2010 as part of our acquisition of RiskMetrics, \$6.1 million in fees associated with the repricing of the term loan and lower interest income.

### ***Income Taxes***

The provision for income tax expense for the nine months ended September 30, 2011 was \$64.3 million, an increase of \$23.8 million, or 58.8%, compared to \$40.5 million for the nine months ended August 31, 2010. This increase is primarily due to higher taxable income resulting from the acquisitions made during the second half of the year ended November 30, 2010, partially offset by a lower effective tax rate. These amounts reflect effective tax rates of 33.3% and 39.6% for the nine months ended September 30, 2011 and August 31, 2010, respectively. The effective tax rate of 33.3% for the nine months



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ended September 30, 2011 reflects our estimate of the effective tax rate for the period, adjusted for several discrete items recognized during the period.

**Segment Results of Operations**

The results of operations by segment for the nine months ended September 30, 2011 and August 31, 2010 are as follows:

|                                          | Nine Months Ended September 30, 2011 |            |            | Nine Months Ended August 31, 2010 |            |            |
|------------------------------------------|--------------------------------------|------------|------------|-----------------------------------|------------|------------|
|                                          | Performance and Risk                 | Governance | Total      | Performance and Risk              | Governance | Total      |
| <b>Operating revenues</b>                | \$ 583,788                           | \$ 91,019  | \$ 674,807 | \$ 419,275                        | \$ 30,308  | \$ 449,583 |
| Cost of services                         | 162,754                              | 45,272     | 208,026    | 111,716                           | 17,779     | 129,495    |
| Selling, general and administrative      | 136,970                              | 21,493     | 158,463    | 136,014                           | 4,930      | 140,944    |
| Restructuring                            | 1,570                                | 1,899      | 3,469      | 6,032                             | 921        | 6,953      |
| Amortization of intangible assets        | 39,487                               | 10,050     | 49,537     | 21,555                            | 3,350      | 24,905     |
| Depreciation expense                     | 11,549                               | 3,398      | 14,947     | 11,332                            | 551        | 11,883     |
| <b>Total operating expenses</b>          | 352,330                              | 82,112     | 434,442    | 286,649                           | 27,531     | 314,180    |
| <b>Operating income</b>                  | 231,458                              | 8,907      | 240,365    | 132,626                           | 2,777      | 135,403    |
| <b>Other expense (income), net</b>       |                                      |            | 47,080     |                                   |            | 32,991     |
| Income before provision for income taxes |                                      |            | 193,285    |                                   |            | 102,412    |
| Provision for income taxes               |                                      |            | 64,317     |                                   |            | 40,508     |
| <b>Net income</b>                        |                                      |            | \$ 128,968 |                                   |            | \$ 61,904  |

The results of RiskMetrics and Measurisk were not included in our results of operations until their acquisition dates of June 1, 2010 and July 30, 2010, respectively. As a result, no meaningful periodic comparison of the segments can be made between the nine months ended September 30, 2011 and the nine months ended August 31, 2010. See below for a discussion comparing the pro forma results of operations on both a consolidated level and at a segment level.

**Pro Forma Results of Operations**

The unaudited pro forma financial information below summarizes the combined results of operations for MSCI and RiskMetrics for the nine months ended August 31, 2010 as though the companies were combined as of December 1, 2009. The unaudited pro forma financial information presented includes transaction costs directly attributable to the acquisition as well as the business combination accounting effects resulting from the acquisition, including the amortization charges from acquired intangible assets, adjustments to interest income for lower average cash balances, interest expense for borrowings and the amortization of deferred financing fees, debt discounts and prepaid agency fees and the related tax effects as though the companies were combined as of December 1, 2009.

The unaudited pro forma financial information for the nine months ended August 31, 2010 combine the historical results of MSCI for the nine months ended August 31, 2010, the historical results of RiskMetrics for the three-month period ended March 31, 2010 and the historical results of RiskMetrics for the three-month period ended December 31, 2009 (due to differences in reporting periods), adjusted to reflect the accounting effects described above.

The unaudited pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions and any borrowings undertaken to finance the RiskMetrics acquisition had taken place at December 1, 2009. The unaudited actual results for the nine months ended September 30, 2011 and the unaudited pro forma financial information for the nine months ended August 31, 2010 were as follows:



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|                                                                                  | Nine Months Ended               |                                                   | Increase/(Decrease) |         |
|----------------------------------------------------------------------------------|---------------------------------|---------------------------------------------------|---------------------|---------|
|                                                                                  | Actual<br>September 30,<br>2011 | Pro Forma<br>August 31,<br>2010<br>(in thousands) |                     |         |
| Operating revenues                                                               | \$ 674,807                      | \$ 603,101                                        | \$ 71,706           | 11.9%   |
| Operating expenses:                                                              |                                 |                                                   |                     |         |
| Cost of services                                                                 | 208,026                         | 203,808                                           | 4,218               | 2.1%    |
| Selling, general and administrative                                              | 158,463                         | 149,990                                           | 8,473               | 5.6%    |
| Restructuring                                                                    | 3,469                           | 6,953                                             | (3,484)             | (50.1%) |
| Amortization of intangible assets                                                | 49,537                          | 48,710                                            | 827                 | 1.7%    |
| Depreciation and amortization of property, equipment, and leasehold improvements | 14,947                          | 16,130                                            | (1,183)             | (7.3%)  |
| Total operating expenses                                                         | 434,442                         | 425,591                                           | 8,851               | 2.1%    |
| Operating income                                                                 | 240,365                         | 177,510                                           | 62,855              | 35.4%   |
| Other expense (income), net                                                      | 47,080                          | 52,460                                            | (5,380)             | (10.3%) |
| Provision for income taxes                                                       | 64,317                          | 44,395                                            | 19,922              | 44.9%   |
| Net income                                                                       | \$ 128,968                      | \$ 80,655                                         | \$ 48,313           | 59.9%   |

Total operating revenues increased \$71.7 million, or 11.9%, to \$674.8 million for the nine months ended September 30, 2011. The increase was primarily driven by higher revenues from MSCI's benchmark products within our index and ESG subscription sub-category, increased index and ESG asset based fees and growth within our risk management analytics products.

Cost of services increased \$4.2 million, or 2.1%, to \$208.0 million for the nine months ended September 30, 2011. Compensation and benefits expenses increased \$0.4 million to \$152.0 million as a result of higher costs related to current staff and increased staffing levels and increased post-retirement and other expenses partially offset by decreased stock based compensation expenses. Non-compensation expenses rose by \$3.8 million to \$56.0 million, primarily driven by higher market data, outside professional, recruiting and information technology costs.

SG&A expense increased \$8.5 million, or 5.6%, to \$158.5 million for the nine months ended September 30, 2011. Within SG&A, compensation and benefits expenses increased \$10.6 million to \$108.1 million due primarily to higher costs related to current staff and increased staffing levels and increased post-retirement and other expenses. Non-compensation expenses decreased \$2.1 million to \$50.4 million. The decrease in non-compensation expenses was primarily driven by lower taxes and license fees as well as lower information technology costs.

Restructuring expense was \$3.5 million for the nine months ended September 30, 2011. Approximately \$0.7 million of the expense was associated with the elimination of overlapping positions and \$2.8 million of the expense was associated with eliminating duplicative occupancy costs.

The unaudited actual results by operating segment for the nine months ended September 30, 2011 and the unaudited pro forma financial information by operating segment for the nine months ended August 31, 2010 were as follows:

|                                     | Nine Months Ended September 30, 2011 |            |            | Nine Months Ended August 31, 2010 |            |            |
|-------------------------------------|--------------------------------------|------------|------------|-----------------------------------|------------|------------|
|                                     | Actual                               |            |            | Pro Forma                         |            |            |
|                                     | Performance and Risk                 | Governance | Total      | Performance and Risk              | Governance | Total      |
| Operating revenues                  | \$ 583,788                           | \$ 91,019  | \$ 674,807 | \$ 508,146                        | \$ 94,955  | \$ 603,101 |
| Cost of services                    | 162,754                              | 45,272     | 208,026    | 151,675                           | 52,133     | 203,808    |
| Selling, general and administrative | 136,970                              | 21,493     | 158,463    | 130,629                           | 19,361     | 149,990    |
| Restructuring                       | 1,570                                | 1,899      | 3,469      | 6,032                             | 921        | 6,953      |
| Amortization of intangible assets   | 39,487                               | 10,050     | 49,537     | 38,660                            | 10,050     | 48,710     |
| Depreciation expense                | 11,549                               | 3,398      | 14,947     | 13,427                            | 2,703      | 16,130     |
| Total operating expenses            | 352,330                              | 82,112     | 434,442    | 340,423                           | 85,168     | 425,591    |

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|                                          |         |       |            |         |       |           |
|------------------------------------------|---------|-------|------------|---------|-------|-----------|
| <b>Operating income</b>                  | 231,458 | 8,907 | 240,365    | 167,723 | 9,787 | 177,510   |
| <b>Other expense (income), net</b>       |         |       | 47,080     |         |       | 52,460    |
| Income before provision for income taxes |         |       | 193,285    |         |       | 125,050   |
| Provision for income taxes               |         |       | 64,317     |         |       | 44,395    |
| <b>Net income</b>                        |         |       | \$ 128,968 |         |       | \$ 80,655 |

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### ***Performance and Risk***

Total operating revenues for the Performance and Risk business increased \$75.6 million, or 14.9%, to \$583.8 million for the nine months ended September 30, 2011. The increase was primarily driven by higher revenues from MSCI's benchmark products within our index and ESG subscription sub-category, increased index and ESG asset based fees and growth within our risk management analytics products.

Cost of services for the Performance and Risk business increased \$11.1 million, or 7.3%, to \$162.8 million for the nine months ended September 30, 2011. Compensation and benefits expenses increased \$9.1 million to \$119.6 million as a result of higher costs related to current staff and increased staffing levels and increased stock based compensation expenses partially offset by decreased post-retirement and other expenses. Non-compensation expenses rose by \$2.0 million to \$43.2 million, primarily driven by higher market data, occupancy and information technology costs.

SG&A expense for the Performance and Risk business increased \$6.3 million, or 4.9%, to \$137.0 million for the nine months ended September 30, 2011. Within SG&A, compensation and benefits expenses increased \$8.6 million to \$93.5 million resulting from higher costs related to current staff and increased staffing levels, increased stock based compensation and post-retirement and other expenses. Non-compensation expenses decreased \$2.3 million to \$43.4 million. The decrease in non-compensation expenses was primarily driven by lower taxes and license fees as well as lower information technology, personnel related and marketing costs.

Restructuring expense for the Performance and Risk business decreased \$4.5 million, or 74.0%, to \$1.6 million for the nine months ended September 30, 2011. Approximately \$0.4 million of the expense was associated with the elimination of overlapping positions and \$1.2 million of the expense was associated with eliminating duplicative occupancy costs.

### ***Governance***

Total operating revenues for the Governance business decreased \$3.9 million, or 4.1%, to \$91.0 million for the nine months ended September 30, 2011. Within the governance products, recurring revenues decreased \$2.9 million to \$78.6 million and non-recurring revenues decreased \$1.0 million to \$12.4 million for the nine months ended September 30, 2011.

Cost of services for the Governance business decreased \$6.9 million, or 13.2%, to \$45.3 million for the nine months ended September 30, 2011. Compensation and benefits expenses decreased \$8.7 million to \$32.4 million resulting from lower costs related to staffing levels and lower stock based compensation, partially offset by higher post-retirement and other expenses. Non-compensation expenses rose by \$1.8 million to \$12.9 million, driven primarily by higher outside professional costs.

SG&A expense for the Governance business increased \$2.1 million, or 11.0%, to \$21.5 million for the nine months ended September 30, 2011. Within SG&A, compensation and benefits expenses increased \$1.9 million to \$14.6 million resulting from higher costs related to current staff and increased staffing levels and post-retirement and other expenses, partially offset by decreased stock based compensation. Non-compensation expenses increased \$0.2 million to \$6.9 million.

Restructuring expense for the Governance business increased \$1.0 million, or 106.2%, to \$1.9 million for the nine months ended September 30, 2011. Approximately \$0.3 million of the expense was associated with the elimination of overlapping positions and \$1.6 million of the expense was associated with eliminating duplicative occupancy costs.

### **Critical Accounting Policies and Estimates**

We describe our significant accounting policies in Note 1, Introduction and Basis of Presentation, of the Notes to Consolidated Financial Statements included in our Form 10-K for the fiscal year ended November 30, 2010 and also in Note 2, Recent Accounting Standards Updates, in Notes to Condensed Consolidated Financial Statements included herein. We discuss our critical accounting estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the fiscal year ended November 30, 2010.

The Company's accounting policy was to conduct the annual goodwill impairment test as of June 1, with the most recent annual goodwill impairment test completed as of June 1, 2011. Effective in the quarter ended September 30, 2011, the Company elected to prospectively change its accounting policy to begin conducting the annual goodwill impairment test annually on July 1. As a result, during the fiscal year 2011, the Company tested goodwill for impairment as of June 1, 2011 and July 1, 2011 and concluded that there was no impairment of the carrying value of the goodwill. The change to the annual goodwill impairment testing date is preferable under the circumstances as the impairment testing became consistent with the testing date prior to the change in fiscal year end (first day of third quarter), the impairment testing will use financial information as of the beginning of a quarter, which will have been subject to the prior quarter's closing process; and the new date provides

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sufficient time to accurately complete the annual goodwill impairment testing prior to the Company's quarterly reporting, thus avoiding interruptions with the quarterly reporting process. The resulting change in accounting principle related to the annual testing date will not delay, accelerate, or avoid an impairment charge of the Company's goodwill. As it was impracticable to objectively determine the estimates and assumptions necessary to perform the annual goodwill impairment test as of each July 1 for periods prior to July 1, 2011, the Company has prospectively applied the change in the annual goodwill impairment testing date from July 1, 2011. The application of this change in accounting policy did not result in any impairment charges recognized in the Company's Condensed Consolidated Financial Statements in any periods presented.

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Other than the change described above, there were no significant changes in our accounting policies or critical accounting estimates since the end of the fiscal year ended November 30, 2010.

### **Liquidity and Capital Resources**

We require capital to fund ongoing operations, internal growth initiatives and acquisitions. Our primary sources of liquidity are cash flows generated from our operations, proceeds from the maturity and sale of our short-term investments, existing cash and cash equivalents and credit capacity under our credit facilities. We intend to use these sources of liquidity to service our existing and future debt obligations and fund our working capital requirements, capital expenditures, investments and acquisitions. In connection with our business strategy, we regularly evaluate acquisition opportunities. We believe our liquidity, along with other financing alternatives, will provide the necessary capital to fund these transactions and achieve our planned growth.

On June 1, 2010, we entered into a senior secured credit agreement with Morgan Stanley Senior Funding, Inc., as administrative agent, Morgan Stanley & Co. Incorporated, as collateral agent, and the other lenders party thereto, which was comprised of (i) a \$1,275.0 million six-year term loan facility (the "2010 Term Loan") and (ii) a \$100.0 million five-year revolving credit facility, which included a \$25.0 million letter of credit subfacility and a \$10.0 million swingline loan subfacility (the "Revolving Credit Facility" and together with the 2010 Term Loan, the "New Credit Facility"). We were required to repay 1.00% of the principal of the 2010 Term Loan per year in quarterly installments. The credit facility also contained a number of mandatory prepayment requirements, including a requirement to repay a specified amount of the 2010 Term Loan annually from a portion of our excess cash flows (as defined in the credit facility, which varied based on our leverage ratio). Any remaining principal of the 2010 Term Loan was to be payable on the final maturity date of the facility. In February 2011, we made a prepayment of \$56.0 million on the 2010 Term Loan from our excess cash flows.

On March 14, 2011, we completed the repricing of the existing senior secured term loan facility under the New Credit Facility pursuant to Amendment No. 2 to the New Credit Facility ("Amendment No. 2"). Amendment No. 2 provided for the incurrence of a new senior secured loan (the "2011 Term Loan") in an aggregate principal amount of \$1,125.0 million. The proceeds of the 2011 Term Loan, together with \$87.6 million of cash on hand, were used to repay the remaining \$1,212.6 million outstanding balance of the 2010 Term Loan in full.

The 2011 Term Loan matures in March 2017. The Revolving Credit Facility matures in June 2015 and is available to fund our working capital requirements and for other general corporate purposes. Amendment No. 2 decreased the interest rate applicable to the 2011 Term Loan from LIBOR plus 3.25% (with a leverage-based stepdown) to LIBOR plus 2.75% (with a leverage-based stepdown) and reduced the LIBOR floor applicable to the 2011 Term Loan from 1.50% to 1.00%. Prepayments or amendments of the 2011 Term Loan that constitute a repricing transaction (as defined in Amendment No. 2) will be subject to a premium of 1.00% of the 2011 Term Loan if prepaid or amended on or prior to March 14, 2012. Prepayments and repricings made after March 14, 2012 will not be subject to premium or penalty. Amendment No. 2 contains a number of mandatory prepayment requirements, including a requirement to repay a specified amount of the 2011 Term Loan annually from a portion of our excess cash flows (as defined in the New Credit Facility, as amended, which varies based on our leverage ratio). For unused credit under the Revolving Credit Facility, we pay an annual 0.75% non-usage fee.

We primarily use interest rate swaps as part of our interest rate risk management strategy. During the nine months ending September 30, 2011, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. As a result of the repayment of the 2010 Term Loan on March 14, 2011, we discontinued prospective hedge accounting on our then-existing interest rate swaps as they no longer met hedge accounting requirements. We will continue to report the net loss related to the discontinued cash flow hedges in Other Comprehensive Income and expect to reclassify this amount into earnings during the contractual term of the swap agreements.

On March 22, 2011, we terminated our then-existing interest rate swaps and simultaneously entered into new interest rate swaps to hedge the 2011 Term Loan variable-rate debt. As of September 30, 2011, we had two outstanding interest rate swaps with a combined notional principal amount of \$420.8 million that were designated as cash flow hedges of interest rate risk.

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The effective combined rate on our hedged and unhedged debt was 4.16% for the nine months ended September 30, 2011.

The obligations under the New Credit Facility, as amended, are guaranteed by each of our direct and indirect wholly-owned domestic subsidiaries, subject to limited exceptions. The obligations under the New Credit Facility, as amended, are secured by a lien on substantially all of the equity interests of our present and future domestic subsidiaries, up to 65% of the equity interests of our first-tier foreign subsidiaries, and substantially all of our and our domestic subsidiaries' present and future property and assets, subject to certain exceptions.

The New Credit Facility, as amended, contains affirmative and restrictive covenants that, among other things, limit our ability and our existing or future subsidiaries' abilities to:

incur liens and further negative pledges;

incur additional indebtedness or prepay, redeem or repurchase indebtedness;

make loans or hold investments;

merge, dissolve, liquidate, consolidate with or into another person;

enter into acquisition transactions;

make capital expenditures;

issue disqualified capital stock;

sell, transfer or dispose of assets;

pay dividends or make other distributions in respect of our capital stock or engage in stock repurchases, redemptions and other restricted payments;

create new subsidiaries;

permit certain restrictions affecting our subsidiaries;

change the nature of our business, accounting policies or fiscal periods;

enter into any transactions with affiliates other than on an arm's length basis;

modify or waive material documents; and

prepay, redeem or repurchase debt.

The New Credit Facility, as amended, also requires us to achieve specified financial and operating results and maintain compliance with the following financial ratios on a consolidated basis: (1) a maximum total leverage ratio (as defined in the New Credit Facility, as amended) measured quarterly on a rolling four-quarter basis shall not exceed (a) 4.00:1.00 through March 31, 2011, (b) 3.75:1.00 from April 1, 2011 through June 30, 2011, (c) 3.50:1.00 from July 1, 2011 through September 30, 2011, and (d) 3.25:1.00 thereafter; and (2) a minimum interest coverage ratio (as defined in the New Credit Facility, as amended) measured quarterly on a rolling four-quarter basis shall be (a) 4.50:1.00 through March 31, 2011, and (b) 5.00:1.00 thereafter. As of September 30, 2011, our Consolidated Leverage Ratio as defined in the New Credit Facility, as amended, was 2.56:1.00 and our Consolidated Interest Coverage Ratio as defined in the New Credit Facility, as amended, was 7.65:1.00.

The New Credit Facility, as amended, also contains customary events of default, including those relating to non-payment, breach of representations, warranties or covenants, cross-default and cross-acceleration, bankruptcy and insolvency events, invalidity or impairment of loan documentation or collateral, change of control and customary ERISA defaults.

We currently lease office space in New York, New York at two locations, One Chase Manhattan Plaza and 88 Pine Street, with combined annual base rents of \$3.0 million. The lease at One Chase Manhattan Plaza ends in August 2012 and the lease at 88 Pine Street ends in December 2014. On September 16, 2011, we entered into a new lease agreement with 7 World Trade Center, LLC, pursuant to which we will rent approximately 126,000 square feet of office space for our new corporate headquarters at 7 World Trade Center, New York, New York (the "Lease"). We will commence leasing our headquarters on or about February 1, 2012 (the "Commencement Date"), subject to certain customary conditions.

The Lease is initially scheduled to expire on February 28, 2033, subject to our option to renew the Lease for an additional ten years after the initial expiration date. We also have the option to terminate the Lease early on February 1, 2028, subject to compliance with the terms and conditions of the Lease, including the payment of a termination fee. The aggregate rent over the life of the Lease is approximately \$170.1 million plus certain customary expenses. From February 1, 2013 (the "Rent Commencement Date") through and including January 31, 2018, the day preceding the fifth anniversary of the Rent Commencement Date, the annual rent paid will be approximately \$7.3 million. Thereafter, the annual rent to be paid increases 10% on each of the fifth, tenth and fifteenth anniversaries of the Rent Commencement Date.

We expect to move into the 7 World Trade Center offices during the second half of the year ending December 31, 2012.

**Table of Contents****Cash flows***Cash and cash equivalents*

|                                                                                 | September 30,<br>2011 | As of<br>November 30,<br>2010 |
|---------------------------------------------------------------------------------|-----------------------|-------------------------------|
|                                                                                 | (in thousands)        |                               |
| Cash and cash equivalents                                                       | \$ 221,575            | \$ 226,575                    |
| <i>Cash provided by (used in) operating, investing and financing activities</i> |                       |                               |

|                                                       | For the Nine Months Ended<br>September 30,<br>2011 | August 31,<br>2010 |
|-------------------------------------------------------|----------------------------------------------------|--------------------|
|                                                       | (in thousands)                                     |                    |
| Cash provided by operating activities                 | \$ 174,930                                         | \$ 121,238         |
| Cash used in investing activities                     | \$ (86,635)                                        | \$ (854,624)       |
| Cash (used in)/provided by financing activities       | \$ (134,355)                                       | \$ 755,885         |
| Effect of exchange rates on cash and cash equivalents | \$ (1,788)                                         | \$ (788)           |
| <i>Cash flows from operating activities</i>           |                                                    |                    |

Cash flows from operating activities consist of net income adjusted for certain non-cash items and changes in assets and liabilities. Cash provided by operating activities was \$174.9 million and \$121.2 million for the nine months ended September 30, 2011 and August 31, 2010, respectively. The \$53.7 million year-over-year increase primarily reflects increased net income adjusted for certain non-cash items partially offset by decreased collections on accounts receivable and increased payments for taxes.

Our primary uses of cash from operating activities are for the payment of cash compensation expenses, office rent, technology costs, market data costs, interest expenses and income taxes. The payment of cash for compensation and benefits is historically at its highest level in the first quarter when we pay discretionary employee compensation related to the previous fiscal year.

*Cash flows from investing activities*

Cash used in investing activities was \$86.6 million and \$854.6 million for the nine months ended September 30, 2011 and August 31, 2010, respectively. The \$768.0 million decrease primarily reflects cash used to make acquisitions in the nine months ended August 31, 2010 while no acquisitions were made during the nine months ended September 30, 2011. Additionally, during the nine months ended August 31, 2010, the proceeds from the maturation of short-term investments were used to pay off the 2007 Credit Facility and fund the closing of the RiskMetrics acquisition rather than reinvested.

*Cash flows from financing activities*

Cash used in financing activities was \$134.4 million for the nine months ended September 30, 2011 compared to cash provided by financing activities of \$755.9 million for the nine months ended August 31, 2010. The year-over-year change of \$890.4 million primarily reflects the fact that the New Credit Facility was entered into in the nine months ended August 31, 2010, the proceeds of which were used to fund the acquisition of RiskMetrics while, in the nine months ended September 30, 2011, cash payments were made to service and refinance the New Credit Facility.

**Off-Balance Sheet Arrangements**

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.



**Table of Contents****Item 3. Quantitative and Qualitative Disclosures about Market Risk*****Foreign Currency Risk***

We are subject to foreign currency exchange fluctuation risk. Exchange rate movements can impact the U.S. dollar reported value of our revenues, expenses, assets and liabilities denominated in non-U.S. dollar currencies or where the currency of such items is different than the functional currency of the entity where these items were recorded.

A significant portion of our revenues from our index linked investment products are based on fees earned on the value of assets invested in securities denominated in currencies other than the U.S. dollar. For all operations outside the United States where the Company has designated the local non-U.S. dollar currency as the functional currency, revenue and expenses are translated using average monthly exchange rates and assets and liabilities are translated into U.S. dollars using month-end exchange rates. For these operations, currency translation adjustments arising from a change in the rate of exchange between the functional currency and the U.S. dollar are accumulated in a separate component of shareholders' equity. In addition, transaction gains and losses arising from a change in exchange rates for transactions denominated in a currency other than the functional currency of the entity are reflected in other income.

Revenues from index-linked investment products represented approximately \$109.1 million, or 16.2%, and \$75.8 million, or 16.8%, of our operating revenues for the nine months ended September 30, 2011 and August 31, 2010, respectively. While our fees for index-linked investment products are generally invoiced in U.S. dollars, the fees are based on the investment products' assets, a large majority of which are invested in securities denominated in currencies other than the U.S. dollar. Accordingly, declines in such other currencies against the U.S. dollar will decrease the fees payable to us under such licenses. In addition, declines in such currencies against the U.S. dollar could impact the attractiveness of such investment products resulting in net fund outflows, which would further reduce the fees payable under such licenses.

We generally invoice our clients in U.S. dollars; however, we invoice a portion of clients in euros, pounds sterling, Japanese yen and a limited number of other non-U.S. dollar currencies. Approximately \$91.2 million, or 13.5%, and \$53.9 million, or 12.0%, of our revenues for the nine months ended September 30, 2011 and August 31, 2010, respectively, were denominated in foreign currencies, the majority of which were in euros, pounds sterling and Japanese yen.

We are exposed to additional foreign currency risk in certain of our operating costs. Approximately \$148.4 million, or 34.2%, and \$104.9 million, or 33.4%, of our expenses for the nine months ended September 30, 2011 and August 31, 2010, respectively, were denominated in foreign currencies, the significant majority of which were denominated in Swiss francs, pounds sterling, Hong Kong dollars, euros, Hungarian forints, Indian rupees, Japanese yen and Mexican pesos. Expenses paid in foreign currency may increase as we expand our business outside the U.S.

We have certain monetary assets and liabilities denominated in currencies other than local functional amounts and when these balances were remeasured into their local functional currency, either a gain or a loss resulted from the change of the value of the functional currency as compared to the originating currencies. As a result of these positions, we recognized foreign currency exchange gains of \$0.9 million and foreign currency exchange losses \$0.6 million for the nine months ended September 30, 2011 and August 31, 2010, respectively. These amounts were recorded in other expense (income) in our Condensed Consolidated Statements of Income. Although we do not currently hedge the foreign exchange risk of assets and liabilities denominated in currencies other than the functional currency, we minimize exposure by reducing the value of the assets and liabilities in currencies other than the functional currency of the legal entity in which they are located.

To the extent that our international activities recorded in local currencies increase in the future, our exposure to fluctuations in currency exchange rates will correspondingly increase. Generally, we do not use derivative financial instruments as a means of hedging this risk; however, we may do so in the future. Foreign currency cash balances held overseas are generally kept at levels necessary to meet current operating and capitalization needs.

***Interest Rate Sensitivity***

We had unrestricted cash and cash equivalents totaling \$221.6 million at September 30, 2011 and \$226.6 million at November 30, 2010, respectively. These amounts were held primarily in checking and money market accounts in the countries where we maintain banking relationships. The unrestricted cash and cash equivalents are held for working capital purposes. At September 30, 2011 and November 30, 2010, we had invested \$142.8 million and \$73.9 million, respectively, in debt securities with maturity dates ranging from 91 to 365 days from the date of purchase. We do not enter into investments for trading or speculative purposes. We believe we do not have any material exposure to changes in fair value as a result of changes in interest rates. Declines in interest rates, however, will reduce future interest income.



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Borrowings under the New Credit Facility, as amended, bear interest at a rate equal to the sum of the greater of the LIBOR and 1.00%, and a margin of 2.75%, which margin will be subject to adjustment based on our leverage ratio.

The Company entered into interest rate swap agreements which will be amortized through August 2013. The swap agreements were designated as cash flow hedges of interest rate risk and qualify for hedge accounting treatment under ASC Subtopic 815-10. Changes in LIBOR will affect the interest rate on the portion of our credit facilities which have not been hedged by the interest rate swaps and, therefore, our costs under the credit facilities. Assuming an average of \$698.6 million of variable rate debt outstanding, a hypothetical 1.63% basis point increase in LIBOR for a one year period would result in approximately \$7.0 million of additional interest rate expense.

We recorded a pre-tax loss in other comprehensive income of \$3.1 million (\$1.9 million after tax) for the nine months ended September 30, 2011 as a result of the fair value measurement of these swaps. The fair value of these swaps is included in other accrued liabilities on our Condensed Consolidated Statement of Financial Condition.

### **Item 4. Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), as of September 30, 2011 and have concluded that these disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time specified in the SEC's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There were no changes during the three months ended September 30, 2011 in our internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## **PART II**

### **Item 1. Legal Proceedings**

Various lawsuits, claims and proceedings have been or may be instituted or asserted against the Company, which arise in the ordinary course of business. While the amounts claimed could be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, it is possible that MSCI's business, operating results, financial condition or cash flows in a particular period could be materially affected by certain contingencies. However, based on facts currently available, management believes that the disposition of matters that are currently pending or asserted will not, individually or in the aggregate, have a material effect on MSCI's business, operating results, financial condition or cash flows.

### **Item 1A. Risk Factors**

For a discussion of the risk factors affecting the Company, see "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended November 30, 2010. The risk factors presented below supplement, update, supersede and/or replace, as appropriate, risks factors appearing under the heading "Risks Related to Our Business" in that Annual Report.

***Any failure to ensure and protect the confidentiality of client data could adversely affect our reputation and have a material adverse effect on our business, financial condition or results of operations.***

Many of our products provide for the exchange of sensitive information with our clients through a variety of media, including the Internet, software applications and dedicated transmission lines. We rely on a complex system of internal processes and software controls to protect the confidentiality of client data, such as client portfolio data that may be provided



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to us or hosted on our systems. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in the implementation of our internal controls, unauthorized access to, or disclosure or misappropriation of client data could occur. Such unauthorized access, disclosure or misappropriation could damage our reputation and/or result in claims against us by our clients and have a material adverse effect on our business, financial condition or results of operations. If a failure of our internal controls results in a security or privacy breach, we could also incur increased operating expenses to remediate the problems caused by the breach and prevent future breaches, which could have a material adverse effect on our financial condition or results of operations.

***Our business relies heavily on electronic delivery systems and the Internet, and any failures or disruptions may materially adversely affect our ability to serve our clients.***

We depend heavily on the capacity, reliability and security of our electronic delivery systems and the Internet. Heavy use of our electronic delivery systems and other factors such as loss of service from third parties, operational failures, sabotage, break-ins and similar disruptions from unauthorized tampering or hacking, human error, national disasters, power loss or computer viruses could cause our systems to operate slowly or interrupt their availability for periods of time. We have experienced and may experience again in the future denial-of-service attacks. While we have been able to defend our systems against such attacks in the past, there is no assurance that we will be able to do so successfully in the future. Our ability to effectively use the Internet may also be impaired due to infrastructure failures, service outages at third-party Internet providers or increased government regulation. If disruptions, failures or slowdowns of our electronic delivery systems or the Internet occur, our reputation and our ability to distribute our products effectively and to serve our clients may be materially and adversely affected. We could experience cancellations and reduced demand for our products and services, resulting in decreased revenues. We may also experience increased operating expenses to defend against and protect us from such disruptions and attacks, which may have a material adverse effect on our financial condition or results of operations.

***Our clients that pay us a fee based on the assets of an investment product may seek to negotiate a lower asset-based fee percentage or may cease using our indices, which could limit the growth of or decrease our revenues from asset-based fees.***

A portion of our revenues are from asset-based fees and these revenues streams are concentrated in some of our largest clients. Our clients may seek to negotiate a lower asset-based fee percentage for a variety of reasons. As the assets of index-linked investment products managed by our clients change, they may request to pay us lower asset-based fee percentages. Additionally, as competition among our clients increases, they may have to lower the fees they charge to their clients, which could cause them to try to decrease our fees correspondingly or otherwise lead to a reduction of our fees in certain cases. For example, competition is intense and increasing among our clients that provide exchange traded funds. The fees they charge their clients are one of the competitive differentiators for these exchange traded fund managers. Additionally, clients that have licensed our indices to serve as the basis of index-linked investment products are generally not required to continue to use our indices and could elect to cease offering the product or could change the index to a non-MSCI index, in which case our asset-based fees could dramatically decrease, which could have a material adverse effect on our business, financial condition or results of operations. In August 2011, BlackRock Inc., which together with its affiliates accounted for 8.4% and 9.9% of our revenues for the nine months ended September 30, 2011 and the year ended November 30, 2010, respectively, announced that it was seeking regulatory clearance to create indices for use as the basis of exchange traded funds that it would manage.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

There have been no unregistered sales of equity securities.

The table below sets forth the information with respect to purchases made by or on behalf of the Company of its common shares during the quarter ended September 30, 2011.

**Issuer Purchases of Equity Securities**

| Period                                 | Total Number of<br>Shares Purchased | Average Price Paid<br>Per Share | Total Number of<br>Shares Purchased<br>As Part of Publicly<br>Announced<br>Plans<br>or Programs | Approximate Dollar<br>Value of Shares that<br>May Yet Be<br>Purchased Under the<br>Plans or<br>Programs |
|----------------------------------------|-------------------------------------|---------------------------------|-------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| Month #1                               |                                     |                                 |                                                                                                 |                                                                                                         |
| (July 1, 2011-July 31, 2011)           |                                     |                                 |                                                                                                 |                                                                                                         |
| Employee Transactions <sup>(1)</sup>   |                                     | \$                              | N/A                                                                                             | N/A                                                                                                     |
| Month #2                               |                                     |                                 |                                                                                                 |                                                                                                         |
| (August 1, 2011-August 31, 2011)       |                                     |                                 |                                                                                                 |                                                                                                         |
| Employee Transactions <sup>(1)</sup>   | 727                                 | \$ 36.82                        | N/A                                                                                             | N/A                                                                                                     |
| Month #3                               |                                     |                                 |                                                                                                 |                                                                                                         |
| (September 1, 2011-September 30, 2011) |                                     |                                 |                                                                                                 |                                                                                                         |
| Employee Transactions <sup>(1)</sup>   |                                     | \$                              | N/A                                                                                             | N/A                                                                                                     |
| Total                                  |                                     |                                 |                                                                                                 |                                                                                                         |
| Employee Transactions <sup>(1)</sup>   | 727                                 | \$ 36.82                        | N/A                                                                                             | N/A                                                                                                     |

<sup>(1)</sup> Includes shares withheld to satisfy tax withholding obligations on behalf of employees that occur upon vesting and delivery of outstanding shares underlying restricted stock units. The value of the shares withheld were determined using the fair market value of the Company's class A common shares on the date of withholding, using a valuation methodology established by the Company.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

An exhibit index has been filed as part of this Report on page E-1.



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**SIGNATURES**

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

Dated: November 4, 2011

MSCI INC.

(Registrant)

By: */s/* DAVID M. OBSTLER  
David M. Obstler  
Principal Financial Officer and Authorized Signatory

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**EXHIBIT INDEX**

**MSCI INC.**

**QUARTER ENDED SEPTEMBER 30, 2011**

|         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1     | Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Form 10-K (File No. 001-33812), filed with the SEC on February 28, 2008)                                                                                                                                                                                                                                                                                                                              |
| 3.2     | Amended and Restated By-laws (filed as Exhibit 3.2 to the Company's Form 10-K (File No. 001-33812), filed with the SEC on February 28, 2008)                                                                                                                                                                                                                                                                                                                                                   |
| 10.1    | Agreement of Lease dated September 16, 2011, by and between 7 World Trade Center, LLC and MSCI Inc. (filed as Exhibit 10.1 to the Company's Form 8-K (File No. 001-33812), filed with the SEC on September 22, 2011)                                                                                                                                                                                                                                                                           |
| 11      | Statement Re: Computation of Earnings Per Common share (The calculation of per share earnings is in Part I, Item I, Note 5 to the Condensed Consolidated Financial Statements (Earnings Per Common Share) and is omitted in accordance with Section (b)(11) of Item 601 of Regulation S-K)                                                                                                                                                                                                     |
| * 15    | Letter of awareness from Deloitte & Touche LLP, dated November 4, 2011, concerning unaudited interim financial information                                                                                                                                                                                                                                                                                                                                                                     |
| * 18    | Letter Re: Change in Accounting Principles from Deloitte & Touche LLP dated November 4, 2011                                                                                                                                                                                                                                                                                                                                                                                                   |
| * 31.1  | Rule 13a-14(a) Certification of the Chief Executive Officer                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| * 31.2  | Rule 13a-14(a) Certification of the Chief Financial Officer                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| ** 32.1 | Section 1350 Certification of the Chief Executive Officer and the Chief Financial Officer                                                                                                                                                                                                                                                                                                                                                                                                      |
| ***101  | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Financial Condition September 30, 2011 and November 30, 2010, (ii) the Condensed Consolidated Statements of Income Three and Nine Months Ended September 30, 2011 and August 31, 2010, (iii) the Condensed Consolidated Statements of Cash Flows Nine Months Ended September 30, 2011 and August 31, 2010, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements |
| *       | Filed herewith.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| **      | Furnished herewith.                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| ***     | As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.                                                                                                                                                                                                                                                                                |