

MSCI Inc.
Form 10-Q
April 08, 2010

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

FORM 10-Q

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

For the quarterly period ended February 28, 2010

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)

Delaware
(State of Incorporation)

13-4038723
(I.R.S. Employer Identification No.)

Wall Street Plaza, 88 Pine Street
New York, NY
(Address of Principal
Executive Offices)

10005
(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company
(Do not check if a 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 March 31, 2010, there were 105,001,006 shares of the Registrant's class A Common Stock, \$0.01 par value, outstanding and no shares of Registrant's class B Common Stock, \$0.01 par value, outstanding.

MSCI INC.
FORM 10-Q

FOR THE QUARTER ENDED FEBRUARY 28, 2010

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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.

MSCI Inc.’s internet site is www.msicibarra.com. You can access MSCI Inc.’s Investor Relations webpage at www.msicibarra.com/about/ir. 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 www.msicibarra.com/about/company/governance. 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, Wall Street Plaza, 88 Pine Street, New York, NY 10005; (212) 804-1583. The information on MSCI Inc.’s internet site is not incorporated by reference into this report.

PART I

Item 1. Unaudited Condensed Consolidated Financial Statements

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

	February 28, 2010	As of November 30, 2009 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 84,349	\$ 176,024
Short-term investments	358,145	295,304
Trade receivables (net of allowances of \$703 and \$847 as of February 28, 2010 and November 30, 2009, respectively)	113,901	77,180
Deferred taxes	23,877	24,577
Prepaid and other assets	21,576	29,399
Total current assets	601,848	602,484
Property, equipment and leasehold improvements, (net of accumulated depreciation of \$28,704 and \$26,498 at February 28, 2010 and November 30, 2009, respectively)	27,256	29,381
Goodwill	441,623	441,623
Intangible assets (net of accumulated amortization of \$152,811 and \$148,589 at February 28, 2010 and November 30, 2009, respectively)	115,911	120,189
Other non-current assets	9,236	6,592
Total assets	\$ 1,195,874	\$ 1,200,269
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 406	\$ 1,878
Accrued compensation and related benefits	21,517	65,088
Other accrued liabilities	30,088	30,502
Current maturities of long term debt	42,088	42,088
Deferred revenue	168,311	152,944
Total current liabilities	262,410	292,500
Long term debt, net of current maturities	327,099	337,622
Deferred taxes	38,443	40,080
Other non-current liabilities	22,261	23,011
Total liabilities	650,213	693,213
Commitments and Contingencies (see Note 9)		
Shareholders' equity:		
Preferred stock (par value \$0.01; 100,000,000 shares authorized; no shares issued)	—	—
Common stock (par value \$0.01; 500,000,000 class A shares and 250,000,000 class B shares authorized; 105,678,900 and 105,391,919 class A shares issued and 104,997,465 and 104,781,404 class A shares outstanding at February 28,	1,057	1,054

2010 and November 30, 2009, respectively; no class B shares issued and outstanding at February 28, 2010 and November 30, 2009, respectively)		
Treasury shares, at cost (681,435 and 610,515 shares at February 28, 2010 and November 30, 2009, respectively)	(21,614)	(19,168)
Additional paid in capital	461,035	448,747
Retained earnings	111,531	84,013
Accumulated other comprehensive loss	(6,348)	(7,590)
Total shareholders' equity	545,661	507,056
Total liabilities and shareholders' equity	\$ 1,195,874	\$ 1,200,269

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended February 28,	
	2010	2009
	(unaudited)	
Operating revenues	\$ 121,680	\$ 105,915
Cost of services	29,291	28,935
Selling, general and administrative	37,461	34,716
Amortization of intangible assets	4,278	6,429
Depreciation and amortization of property, equipment and leasehold improvements	3,393	3,051
Total operating expenses	74,423	73,131
Operating income	47,257	32,784
Interest income	(408)	(121)
Interest expense	4,436	5,638
Other (income) expense	(608)	882
Other expense (income), net	3,420	6,399
Income before income taxes	43,837	26,385
Provision for income taxes	16,319	9,661
Net income	\$ 27,518	\$ 16,724
Earnings per basic common share	\$ 0.26	\$ 0.16
Earnings per diluted common share	\$ 0.26	\$ 0.16
Weighted average shares outstanding used in computing earnings per share		
Basic	105,235	100,286
Diluted	105,844	100,286

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended February 28,	
	2010	2009
	(unaudited)	
Cash flows from operating activities		
Net income	\$ 27,518	\$ 16,724
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Share based compensation	5,120	7,736
Amortization of intangible assets	4,278	6,429
Depreciation of property, equipment and leasehold improvements	3,393	3,051
Deferred taxes	(1,918)	(4,214)
Excess tax benefits from share-based compensation	(1,392)	—
Amortization of discount on short-term investments	(271)	—
Foreign currency (gain) loss	(82)	763
Gain on sale of property, equipment and leasehold improvements, net	—	128
Provision for bad debts	55	314
Amortization of debt origination fees	358	358
Amortization of discount on long-term debt	40	42
Changes in assets and liabilities:		
Trade receivable	(37,680)	(14,225)
Due from related parties	—	(2,620)
Prepaid and other assets	9,005	6,723
Accounts payable	(1,466)	(359)
Payable to related parties	—	1,963
Deferred revenue	18,008	33,548
Accrued compensation and related benefits	(39,374)	(35,553)
Income taxes payable	—	656
Other accrued liabilities	2,140	771
Other	(2,493)	237
Net cash (used in) provided by operating activities	(14,761)	22,472
Cash flows from investing activities		
Purchases of short-term investments	(112,556)	—
Proceeds from the maturity of short-term investments	50,300	—
Capital expenditures	(3,285)	(6,033)
Net cash used in investing activities	(65,541)	(6,033)
Cash flows from financing activities		
Repayment of long term debt	(10,563)	(5,563)
Repurchase of treasury shares	(2,446)	(110)
Proceeds from the exercise of stock options	2,117	—
Excess tax benefits from share-based compensation	1,392	—
Net cash used by financing activities	(9,500)	(5,673)
Effect of exchange rate changes	(1,873)	(1,962)
Net (decrease) increase in cash	(91,675)	8,804

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Cash and cash equivalents, beginning of period		176,024		268,077
Cash and cash equivalents, end of period	\$	84,349	\$	276,881
Supplemental disclosure of cash flow information				
Cash paid for interest	\$	3,952	\$	5,304
Cash paid for income taxes	\$	7,288	\$	5,259
Supplemental disclosure of non-cash investing activities				
Property, equipment and leasehold improvements in other accrued liabilities	\$	2,255	\$	4,280

See Notes to Unaudited Condensed Consolidated Financial Statements

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

1. INTRODUCTION AND BASIS OF PRESENTATION

Organization

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

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

Basis of Presentation and Use of Estimates

These condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and include all adjustments of a normal, recurring nature necessary to present fairly the financial condition as of February 28, 2010 and November 30, 2009 and the results of operations and cash flows for the three months ended February 28, 2010 and 2009. 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, 2009. The condensed consolidated financial statement information as of November 30, 2009 has been derived from the 2009 audited consolidated financial statements. The results of operations for interim periods are not necessarily indicative of results for the entire year.

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

The Condensed Consolidated Statement of Income for the three months ended February 28, 2009 reflects expense allocations for certain corporate functions historically provided by Morgan Stanley, including human resources, information technology, accounting, legal and compliance, corporate services, treasury and other services. These allocations were based on what the Company and Morgan Stanley considered reasonable reflections of the utilization levels of these services required in support of the Company's business and were based on methods that include direct time tracking, headcount, inventory metrics and corporate overhead. As of May 22, 2009, Morgan Stanley no longer provided corporate functions for the Company and no additional expense allocations have been recorded by the Company since that date. (See Note 6, "Related Party Transactions," for further information.)

Inter-company balances and transactions are eliminated in consolidation.

On February 28, 2010, MSCI, Crossway Inc. ("Merger Subsidiary"), a wholly owned subsidiary of MSCI, and RiskMetrics Group, Inc. ("RiskMetrics") entered into an Agreement and Plan of Merger ("Merger Agreement"). The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Subsidiary will merge with and into RiskMetrics (the "Merger"), with RiskMetrics continuing as the surviving corporation and a wholly owned subsidiary of MSCI. At the completion of the Merger, RiskMetrics' stockholders will

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be entitled to receive in the Merger, for each share of RiskMetrics common stock that they own, a combination of \$16.35 in cash, without interest, and 0.1802 of a share of MSCI class A common stock. While MSCI has taken actions and incurred costs associated with the pending transaction that are reflected in its financial statements, the pending acquisition of RiskMetrics will not be reflected in MSCI's financial statements until consummation. (See Note 15, "Pending Acquisition of RiskMetrics," for further information.)

Concentration of Credit Risk

The Company licenses its products and services primarily to investment managers principally in the United States, Europe and Asia (primarily Hong Kong and Japan). The Company evaluates the credit of its customers and does not require collateral. The Company maintains reserves for estimated credit losses.

Financial instruments that may potentially subject the Company to concentrations of credit risk consist principally of cash deposits and short-term investments. At February 28, 2010 and November 30, 2009, cash and cash equivalent amounts held primarily on deposit were \$84.3 million and \$176.0 million, respectively. At February 28, 2010 and November 30, 2009, the Company had invested \$358.1 million and \$295.3 million, respectively, in debt securities with maturity dates ranging from 91 to 365 days from the date of purchase.

For the three months ended February 28, 2010, BlackRock Inc. accounted for 12.7% of the Company's operating revenues. For the three months ended February 28, 2009, no single customer accounted for 10.0% or more of the Company's operating revenues.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2008, the Financial Accounting Standards Board ("FASB") issued guidance titled, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." This guidance is covered under ASC Section 260-10-55, "Earnings Per Share-Overall-Implementation Guidance and Illustrations." The guidance addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method as described by ASC Section 260-10-45, "Earnings Per Share-Overall-Other Presentation Matters." Under the guidance, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share ("EPS") pursuant to the two-class method. The accounting guidance on whether share-based payment transactions are participating securities became effective for the Company on December 1, 2009. All prior-period EPS data presented have been adjusted retrospectively. The Company's adoption of this accounting guidance, which addresses the computation of EPS under the two-class method for share-based payment transactions that are participating securities, reduced basic EPS by \$0.01 and had no effect on diluted EPS for the quarter ended February 28, 2009.

In October 2009, the FASB issued Accounting Standards Update ("ASU") No. 2009-13, "Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements," or ASU No. 2009-13. ASU No. 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. ASU No. 2009-13 will be effective for the Company's fiscal year 2011 with early adoption permitted. The guidance may be applied retrospectively or prospectively for new or materially modified arrangements. The Company is currently assessing the

impact that this guidance will have on its 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 No. 2009-14. ASU No. 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. ASC No. 2009-14 will be effective for the Company's fiscal year 2011 with early adoption permitted. The guidance may be applied retrospectively or prospectively for new or materially modified arrangements. The Company is currently assessing the impact that this guidance will have on its condensed consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-9, "Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements," or ASU 2010-9. ASU 2010-9 amends disclosure requirements within Subtopic 855-10. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. This change alleviates potential conflicts between Subtopic 855-10 and the SEC's requirements. ASU 2010-9 is effective immediately for the Company. The adoption of ASU 2010-09 did not have a material impact

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on its condensed consolidated financial statements.

3. 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-eligible requirements. Diluted EPS reflects the assumed conversion of all dilutive securities. There were no anti-dilutive stock options excluded from the calculation of diluted EPS for the three months ended February 28, 2010. There were 2,034,450 stock options excluded from the calculation of diluted EPS for the three months ended February 28, 2009 because of their anti-dilutive effect.

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:

	The Three Months Ended February 28,	
	2010	2009
	(in thousands, except per share data)	
Net income	\$ 27,518	\$ 16,724
Less: Allocations of earnings to unvested restricted stock units (1)	(453)	(496)
Earnings available to MSCI common shareholders	\$ 27,065	\$ 16,228
Basic weighted average common shares outstanding	105,235	100,286
Basic weighted average common shares outstanding	105,235	100,286
Effect of dilutive securities:		
Stock options (1)	609	—
Diluted weighted average common shares outstanding	105,844	100,286
Earnings per basic common share	\$ 0.26	\$ 0.16
Earnings per diluted common share	\$ 0.26	\$ 0.16

(1)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.

4. COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

	The Three Months Ended February 28,	
	2010	2009
	(in thousands)	
Net income	\$ 27,518	\$ 16,724
Other comprehensive income (loss), before tax:		
Unrealized gains (losses) on cash flow hedges	1,188	(1,444)
Pension and other post-retirement adjustments	102	(79)
Unrealized gains on available-for-sale securities	213	—
Foreign currency translation	474	101
Other comprehensive income (loss), before tax	1,977	(1,422)
Income tax (expense) benefit related to items of other comprehensive income	(735)	516
Other comprehensive income (loss), net of tax	1,242	(906)
Comprehensive income	\$ 28,760	\$ 15,818

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5. SHORT-TERM INVESTMENTS

Short-term investments include U.S. Treasury and state and municipal 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 quoted market rates. 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 (expense). 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 at February 28, 2010 were as follows:

In thousands	Amortized Cost plus accrued interest	Gross unrealized gains	Gross unrealized losses	Estimated Fair value
Debt securities available-for-sale				
February 28, 2010				
U.S. Treasury securities	\$ 354,005	\$ 216	\$ (4)	\$ 354,217
State and municipal securities	3,927	1	—	3,928
Total	\$ 357,932	\$ 217	\$ (4)	\$ 358,145

As of November 30, 2009, the Company had the intent and ability to hold its investments to maturity and, thus, classified these investments as held-to-maturity and stated them at amortized cost plus accrued interest. The changes in the value of these securities, other than impairment charges, are not reported on the condensed consolidated financial statements.

The net carrying value and fair value of securities held-to-maturity at November 30, 2009 were as follows:

In thousands	Net Carrying Value	Gross unrecognized gains	Gross unrecognized losses	Estimated Fair value
Debt securities held-to-maturity				
November 30, 2009				
U.S. Treasury securities	\$ 295,304	\$ 264	\$ —	\$ 295,568
State and municipal securities	—	—	—	—
Total	\$ 295,304	\$ 264	\$ —	\$ 295,568

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 were as follows:

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(In thousands)	Less than 12 Months Unrealized		12 Months or Greater Unrealized		Total	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Unrealized Losses
February 28, 2010						
U.S. Treasury securities	\$ 43,978	\$ (4)	\$ —	\$ —	\$ 43,978	\$ (4)
State and municipal securities	—	—	—	—	—	—
Total	\$ 43,978	\$ (4)	\$ —	\$ —	\$ 43,978	\$ (4)

None of the Company's investments in held-to-maturity securities had been in an unrealized loss position as of November 30, 2009.

Evaluating Investments for Other-than-Temporary Impairments

If the fair values of the Company's debt security investments are less than the amortized cost 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 and state and municipal 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 not be required to sell the investment before the expected recovery of the cost basis. Management has asserted that it believes it is more-likely-than-not that it will not be required to sell the investment before recovery of the cost basis.

As of February 28, 2010, no other-than-temporary impairment had been recorded on any of the Company's investments.

6. RELATED PARTY TRANSACTIONS

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

Morgan Stanley or its affiliates subscribe to, in the normal course of business, certain of the Company's products. Amounts recognized as related party revenues by the Company from subscription to the Company's products by Morgan Stanley for the three months ended February 28, 2009 were \$2.8 million.

Morgan Stanley affiliates had invoiced administrative expenses to the Company primarily relating to staff services. The amounts invoiced by Morgan Stanley affiliates for staff services for the three months ended February 28, 2009

were \$1.1 million, of which \$0.3 million was reflected in cost of services and \$0.8 million was reflected in selling, general and administrative. Interest expense incurred on payables to Morgan Stanley for the three months ended February 28, 2009 was \$0.2 million.

7. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

Property, equipment and leasehold improvements at February 28, 2010 and November 30, 2009 consisted of the following:

	February 28, 2010	As of November 30, 2009
	(in thousands)	
Computer & related equipment	\$ 38,670	\$ 38,773
Furniture & fixtures	2,872	3,004
Leasehold improvements	13,704	13,947
Work-in-process	714	155
Subtotal	55,960	55,879
Accumulated depreciation and amortization	(28,704)	(26,498)
Property, equipment and leasehold improvements, net	\$ 27,256	\$ 29,381

Depreciation and amortization of property, equipment and leasehold improvements was \$3.4 million and \$3.1 million for the three months ended February 28, 2010 and 2009, respectively.

8. INTANGIBLE ASSETS

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

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

	Gross Carrying Value	Accumulated Amortization (in thousands)	Net Carrying Value
As of February 28, 2010			
Technology/software	\$ 140,622	\$ (111,667)	\$ 28,955
Trademarks	102,220	(27,792)	74,428
Customer relationships	25,880	(13,352)	12,528
Total intangible assets	\$ 268,722	\$ (152,811)	\$ 115,911
	Gross Carrying Value	Accumulated Amortization (in thousands)	Net Carrying Value
As of November 30, 2009			

Technology/software	\$ 140,678	\$ (109,090)	\$ 31,588
Trademarks	102,220	(26,611)	75,609
Customer relationships	25,880	(12,888)	12,992
Total intangible assets	\$ 268,778	\$ (148,589)	\$ 120,189

Amortization of intangible assets for the three months ended February 28, 2010 and 2009 was approximately \$4.3 million and \$6.4 million, respectively.

The estimated amortization expense for succeeding years is presented below:

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MSCI INC.
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Fiscal Year	Amortization Expense (in thousands)
Remainder of 2010	\$ 12,833
2011	17,111
2012	17,110
2013	6,582
2014	6,582
Thereafter	55,693
Total	\$ 115,911

9. COMMITMENTS AND CONTINGENCIES

Leases. The Company leases facilities under non-cancelable operating lease agreements. The terms of certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on the straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Rent expense for the three months ended February 28, 2010 and 2009 was \$2.7 million and \$2.5 million, respectively.

Long-term debt. On November 14, 2007, the Company entered into a secured \$500.0 million credit facility with Morgan Stanley Senior Funding, Inc. and Bank of America, N.A., as agents for a syndicate of lenders, and other lenders party thereto pursuant to a credit agreement dated as of November 20, 2007 (the "Credit Facility"). The Credit Facility consisted of a \$425.0 million term loan facility and a \$75.0 million revolving credit facility. The revolving credit facility is available for working capital requirements and other general corporate purposes (including the financing of permitted acquisitions), subject to certain conditions. Outstanding borrowings under the Credit Facility initially accrued interest at (i) LIBOR plus a fixed margin of 2.50% in the case of the term loan A facility and the revolving credit facility and 3.00% in the case of the term loan B facility or (ii) the base rate plus a fixed margin of 1.50% in the case of the term loan A facility and the revolving credit facility and 2.00% in the case of the term loan B facility. In April 2008 and again in July 2008, the Company's fixed margin rate was reduced by 0.25% on both the term loan A facility and the term loan B facility. In February 2010, the Company's fixed margin rate on its term loan A facility was reduced by an additional 0.25%. During the three months ended February 28, 2009, the Company exercised its rights and chose to have a portion of both the term loan A facility and term loan B facility referenced to the one month LIBOR rates while the remaining portions continued to reference the three month LIBOR rates. The weighted average rate on the term loan A facility and term loan B facility was 2.15% and 2.76%, respectively, for the three months ended February 28, 2010. The term loan A facility and the term loan B facility will mature on November 20, 2012 and November 20, 2014, respectively. The revolving credit facility matures on November 20, 2012.

As of February 28, 2010, \$369.9 million was outstanding under the term loan facility and there was \$75.0 million of unused credit under the revolving credit facility. For the unused credit, the Company pays an annual 0.5% non-usage fee which was approximately \$0.1 million for both the three months ended February 28, 2010 and 2009. Interest on the principal is required to be paid either every three months in February, May, August and November or monthly, depending on whether the referenced LIBOR rates are three-month or one-month LIBOR rates.

In connection with entering into the Credit Facility, the Company recorded origination fees of \$8.0 million which are being amortized over five to seven years. At February 28, 2010, \$4.8 million of the origination fees remain unamortized.

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

Current maturities of long term debt at February 28, 2010 were \$42.1 million, net of a \$0.2 million discount. Long term debt, net of current maturities was \$327.1 million, net of a \$0.6 million discount at February 28, 2010. During the three months ended February 28, 2010 and 2009, less than \$0.1 million of the debt discount had been amortized.

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At February 28, 2010, the fair market value of the Company's debt obligations was \$369.5 million. The fair market value was estimated based on bid quotes available in the over the counter markets.

Interest Rate Swaps and Derivative Instruments. The Company manages its interest rate risk by using derivative instruments in the form of interest rate swaps designed to reduce interest rate risk by effectively converting a portion of floating-rate debt into fixed rate debt. This action reduces the Company's risk of incurring higher interest costs in periods of rising interest rates and improves the overall balance between floating and fixed-rate debt. On February 13, 2008, the Company entered into interest rate swap agreements through the end of 2010 for an aggregate notional principal amount of \$251.7 million. The effective fixed rate on the aggregate notional principal amount swapped of \$222.5 million for the three months ended February 28, 2010 was 5.36%. These interest rate swaps are designated as cash flow hedges and qualify for hedge accounting treatment under ASC Subtopic 815-10, "Derivatives and Hedging."

In accordance with ASC Subtopic 815-10, the Company's derivative instruments are recorded as assets or liabilities at fair value. Changes in fair value derivatives that have been designated as cash flow hedges are included in "unrealized gains or (losses) on cash flow hedges" as a component of other comprehensive income to the extent of the effectiveness of such hedging instruments. Any ineffective portion of the change in fair value of such hedging instruments would be included in the Condensed Consolidated Statements of Income in "interest expense." No hedge ineffectiveness on cash flow hedges was recognized during the three months ended February 28, 2010 and 2009. Gains and losses are reclassified from "accumulated other comprehensive loss" to the Condensed Consolidated Statement of Income in the period the hedged transaction affects earnings.

Amounts reported in "accumulated other comprehensive loss" related to derivatives will be reclassified to "interest expense" as interest payments are made on the Company's variable-rate debt. Over the next twelve months, the Company estimates that \$4.1 million will be reclassified as an increase to interest expense.

The gross carrying values of the interest rate contracts as of February 28, 2010 and 2009 were \$4.2 million and \$5.1 million, respectively, and were recorded in "other accrued liabilities" on the Condensed Consolidated Statements of Financial Condition.

A gain of \$1.2 million and a loss of \$1.4 million was recognized on the effective portion of these interest rate contracts in "accumulated other comprehensive loss" on the Condensed Consolidated Statements of Financial Condition for the three months ended February 28, 2010 and 2009, respectively. The amounts of the gain or loss on the effective portion of these interest rate contracts reclassified from "accumulated other comprehensive income" into "interest expense" on the Condensed Consolidated Statements of Income was \$1.5 million and \$0.4 million for the three months ended February 28, 2010 and 2009, respectively.

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

As of February 28, 2010, the fair value of derivatives in a liability position related to these agreements was \$4.2 million. As of February 28, 2010, the Company has not posted any collateral related to these agreements. If the Company breached any of these provisions it would be required to settle its obligations under the agreements at their termination value of \$4.2 million.

10. 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 February 28, 2010 and 2009, costs relating to 401(k), pension and post-retirement benefit expenses were \$2.6 million and \$3.1 million, respectively. For the three months ended February 28, 2010, amounts included in cost of services and selling, general and administrative were \$1.6 million and \$1.0 million, respectively. For the three months ended February 28, 2009, amounts included in cost of services and selling, general and administrative were \$1.6 million and \$1.5 million, 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. The Company's expenses associated with the 401(k) plan and other defined contribution plans for the three months ended February 28, 2010 and 2009 were \$2.1 million and \$2.3 million, respectively.

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Net Periodic Benefit Expense. Net periodic benefit expense related to defined benefit pension plans was \$0.5 million and \$0.8 million for the three months ended February 28, 2010 and 2009, respectively.

11. SHARE BASED COMPENSATION

On November 6, 2007, the Company's Board of Directors approved the award of founders grants to its employees in the form of restricted stock units and/or options ("Founders Grant Award"). The aggregate value of the grants, which were made on November 14, 2007, was approximately \$68.0 million. The restricted stock units and options vest over a four year period, with 50% vesting on the second anniversary of the grant date and 25% vesting on each of the third and fourth anniversary of the grant date. The options have an exercise price per share of \$18.00 and have a term of 10 years, subject to earlier cancellation in certain circumstances. The aggregate value of the options was calculated using the Black-Scholes valuation method consistent with ASC Subtopic 718-10, "Compensation-Stock Compensation." The first tranche of the Founders Grant Award, representing one-half of the total award, vested on November 14, 2009.

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 over a three year period, with one-third vesting on January 8, 2010, January 10, 2011 and January 9, 2012, respectively. Approximately \$4.2 million of this grant was awarded to retirement-eligible employees under the award terms, which the Company accrued over the 2008 fiscal year. The first tranche of the 2008 Bonus Award vested on January 8, 2010.

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. 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 fiscal 2009 Bonus Award granted to retirement-eligible employees over the 2009 fiscal year rather than expensing the awards on the date of grant.

For the Founders Grant Award, all or a portion of the award may be cancelled in certain limited situations, including termination for cause, if employment is terminated before the end of the relevant restriction period. For the 2008 and 2009 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.

Share based compensation expense was \$5.1 million for the three months ended February 28, 2010, of which \$2.1 million was related to the Founders Grant Award. Share based compensation expense for the three months ended February 28, 2009 was \$7.7 million, of which \$6.2 million was related to the Founders Grant Award.

12. INCOME TAXES

The Company's provision for income taxes was \$16.3 million and \$9.7 million for the three months ended February 28, 2010 and 2009, respectively. These amounts reflect effective tax rates of 37.2% and 36.6% for the three months

ended February 28, 2010 and 2009, respectively. The effective tax rate of 37.2% for the three months ended February 28, 2010 reflects the Company's estimate of the effective tax rate adjusted for discrete events that were recognized during the period.

The Company is under continuous examination by the Internal Revenue Service (the "IRS") and other tax authorities in certain countries, such as Japan and the United Kingdom, and states in which the Company has significant business operations, such as New York. The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions resulting from these and subsequent years' examinations. 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:

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Tax Jurisdiction	Open Tax Years
United States	1999-2008
California	2004-2008
New York State and City	2002-2008
Hong Kong	2002-2008
United Kingdom	2006-2008
Japan	2006-2008

13. 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, or decision-making group, in deciding how to allocate resources and in assessing performance. Based on the Company's integration and management strategies, the Company leverages common production, development and client coverage teams to create, produce and license investment decision support tools to various types of investment organizations worldwide. On this basis, the Company assesses that it operates in a single business segment.

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

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

Revenues	Three Months Ended February 28,	
	2010	2009
	(in thousands)	
Americas:		
United States	\$ 60,158	\$ 50,023
Other	3,860	3,380
Total Americas	64,018	53,403
EMEA:		
United Kingdom	13,981	13,576
Other	23,427	20,697
Total EMEA	37,408	34,273
Asia & Australia:		
Japan	10,610	10,370
Other	9,644	7,869
Total Asia & Australia	20,254	18,239

Total	\$ 121,680	\$ 105,915
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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:

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Long-lived assets	February 28, 2010	November 30, 2009
	(in thousands)	
Americas:		
United States	\$ 565,743	\$ 571,052
Other	1,249	672
Total Americas	566,992	571,724
EMEA:		
United Kingdom	1,455	1,488
Other	10,563	11,997
Total EMEA	12,018	13,485
Asia & Australia:		
Japan	456	503
Other	5,324	5,481
Total Asia & Australia	5,780	5,984
Total	\$ 584,790	\$ 591,193

14. 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 adverse effect on its business, operating results, financial condition or cash flows.

15. PENDING ACQUISITION OF RISKMETRICS

On February 28, 2010, the Company, Merger Subsidiary, a wholly owned subsidiary of MSCI, and RiskMetrics entered into the Merger Agreement. The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Subsidiary will merge with and into RiskMetrics, with RiskMetrics continuing as the surviving corporation and a wholly owned subsidiary of MSCI. At the completion of the Merger, RiskMetrics' stockholders will be entitled to receive in the Merger, for each share of RiskMetrics common stock that they own, a combination of \$16.35 in cash, without interest, and 0.1802 of a share of MSCI class A common stock.

In connection, and concurrently, with the Merger Agreement, the Company entered into a commitment letter with Morgan Stanley Senior Funding, Inc. ("MSSF") pursuant to which MSSF committed, upon the terms and subject to the conditions set forth therein, to provide financing under senior secured facilities aggregating up to \$1,375.0 million, comprised of (i) \$1,275.0 million under a six-year term loan facility and (ii) \$100.0 million under a five-year

revolving credit facility, for the transaction contemplated by the Merger Agreement. Subsequently, the Company entered into supplemental commitment letters with Credit Suisse Securities (USA) LLC and Credit Suisse AG, Cayman Islands Branch (together, "Credit Suisse") and MSSF and with Banc of America Securities LLC and Bank of America, N.A. (together, "Bank of America") and MSSF, pursuant to which Credit Suisse and Bank of America committed to provide a total of \$275.0 million of the aggregate \$1,375.0 million of financing. The senior secured facilities are expected to replace the Credit Facility discussed in Note 9 above.

At the completion of the Merger, each RiskMetrics option outstanding immediately prior to the completion of the Merger will be converted into an adjusted option to acquire shares of MSCI class A common stock, utilizing a predetermined conversion mechanism, on the same terms and conditions as were applicable under the RiskMetrics option immediately prior to the completion of the Merger. Also, at the completion of the Merger, each restricted stock award, which represents a share of RiskMetrics common stock subject to vesting and forfeiture restrictions, outstanding at the completion of the Merger, will be converted into a restricted stock award relating to a number of shares of MSCI class A common stock utilizing a predetermined conversion mechanism. Each converted restricted stock award will remain subject to the same vesting and forfeiture terms as were applicable to the RiskMetrics restricted stock award prior to the completion of the Merger.

The Merger is subject to approval by holders of a majority of the outstanding shares of RiskMetrics common stock as of the record date for the special meeting, governmental and regulatory approvals, receipt in full of the debt financing for the Merger, effectiveness of the registration statement and certain other customary closing conditions.

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The Merger is expected to occur in MSCI's quarterly period ending August 31, 2010. MSCI expects to fund the acquisition through a combination of cash, short-term investments, stock and long-term debt.

During the three months ended February 28, 2010, the Company incurred \$2.2 million in acquisition-related costs that were recognized in "selling, general and administrative" in the Condensed Consolidated Statement of Income in connection with its pending acquisition of RiskMetrics. In addition, the Company recorded \$3.0 million in deferred financing fees related to the pending acquisition in "other non-current assets" on its Condensed Consolidated Statement of Financial Condition as of February 28, 2010.

16. SUBSEQUENT EVENTS

Management of the Company evaluated subsequent events from February 28, 2010 through the issuance date of this Form 10-Q.

On April 1, 2010, the Company utilized \$147.0 million of its excess cash and cash equivalents and short-term investments to prepay a portion of its existing term loan facilities. Approximately \$59.5 million was paid on its existing term loan A facility and approximately \$87.5 million was paid on its existing term loan B facility. The prepayments were made to reduce the interest costs from carrying the term loan facilities, which incur interest at a higher rate than the Company earns on its cash and cash equivalents and its short-term investments.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated statement of financial condition of MSCI Inc. and subsidiaries (the "Company") as of February 28, 2010, and the related condensed consolidated statements of income for the three-month periods ended February 28, 2010 and 2009, and the condensed consolidated statements of cash flows for the three-month periods ended February 28, 2010 and 2009. 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 the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of MSCI Inc. and subsidiaries as of November 30, 2009 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 29, 2010, 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, 2009 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
April 8, 2010

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, 2009 (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 and portfolio risk and performance analytics for use by institutions in managing equity, fixed income and multi-asset class portfolios. Our flagship products are our international equity indices marketed under the MSCI brand and our equity portfolio analytics marketed under the Barra brand. Our products are used in many areas of the investment process, including portfolio construction and optimization, performance benchmarking and attribution, risk management and analysis, index-linked investment product creation, asset allocation, investment manager selection and investment research.

Our clients include asset owners such as pension funds, endowments, foundations, central banks 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; and financial intermediaries such as broker-dealers, exchanges, custodians and investment consultants. As of February 28, 2010, we had over 3,100 clients across 65 countries. We had 21 offices in 15 countries to help serve our diverse client base, with approximately 52.7% of our revenue from clients in the Americas, 30.7% in Europe, the Middle East and Africa ("EMEA"), 8.7% in Japan and 7.9% in Asia-Pacific (not including Japan), based on revenues for the three months ended February 28, 2010.

Our principal sales model is to license annual, recurring subscriptions to our products for use at specified locations by a given number of users for an annual fee paid up front. The substantial majority of our revenues come from these annual, recurring subscriptions. Over time, as their needs evolve, our clients often add product modules, users and locations to their subscriptions, which results in an increase in our revenues per client. Additionally, a significant source of our revenues comes from clients who use our indices as the basis for index-linked investment products such as ETFs. These clients commonly pay us a license fee based on the investment product's assets. We also 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 based on their volume of trades.

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. We expect to use this cash to make investments in our business both internally and externally through acquisitions in order to capitalize on the many growth opportunities before us and to expand our market position. See the discussion of our proposed acquisition of RiskMetrics Group, Inc. ("RiskMetrics") below. Our revenue growth strategy includes: (a) expanding and deepening our relationships with investment institutions worldwide; (b) developing new and enhancing existing equity product offerings, as well as further developing and growing our investment tools for multi-asset class investment institutions; and (c) actively seeking to acquire products, technologies and companies that will enhance, complement or expand our client base and our product offerings.

To maintain and accelerate our revenue and operating income growth, we will continue to invest in and expand our operating functions and infrastructure, including new 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. 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.

The discussion of our results of operations for the three months ended February 28, 2010 and 2009 are presented below. These statements, which reflect management's beliefs and expectations, are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of the risks and uncertainties that may affect our future results, please see "Forward-Looking Statements" immediately preceding Part I, Item 1, "Risk Factors" in Part I, Item 1A, "Certain Factors Affecting Results of Operations" in Part II, Item 7 and other items throughout our Form 10-K for the fiscal year ended November 30, 2009. Income from interim periods may not be indicative of future results.

Proposed Merger with RiskMetrics. On February 28, 2010, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with RiskMetrics Group, Inc. ("RiskMetrics"). At the effective time of the merger, each share of RiskMetrics common stock will be cancelled and converted automatically into the right to receive a combination of \$16.35 in cash, without interest, and 0.1802 of a share of our class A common stock. The actual number of shares of our class A common stock to be issued and reserved for issuance pursuant to the merger will be determined at the completion of the merger. The transaction is expected to close during the quarter ended August 31, 2010.

In connection, and concurrently, with the Merger Agreement, we entered into a commitment letter with Morgan Stanley Senior Funding, Inc. ("MSSF") pursuant to which MSSF committed, upon the terms and subject to the conditions set forth therein, to provide financing under senior secured facilities aggregating up to \$1,375.0 million, comprised of (i) \$1,275.0 million under a six-year term loan facility and (ii) \$100.0 million under a five-year revolving credit facility, for the transaction contemplated by the Merger Agreement. On March 23, 2010, the Company entered into supplemental commitment letters with Credit Suisse Securities (USA) LLC and Credit Suisse AG, Cayman Islands Branch (together, "Credit Suisse") and MSSF and with Banc of America Securities LLC and Bank of America, N.A. (together, "Bank of America") and MSSF, pursuant to which Credit Suisse and Bank of America committed to provide a total of \$275.0 million of the aggregate \$1,375.0 million of financing. The senior secured facilities are expected to replace the Credit Facility discussed under "—Liquidity and Capital Resources" below.

On March 16, 2010, MSCI and RiskMetrics each filed its notification and report form required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("Hart-Scott-Rodino Act"), with the U.S. Federal Trade Commission and the U.S. Department of Justice with respect to the proposed merger. We are not aware of any other material governmental approvals or actions that are required for completion of the merger. It is presently contemplated that if any such additional material governmental approvals or actions are required, those approvals or actions will be sought.

Pursuant to the Merger Agreement, we had a right to terminate the Merger Agreement between March 29, 2010 and April 2, 2010 if we were unable, prior to March 29, 2010, to agree with MSSF on the terms and conditions of the covenants to be offered to the market in connection with the financing for the merger after good faith negotiations. We decided not to exercise this right.

On April 2, 2010 MSCI and RiskMetrics filed a Registration Statement on Form S-4 with the Securities and Exchange Commission that constituted a prospectus of MSCI and included a proxy statement of RiskMetrics.

The transaction is expected to close during the quarter ended August 31, 2010. The completion of the merger is subject to customary closing conditions, including antitrust clearance under the Hart-Scott Rodino Act, the effectiveness of the Registration Statement on Form S-4, approval of RiskMetrics' shareholders, our receipt of the proceeds of the debt financing and other customary regulatory approvals. If the merger is terminated under certain circumstances, we may be required to pay RiskMetrics a termination fee of \$100.0 million and if the merger is terminated under certain other circumstances, RiskMetrics may be required to pay us a termination fee of \$50.0 million (and up to \$10.0 million in expense reimbursement).

We expect to fund the acquisition through a combination of cash, short-term investments, stock and long-term debt.

Results of Operations

	Three Months Ended February 28,		Increase/(Decrease)		
	2010	2009			
	(in thousands, except per share data)				
Operating revenues	\$ 121,680	\$ 105,915	\$ 15,765	14.9	%
Operating expenses:					
Cost of services	29,291	28,935	356	1.2	%
Selling, general and administrative	37,461	34,716	2,745	7.9	%
Amortization of intangible assets	4,278	6,429	(2,151)	(33.5)	%
Depreciation and amortization of property, equipment, and leasehold improvements	3,393	3,051	342	11.2	%
Total operating expenses	74,423	73,131	1,292	1.8	%
Operating income	47,257	32,784	14,473	44.1	%
Other expense (income), net	3,420	6,399	(2,979)	(46.6)	%
Provision for income taxes	16,319	9,661	6,658	68.9	%
Net income	\$ 27,518	\$ 16,724	\$ 10,794	64.5	%
Earnings per basic common share	\$ 0.26	\$ 0.16	\$ 0.10	62.5	%
Earnings per diluted common share	\$ 0.26	\$ 0.16	\$ 0.10	62.5	%
Operating margin	38.8%	31.0%			

Operating Revenues

We group our revenues into the following four product categories:

- Equity indices
- Equity portfolio analytics
- Multi-asset class portfolio analytics
- Other products

The following table summarizes the revenue by category for the three months ended February 28, 2010 compared to the three months ended February 28, 2009:

	Three Months Ended February 28,		Increase/(Decrease)		
	2010 (in thousands)	2009			
Equity indices					
Equity index subscriptions	\$ 50,175	\$ 45,267	\$ 4,908	10.8	%
Equity index asset based fees	24,985	13,182	11,803	89.5	%
Total equity indices	75,160	58,449	16,711	28.6	%
Equity portfolio analytics	29,983	32,140	(2,157)	(6.7)	%
Multi-asset class portfolio analytics	10,845	9,623	1,222	12.7	%
Other products	5,692	5,703	(11)	(0.2)	%
Total operating revenues	\$ 121,680	\$ 105,915	\$ 15,765	14.9	%

Total operating revenues for the three months ended February 28, 2010 increased \$15.8 million, or 14.9%, to \$121.7 million compared to \$105.9 million for the three months ended February 28, 2009. The growth was comprised of increases in asset based fees and subscription revenues of \$11.8 million and \$4.0 million, respectively. Subscription revenues consist of our revenues related to equity index subscriptions, equity portfolio analytics, multi-asset class portfolio analytics and other 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 strengthened relative to exchange rates at the beginning of the year, our revenues for the three months ended February 28, 2010 would have been higher by \$0.7 million.

Revenues related to equity indices increased \$16.7 million, or 28.6%, to \$75.2 million for the three months ended February 28, 2010 compared to \$58.4 million in the same period in 2009. Revenues from the equity index subscriptions sub-category were up \$4.9 million, or 10.8%, to \$50.2 million during the current period with growth across all regions, most notably the Americas. This growth was led by increases in our small cap, emerging market and developed market index modules as well as custom indices and our value/growth index extension modules.

Revenues attributable to equity index asset based fees sub-category increased \$11.8 million, or 89.5%, to \$25.0 million for the three months ended February 28, 2010 compared to \$13.2 million in the same period of 2009 led by growth in our ETF asset based fee revenues. The average value of assets in ETFs linked to MSCI equity indices increased 89.6% to \$239.6 billion for the three months ended February 28, 2010 compared to \$126.4 billion for the three months ended February 28, 2009. As of February 28, 2010, the value of assets in ETFs linked to MSCI equity indices was \$235.6 billion, representing an increase of \$127.8 billion, or 118.6%, from \$107.8 billion as of February 28, 2009. We estimate that the \$127.8 billion year-over-year increase in value of assets in ETFs linked to MSCI equity indices was attributable to \$77.3 billion of net asset appreciation and \$50.5 billion of net cash inflows.

The three MSCI indices with the largest amount of ETF assets linked to them as of February 28, 2010 were the MSCI Emerging Markets, EAFE, and U.S. Broad Market with \$63.2 billion, \$37.8 billion and \$13.4 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:

in billions	Quarter Ended				
	February	2009			2010
		May	August	November	February
AUM in ETFs linked to MSCI Indices	\$ 107.8	\$ 175.9	\$ 199.2	\$ 234.2	\$ 235.6
Sequential Change (\$ Growth in Billions)					
Market Appreciation/(Depreciation)	\$ (13.6)	\$ 42.2	\$ 20.1	\$ 18.0	\$ (3.0)
Cash Inflow/(Outflow)	2.4	25.9	3.2	17.0	4.4
Total Change	\$ (11.2)	\$ 68.1	\$ 23.3	\$ 35.0	\$ 1.4

Source: Bloomberg and MSCI

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

in billions	Quarter Ended				
	February	2009			2010
		May	August	November	February
AUM in ETFs linked to MSCI Indices	\$ 126.4	\$ 134.7	\$ 180.3	\$ 216.8	\$ 239.6

Source: Bloomberg and MSCI

Revenues related to equity portfolio analytics products decreased \$2.2 million, or 6.7% to \$30.0 million for the three months ended February 28, 2010 compared to \$32.1 million for the same period in 2009. Within equity portfolio analytics, Aegis revenue declined 10.2% to \$19.4 million, and Models Direct, our proprietary risk data accessed directly, decreased 3.5% to \$9.1 million. The revenue decrease reflects lower levels of new subscriptions and lower retention rates during 2009. These declines were offset, in part, by increased revenue attributable to Barra on Vendors, our proprietary risk data product accessed through vendors, which increased 29.9% to \$1.6 million.

Revenues related to multi-asset class portfolio analytics increased \$1.2 million, or 12.7%, to \$10.8 million for the three months ended February 28, 2010 compared to \$9.6 million for the same period in 2009. This reflects an increase of 23.6% to \$9.2 million for BarraOne and a decrease of 24.6% to \$1.6 million for TotalRisk, which is a product that is being decommissioned with its existing users being given the opportunity to transition to BarraOne. Revenues in this category rose in all client types except for hedge funds.

Revenues from other products were flat at \$5.7 million for the three months ended February 28, 2010 compared to the same period in 2009. Within other products, revenue attributable to our energy and commodity analytics products increased 10.6%, offset, in part, by a decline of 7.9% in fixed income analytics products.

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 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 license. The Run Rate does not include fees associated with 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 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 operating 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;
- fluctuations in fees based on trading volumes of futures and options contracts linked to our indices;
- price changes;
- revenue recognition differences under U.S. GAAP; and
- fluctuations in foreign exchange rates.

The following table sets forth our Run Rate as of the dates indicated and the percentage growth over the prior period:

	As of			Year Over Year Comparison	Sequential Comparison
	February 28, 2010	February 28, 2009 (in thousands)	November 30, 2009		
Run Rates					
Equity indices					
Subscription	\$ 191,862	\$ 174,242	\$ 185,787	10.1 %	3.3 %
Asset based fees	94,033	50,574	95,301	85.9 %	(1.3) %
Equity Indices total	285,895	224,816	281,088	27.2 %	1.7 %
Equity portfolio analytics	119,046	126,789	118,487	(6.1) %	0.5 %
Multi-asset class analytics	41,142	35,309	40,401	16.5 %	1.8 %
Other	20,500	20,993	20,597	(2.3) %	(0.5) %
Total Run Rate	\$ 466,583	\$ 407,907	\$ 460,573	14.4 %	1.3 %
Subscription total					
Subscription total	\$ 372,550	\$ 356,333	\$ 365,272	4.6 %	2.0 %
Asset based fees total					
Asset based fees total	94,033	51,574	95,301	82.3 %	(1.3) %
Total Run Rate	\$ 466,583				