MSCI Inc.
Form 10-Q
October 30, 2015
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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, 2015**

**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** | **13-4038723** |
| **(State of Incorporation)** | **(I.R.S. Employer Identification Number)** |

**7 World Trade Center**

**250 Greenwich Street, 49th Floor**

| | |
|---|---|
| **New York, New York** | **10007** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

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

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

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 x 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.

| | | | |
|---|---|---|---|
| Large accelerated filer | x | 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 x

As of October 22, 2015, there were 102,675,766 shares of the registrant s common stock, par value $0.01, outstanding.

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**MSCI INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

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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 MSCI Inc. files 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 a website 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 website, *www.sec.gov*.

MSCI Inc. s website is *www.msci.com*. You can access MSCI Inc. s Investor Relations homepage at *http://ir.msci.com*. MSCI Inc. makes available free of charge, on or through its Investor Relations homepage, 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 homepage, via a link to the SEC s website, statements of beneficial ownership of MSCI Inc. s equity securities filed by its directors, officers, 5% or greater shareholders and others under Section 16 of the Exchange Act.

You can access information about MSCI Inc. s corporate governance at *http://ir.msci.com/corporate-governance.cfm*, including copies of the following:

- Charters for MSCI Inc. s Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee;
- Corporate Governance Policies;
- Procedures for Submission of Ethical Accounting Related Complaints; 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 LLC on its website. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, MSCI Inc., 7 World Trade Center, 250 Greenwich Street, 49th Floor, New York, NY 10007; (212) 804-1583. The information on MSCI Inc. s website is not incorporated by reference into this report or any other report filed or furnished by us with the SEC.

## FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to future events or to future financial performance and involve known and unknown risks, uncertainties and other factors that may cause MSCI Inc. s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as may, could, expect, intend, plan, seek, anticipate, estimate, predict, potential or continue, or the negative of these terms or other comparable terminology. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond MSCI Inc. s control and that could materially affect actual results, levels of activity, performance or achievements.

Other factors that could materially affect actual results, levels of activity, performance or achievements can be found in MSCI Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as amended, and in quarterly reports on Form 10-Q and current reports on Form 8-K filed or furnished with the SEC. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what MSCI Inc. projected. Any forward-looking statement in this report reflects MSCI Inc. s current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to MSCI Inc. s operations, results of operations, growth strategy and liquidity. MSCI Inc. assumes no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise, except as required by law.

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## WEBSITE AND SOCIAL MEDIA DISCLOSURE

MSCI Inc. uses its website and corporate Twitter account (@MSCI_Inc) as channels of distribution of company information. The information MSCI Inc. posts through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following MSCI Inc.  s press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive email alerts and other information about MSCI Inc. when you enroll your email address by visiting the  Email Alert Subscription  section of our Investor Relations homepage at *http://ir.msci.com/alerts.cfm?*. The contents of MSCI Inc.  s website and social media channels are not, however, incorporated by reference into this report or any other report filed or furnished by us with the SEC.

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## PART I

### Item 1. Condensed Consolidated Financial Statements

## MSCI INC.

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

**(in thousands, except per share and share data)**

| | As of | |
|---|---|---|
| | **September 30, 2015** | **December 31, 2014** |
| | **(unaudited)** | |
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 993,488 | $ 508,799 |
| Accounts receivable (net of allowances of $1,014 and $857 at September 30, 2015 and December 31, 2014, respectively) | 208,239 | 178,717 |
| Deferred taxes | 14,098 | 22,209 |
| Prepaid income taxes | 33,741 | 29,180 |
| Prepaid and other assets | 36,791 | 30,553 |
| Total current assets | 1,286,357 | 769,458 |
| Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $111,367 and $92,808 at September 30, 2015 and December 31, 2014, respectively) | 94,964 | 94,074 |
| Goodwill | 1,563,087 | 1,564,904 |
| Intangible assets (net of accumulated amortization of $407,041 and $372,209 at September 30, 2015 and December 31, 2014, respectively) | 399,943 | 433,628 |
| Other non-current assets | 22,440 | 20,469 |
| **Total assets** | $ 3,366,791 | $ 2,882,533 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 1,806 | $ 2,835 |
| Accrued compensation and related benefits | 92,851 | 111,408 |
| Other accrued liabilities | 68,256 | 47,894 |
| Deferred revenue | 328,051 | 310,775 |

| | | |
|---|---|---|
| Total current liabilities | 490,964 | 472,912 |
| Long-term debt | 1,578,849 | 788,358 |
| Deferred taxes | 123,011 | 137,838 |
| Other non-current liabilities | 54,862 | 50,592 |
| **Total liabilities** | 2,247,686 | 1,449,700 |
| **Commitments and Contingencies (see Note 8)** | | |
| **Shareholders equity:** | | |
| Preferred stock (par value $0.01; 100,000,000 shares authorized; no shares issued) | | |
| Common stock (par value $0.01; 750,000,000 common shares authorized; 128,105,245 and 126,637,390 common shares issued and 104,934,561 and 112,072,469 common shares outstanding at September 30, 2015 and December 31, 2014, respectively) | 1,281 | 1,266 |
| Treasury shares, at cost (23,170,684 and 14,564,921 common shares held at September 30, 2015 and December 31, 2014, respectively) | (1,139,613) | (588,378) |
| Additional paid in capital | 1,166,894 | 1,022,221 |
| Retained earnings | 1,121,858 | 1,022,695 |
| Accumulated other comprehensive loss | (31,315) | (24,971) |
| **Total shareholders equity** | 1,119,105 | 1,432,833 |
| **Total liabilities and shareholders equity** | $ 3,366,791 | $ 2,882,533 |

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

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**MSCI INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**(in thousands, except per share data)**

| | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 |
|---|---|---|---|---|
| | (unaudited) | | | |
| **Operating revenues** | $ 268,771 | $ 251,661 | $ 802,120 | $ 745,575 |
| **Operating expenses:** | | | | |
| Cost of revenues | 65,593 | 69,770 | 202,891 | 206,784 |
| Selling and marketing | 38,809 | 41,402 | 122,485 | 123,034 |
| Research and development | 15,548 | 19,021 | 59,544 | 53,860 |
| General and administrative | 19,960 | 19,516 | 62,417 | 57,448 |
| Amortization of intangible assets | 11,710 | 11,574 | 35,107 | 34,286 |
| Depreciation and amortization of property, equipment and leasehold improvements | 8,049 | 6,342 | 23,321 | 18,091 |
| **Total operating expenses** | 159,669 | 167,625 | 505,765 | 493,503 |
| **Operating income** | 109,102 | 84,036 | 296,355 | 252,072 |
| Interest income | (285) | (277) | (674) | (625) |
| Interest expense | 17,267 | 5,604 | 39,491 | 16,029 |
| Other expense (income) | (6,922) | (1,287) | (6,580) | (942) |
| **Other expense (income), net** | 10,060 | 4,040 | 32,237 | 14,462 |
| **Income from continuing operations before provision for income taxes** | 99,042 | 79,996 | 264,118 | 237,610 |
| Provision for income taxes | 34,644 | 28,272 | 94,079 | 81,937 |
| **Income from continuing operations** | 64,398 | 51,724 | 170,039 | 155,673 |
| **Income (loss) from discontinued operations, net of income taxes** | | (10) | (5,797) | 84,100 |
| **Net income** | $ 64,398 | $ 51,714 | $ 164,242 | $ 239,773 |
| **Earnings per basic common share:** | | | | |
| | $ 0.59 | $ 0.44 | $ 1.53 | $ 1.33 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Earnings per basic common share from continuing operations | | | | | | | | |
| Earnings per basic common share from discontinued operations | | | | | | (0.05) | | 0.72 |
| **Earnings per basic common share** | $ | 0.59 | $ | 0.44 | $ | 1.48 | $ | 2.05 |
| **Earnings per diluted common share:** | | | | | | | | |
| Earnings per diluted common share from continuing operations | $ | 0.59 | $ | 0.44 | $ | 1.52 | $ | 1.32 |
| Earnings per diluted common share from discontinued operations | | | | | | (0.05) | | 0.71 |
| **Earnings per diluted common share** | $ | 0.59 | $ | 0.44 | $ | 1.47 | $ | 2.03 |
| **Weighted average shares outstanding used in computing earnings per share:** | | | | | | | | |
| **Basic** | | 108,773 | | 116,251 | | 111,131 | | 116,840 |
| **Diluted** | | 109,440 | | 117,163 | | 111,951 | | 117,803 |
| **Dividends declared per common share** | $ | 0.22 | $ | | $ | 0.58 | $ | |

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

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**MSCI INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(in thousands)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (unaudited) | | | |
| Net income | $ 64,398 | $ 51,714 | $ 164,242 | $ 239,773 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | (6,830) | (10,266) | (7,269) | (11,992) |
| Income tax effect | 156 | (502) | 790 | 163 |
| Foreign currency translation adjustments, net | (6,674) | (10,768) | (6,479) | (11,829) |
| Pension and other post-retirement adjustments | 300 | 53 | 203 | 219 |
| Income tax effect | (80) | (18) | (67) | (16) |
| Pension and other post-retirement adjustments, net | 220 | 35 | 136 | 203 |
| Other comprehensive income (loss), net of tax | (6,454) | (10,733) | (6,343) | (11,626) |
| Comprehensive income | $ 57,944 | $ 40,981 | $ 157,899 | $ 228,147 |

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

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**MSCI INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

| | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 |
|---|---|---|
| | (unaudited) | |
| **Cash flows from operating activities** | | |
| Net income | $ 164,242 | $ 239,773 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of intangible assets | 35,107 | 37,026 |
| Stock-based compensation expense | 20,552 | 20,116 |
| Depreciation and amortization of property, equipment and leasehold improvements | 23,321 | 18,310 |
| Amortization of debt origination fees | 1,427 | 1,328 |
| Deferred taxes | (6,095) | 996 |
| Amortization of discount on long-term debt | | 359 |
| Excess tax benefits from share-based compensation | (13,706) | (3,197) |
| Gain on disposition of subsidiary, net of costs | | (84,620) |
| Other non-cash adjustments | (2,284) | 1,764 |
| Changes in assets and liabilities, net of assets and liabilities assumed: | | |
| Accounts receivable | (30,482) | (38,635) |
| Prepaid income taxes | 8,814 | (20,552) |
| Prepaid and other assets | (306) | (7,343) |
| Accounts payable | (1,012) | 973 |
| Deferred revenue | 17,985 | 50,304 |
| Accrued compensation and related benefits | (15,169) | (19,581) |
| Other accrued liabilities | 19,846 | 6,552 |
| Other | 2,432 | (1,954) |
| **Net cash provided by operating activities** | 224,672 | 201,619 |
| **Cash flows from investing activities** | | |
| Dispositions, net of cash provided | | 362,811 |
| Capital expenditures | (24,525) | (36,174) |
| Acquisitions, net of cash acquired | | (14,880) |
| Capitalized software development costs | (6,062) | (6,063) |
| Proceeds from the sale of capital equipment | 55 | 8 |
| **Net cash (used in) provided by investing activities** | (30,532) | 305,702 |

| | | | | |
|---|---|---|---|---|
| **Cash flows from financing activities** | | | | |
| Proceeds from borrowing | | 800,000 | | |
| Payment of issuance costs in connection with long-term debt | | (10,477) | | |
| Repayment of long-term debt | | | | (15,187) |
| Repurchase of treasury shares | | (444,640) | | (409,396) |
| Proceeds from exercise of stock options | | 2,433 | | 9,009 |
| Payment of dividends | | (64,989) | | |
| Excess tax benefits from stock-based compensation | | 13,706 | | 3,197 |
| **Net cash provided by (used in) financing activities** | | 296,033 | | (412,377) |
| **Effect of exchange rate changes** | | (5,484) | | (5,185) |
| **Net increase in cash and cash equivalents** | | 484,689 | | 89,759 |
| **Cash and cash equivalents, beginning of period** | | 508,799 | | 358,434 |
| **Cash and cash equivalents, end of period** | $ | 993,488 | $ | 448,193 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for interest | $ | 20,922 | $ | 14,387 |
| Cash paid for income taxes | $ | 92,461 | $ | 101,421 |
| Supplemental disclosure of non-cash investing activities: | | | | |
| Property, equipment and leasehold improvements in other accrued liabilities | $ | 7,619 | $ | 3,929 |
| Supplemental disclosure of non-cash financing activities: | | | | |
| Cash dividends declared, but not yet paid | $ | 73 | $ | 20,393 |

**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 provider of portfolio construction and risk management tools and services for global investors. The Company s flagship products are its global equity indexes and environmental, social and governance ( ESG ) products, its private real estate benchmarks, its portfolio risk and performance analytics covering global equity, its multi-asset class, market and credit risk analytics and its performance reporting products and services offered to investment consultants.

On March 17, 2014, MSCI entered into a definitive agreement to sell Institutional Shareholder Services Inc. ( ISS ). As a result, the Company reported the operating results of ISS in Income (loss) from discontinued operations, net of income taxes in the Unaudited Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014. Unless otherwise indicated, the disclosures accompanying these unaudited condensed consolidated financial statements reflect the Company s continuing operations. The Company completed the sale of ISS on April 30, 2014. See Note 3, Disposition and Discontinued Operations, for further details.

Following the disposition of ISS, MSCI maintained one reportable segment. During the quarter ended September 30, 2015, MSCI changed its reportable segments to Index, Analytics and All Other. These three segments reflect certain changes made during the quarter to the management of the Company s product lines. This presentation also better aligns the Company s financial reporting with how its products and services are offered to its clients and offers additional insight into how the Company is being managed. See Note 10, Segment Information, for further information about MSCI s reportable segments.

### Basis of Presentation and Use of Estimates

These unaudited condensed consolidated financial statements include the accounts of MSCI Inc. and its subsidiaries and include all adjustments of a normal, recurring nature necessary to present fairly the financial condition as of September 30, 2015 and December 31, 2014, the results of operations and comprehensive income for the three and nine months ended September 30, 2015 and 2014 and the cash flows for the nine months ended September 30, 2015 and 2014. The accompanying unaudited 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, as amended, for the year ended December 31, 2014. The unaudited condensed consolidated financial statement information as of December 31, 2014 has been derived from the 2014 audited consolidated financial statements. The results of operations for interim periods are not necessarily indicative of results for the entire year.

The Company s unaudited 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 unaudited 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 revenue, software capitalization, the allowance for doubtful accounts, impairment of long-lived assets, accrued compensation, income taxes and other matters that affect the unaudited condensed consolidated financial statements and related disclosures. The Company believes that estimates used in the preparation of these unaudited condensed consolidated financial statements are reasonable; however, actual results could differ materially from these estimates. Intercompany balances and transactions are eliminated in consolidation.

The Company changed its presentation of operating expenses during the quarter ended September 30, 2015 in order to provide more transparency into the underlying cost base of the Company, consistent with how it is managed. Prior to the change, operating expenses were grouped and presented as cost of services and selling, general and administrative. Cost of services included costs related to research, data management and production, software engineering and production management functions. Selling, general and administrative consisted of expenses for sales and marketing staff, finance, human resources, legal and compliance, information technology infrastructure and corporate administration personnel. For the quarter ended September 30 2015, operating expenses are grouped and presented in the following activity categories: cost of revenues, selling and marketing, research and development and general and administrative. Costs are assigned to these categories based on the nature of the expense, or, when not directly attributable, an estimate of the effort involved or other usage metric is utilized.

Cost of revenues consists of costs related to the production and servicing of the Company s products and services and primarily include information technology costs associated with the production and delivery of its products and services, including data center, platform and infrastructure costs; costs to acquire, produce and maintain market data information; costs of research to support, maintain and rebalance existing products; costs of product management teams; costs of client service and consultant teams to support customer needs; as well as other support costs directly attributable to the cost of revenues including certain human resources, finance and legal costs.

Selling and marketing expenses consists of costs associated with acquiring new clients or selling new products or product renewals to existing clients and primarily includes the costs of our sales force and marketing teams as well as costs incurred in other groups associated with acquiring new business, including product management, research, technology and sales operations.

Research and development expenses consists of costs to develop new or enhance existing products and the costs to develop new or improved technology and service platforms for the delivery of our products and services and primarily includes the costs of application development, research, product management, project management and the technology support associated with these efforts.

General and administrative expenses consists of costs that are not directly attributed to, but are instead allocated to, a product or service and primarily includes finance operations, human resources, office of the CEO, legal, corporate technology, corporate development and certain other administrative costs.

The recasting of previously issued financial information has been made to conform to the current presentation and does not represent a restatement of previously issued financial statements and does not affect reported net income, earnings per share, total assets, or stockholders equity for any of the previously reported periods.

***Concentrations***

For the nine months ended September 30, 2015, BlackRock, Inc. accounted for 10.4% of the Company s consolidated operating revenues and 19.5% of the Index segment operating revenues. For the nine months ended September 30, 2014, BlackRock, Inc. accounted for 10.6% of the Company s consolidated operating revenues and 20.2% of the Index segment operating revenues. No single customer represented more than 10% of revenues within the Analytics and All Other segments for the nine months ended September 30, 2015 and 2014.

## 2. RECENT ACCOUNTING STANDARDS UPDATES

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers,* or ASU 2014-09. The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the new guidance, an entity will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract s performance obligations; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. Companies have the option of using either a full retrospective or modified approach to adopt ASU 2014-09. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.* The amendments in ASU 2015-14 defer the effective date of the new revenue standard by one year by changing the effective date to be for annual reporting periods (including interim periods within those periods) beginning after

December 15, 2017 from December 15, 2016, with early adoption at the prior date permitted. The Company is evaluating the potential impact that the update will have on its unaudited condensed consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, *Interest Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs,* or ASU 2015-03. The objective of ASU 2015-03 is to simplify the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were recognized and presented as a deferred charge (that is, an asset). The new guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2015, with early adoption permitted for financial statements that have not been previously issued. The Company early adopted ASU 2015-03 retrospectively in the quarter

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ended September 30, 2015. As a result of the retrospective adoption, the Company reclassified unamortized deferred financing fees of $1.2 million from Prepaid and other assets and $10.4 million from Other non-current assets as of December 31, 2014 to be a reduction in Long-term debt on the Condensed Consolidated Statement of Financial Condition. Adoption of this standard only resulted in the reclassification of items on the Condensed Consolidated Statement of Financial Condition and did not impact results of operations, retained earnings or cash flows in the current or previous interim and annual reporting periods.

In April 2015, the FASB issued Accounting Standards Update No. 2015-05, *Intangibles Goodwill and Other Internal-Use Software,* or ASU 2015-05. The amendments in ASU 2015-05 provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer s accounting for service contracts. The new guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2015, with early adoption permitted. The Company is evaluating the potential impact of the adoption of ASU 2015-05, but does not expect the adoption to have a material effect on its unaudited condensed consolidated financial statements.

In August 2015, the FASB issued Accounting Standards Update No. 2015-15, *Interest Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements,* or ASU 2015-15. ASU 2015-15 adds clarity from the SEC s perspective on the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The Company s adoption of ASU 2015-15, as of September 30, 2015, did not have a material impact on the unaudited condensed consolidated financial statements.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, *Business Combinations,* or ASU 2015-16. ASU 2015-16 simplifies the accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirement to account for adjustments retrospectively. The amendments in ASU 2015-16 require that the acquirer record, in the same period s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The new guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2015, with early adoption permitted. The Company is evaluating the potential impact of the adoption of ASU 2015-16, but does not expect the adoption to have a material effect on its unaudited condensed consolidated financial statements.

**3. DISPOSITION AND DISCONTINUED OPERATIONS**

The operating results of ISS have been included in Income (loss) from discontinued operations, net of income taxes in the Unaudited Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014.

The sale of ISS was completed on April 30, 2014 for $367.4 million. The value of the assets and liabilities of ISS that were disposed, directly attributable transaction costs and the resulting gain on disposal that was reported in Income from discontinued operations, net of income taxes for the nine months ended September 30, 2014 was as follows:

| **(in thousands)** | |
|---|---|
| Cash proceeds | $ 367,355 |

| | | |
|---|---|---|
| Less: Working capital adjustments | | (311) |
| Total proceeds | | 367,044 |
| Less assets sold and liabilities relieved resulting from disposal: | | |
| Cash and cash equivalents | | (4,544) |
| Accounts receivable | | (15,765) |
| Deferred taxes (current) | | (3,174) |
| Prepaid taxes | | (617) |
| Prepaid and other assets | | (4,500) |
| Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $4,213) | | (8,544) |
| Goodwill | | (254,233) |
| Intangible assets (net of accumulated amortization of $50,283) | | (121,269) |
| Other non-current assets | | (1,645) |
| Accounts payable | | 574 |
| Accrued compensation and related benefits | | 6,783 |
| Other accrued liabilities | | 4,034 |
| Deferred revenue | | 51,767 |
| Deferred taxes (non-current) | | 59,129 |
| Other non-current liabilities | | 5,576 |
| Other comprehensive income including currency translation adjustments and pension and other post-retirement adjustments | | 4,004 |
| Net assets sold | | (282,424) |
| Less: Transaction costs | | (5,946) |
| **Gain on sale of ISS** | $ | 78,674 |

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Amounts associated with discontinued operations reflected in the Unaudited Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014, respectively, were as follows:

| (in thousands) | Three Months Ended September 30, 2015 | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 |
|---|---|---|---|---|
| Revenue from discontinued operations | $ | $ | $ | $ 43,122 |
| Income (loss) from discontinued operations before provision (benefit) for income taxes | $ | $ (110) | $ | $ 86,254 |
| Provision (benefit) for income taxes | | (100) | 5,797 | 2,154 |
| **Income (loss) from discontinued operations, net of income taxes** | $ | $ (10) | $ (5,797) | $ 84,100 |

The nine months ended September 30, 2015 reflect the impact of an out-of-period income tax charge associated with tax obligations triggered upon the sale of ISS.

**4. RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

As required by FASB s ASC Subtopic 220-10, *Comprehensive Income Overall*, the following tables present the amounts reclassified from Accumulated other comprehensive income (loss) by the respective line item in the Unaudited Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and 2014, respectively.

**Reclassifications Out of Accumulated Other Comprehensive Income (Loss)[1]**

**(in thousands)**

| Details about Accumulated Other Comprehensive Income (Loss) Components | Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Three and Nine Months Ended September 30, 2015 | Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Three and Nine Months Ended September 30, 2014 | Affected Line Item in the Unaudited Condensed Consolidated Statements of Income |
|---|---|---|---|
| Defined benefit pension plans | | | |
| Amount recognized as a component of net periodic benefit expense for curtailments and settlements | $ | $ (186)[2] | |
| | | 6 | Provision for income taxes |

| | | | | |
|---|---|---|---|---|
| | $ | $ | (180) | Net of tax |
| Foreign currency translation adjustment | $ | $ | 4,184[2] | |
| Total reclassifications for the period, net of tax | $ | $ | 4,004 | |

(1) Amounts in parentheses indicate expenses or losses moved to the Unaudited Condensed Consolidated Statements of Income.

(2) These accumulated other comprehensive income components were reclassified to Income (loss) from discontinued operations, net of taxes as part of the gain on the disposition of ISS.

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## 5. EARNINGS PER COMMON SHARE

Basic earnings per share ( 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 850 and 283 anti-dilutive securities excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2015, respectively. There were 104,494 and 104,346 anti-dilutive securities excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2014, 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:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **(in thousands, except per share data)** | | | | |
| Income from continuing operations, net of income taxes | $ 64,398 | $ 51,724 | $ 170,039 | $ 155,673 |
| Income (loss) from discontinued operations, net of income taxes | | (10) | (5,797) | 84,100 |
| Net income | $ 64,398 | $ 51,714 | $ 164,242 | $ 239,773 |
| Less: Allocations of earnings to unvested restricted stock units (1) | | (69) | | (320) |
| Earnings available to MSCI common shareholders | $ 64,398 | $ 51,645 | $ 164,242 | $ 239,453 |
| Basic weighted average common shares outstanding | 108,773 | 116,251 | 111,131 | 116,840 |
| Effect of dilutive securities: | | | | |
| Stock options and restricted stock units | 667 | 912 | 820 | 963 |
| Diluted weighted average common shares outstanding | 109,440 | 117,163 | 111,951 | 117,803 |
| Earnings per basic common share from continuing operations | $ 0.59 | $ 0.44 | $ 1.53 | $ 1.33 |
| Earnings per basic common share from discontinued operations | | | (0.05) | 0.72 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Earnings per basic common share** | $ | 0.59 | $ | 0.44 | $ | 1.48 | $ | 2.05 |
| Earnings per diluted common share from continuing operations | $ | 0.59 | $ | 0.44 | $ | 1.52 | $ | 1.32 |
| Earnings per diluted common share from discontinued operations | | | | | | (0.05) | | 0.71 |
| **Earnings per diluted common share** | $ | 0.59 | $ | 0.44 | $ | 1.47 | $ | 2.03 |

(1) Restricted stock units granted to employees prior to 2013 and restricted stock units granted to independent directors of the Company prior to April 30, 2015 had a right to participate in all of the earnings of the Company in the computation of basic EPS and, therefore, these restricted stock units were not included as incremental shares in the diluted EPS computation.

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## 6. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements at September 30, 2015 and December 31, 2014 consisted of the following:

| Type | Estimated Useful Lives | As of September 30, 2015 | As of December 31, 2014 |
|---|---|---|---|
| | | (in thousands) | |
| Computer & related equipment | 2 to 5 years | $ 136,937 | $ 118,537 |
| Furniture & fixtures | 7 years | 9,988 | 9,569 |
| Leasehold improvements | 1 to 21 years | 48,918 | 49,756 |
| Work-in-process | | 10,488 | 9,020 |
| Subtotal | | 206,331 | 186,882 |
| Accumulated depreciation and amortization | | (111,367) | (92,808) |
| Property, equipment and leasehold improvements, net | | $ 94,964 | $ 94,074 |

Depreciation and amortization expense of property, equipment and leasehold improvements was $8.0 million and $6.3 million for the three months ended September 30, 2015 and 2014, respectively. Depreciation and amortization expense of property, equipment and leasehold improvements was $23.3 million and $18.1 million for the nine months ended September 30, 2015 and 2014, respectively.

## 7. GOODWILL AND INTANGIBLE ASSETS

***Goodwill***

The change to the Company s goodwill was as follows:

| (in thousands) | Goodwill |
|---|---|
| Goodwill at December 31, 2014 | $ 1,564,904 |
| Foreign exchange translation adjustment | (1,817) |
| Goodwill at September 30, 2015 | $ 1,563,087 |

As described in Note 1, Introduction and Basis of Presentation, the Company changed its reportable segments in the quarter ended September 30, 2015. Simultaneously, segment reporting and goodwill reporting units were updated in connection with this change. The Company reallocated its goodwill to its reporting units using a relative fair value allocation approach in accordance with applicable accounting guidance. At September 30, 2015, the goodwill assigned to the Index, Analytics and All Other reportable segments was $1,209.5 million, $298.3 million and $55.3 million, respectively.

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***Intangible Assets***

Amortization expense related to intangible assets for the three months ended September 30, 2015 and 2014 was $11.7 million and $11.6 million, respectively. Amortization expense related to intangible assets for the nine months ended September 30, 2015 and 2014 was $35.1 million and $34.3 million, respectively.

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

| | Estimated Useful Lives | As of September 30, 2015 | As of December 31, 2014 |
|---|---|---|---|
| | | (in thousands) | |
| Gross intangible assets: | | | |
| Customer relationships | 5 to 21 years | $ 360,835 | $ 360,835 |
| Trademarks/trade names | 5 to 21.5 years | 223,382 | 223,382 |
| Technology/software | 3 to 8.5 years | 196,457 | 193,681 |
| Proprietary data | 13 years | 28,627 | 28,627 |
| Covenant not to compete | 2 years | 900 | 900 |
| Subtotal | | 810,201 | 807,425 |
| Foreign exchange translation adjustment | | (3,217) | (1,588) |
| Total gross intangible assets | | $ 806,984 | $ 805,837 |
| Accumulated amortization: | | | |
| Customer relationships | | $ (137,254) | $ (119,058) |
| Trademarks/trade names | | (90,487) | (81,545) |
| Technology/software | | (173,130) | (167,083) |
| Proprietary data | | (6,175) | (4,589) |
| Covenant not to compete | | (525) | (187) |
| Subtotal | | (407,571) | (372,462) |
| Foreign exchange translation adjustment | | 530 | 253 |
| Total accumulated amortization | | $ (407,041) | $ (372,209) |
| Net intangible assets: | | | |
| Customer relationships | | $ 223,581 | $ 241,777 |

| | | |
|---|---|---|
| Trademarks/trade names | 132,895 | 141,837 |
| Technology/software | 23,327 | 26,598 |
| Proprietary data | 22,452 | 24,038 |
| Covenant not to compete | 375 | 713 |
| Subtotal | 402,630 | 434,963 |
| Foreign exchange translation adjustment | (2,687) | (1,335) |
| Total net intangible assets | $ 399,943 | $ 433,628 |

The estimated amortization expense for the remainder of 2015 and succeeding years is presented below:

| **Years Ending December 31,** | **Amortization Expense (in thousands)** |
|---|---|
| Remainder 2015 | $ 11,835 |
| 2016 | 47,421 |
| 2017 | 42,174 |
| 2018 | 39,046 |
| 2019 | 37,357 |
| Thereafter | 222,110 |
| Total | $ 399,943 |

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## 8. 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 the three months ended September 30, 2015 and 2014 was $6.3 million. Rent expense for the nine months ended September 30, 2015 and 2014 was $19.8 million and $19.7 million, respectively.

***Return of capital.*** On December 13, 2012, the Board of Directors approved a stock repurchase program authorizing the purchase of up to $300.0 million worth of shares of MSCI s common stock beginning immediately and continuing through December 31, 2014 (the 2012 Repurchase Program ).

Prior to 2014, the Company repurchased an aggregate of $200.0 million worth of shares through multiple accelerated share repurchase ( ASR ) agreements under the 2012 Repurchase Program. On February 6, 2014, MSCI utilized the remaining $100.0 million repurchase authorization provided by the 2012 Repurchase Program.

On February 4, 2014, the Board of Directors approved a stock repurchase program authorizing the purchase of up to $300.0 million worth of shares of MSCI s common stock, which was increased to $850.0 million on September 17, 2014 (the 2014 Repurchase Program ). Share repurchases made pursuant to the 2014 Repurchase Program may take place through December 31, 2016 in the open market or in privately negotiated transactions from time to time based on market and other conditions. This authorization may be modified, suspended, terminated or extended by the Board of Directors at any time without prior notice.

On September 18, 2014, as part of the 2014 Repurchase Program, the Company entered into an ASR agreement to initiate share repurchases aggregating $300.0 million (the September 2014 ASR Agreement ). As a result of the September 2014 ASR Agreement, the Company received approximately 4.5 million shares of MSCI s common stock on September 19, 2014 and approximately 1.2 million shares of MSCI s common stock on May 21, 2015 for a combined average price of $52.79 per share.

On June 2, 2015, the Company began purchasing shares of its common stock on the open market in accordance with SEC Rule 10b5-1. Through September 30, 2015, the Company paid $403.4 million to receive approximately 6.5 million shares of its common stock pursuant to 10b5-1 plans for a combined average price of $62.01 per share.

During the quarter ended September 30, 2015, the Company paid $12.1 million to receive approximately 0.2 million shares on the open market as part of the 2014 Repurchase Program. These open market share repurchases were made separate to any repurchases made under any 10b5-1 plans or previously announced ASR agreement.

Since the introduction of the 2014 Repurchase Program and through September 30, 2015, the Company has paid $715.6 million and has received an aggregate of approximately 12.4 million shares under the programs for a combined average price of $57.76 per share.

On September 17, 2014, the Board of Directors approved a plan to initiate a quarterly cash dividend. The Company has declared and paid cash dividends per common share for the periods indicated:

| | Dividends Per Share | Amount (in thousands) |
|---|---|---|
| 2014: | | |
| Fourth quarter | $ 0.18 | $ 20,393 |
| | | |
| 2015: | | |
| First quarter | $ 0.18 | $ 20,411 |
| Second quarter | 0.18 | 20,442 |
| Third quarter | 0.22 | 24,152 |
| | | |
| Total cash dividends declared and paid | $ 0.58 | $ 65,005 |

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***Long-term debt.*** The Company has issued an aggregate principal amount of $1.6 billion senior unsecured notes in two discrete private offerings of $800.0 million each. On November 20, 2014, the Company completed its first private offering of $800.0 million aggregate principal amount of 5.25% senior unsecured notes due 2024 (the 2024 Senior Notes ) and also entered into a $200.0 million senior unsecured revolving credit agreement (the 2014 Revolving Credit Agreement ) by and among the Company, as borrower, certain of its subsidiaries, as guarantors (the subsidiary guarantors ), the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent. The Company used the net proceeds from the offering of the 2024 Senior Notes, together with cash on hand, to repay in full its then outstanding term loan indebtedness of $794.8 million, which bore interest at LIBOR plus a margin of 2.25%.

On August 13, 2015, the Company completed its second private offering of $800.0 million aggregate principal amount of 5.75% senior unsecured notes due 2025 (the 2025 Senior Notes ). The Company intends to use the $789.5 million of net proceeds from the offering of the 2025 Senior Notes for general corporate purposes, including, without limitation, repurchases of its common stock.

The 2024 Senior Notes are scheduled to mature and be paid in full on November 20, 2024. At any time prior to November 15, 2019, the Company may redeem all or part of the 2024 Senior Notes upon not less than 30 nor more than 60 days prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of redemption, plus (iii) accrued and unpaid interest and additional interest, if any, thereon, to the date of redemption. In addition, the Company may redeem all or part of the 2024 Senior Notes, together with accrued and unpaid interest, on or after November 15, 2019, at redemption prices set forth in the indenture governing the 2024 Senior Notes. At any time prior to November 15, 2017, the Company may use the proceeds of certain equity offerings to redeem up to 35% of the aggregate principal amount of the 2024 Senior Notes, including any permitted additional notes, at a redemption price equal to 105.25% of the principal amount.

The 2014 Revolving Credit Agreement has an initial term of five years that may be extended, at the Company s request, for two additional one year terms.

The 2025 Senior Notes are scheduled to mature and be paid in full on August 15, 2025. At any time prior to August 15, 2020, the Company may redeem all or part of the 2025 Senior Notes upon not less than 30 nor more than 60 days prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of redemption, plus (iii) accrued and unpaid interest and additional interest, if any, thereon, to the date of redemption. In addition, the Company may redeem all or part of the 2025 Senior Notes, together with accrued and unpaid interest, on or after August 15, 2020, at redemption prices set forth in the indenture governing the 2025 Senior Notes. At any time prior to August 15, 2018, the Company may use the proceeds of certain equity offerings to redeem up to 35% of the aggregate principal amount of the 2025 Senior Notes, including any permitted additional notes, at a redemption price equal to 105.75% of the principal amount.

Interest on the 2024 Senior Notes accrues at a fixed rate of 5.25% per annum and is payable semiannually in arrears on May 15 and November 15 of each year, to the holders of record as of the immediately preceding May 1 and November 1. The first interest payment of $20.4 million was made on May 15, 2015.

Interest on the 2025 Senior Notes accrues at a fixed rate of 5.75% per annum and is payable semiannually in arrears on February 15 and August 15 of each year, to the holders of record as of the immediately preceding February 1 and August 1. The first interest payment will be made on February 15, 2016.

Long-term debt at September 30, 2015 was $1,578.8 million, net of $21.2 million in deferred financing fees. Long-term debt at December 31, 2014 was $788.4 million, net of $11.6 million in deferred financing fees. See Note 2, Recent Accounting Standards Updates, for further information on the presentation of debt issuance costs in the

Unaudited Condensed Consolidated Statements of Financial Condition.

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In connection with the closing of the 2024 and 2025 Senior Notes offerings and entering into the 2014 Revolving Credit Agreement, the Company paid certain fees which, together with the existing fees related to prior credit facilities, are being amortized over the life of the 2024 and 2025 Senior Notes and the 2014 Revolving Credit Agreement. At September 30, 2015, $23.7 million of the deferred financing fees remain unamortized, $0.6 million of which is included in  Prepaid and other assets,  $1.9 million of which is included in  Other non-current assets  and $21.2 million of which is grouped and presented as part of  Long-term debt  on the Unaudited Condensed Consolidated Statement of Financial Condition.

The Company amortized $0.5 million and $0.4 million of deferred financing fees in interest expense during the three months ended September 30, 2015 and 2014, respectively. The Company amortized $1.4 million and $1.3 million of deferred financing fees in interest expense during the nine months ended September 30, 2015 and 2014, respectively. Approximately $0.1 million and $0.4 million of debt discount was amortized in interest expense during the three and nine months ended September 30, 2014, respectively. There was no unamortized debt discount outstanding as of December 31, 2014.

At September 30, 2015 and December 31, 2014, the fair market value of the Company s debt obligations was $1,620.5 million and $831.0 million, respectively. The fair market value is determined in accordance with accounting standards related to the determination of fair value and represents Level 2 valuations, which are based on one or more quoted prices in markets that are not considered to be active or for which all significant inputs are observable, either directly or indirectly. The Company utilizes the market approach and obtains security pricing from a vendor who uses broker quotes and third-party pricing services to determine fair values.

***Derivatives and Hedging Activities.*** 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 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.

Certain of the Company s foreign operations expose the Company to fluctuations of foreign exchange rates. These fluctuations may impact the value of the Company s cash receipts and payments in terms of the Company s functional currency, the U.S. dollar. The Company enters into derivative financial instruments to protect the value or fix the amount of certain obligations in terms of its functional currency. The Company does not enter into derivative contracts for trading or other speculative purposes.

***Non-designated Hedges of Foreign Exchange Risk.*** Derivatives not designated as hedges are not speculative and are used to manage the Company s economic exposure to foreign exchange rate movements but do not meet the strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of September 30, 2015, the Company had outstanding foreign currency forwards with a notional amount of $19.6 million that were not designated as hedges in qualifying hedging relationships.

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

| **(in thousands)** | **Unaudited Condensed Consolidated Statements of Financial Condition Location** | **As of September 30, 2015** | **As of December 31, 2014** |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Non-designated hedging instruments: | | | |
| Liability derivatives: | | | |
| Foreign exchange contracts | Other accrued liabilities | $ (88) | $ (243) |

The Company s foreign exchange forward contracts were classified within Level 2, as they were valued using pricing models that took into account the contract terms as well as multiple observable inputs where applicable, such as prevailing spot rates and forward points.

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

| **Derivatives Not Designated as Hedging Instruments (in thousands)** | **Location of Gain or (Loss) Recognized in Income on Derivatives** | **Amount of Gain or (Loss) Recognized in Income on Derivatives for the Three Months Ended September 30,** | |
|---|---|---|---|
| | | **2015** | **2014** |
| Foreign exchange contracts | Other expense & income | $ (125) | $ (258) |

| **Derivatives Not Designated as Hedging Instruments (in thousands)** | **Location of Gain or (Loss) Recognized in Income on Derivatives** | **Amount of Gain or (Loss) Recognized in Income on Derivatives for the Nine Months Ended September 30,** | |
|---|---|---|---|
| | | **2015** | **2014** |
| Foreign exchange contracts | Other expense & income | $ 287 | $ (825) |

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## 9. INCOME TAXES

The Company s provision for income taxes was $94.1 million and $81.9 million for the nine months ended September 30, 2015 and 2014, respectively. These amounts reflect effective tax rates of 35.6% and 34.5% for the nine months ended September 30, 2015 and 2014, respectively.

The effective tax rate of 35.6% for the nine months ended September 30, 2015 reflects the Company s estimate of the effective tax rate for the period and was impacted by a change in the mix of profits between tax jurisdictions as well as certain discrete items totaling $0.7 million. These items relate to the benefit recognized on the sale of an investment in which the tax basis and book basis were permanently different, partially offset by an increased liability for state taxes.

The effective tax rate of 34.5% for the nine months ended September 30, 2014 reflects the Company s estimate of such tax rate for the period and was impacted by certain discrete items totaling $3.4 million related to state taxes, the release of reserves associated with certain IRS examinations and certain federal and foreign discrete items related to the filing of such tax returns. The cumulative effect of these discrete items was to decrease the Company s effective tax rate by 1.4 percentage points.

The Company is under examination by the IRS and other tax authorities in certain jurisdictions, including foreign jurisdictions, such as India, and states in which the Company has significant business operations, such as New York. The tax years currently under examination vary by jurisdiction but include years ranging from 2005 through 2014. As a result of having previously been a member of the Morgan Stanley consolidated group, the Company may have future settlements with Morgan Stanley related to the ultimate disposition of their New York State and New York City examination relating to the tax years 2007 and 2008 and their IRS examination relating to the tax years 2006 through 2008. The Company does not believe it has any material exposure to the New York State and New York City examinations. Additionally, the Company believes it has adequate reserves for any tax issues that may arise out of the IRS examination relating to the tax years 2006 through 2008 and therefore does not believe any related settlement with Morgan Stanley will have a material impact.

The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions in which it files income tax returns. The Company has established unrecognized tax benefits that the Company believes are 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. As part of the Company s periodic review of unrecognized tax benefits and based on new information regarding the status of federal and state examinations, the Company s unrecognized tax benefits were remeasured. It is reasonably possible that significant changes in the 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.

## 10. 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 CODM, in deciding how to allocate resources and assess performance. MSCI s Chief Executive Officer, who is considered to be its CODM, reviews financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance.

The CODM measures and evaluates reportable segments based on segment operating revenues as well as adjusted EBITDA and other measures. The Company excludes the following items from segment adjusted EBITDA: income (loss) from discontinued operations, net of income taxes, provision for income taxes, other expense (income), net, depreciation and amortization of property,

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equipment and leasehold improvements, amortization of intangible assets and certain transactions or adjustments that the CODM does not consider for the purposes of making decisions to allocate resources among segments or to assess segment performance. Although these amounts are excluded from segment adjusted EBITDA, they are included in reported consolidated net income and are included in the reconciliation that follows.

The Company s computation of segment adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies because all companies do not calculate segment adjusted EBITDA in the same fashion.

Revenues and expenses directly associated with each 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, including time estimates, headcount, sales targets, data center consumption and other relevant usage measures. Due to the integrated structure of our business, certain costs incurred by one segment may benefit other segments. A segment may use the content and data produced by another segment without incurring an arm s length intersegment charge.

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.

Effective in the quarter ended September 30, 2015, the Company has four operating segments: Index, Analytics, ESG and Real Estate.

The Index operating segment is a provider of investment decision support tools, including equity indexes and equity index benchmarks. The products are used in many areas of the investment process, including portfolio construction and rebalancing, asset allocation, performance benchmarking and attribution, regulatory and client reporting and index-linked investment product creation.

The Analytics operating segment consists of products and services used for portfolio construction, risk management and reporting. The products enable investors to monitor, analyze and report on the risk and return of investments across a variety of asset classes. They are based on proprietary, integrated fundamental multi-factor risk models, value-at-risk methodologies, performance attribution frameworks and asset valuation models. In addition, the Analytics segment includes products that help investors value, model and hedge physical assets and derivatives across a number of market segments, including energy and commodity assets.

The ESG operating segment offers products institutional investors use for assessing risks and opportunities arising from environmental, social and governance issues. ESG tools are used to evaluate both individual securities and investment portfolios.

The Real Estate operating segment is a provider of real estate performance analysis for funds, investors, managers, lenders and occupiers. It provides index products and offers services that include research, reporting and benchmarking.

The operating segments of ESG and Real Estate do not meet the segment reporting thresholds and have been combined and presented as part of All Other for disclosure purposes.

The following table presents operating revenue by the reportable segments results for the periods indicated:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | | |
| **Operating revenues** | | | | |
| Index | $ 141,577 | $ 129,869 | $ 415,262 | $ 374,429 |
| Analytics | 108,341 | 103,247 | 322,756 | 308,661 |
| All Other | 18,853 | 18,545 | 64,102 | 62,485 |
| **Total** | $ 268,771 | $ 251,661 | $ 802,120 | $ 745,575 |

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The following table presents segment profitability and a reconciliation to net income for the periods indicated:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | | |
| Index adjusted EBITDA | $ 102,927 | $ 91,031 | $ 293,997 | $ 259,289 |
| Analytics adjusted EBITDA | 29,216 | 16,788 | 64,560 | 52,345 |
| All Other adjusted EBITDA | (3,282) | (5,867) | (3,774) | (7,185) |
| **Total operating segment profitability** | 128,861 | 101,952 | 354,783 | 304,449 |
| Amortization of intangible assets | 11,710 | 11,574 | 35,107 | 34,286 |
| Depreciation and amortization of property, equipment and leasehold improvements | 8,049 | 6,342 | 23,321 | 18,091 |
| **Operating income** | 109,102 | 84,036 | 296,355 | 252,072 |
| Other expense (income), net | 10,060 | 4,040 | 32,237 | 14,462 |
| Provision for income taxes | 34,644 | 28,272 | 94,079 | 81,937 |
| **Income from continuing operations** | 64,398 | 51,724 | 170,039 | 155,673 |
| Income (loss) from discontinued operations, net of income taxes | | (10) | (5,797) | 84,100 |
| **Net income** | $ 64,398 | $ 51,714 | $ 164,242 | $ 239,773 |

Revenue by geography is based on the shipping address of the ultimate customer utilizing the product. The following table presents revenue by geographic area for the periods indicated:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | | |
| **Operating revenues** | | | | |
| Americas: | | | | |
| United States | $ 128,770 | $ 118,721 | $ 384,443 | $ 347,779 |
| Other | 10,817 | 9,171 | 31,047 | 27,961 |
| Total Americas | 139,587 | 127,892 | 415,490 | 375,740 |
| Europe, the Middle East and Africa ( EMEA ): | | | | |
| United Kingdom | 42,249 | 40,104 | 124,645 | 115,961 |
| Other | 52,564 | 52,067 | 162,873 | 160,695 |

| | | | | |
|---|---|---|---|---|
| Total EMEA | 94,813 | 92,171 | 287,518 | 276,656 |
| Asia & Australia: | | | | |
| Japan | 11,283 | 11,573 | 33,843 | 35,385 |
| Other | 23,088 | 20,025 | 65,269 | 57,794 |
| Total Asia & Australia | 34,371 | 31,598 | 99,112 | 93,179 |
| Total | $ 268,771 | $ 251,661 | $ 802,120 | $ 745,575 |

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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 presents long-lived assets by geographic area on the dates indicated:

| | As of | |
|---|---|---|
| | September 30, 2015 | December 31, 2014 |
| **Long-lived assets** | (in thousands) | |
| Americas: | | |
| United States | $ 1,915,001 | $ 1,944,433 |
| Other | 2,430 | 3,293 |
| Total Americas | 1,917,431 | 1,947,726 |
| EMEA: | | |
| United Kingdom | 113,756 | 120,781 |
| Other | 16,262 | 13,345 |
| Total EMEA | 130,018 | 134,126 |
| Asia & Australia: | | |
| Japan | 639 | 837 |
| Other | 9,906 | 9,917 |
| Total Asia & Australia | 10,545 | 10,754 |
| Total | $ 2,057,994 | $ 2,092,606 |

## 11. SUBSEQUENT EVENTS

On October 28, 2015, the Board of Directors declared a cash dividend of $0.22 per share for fourth quarter 2015. The fourth quarter 2015 dividend is payable on November 30, 2015 to shareholders of record as of the close of trading on November 13, 2015.

On October 28, 2015, the Board of Directors approved a new stock repurchase program authorizing the purchase of up to $1.0 billion worth of shares of MSCI s common stock (the 2015 Repurchase Program ). Share repurchases made pursuant to the 2015 Repurchase Program may take place in the open market or in privately negotiated transactions from time to time based on market and other conditions. This authorization may be modified, suspended, terminated or extended by the Board of Directors at any time without prior notice.

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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 statement of financial condition of MSCI Inc. and its subsidiaries as of September 30, 2015, and the related condensed consolidated statements of income and of comprehensive income for the three-month and nine-month periods ended September 30, 2015 and September 30, 2014 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2015 and September 30, 2014. These interim financial statements are the responsibility of the Company s management.

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of December 31, 2014, and the related consolidated statements of income, of comprehensive income, of shareholders equity and of cash flows for the year then ended (not presented herein), and in our report dated February 27, 2015, 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 information as of December 31, 2014, is fairly stated in all material respects in relation to the consolidated statement of financial condition from which it has been derived.

/s/ PricewaterhouseCoopers LLP

New York, New York

October 30, 2015

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**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, as amended, for the fiscal year ended December 31, 2014 (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, in the Form 10-K.*

**Overview**

For more than 40 years, our research-based models and methodologies have helped the world s leading investors build and manage better portfolios. We believe clients rely on our products and services for deeper insights into the drivers of performance and risk in their portfolios, broad asset class coverage and innovative research and can use our products to help design and implement their investment strategies. Our line of products and services includes indexes, analytical tools, data, real estate benchmarks and environmental, social and governance ( ESG ) research. 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 ), real estate, hedge funds and private wealth; and financial intermediaries, such as banks, broker-dealers, exchanges, custodians and investment consultants. As of September 30, 2015, we had over 6,700 clients across 86 countries. We had offices in 35 cities in 22 countries to help serve our diverse client base, with 51.8% of our revenues coming from clients in the Americas, 35.8% in Europe, the Middle East and Africa ( EMEA ) and 12.4% in Asia and Australia.

Our principal sales model 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, our recurring subscriptions include our managed services offering whereby we oversee the production of risk and performance reports on behalf of our clients. Fees attributable to annual, recurring subscriptions are recorded as deferred revenues on our Unaudited Condensed Consolidated Statement of Financial Condition and are recognized on our Unaudited Condensed Consolidated Statement of Income as the service is rendered. Furthermore, a portion of our revenues comes from clients who use our indexes as the basis for index-linked investment products such as ETFs or 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 also generate revenues from certain exchanges that use our indexes 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. In addition, we generate revenues from subscription agreements for the receipt of periodic benchmark reports, digests and other publications, which are most often associated with our real estate products that are recognized upon delivery of such reports or data updates. We also receive revenues from one-time fees related to implementation, historical or customized reports, advisory and consulting services and from certain products and services that are designed for one-time usage.

In evaluating our financial performance, we focus on revenue and profit growth, including GAAP and non-GAAP measures, for the Company as a whole as well as by operating segment. In addition, we focus on operating metrics, including Run Rates, sales and cancels and retention rates to manage the business. Our business is not highly capital intensive and, as such, we expect to continue to convert a high percentage of our 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 product offerings.

To maintain and accelerate our revenue and profit growth, in recent years we have significantly invested in and expanded 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 (the Enhanced Investment Program ).

The purpose of the Enhanced Investment Program was to maximize our medium-term revenue and profit growth, while at the same time ensuring that MSCI would remain a leading provider of investment decision support tools into the future. As a result, the rate of growth of our investments had, in recent years, exceeded that of our revenues, which had slowed the growth of, or even reduced, our operating profit. For example, for the year ended December 31, 2014, our revenues grew by 9.1% but our operating income decreased by 0.9% compared to the year ended December 31, 2013 due, in part, to increased investment in our business. We completed our Enhanced Investment Program in the year ended December 31, 2014, and have again achieved operating margin expansion in the first nine months of 2015.

Effective in the quarter ended September 30, 2015, we changed our reportable segments to reflect certain changes made to the management of our product lines. This presentation better aligns our financial reporting with how our products and services are offered to our clients and offers additional insight into how we manage the Company. We currently operate as three reportable segments: Index, Analytics and All Other. The All Other segment consists of ESG and Real Estate. See Note 10, Segment Information, in the Notes to the Unaudited Condensed Consolidated