

MSCI Inc.  
Form 10-Q  
July 02, 2010

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

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FORM 10-Q

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

For the quarterly period ended May 31, 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 Number)

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

10005  
(Zip Code)

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

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
x

(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 June 29, 2010, there were 117,796,084 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.

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MSCI INC.  
FORM 10-Q

FOR THE QUARTER ENDED MAY 31, 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](http://www.sec.gov).

MSCI Inc.'s internet site is [www.msicibarra.com](http://www.msicibarra.com). You can access MSCI Inc.'s Investor Relations webpage at [www.msicibarra.com/about/ir](http://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](http://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. Condensed Consolidated Financial Statements

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

|   | As of       |              |
|---|-------------|--------------|
|   | May 31,     | November     |
|   | 2010        | 30,          |
|   | 2009        |              |
|   | (unaudited) |              |
| <b>ASSETS</b>   |             |              |
| Current assets:   |             |              |
| Cash and cash equivalents   | \$ 152,148  | \$ 176,024   |
| Short-term investments  | 61,399      | 295,304      |
| Trade receivables (net of allowances of \$740 and \$847 as of May 31, 2010 and November 30, 2009, respectively)   | 92,530      | 77,180       |
| Deferred taxes  | 23,334      | 24,577       |
| Prepaid and other assets  | 32,975      | 29,399       |
| Total current assets  | 362,386     | 602,484      |
| Property, equipment and leasehold improvements (net of accumulated depreciation of \$30,256 and \$26,498 at May 31, 2010 and November 30, 2009, respectively)   | 25,387      | 29,381       |
| Goodwill  | 441,623     | 441,623      |
| Intangible assets (net of accumulated amortization of \$156,928 and \$148,589 at May 31, 2010 and November 30, 2009, respectively)  | 111,634     | 120,189      |
| Other non-current assets  | 6,901       | 6,592        |
| Total assets  | \$ 947,931  | \$ 1,200,269 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |             |              |
| Current liabilities:  |             |              |
| Accounts payable  | \$ 534      | \$ 1,878     |
| Accrued compensation and related benefits   | 35,200      | 65,088       |
| Other accrued liabilities   | 23,289      | 30,502       |
| Current maturities of long term debt  | 8,245       | 42,088       |
| Deferred revenue  | 181,906     | 152,944      |
| Total current liabilities   | 249,174     | 292,500      |
| Long term debt, net of current maturities   | 62,325      | 337,622      |
| Deferred taxes  | 36,712      | 40,080       |
| Other non-current liabilities   | 23,286      | 23,011       |
| Total liabilities   | 371,497     | 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; 105,701,071 and 105,391,919 class A shares issued and 105,019,494 and 104,781,404 class A shares outstanding at May 31, 2010 and November 30, 2009, | 1,057       | 1,054        |

|   |           |             |
|---|-----------|-------------|
| respectively; no class B shares issued and outstanding at May 31, 2010 and November 30, 2009, respectively) |           |             |
| Treasury shares, at cost (681,577 and 610,515 shares at May 31, 2010 and November 30, 2009, respectively)   | (21,618 ) | (19,168 )   |
| Additional paid in capital  | 465,384   | 448,747     |
| Retained earnings   | 135,598   | 84,013      |
| Accumulated other comprehensive loss  | (3,987 )  | (7,590 )    |
| Total shareholders' equity  | 576,434   | 507,056     |
| Total liabilities and shareholders' equity  | \$947,931 | \$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<br>May 31, |                     | Six Months Ended<br>May 31, |                     |
|---|-------------------------------|---------------------|-----------------------------|---------------------|
|   | 2010<br>(unaudited)           | 2009<br>(unaudited) | 2010<br>(unaudited)         | 2009<br>(unaudited) |
| Operating revenues  | \$ 125,170                    | \$ 109,375          | \$ 246,850                  | \$ 215,290          |
| Cost of services  | 30,463                        | 29,269              | 59,754                      | 58,204              |
| Selling, general and administrative   | 40,177                        | 34,052              | 77,638                      | 68,768              |
| Amortization of intangible assets   | 4,277                         | 6,428               | 8,555                       | 12,857              |
| Depreciation and amortization of property, equipment and leasehold improvements | 3,556                         | 2,972               | 6,949                       | 6,023               |
| Total operating expenses  | 78,473                        | 72,721              | 152,896                     | 145,852             |
| Operating income  | 46,697                        | 36,654              | 93,954                      | 69,438              |
| Interest income   | (343)                         | (220)               | (751)                       | (341)               |
| Interest expense  | 8,991                         | 4,904               | 13,427                      | 10,542              |
| Other expense (income)  | 98                            | (2)                 | (510)                       | 880                 |
| Other expense (income), net   | 8,746                         | 4,682               | 12,166                      | 11,081              |
| Income before provision for income taxes  | 37,951                        | 31,972              | 81,788                      | 58,357              |
| Provision for income taxes  | 13,884                        | 12,354              | 30,203                      | 22,015              |
| Net income  | \$ 24,067                     | \$ 19,618           | \$ 51,585                   | \$ 36,342           |
| Earnings per basic common share   | \$ 0.23                       | \$ 0.19             | \$ 0.48                     | \$ 0.35             |
| Earnings per diluted common share   | \$ 0.22                       | \$ 0.19             | \$ 0.48                     | \$ 0.35             |
| Weighted average shares outstanding used in computing earnings per share        |                               |                     |                             |                     |
| Basic   | 105,345                       | 100,359             | 105,290                     | 100,324             |
| Diluted   | 106,003                       | 100,371             | 105,923                     | 100,330             |

See Notes to Unaudited Condensed Consolidated Financial Statements

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

|   | Six Months Ended<br>May 31, |                     |
|---|-----------------------------|---------------------|
|   | 2010                        | 2009<br>(unaudited) |
| <b>Cash flows from operating activities</b>                                       |                             |                     |
| Net income  | \$ 51,585                   | \$ 36,342           |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |                     |
| Share based compensation  | 10,486                      | 16,714              |
| Amortization of intangible assets   | 8,555                       | 12,857              |
| Depreciation of property, equipment and leasehold improvements                    | 6,949                       | 6,023               |
| Amortization of debt origination fees   | 3,429                       | 716                 |
| Foreign currency loss   | 50                          | 616                 |
| Unpaid interest rate swap expense   | 700                         | —                   |
| Loss on sale or disposal of property, equipment and leasehold improvements, net   | —                           | 274                 |
| Excess tax benefits from share-based compensation                                 | (1,463)                     | —                   |
| Provision for bad debts   | 322                         | 376                 |
| Amortization of discount on U.S. Treasury securities                              | (548)                       | (144)               |
| Amortization of discount on long-term debt  | 500                         | 82                  |
| Deferred taxes  | (4,583)                     | (10,950)            |
| Changes in assets and liabilities:  |                             |                     |
| Trade receivables   | (17,143)                    | (9,350)             |
| Due from related parties  | —                           | 1,765               |
| Prepaid and other assets  | (3,208)                     | 5,880               |
| Accounts payable  | (1,335)                     | 37,205              |
| Payable to related parties  | —                           | (34,992)            |
| Deferred revenue  | 32,834                      | 29,963              |
| Accrued compensation and related benefits   | (26,973)                    | (21,892)            |
| Other accrued liabilities   | (2,215)                     | (2,387)             |
| Other   | (2,838)                     | 59                  |
| <b>Net cash provided by operating activities</b>                                  | <b>55,104</b>               | <b>69,157</b>       |
| <b>Cash flows from investing activities</b>                                       |                             |                     |
| Proceeds from redemption of short-term investments                                | 347,114                     | —                   |
| Purchase of investments   | (112,556)                   | (244,734)           |
| Capital expenditures  | (4,696)                     | (9,519)             |
| <b>Net cash provided by (used in) investing activities</b>                        | <b>229,862</b>              | <b>(254,253)</b>    |
| <b>Cash flows from financing activities</b>                                       |                             |                     |
| Repayment of long-term debt   | (309,640)                   | (11,125)            |
| Repurchase of treasury shares   | (2,450)                     | (605)               |
| Proceeds from exercise of stock options   | 2,214                       | 30                  |
| Excess tax benefits from share-based compensation                                 | 1,463                       | —                   |
| <b>Net cash used in financing activities</b>                                      | <b>(308,413)</b>            | <b>(11,700)</b>     |
| Effect of exchange rate changes   | (429)                       | 1,488               |
| <b>Net decrease in cash</b>   | <b>(23,876)</b>             | <b>(195,308)</b>    |



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|   |            |           |
|---|------------|-----------|
| Cash and cash equivalents, beginning of period                              | 176,024    | 268,077   |
| Cash and cash equivalents, end of period                                    | \$ 152,148 | \$ 72,769 |
| Supplemental disclosure of cash flow information                            |            |           |
| Cash paid for interest  | \$ 8,559   | \$ 9,802  |
| Cash paid for income taxes  | \$ 36,964  | \$ 26,121 |
| Supplemental disclosure of non-cash investing activities                    |            |           |
| Property, equipment and leasehold improvements in other accrued liabilities | \$ 3,405   | \$ 2,449  |

See Notes to Unaudited Condensed Consolidated Financial Statements

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 leading global provider of investment decision support tools, including indices and portfolio risk and performance analytics. MSCI products and services include indices, portfolio risk and performance analytics and, following the acquisition discussed below, governance tools. The Company’s flagship products are its global equity indices marketed under the MSCI brand, its equity portfolio analytics marketed under the Barra brand and its energy and commodity asset valuation analytics products marketed under the FEA brand.

On June 1, 2010, MSCI completed its acquisition of RiskMetrics Group, Inc. (“RiskMetrics”) in a cash-and-stock transaction valued at approximately \$1,572.4 million. With the acquisition of RiskMetrics, MSCI expanded its primary product offerings to include market and credit risk analytics products marketed under the RiskMetrics brand, out-sourced proxy research voting and vote reporting services marketed under the ISS brand, and forensic accounting risk research, legal/regulatory risk assessment and due diligence products marketed under the CFRA brand.

Certain actions taken and costs incurred in connection with acquisition of RiskMetrics prior to the acquisition closing date are reflected in these condensed consolidated financial statements. However, the assets acquired and liabilities assumed and the results of operations from RiskMetrics are not reflected in these condensed consolidated financial statements as of and for the three and six months ended May 31, 2010. (See Note 15. “Acquisition of RiskMetrics Group, Inc.” for additional information.)

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 May 31, 2010 and November 30, 2009, the results of operations for the three and six months ended May 31, 2010 and 2009 and cash flows for the six months ended May 31, 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 Statements of Income for the three and six months ended May 31, 2009 reflect expense allocations for certain corporate functions previously 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.

#### 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.

MSCI INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Financial instruments that may potentially subject the Company to concentrations of credit risk consist principally of cash deposits and short-term investments. At May 31, 2010 and November 30, 2009, cash and cash equivalents held primarily on deposit were \$152.1 million and \$176.0 million, respectively. At May 31, 2010 and November 30, 2009, the Company had invested \$61.4 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 May 31, 2010, BlackRock Inc. accounted for 12.4% of the Company's operating revenues. For the six months ended May 31, 2010, BlackRock Inc. accounted for 12.5% of the Company's operating revenues. For the three and six months ended May 31, 2009, no single customer accounted for 10.0% or more of the Company's operating revenues.

## 2. RECENT ACCOUNTING STANDARDS UPDATES

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 for both the three and six months ended May 31, 2009 and reduced diluted EPS by \$0.01 for the six months ended May 31, 2009. The Company's adoption of this accounting guidance had no effect on diluted EPS for the three months ended May 31, 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 a U.S. Securities and Exchange Commission ("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 was effective immediately for the Company. The adoption of ASU 2010-09 did not have a material impact on its condensed consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-12, "Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts," or ASU 2010-12. This update clarifies questions surrounding the accounting implications of the different signing dates of the Health Care and Education Reconciliation Act (signed March 30, 2010) and the Patient Protection and Affordable Care Act (signed March 23, 2010). ASU 2010-12 states that the FASB and the Office of the Chief Accountant at the SEC would not be opposed to viewing the two Acts together for accounting purposes. The adoption of ASU 2010-12 did not have a material impact on its condensed consolidated financial statements.

MSCI INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

## 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 or six months ended May 31, 2010. There were no anti-dilutive stock options excluded from the calculation of diluted EPS for the three months ended May 31, 2009. There were 1,038,170 stock options excluded from the calculation of diluted EPS for the six months ended May 31, 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:

|  | Three Months Ended                    |           | Six Months Ended |           |
|--|---------------------------------------|-----------|------------------|-----------|
|  | May 31,<br>2010                       | 2009      | May 31,<br>2010  | 2009      |
|  | (in thousands, except per share data) |           |                  |           |
| Net income   | \$ 24,067                             | \$ 19,618 | \$ 51,585        | \$ 36,342 |
| Less: Allocations of earnings to unvested restricted stock units<br>(1)            | (337)                                 | (569)     | (722)            | (1,054)   |
| Earnings available to MSCI common shareholders                                     | \$ 23,730                             | \$ 19,049 | \$ 50,863        | \$ 35,288 |
| Basic weighted average common shares outstanding                                   | 105,345                               | 100,359   | 105,290          | 100,324   |
| Basic weighted average common shares outstanding<br>Effect of dilutive securities: |                                       |           |                  |           |
| Stock options  | 658                                   | 12        | 633              | 6         |
| Diluted weighted average common shares outstanding                                 | 106,003                               | 100,371   | 105,923          | 100,330   |
| Earnings per basic common share  | \$ 0.23                               | \$ 0.19   | \$ 0.48          | \$ 0.35   |
| Earnings per diluted common share  | \$ 0.22                               | \$ 0.19   | \$ 0.48          | \$ 0.35   |

(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:

|   | Three Months Ended May 31, |           | Six Months Ended May 31, |           |
|---|----------------------------|-----------|--------------------------|-----------|
|   | 2010                       | 2009      | 2010                     | 2009      |
|   | (in thousands)             |           |                          |           |
| Net income  | \$ 24,067                  | \$ 19,618 | \$ 51,585                | \$ 36,342 |
| Other comprehensive income (loss), before tax:                              |                            |           |                          |           |
| Unrealized gains (losses) on cash flow hedges                               | 4,191                      | (1,089)   | 5,379                    | (2,533)   |
| Pension and other post-retirement adjustments                               | 104                        | 336       | 206                      | 257       |
| Unrealized gains (losses) on available-for-sale securities                  | (210)                      | —         | 3                        | —         |
| Foreign currency translation adjustments                                    | (200)                      | 254       | 274                      | 355       |
| Other comprehensive income (loss), before tax                               | 3,885                      | (499)     | 5,862                    | (1,921)   |
| Income tax (expense) benefit related to items of other comprehensive income | (1,524)                    | 156       | (2,259)                  | 672       |
| Other comprehensive income (loss), net of tax                               | 2,361                      | (343)     | 3,603                    | (1,249)   |
| Comprehensive income  | \$ 26,428                  | \$ 19,275 | \$ 55,188                | \$ 35,093 |

MSCI INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

## 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 May 31, 2010 were as follows:

| (in thousands)                     | Amortized<br>Cost plus<br>Accrued<br>Interest | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>Fair<br>value |
|------------------------------------|---|------------------------------|-------------------------------|----------------------------|
| Debt securities available-for-sale |   |                              |                               |                            |
| U.S. Treasury securities           | \$ 57,466                                     | \$ 5                         | \$ (2)                        | \$ 57,469                  |
| State and municipal securities     | 3,930   | —                            | —                             | 3,930                      |
| Total                              | \$ 61,396                                     | \$ 5                         | \$ (2)                        | \$ 61,399                  |

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<br>Carrying<br>Value | Gross<br>unrecognized<br>gains | Gross<br>unrecognized<br>losses | Estimated<br>Fair<br>value |
|----------------------------------|--------------------------|--------------------------------|---------------------------------|----------------------------|
| Debt securities held-to-maturity |                          |                                |                                 |                            |
| U.S. Treasury securities         | \$ 295,304               | \$ 264                         | \$ —                            | \$ 295,568                 |
| State and municipal securities   | —                        | —                              | —                               | —                          |
| Total                            | \$ 295,304               | \$ 264                         | \$ —                            | \$ 295,568                 |



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Unrealized Losses on Investments

Investments with continuous unrealized losses for less than 12 months and for 12 months or greater and their related fair values at May 31, 2010 were as follows:

| (in thousands)                 | Less than 12 Months |                   | 12 Months or Greater |                   | Total            |                         |
|--------------------------------|---------------------|-------------------|----------------------|-------------------|------------------|-------------------------|
|                                | Fair Value          | Unrealized Losses | Fair Value           | Unrealized Losses | Total Fair Value | Total Unrealized Losses |
| U.S. Treasury securities       | \$ 28,090           | \$ (2)            | \$ —                 | \$ —              | \$ 28,090        | \$ (2)                  |
| State and municipal securities | —                   | —                 | —                    | —                 | —                | —                       |
| Total                          | \$ 28,090           | \$ (2)            | \$ —                 | \$ —              | \$ 28,090        | \$ (2)                  |

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 costs at the balance sheet date, the Company assesses whether the impairments are other than temporary. As the Company currently invests only in U.S. Treasury 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 May 31, 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 and six months ended May 31, 2009 were \$2.5 million and \$5.3 million, respectively.

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 and six months ended May 31, 2009 were \$0.6 million and \$5.8 million, respectively. Interest expense incurred on payables to Morgan Stanley for the three and six months ended May 31, 2009 was \$0.2 million and \$0.4 million, respectively.

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## 7. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements at May 31, 2010 and November 30, 2009 consisted of the following:

|   | As of          |           |
|---|----------------|-----------|
|   | May 31,        | November  |
|   | 2010           | 30,       |
|   | 2009           |           |
|   | (in thousands) |           |
| Computer & related equipment                        | \$ 37,029      | \$ 38,773 |
| Furniture & fixtures                                | 2,918          | 3,004     |
| Leasehold improvements                              | 14,978         | 13,947    |
| Work-in-process                                     | 718            | 155       |
| Subtotal  | 55,643         | 55,879    |
| Accumulated depreciation and amortization           | (30,256)       | (26,498)  |
| Property, equipment and leasehold improvements, net | \$ 25,387      | \$ 29,381 |

Depreciation and amortization expense of property, equipment and leasehold improvements was \$3.6 million and \$3.0 million for the three months ended May 31, 2010 and 2009, respectively. Depreciation and amortization expense of property, equipment and leasehold improvements was \$6.9 million and \$6.0 million for the six months ended May 31, 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.

Amortization expense related to intangible assets for the three months ended May 31, 2010 and 2009 was \$4.3 million and \$6.4 million, respectively. Amortization expense related to intangible assets for the six months ended May 31, 2010 and 2009 was \$8.6 million and \$12.9 million, respectively.

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

|                        | Gross<br>Carrying<br>Value | Accumulated<br>Amortization<br>(in thousands) | Net<br>Carrying<br>Value |
|------------------------|----------------------------|---|--------------------------|
| As of May 31, 2010     |                            |   |                          |
| Technology/software    | \$ 140,462                 | \$ (114,139)                                  | \$ 26,323                |
| Trademarks             | 102,220                    | (28,973)                                      | 73,247                   |
| Customer relationships | 25,880                     | (13,816)                                      | 12,064                   |

|                         |            |              |            |
|-------------------------|------------|--------------|------------|
| Total intangible assets | \$ 268,562 | \$ (156,928) | \$ 111,634 |
|-------------------------|------------|--------------|------------|

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|                         | Gross<br>Carrying<br>Value | Accumulated<br>Amortization<br>(in thousands) | Net<br>Carrying<br>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               |

The estimated amortization expense for succeeding years is presented below:

| Fiscal Year  | Amortization<br>Expense<br>(in thousands) |
|--------------|---|
| Remainder of |   |
| 2010         | \$ 8,556                                  |
| 2011         | 17,111                                    |
| 2012         | 17,110                                    |
| 2013         | 6,582                                     |
| 2014         | 6,582                                     |
| Thereafter   | 55,693                                    |
| Total        | \$ 111,634                                |

## 9. COMMITMENTS AND CONTINGENCIES

**Leases.** The Company leases facilities under non-cancelable operating lease agreements. The terms of certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on the straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Rent expense for the three and six months ended May 31, 2010 was \$2.9 million and \$5.6 million, respectively. For the three and six months ended May 31, 2009, rent expense was \$2.4 million and \$5.0 million, respectively.

**Long-term debt.** On November 14, 2007, the Company entered into a secured \$500.0 million credit facility with Morgan Stanley Senior Funding, Inc. and Bank of America, N.A., as agents for a syndicate of lenders, and other lenders party thereto pursuant to a credit agreement dated as of November 20, 2007 (the "Credit Facility"). The Credit Facility 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) the London Interbank Offered Rate ("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 term loan A facility and the term loan B facility were scheduled to mature on November 20, 2012 and November 20, 2014, respectively. The revolving credit facility was scheduled to mature on November 20, 2012.

On April 1, 2010 and April 15, 2010, the Company prepaid principal balances on its term loan facility of approximately \$147.0 million and \$150.0 million, respectively. As of May 31, 2010, \$70.9 million remained 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 each of the three months ended May 31, 2010 and 2009 and approximately \$0.2 million for each of the six months ended May 31, 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 were being amortized over five to seven years. As a result of the prepayments described above, the Company recognized approximately \$2.7 million in accelerated amortization of the origination fees during the three months ended May 31, 2010. At May 31, 2010, \$1.7 million of the origination fees remained unamortized.

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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 May 31, 2010 was \$8.2 million, net of a \$0.1 million discount. Long term debt, net of current maturities at May 31, 2010 was \$62.3 million, net of a \$0.2 million discount. For the three and six months ended May 31, 2010, approximately \$0.5 million of the debt discount had been amortized. For the three and six months ended May 31, 2009, less than \$0.1 million of the debt discount had been amortized.

At May 31, 2010, the fair market value of the Company's debt obligations was approximated by its carrying value. The fair market value was estimated based on the termination value paid on June 1, 2010. (See Note 16, "Subsequent Events," for further information.)

**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 two interest rate swap agreements for an aggregate notional principal amount of \$251.7 million, amortizing through November 2010, that were designated as cash flow hedges of interest rate risk. The Company's interest rate swaps are recorded as assets or liabilities at fair value. The effective portion of the changes in fair value of interest rate swaps designated, and that qualify as, cash flow hedges is initially recorded as a component of accumulated other comprehensive loss on the Condensed Consolidated Statements of Financial Condition and is subsequently reclassified into interest expense on the Condensed Consolidated Statements of Income in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

On April 15, 2010, MSCI prepaid a portion of its existing term loan facilities that was being hedged with its interest rate swaps. As a result, MSCI fully terminated one of its interest rate swaps and partially terminated the other interest rate swap to match the remaining projected debt balances outstanding under the existing term loan facilities terms through November 2010.

On April 15, 2010, MSCI discontinued prospective hedge accounting on the terminated swap notional amounts and the loss in accumulated other comprehensive loss on the Condensed Consolidated Statements of Financial Condition as of the termination date relating to the terminated swap contract amounts was reclassified to earnings in interest expense on the Condensed Consolidated Statements of Income as the hedged transactions were no longer probable to occur. The Company also discontinued prospective hedge accounting on the remaining swap contract at April 15, 2010 as it no longer met the strict requirements for hedge accounting.

At May 31, 2010, the Company planned to prepay the remaining portion of its existing term loan facilities and terminate the remaining swap contract on June 1, 2010. Because the hedged transactions were no longer probable to occur, the remaining loss in accumulated other comprehensive loss on the Condensed Consolidated Statements of Financial Condition was reclassified to interest expense on the Condensed Consolidated Statements of Income on May 31, 2010. (See Note 16, "Subsequent Events," for further information.)

The gross carrying values of the interest rate contracts as of May 31, 2010 and 2009 were \$0.7 million and \$6.2 million, respectively, and were recorded in other accrued liabilities on the Condensed Consolidated Statements of Financial Condition.

For the three and six months ended May 31, 2010, the amount of loss recognized on the effective portion of these interest rate contracts in accumulated other comprehensive loss on the Condensed Consolidated Statements of Financial Condition was less than \$0.1 million and \$0.3 million, respectively. For the three and six months ended May 31, 2009, the amount of loss recognized on the effective portion of these interest rate contracts in accumulated other comprehensive loss on the Condensed Consolidated Statements of Financial Condition was \$1.1 million and \$2.5 million, respectively.

For the three and six months ended May 31, 2010, the amount of loss on the effective portion of these interest rate contracts reclassified from accumulated other comprehensive loss into interest expense on the Condensed Consolidated Statements of Income was \$1.0 million and \$2.5 million, respectively. For the three and six months ended May 31, 2009, the



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amount of loss on the effective portion of these interest rate contracts reclassified from accumulated other comprehensive loss into interest expense on the Condensed Consolidated Statements of Income was \$1.0 million and \$1.4 million, respectively.

During the three months ended May 31, 2010, the Company accelerated the reclassification of amounts in accumulated other comprehensive loss to earnings as a result of the hedged forecasted transactions becoming probable not to occur. The accelerated amounts were a loss of \$3.1 million and were included in interest expense on the Condensed Consolidated Statements of Income. No hedge ineffectiveness was recorded for the three and six months ending May 31, 2010 and 2009.

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

As of May 31, 2010, the fair value of derivatives in a liability position related to these agreements was \$0.7 million. As of May 31, 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 \$0.7 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 May 31, 2010 and 2009, costs relating to 401(k), pension and post-retirement benefit expenses were \$1.8 million and \$1.4 million, respectively. Of these amounts, \$0.9 million and \$0.7 million were recorded in cost of services and \$0.9 million and \$0.7 million were recorded in selling, general and administrative for the three months ended May 31, 2010 and 2009, respectively.

For the six months ended May 31, 2010 and 2009, costs relating to 401(k), pension and post-retirement benefit expenses were \$4.4 million and \$4.5 million, respectively. Of these amounts, \$2.5 million and \$2.2 million were recorded in cost of services and \$1.9 million and \$2.3 million were recorded in selling, general and administrative for the six months ended May 31, 2010 and 2009, 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 May 31, 2010 and 2009 were \$1.2 million and \$1.1 million, respectively. The Company's expenses associated with the 401(k) plan and other defined contribution plans for the six months ended May 31, 2010 and 2009 were \$3.3 million and \$3.4 million, respectively.

Net Periodic Benefit Expense. Net periodic benefit expense related to defined benefit pension plans was \$0.6 million and \$0.3 million for the three months ended May 31, 2010 and 2009, respectively. Net periodic benefit expense related to defined benefit pension plans was \$1.1 million for each of the six months ended May 31, 2010 and 2009.

## 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. 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,

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the Company accrued the estimated cost of the 2008 Bonus Award related to retirement-eligible employees 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. The Company accrued the estimated cost of the 2009 Bonus Award granted to retirement-eligible employees over the 2009 fiscal year.

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.

During the six months ended May 31, 2010, the Company awarded 8,427 shares in MSCI common stock and 8,286 restricted stock units to directors who were not employees of the Company or Morgan Stanley during the period. During the six months ended May 31, 2009, the Company awarded 13,703 shares in MSCI common stock and 7,824 restricted stock units to directors who were not employees of the Company or Morgan Stanley during the period.

Share based compensation expense was \$5.4 million and \$10.5 million for the three and six months ended May 31, 2010, of which \$2.0 million and \$4.1 million was related to the Founders Grant Award, respectively. Share based compensation expense was \$9.0 million and \$16.7 million for the three and six months ended May 31, 2009, of which \$7.3 million and \$13.5 million was related to the Founders Grant Award, respectively.

## 12. INCOME TAXES

The Company's provision for income taxes was \$30.2 million and \$22.0 million for the six months ended May 31, 2010 and 2009, respectively. These amounts reflect effective tax rates of 36.9% and 37.7% for the six months ended May 31, 2010 and 2009, respectively. The Company's effective tax rate of 36.9% for the six months ended May 31, 2010 reflects the Company's estimate of the annual effective tax rate adjusted for the impact of the costs related to the acquisition of RiskMetrics, which are not tax deductible, and net discrete tax benefits recognized during the period.

The Company is under examination by the Internal Revenue Service (the "IRS") and other tax authorities in certain countries, such as Japan and the United Kingdom, and states in which the Company has significant business operations, such as New York. The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions resulting from these open examinations and subsequent years' examinations. The Company believes the resolution of tax matters will not have a material effect on the 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:

| 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

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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:

|                        | Three Months Ended |              | Six Months Ended |                |
|------------------------|--------------------|--------------|------------------|----------------|
|                        | May 31, 2010       | May 31, 2009 | May 31, 2010     | May 31, 2009   |
|                        |                    |              |                  | (in thousands) |
| Revenues               |                    |              |                  |                |
| Americas:              |                    |              |                  |                |
| United States          | \$ 56,278          | \$ 53,070    | \$ 116,436       | \$ 103,093     |
| Other                  | 4,288              | 3,496        | 8,148            | 6,876          |
| Total Americas         | 60,566             | 56,566       | 124,584          | 109,969        |
| EMEA:                  |                    |              |                  |                |
| United Kingdom         | 20,127             | 13,368       | 34,108           | 26,944         |
| Other                  | 23,219             | 21,416       | 46,646           | 42,113         |
| Total EMEA             | 43,346             | 34,784       | 80,754           | 69,057         |
| Asia & Australia:      |                    |              |                  |                |
| Japan                  | 11,305             | 9,982        | 21,915           | 20,352         |
| Other                  | 9,953              | 8,043        | 19,597           | 15,912         |
| Total Asia & Australia | 21,258             | 18,025       | 41,512           | 36,264         |
| Total                  | \$ 125,170         | \$ 109,375   | \$ 246,850       | \$ 215,290     |

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:

|                   | As of        |                   |
|-------------------|--------------|-------------------|
|                   | May 31, 2010 | November 30, 2009 |
| Long-lived assets |              |                   |
|                   |              | (in thousands)    |

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|                                   |                   |                   |
|-----------------------------------|-------------------|-------------------|
| Americas:                         |                   |                   |
| United States                     | \$ 560,604        | \$ 571,052        |
| Other                             | 1,952             | 672               |
| <b>Total Americas</b>             | <b>562,556</b>    | <b>571,724</b>    |
| EMEA:                             |                   |                   |
| United Kingdom                    | 2,199             | 1,488             |
| Other                             | 8,196             | 11,997            |
| <b>Total EMEA</b>                 | <b>10,395</b>     | <b>13,485</b>     |
| Asia & Australia:                 |                   |                   |
| Japan                             | 435               | 503               |
| Other                             | 5,258             | 5,481             |
| <b>Total Asia &amp; Australia</b> | <b>5,693</b>      | <b>5,984</b>      |
| <b>Total</b>                      | <b>\$ 578,644</b> | <b>\$ 591,193</b> |

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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. ACQUISITION OF RISKMETRICS GROUP, INC.

On June 1, 2010, MSCI acquired RiskMetrics. Under the terms of the Agreement and Plan of Merger dated as of February 28, 2010 by and among MSCI, Crossway Inc. (“Merger Sub”), a wholly owned subsidiary of MSCI, and RiskMetrics, Merger Sub merged with and into RiskMetrics, with RiskMetrics continuing as the surviving corporation and a wholly owned subsidiary of MSCI. MSCI and RiskMetrics began joint operations immediately after the Merger became effective. MSCI acquired RiskMetrics to, among other things, offer clients a more comprehensive portfolio of investment decision support tools that will enable clients to understand risk across their entire investment processes as well as broaden the focus of the Company’s client base beyond asset owners, asset managers and broker dealers to include a greater number of hedge fund, mutual fund and bank clients. No financial results of RiskMetrics have been included in the Company’s condensed financial statements as of, or for the three or six months ended, May 31, 2010.

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

(in thousands)

|  |                     |
|--|---------------------|
| Cash   | \$ 1,146,699        |
| MSCI class A common stock valued using the New York Stock Exchange closing price on June 1, 2010                     | 371,817             |
| Preliminary fair value of outstanding vested and unvested stock options and unvested restricted stock awards assumed | 53,904              |
| <b>Total preliminary purchase price</b>  | <b>\$ 1,572,420</b> |

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

The preliminary fair values of stock options assumed were estimated using a Hull-White Lattice option-pricing model. The preliminary fair value of the unearned portion of the unvested RiskMetrics stock options and restricted stock awards will be recorded as operating expense over the remaining service periods, while the preliminary fair values of the earned portion of the vested and unvested stock options and unvested restricted stock awards are included in the total purchase price. The preliminary purchase price for RiskMetrics is subject to change during the measurement period as MSCI finalizes the number of RiskMetrics common shares outstanding that it purchased, validates the conversion calculations of RiskMetrics stock options and restricted stock awards assumed, and finalizes the proportion of such stock options and restricted stock awards assumed that are earned as of the acquisition date.

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(UNAUDITED)

## Preliminary Purchase Price Allocation

The acquisition method of accounting is based on ASC Subtopic 805-10, "Business Combinations," and uses the fair value concepts defined in ASC Subtopic 820-10, "Fair Value Measurements and Disclosures," which MSCI has adopted as required. The total preliminary purchase price for RiskMetrics was allocated to the preliminary net tangible and intangible assets based upon their preliminary fair values as of June 1, 2010 as set forth below. The excess of the preliminary purchase price over the preliminary net tangible assets and preliminary intangible assets was recorded as goodwill. The preliminary allocation of the purchase price was based upon a preliminary valuation and the estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of certain tangible assets acquired and liabilities assumed, the valuation of intangible assets acquired, certain legal matters, income and non-income based taxes and residual goodwill. MSCI expects to continue to obtain information to assist it in determining the fair value of the net assets acquired at the acquisition date during the measurement period. The preliminary purchase price allocation for RiskMetrics is as follows:

(in thousands)

|   |                    |
|---|--------------------|
| Cash and cash equivalents               | \$76,459           |
| Trade receivables                       | 33,577             |
| Other assets                            | 36,203             |
| Intangible assets                       | 622,667            |
| Goodwill                                | 1,252,036          |
| Accounts payable and other liabilities  | (42,139 )          |
| Debt                                    | (107,485 )         |
| Deferred revenues                       | (115,526 )         |
| Deferred tax liabilities, net           | (183,372 )         |
| <b>Total preliminary purchase price</b> | <b>\$1,572,420</b> |

MSCI generally does not expect the goodwill recognized to be deductible for income tax purposes.

## Preliminary Valuations of Intangible Assets Acquired

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

|  | Estimated Fair Value<br>(in thousands) | Estimated Useful Life |
|--|--|-----------------------|
| Customer relationships—finite-lived        | \$ 424,500                             | 13 to 15 years        |
| Developed technology—finite-lived          | 51,200                                 | 4 to 7 years          |
| Proprietary processes—finite-lived         | 4,900                                  | 6 years               |
| Trade names—finite-lived                   | 138,700                                | 10 to 20 years        |
| Internally developed software—finite-lived | 787                                    | 3 years               |
| Non-compete agreements—finite-lived        | 2,580                                  | 1.5 years             |
| <b>Total</b>                               | <b>\$ 622,667</b>                      |                       |



Preliminary Pre-Acquisition Contingencies Assumed

MSCI has evaluated and continues to evaluate pre-acquisition contingencies relating to RiskMetrics that existed as of the acquisition date. MSCI has preliminarily determined that certain of these pre-acquisition contingencies are probable in nature and estimable as of the acquisition date and, accordingly, have preliminarily recorded the best estimates for these contingencies as a part of the preliminary purchase price allocation for RiskMetrics. MSCI continues to gather information

## MSCI INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

for, and evaluate substantially all, pre-acquisition contingencies that have been assumed from RiskMetrics. If MSCI makes changes to the amounts recorded or identifies additional pre-acquisition contingencies during the remainder of the measurement period, such amounts recorded will be included in the purchase price allocation during the measurement period and, subsequently, in MSCI's results of operations.

## Unaudited Pro Forma Financial Information

The unaudited pro forma financial information in the table below summarizes the combined results of operations for MSCI and RiskMetrics as though the companies were combined as of December 1, 2008. The pro forma financial information for all periods presented also includes the business combination accounting effects resulting from the acquisition including the amortization charges from acquired intangible assets (certain of which are preliminary), adjustments to interest income for lower average cash balances, interest expense for borrowings and the amortization of deferred financing fees, debt discounts and prepaid agency fees, the elimination of certain goodwill impairment charges incurred by RiskMetrics and the related tax effects as though the aforementioned companies were combined as of December 1, 2008. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions and any borrowings undertaken to finance the acquisition had taken place at December 1, 2008.

The unaudited pro forma financial information for the six months ended May 31, 2010 combined the historical results of MSCI for the six months ended May 31, 2010 and the historical results of RiskMetrics for the six month-period ended March 31, 2010 (due to differences in reporting periods). The unaudited pro forma financial information for the six months ended May 31, 2009 combined the historical results of MSCI for the six months ended May 31, 2009 and the historical results of RiskMetrics for the six month-period ended March 31, 2009 (due to differences in reporting periods).

The unaudited pro forma financial information and the effects of the pro forma adjustments listed above were as follows for the six months ended May 31, 2010 and 2009:

| (in thousands)                    | Six Months Ended<br>May 31, |           |
|-----------------------------------|-----------------------------|-----------|
|                                   | 2010                        | 2009      |
| Total revenues                    | \$400,368                   | \$368,164 |
| Net income                        | \$59,626                    | \$39,474  |
| Earnings per diluted common share | \$0.49                      | \$0.33    |

## 16. SUBSEQUENT EVENTS

Management of the Company evaluated subsequent events from May 31, 2010 through the issuance date of this Form 10-Q.

On June 1, 2010, MSCI acquired RiskMetrics. (See Note 15, "Acquisition of RiskMetrics Group, Inc.," for further information.) In connection with the acquisition, MSCI entered into a senior secured credit agreement dated as of June 1, 2010 with Morgan Stanley Senior Funding, Inc., as administrative agent, Morgan Stanley & Co. Incorporated, as collateral agent, and the other lenders party thereto, which is comprised of (i) a \$1,275.0 million six-year term loan

facility and (ii) a \$100.0 million five-year revolving credit facility. Principal on the term loan facility is expected to be paid at 1.00% per year plus a portion of MSCI's excess cash flows (as defined in the agreement and depending on its leverage ratio), with remaining principal payable in the final year. Borrowings under the credit facilities bear interest at a rate equal to the greater of LIBOR, or 1.50%, plus a margin of 3.25%, which margin, beginning a specified period after the acquisition, will be subject to adjustment based on MSCI's leverage ratio.

In connection with entering into the senior secured credit agreement described above, MSCI paid \$71.1 million on June 1, 2010 to retire its then-existing term loan facility plus accrued interest and \$0.7 million to retire its interest rate swap and accrued interest. (See Note 9, "Commitments and Contingencies," for further information.)

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 May 31, 2010, and the related condensed consolidated statements of income for the three and six month periods ended May 31, 2010 and 2009, and the condensed consolidated statements of cash flows for the six month periods ended May 31, 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  
July 1, 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. Our products and services include indices, portfolio risk and performance analytics, and, following the acquisition discussed below, governance tools. Our flagship products are our global equity indices marketed under the MSCI brand, our equity portfolio analytics marketed under the Barra brand and our energy and commodity asset valuation analytics products marketed under the FEA brand. Certain products and services added as the result of the acquisition of RiskMetrics Group, Inc. ("RiskMetrics") are discussed below.

As of May 31, 2010 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 May 31, 2010, we had over 3,200 clients across 66 countries. We had 21 offices in 15 countries to help serve our diverse client base, with approximately 50.5% of our revenue from clients in the Americas, 32.7% in Europe, the Middle East and Africa ("EMEA"), 8.9% in Japan and 7.9% in Asia-Pacific (not including Japan), based on revenues for the six months ended May 31, 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. 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.

#### Acquisition of RiskMetrics Group, Inc.

On June 1, 2010, MSCI completed its acquisition of RiskMetrics in a cash-and-stock transaction valued at approximately \$1,572.4 million. In connection with the acquisition, we entered into a senior secured credit agreement, which

is comprised of (i) a \$1,275.0 million six-year term loan facility and (ii) a \$100.0 million five-year revolving credit facility. See “—Liquidity and Capital Resources” below for additional information.

RiskMetrics is a leading provider of risk management and corporate governance products and services to participants in the global financial markets. With the acquisition of RiskMetrics, the Company now offers clients a more comprehensive portfolio of investment decision support tools that will enable clients to understand risk across their entire investment processes, with product offerings including the MSCI indices which include over 120,000 daily indices covering more than 70 countries; Barra portfolio risk and performance analytics covering global equity and fixed income markets; RiskMetrics market and credit risk analytics; ISS out-sourced proxy research, voting and vote reporting services; CFRA forensic accounting risk research, legal/regulatory risk assessment, and due-diligence; and FEA valuation models and risk management software for the energy and commodities markets. The acquisition of RiskMetrics also broadens the focus of the Company’s client base beyond asset owners, asset managers and broker dealers to include a greater number of hedge fund, mutual fund and bank clients.

For the year ended November 30, 2009, we had total operating revenues of \$442.9 million and operating expenses of \$292.0 million. For the year ended December 31, 2009, RiskMetrics had total operating revenues of \$303.4 million and operating expenses of \$236.4 million. We will assign a significant value to the intangible assets of RiskMetrics as part of the acquisition, which will increase the amortization expense we will recognize. We also expect to incur increased interest expense as a result of the credit facility we entered into in connection with acquisition. We therefore expect that the acquisition of RiskMetrics will have a significant impact on our financial results in future periods. Additionally, we may have additional exposure to foreign currency risk following the acquisition as a result of the subsequent change in the relative mix of our non-U.S. dollar revenues and expenses.

As part of the acquisition, we increased our employee base by approximately 1,140 additional people and acquired 20 offices in 12 countries. As a result, we expect we will experience increased costs related to compensation and benefits, occupancy costs, market data fees and information technology services. In the near term, we expect we will also experience duplicative selling, general and administrative costs due to the increased size and scope of our selling, marketing and administrative functions. While we are continuing to focus on the cost structure of the combined company and expect to generate significant synergies, we also expect to incur non-recurring restructuring costs associated with integrating the companies.

Due to significant limitations on access to certain information relating to RiskMetrics prior to the acquisition date and the limited time since the acquisition date, management is continuing to review the potential impact of the acquisition on our financial results in future periods.

Certain actions taken and costs incurred in connection with acquisition of RiskMetrics prior to the acquisition closing date are reflected in these condensed consolidated financial statements. However, the assets acquired and liabilities assumed and the results of operations from RiskMetrics are not reflected in these condensed consolidated financial statements as of and for the three and six months ended May 31, 2010. See Note 15. Acquisition of RiskMetrics Group, Inc. for additional information.

Additional information, such as the unaudited pro forma condensed combined financial statements of MSCI and RiskMetrics as of and for the three months ended February 28, 2010 and for the year ended November 30, 2009, can be found in MSCI’s Current Report on Form 8-K filed with the SEC on June 7, 2010. Also See Note 15. Acquisition of RiskMetrics Group, Inc. —Unaudited Pro Forma Financial Information.

The discussion of our results of operations for the three and six months ended May 31, 2010 and 2009 are presented below. The results of operations for interim periods may not be indicative of future results.

Results of Operations

Three Months Ended May 31, 2010 Compared to the Three Months Ended May 31, 2009:

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|   | Three Months Ended<br>May 31, |            | Increase/(Decrease)                   |         |
|---|-------------------------------|------------|---------------------------------------|---------|
|   | 2010                          | 2009       | (in thousands, except per share data) |         |
| Operating revenues  | \$ 125,170                    | \$ 109,375 | \$ 15,795                             | 14.4%   |
| Operating expenses:   |                               |            |                                       |         |
| Cost of services  | 30,463                        | 29,269     | 1,194                                 | 4.1%    |
| Selling, general and administrative   | 40,177                        | 34,052     | 6,125                                 | 18.0%   |
| Amortization of intangible assets   | 4,277                         | 6,428      | (2,151)                               | (33.5%) |
| Depreciation and amortization of property,<br>equipment, and leasehold improvements | 3,556                         | 2,972      | 584                                   | 19.7%   |
| Total operating expenses  | 78,473                        | 72,721     | 5,752                                 | 7.9%    |
| Operating income  | 46,697                        | 36,654     | 10,043                                | 27.4%   |
| Other expense (income), net   | 8,746                         | 4,682      | 4,064                                 | 86.8%   |
| Provision for income taxes  | 13,884                        | 12,354     | 1,530                                 | 12.4%   |
| Net income  | \$ 24,067                     | \$ 19,618  | \$ 4,499                              | 22.7%   |
| Earnings per basic common share   | \$ 0.23                       | \$ 0.19    | \$ 0.04                               | 21.1%   |
| Earnings per diluted common share   | \$ 0.22                       | \$ 0.19    | \$ 0.03                               | 15.8%   |
| Operating margin  | 37.3%                         | 33.5%      |                                       |         |

### 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 May 31, 2010 compared to the three months ended May 31, 2009:

|                               | Three Months Ended<br>May 31, |           | Increase/(Decrease) |        |
|-------------------------------|-------------------------------|-----------|---------------------|--------|
|                               | 2010                          | 2009      | (in thousands)      |        |
| Equity indices:               |                               |           |                     |        |
| Equity index subscriptions    | \$ 54,222                     | \$ 47,282 | \$ 6,940            | 14.7%  |
| Equity index asset based fees | 25,696                        | 15,220    | 10,476              | 68.8%  |
| Total equity indices          | 79,918                        | 62,502    | 17,416              | 27.9%  |
| Equity portfolio analytics    | 29,041                        | 31,582    | (2,541)             | (8.0%) |

|                                       |            |            |           |         |
|---------------------------------------|------------|------------|-----------|---------|
| Multi-asset class portfolio analytics | 11,107     | 9,572      | 1,535     | 16.0%   |
| Other products                        | 5,104      | 5,719      | (615)     | (10.8%) |
| Total operating revenues              | \$ 125,170 | \$ 109,375 | \$ 15,795 | 14.4%   |

Total operating revenues for the three months ended May 31, 2010 increased \$15.8 million, or 14.4%, to \$125.2 million compared to \$109.4 million for the three months ended May 31, 2009. The growth was comprised of increases in asset based fees and subscription revenues of \$10.5 million and \$5.3 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 May 31, 2010 would have been higher by \$1.2 million.

Revenues related to equity indices increased \$17.4 million, or 27.9%, to \$79.9 million for the three months ended May 31, 2010 compared to \$62.5 million in the same period in 2009. Revenues from the equity index subscriptions sub-category were up \$6.9 million, or 14.7%, to \$54.2 million during the current period with strength across all regions and client types except broker dealers, which were down slightly. The growth was led by increases in our emerging market and small cap index modules as well as custom indices and our value/growth index extension modules.

Revenues attributable to the equity index asset based fees sub-category increased \$10.5 million, or 68.8%, to \$25.7 million for the three months ended May 31, 2010 compared to \$15.2 million in the same period in 2009 led by growth in our ETF asset based fee revenues. The average value of assets in ETFs linked to MSCI equity indices in the aggregate increased 87.4% to \$252.4 billion for the three months ended May 31, 2010 compared to \$134.7 billion for the three months ended May 31, 2009. As of May 31, 2010, the value of assets in ETFs linked to MSCI equity indices was \$237.6 billion, representing an increase of 35.1% from \$175.9 billion as of May 31, 2009. We estimate that the \$61.7 billion year-over-year increase in value of assets in ETFs linked to MSCI equity indices was attributable to \$32.5 billion of net cash inflows and \$29.2 billion of net asset appreciation.

The three MSCI indices with the largest amount of ETF assets linked to them as of May 31, 2010 were the MSCI Emerging Markets, EAFE and U.S. Broad Market Indices with \$67.5 billion, \$35.8 billion and \$13.7 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 |         |         |          |          |          |
|---|---------------|---------|---------|----------|----------|----------|
|   | 2009          |         |         | 2010     |          |          |
|   | February      | May     | August  | November | February | May      |
| AUM in ETFs linked to MSCI Indices        | \$107.8       | \$175.9 | \$199.2 | \$234.2  | \$235.6  | \$237.6  |
| Sequential Change (\$ Growth in Billions) |               |         |         |          |          |          |
| Market Appreciation/(Depreciation)        | \$(13.6 )     | \$42.2  | \$20.1  | \$18.0   | \$(3.0 ) | \$(5.9 ) |
| Cash Inflow/(Outflow)                     | 2.4           | 25.9    | 3.2     | 17.0     | 4.4      | 7.9      |
| Total Change                              | \$(11.2 )     | \$68.1  | \$23.3  | \$35.0   | \$1.4    | \$2.0    |

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                     | Quarterly Average |         |         |          |          |         |
|------------------------------------|-------------------|---------|---------|----------|----------|---------|
|                                    | 2009              |         |         | 2010     |          |         |
|                                    | February          | May     | August  | November | February | May     |
| AUM in ETFs linked to MSCI Indices | \$126.4           | \$134.7 | \$180.3 | \$216.8  | \$239.6  | \$252.4 |

Source: Bloomberg and MSCI

The value of the assets in ETFs linked to our equity indices as of the last day of the month and the monthly average balance for the prior six months can be found under the link "AUM in ETFs Linked to MSCI Indices" on our website at <http://ir.msci.com>. Information contained on our website is not incorporated by reference into this Quarterly Report on

Form 10-Q or any other report filed with the Securities and Exchange Commission.

Revenues related to equity portfolio analytics products decreased 8.0% to \$29.0 million for the three months ended May 31, 2010 compared to \$31.6 million in the same period in 2009. The decreases were the result of lower levels of new subscriptions and lower retention rates in recent quarters, most notably for Aegis, our propriety equity risk data and software product. Within equity portfolio analytics, Aegis revenue declined 9.8% to \$18.9 million and Models Direct, our proprietary risk data accessed directly, declined 7.3% to \$8.6 million, partially offset by an increase of 20.0% to \$1.5 million in Barra on Vendors, our proprietary risk data product accessed through vendors.

Revenues related to multi-asset class portfolio analytics increased \$1.5 million, or 16.0%, to \$11.1 million for the three months ended May 31, 2010 compared to \$9.6 million in the same period in 2009. This growth reflects an increase of 26.9% to \$9.1 million for BarraOne, partially offset by a decrease of 16.3% to \$2.0 million for TotalRisk, which is a product being decommissioned with its existing users being given the opportunity to transition to BarraOne. The growth in BarraOne was led by the asset managers and asset owners and, from a regional perspective, EMEA, reflecting growth in new subscriptions as well as relatively high retention rates.

Revenues from other products decreased \$0.6 million, or 10.8%, to \$5.1 million for the three months ended May 31, 2010 compared to \$5.7 million in the same period in 2009. This reflects a decline of 24.7% to \$1.2 million for fixed income analytics products offset, in part, by an increase of 3.6% to \$3.9 million for our energy and commodity 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 "one-time" and other non-recurring transactions. In addition, we remove from the Run Rate the fees associated with any subscription or investment product license agreement with respect to which we have received a notice of termination or non-renewal during the period and we have determined that such notice evidences the client's final decision to terminate or not renew the applicable subscription or agreement, even though such notice is not effective until a later date.

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

- revenues associated with new subscriptions and non-recurring sales;
- modifications, cancellations and non-renewals of existing agreements, subject to specified notice requirements;
- fluctuations in asset-based fees, which may result from market movements or from investment inflows into and outflows from investment products linked to our indices;
- 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 tables set forth our Run Rates as of the dates indicated and the percentage growth over the periods indicated:

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|                                    | May 31,<br>2010   | As of<br>2009<br>(in thousands) | February 28,<br>2010 | Year Over Year<br>Comparison |          | Sequential<br>Comparison |          |
|------------------------------------|-------------------|---------------------------------|----------------------|------------------------------|----------|--------------------------|----------|
| <b>Run Rates</b>                   |                   |                                 |                      |                              |          |                          |          |
| <b>Equity indices</b>              |                   |                                 |                      |                              |          |                          |          |
| Subscription                       | \$ 202,101        | \$ 178,634                      | \$ 191,862           | 13.1                         | %        | 5.3                      | %        |
| Asset based fees                   | 91,977            | 68,892                          | 94,033               | 33.5                         | %        | (2.2)                    | %        |
| <b>Equity Indices total</b>        | <b>294,078</b>    | <b>247,526</b>                  | <b>285,895</b>       | <b>18.8</b>                  | <b>%</b> | <b>2.9</b>               | <b>%</b> |
| <b>Equity portfolio analytics</b>  |                   |                                 |                      |                              |          |                          |          |
|                                    | 118,064           | 126,344                         | 119,046              | (6.6)                        | %        | (0.8)                    | %        |
| <b>Multi-asset class analytics</b> |                   |                                 |                      |                              |          |                          |          |
|                                    | 42,145            | 37,194                          | 41,142               | 13.3                         | %        | 2.4                      | %        |
| <b>Other products</b>              |                   |                                 |                      |                              |          |                          |          |
|                                    | 19,938            | 21,612                          | 20,500               | (7.7)                        | %        | (2.7)                    | %        |
| <b>Total Run Rate</b>              | <b>\$ 474,225</b> | <b>\$ 432,676</b>               | <b>\$ 466,583</b>    | <b>9.6</b>                   | <b>%</b> | <b>1.6</b>               | <b>%</b> |
| <b>Subscription total</b>          |                   |                                 |                      |                              |          |                          |          |
|                                    | \$ 382,248        | \$ 362,784                      | \$ 372,550           | 5.4                          | %        | 2.6                      | %        |
| <b>Asset based fees total</b>      |                   |                                 |                      |                              |          |                          |          |
|                                    | 91,977            | 69,892                          | 94,033               | 31.6                         | %        | (2.2)                    | %        |
| <b>Total Run Rate</b>              | <b>\$ 474,225</b> | <b>\$ 432,676</b>               | <b>\$ 466,583</b>    | <b>9.6</b>                   | <b>%</b> | <b>1.6</b>               | <b>%</b> |

Changes in Run Rate between periods reflect increases from new subscriptions, decreases from cancellations, increases or decreases, as the case may be, from the change in the value of assets of investment products linked to MSCI indices, the change in trading volumes of futures and options contracts linked to MSCI indices, price changes and fluctuations in foreign exchange rates.

At May 31, 2010, we had a total of 3,203 clients, excluding clients that pay only asset based fees, as compared to 3,080 at May 31, 2009 and 3,153 at February 28, 2010. The sequential increase in the client count reflects an increase across all client types except for the number of hedge fund clients which were flat.

#### Aggregate and Core Retention Rates

The following table sets forth our Aggregate Retention Rates by product category for the three months ended:

|                             | May 31,       |               |
|-----------------------------|---------------|---------------|
|                             | 2010          | 2009          |
| Equity Index                | 92.9 %        | 92.8 %        |
| Equity Portfolio Analytics  | 84.5 %        | 82.0 %        |
| Multi-Asset Class Analytics | 89.1 %        | 83.2 %        |
| Other                       | 81.3 %        | 88.3 %        |
| <b>Total</b>                | <b>89.1 %</b> | <b>87.7 %</b> |

The following table sets forth our Core Retention Rates by product category for the three months ended:

|                             | May 31, |        |
|-----------------------------|---------|--------|
|                             | 2010    | 2009   |
| Equity Index                | 93.4 %  | 93.2 % |
| Equity Portfolio Analytics  | 86.4 %  | 83.5 % |
| Multi-Asset Class Analytics | 93.5 %  | 93.7 % |
| Other                       | 81.3 %  | 89.6 % |
| Total                       | 90.5 %  | 89.5 % |

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



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

## Operating Expenses

We group our operating expenses into four categories:

- Cost of services
- Selling, general and administrative (“SG&A”)
- Amortization of intangible assets
- Depreciation of property, equipment, and leasehold improvements

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

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

|  | Three Months Ended<br>May 31, |           | Increase/(Decrease) |          |
|--|-------------------------------|-----------|---------------------|----------|
|  | 2010                          | 2009      |                     |          |
|  | (in thousands)                |           |                     |          |
| <b>Cost of services</b>  |                               |           |                     |          |
| Compensation and benefits  | \$ 22,354                     | \$ 22,430 | \$ (76)             | (0.3) %  |
| Non-compensation expenses  | 8,109                         | 6,839     | 1,270               | 18.6 %   |
| Total cost of services   | 30,463                        | 29,269    | 1,194               | 4.1 %    |
| <b>Selling, general and administrative</b>                             |                               |           |                     |          |
| Compensation and benefits  | 22,410                        | 24,170    | (1,760)             | (7.3) %  |
| Non-compensation expenses  | 17,767                        | 9,882     | 7,885               | 79.8 %   |
| Total selling, general and administrative                              | 40,177                        | 34,052    | 6,125               | 18.0 %   |
| Amortization of intangible assets                                      | 4,277                         | 6,428     | (2,151)             | (33.5) % |
| Depreciation of property, equipment, and leasehold improvements        | 3,556                         | 2,972     | 584                 | 19.7 %   |
| Total operating expenses   | \$ 78,473                     | \$ 72,721 | \$ 5,752            | 7.9 %    |
| <b>Compensation and benefits</b>                                       |                               |           |                     |          |
|  | \$ 44,764                     | \$ 46,600 | \$ (1,836)          | (3.9) %  |
| <b>Non-compensation expenses</b>                                       |                               |           |                     |          |
|  | 25,876                        | 16,721    | 9,155               | 54.8 %   |
| <b>Amortization of intangible assets</b>                               |                               |           |                     |          |
|  | 4,277                         | 6,428     | (2,151)             | (33.5) % |
| <b>Depreciation of property, equipment, and leasehold improvements</b> |                               |           |                     |          |
|  | 3,556                         | 2,972     | 584                 | 19.7 %   |
| Total operating expenses   | \$ 78,473                     | \$ 72,721 | \$ 5,752            | 7.9 %    |

Operating expenses were \$78.5 million for the three months ended May 31, 2010, an increase of \$5.8 million, or 7.9%, compared to \$72.7 million in the same period of 2009. The increase reflects \$5.3 million in costs associated with the acquisition of RiskMetrics and higher non-compensation costs offset, in part, by reduced amortization of our

intangible assets, a decrease in compensation and benefits and the elimination of costs allocated by Morgan Stanley following our May 22, 2009 separation. Our operating expenses are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Had the U.S. dollar not strengthened relative to exchange rates at the beginning of the year, our operating expense for the three months ended May 31, 2010 would have been higher by \$1.9 million.

Compensation and benefits expenses represent the majority of our expenses across all of our operating functions and typically have represented approximately 50% to 60% of our total operating expenses. These costs generally contribute to the

majority of our expense increases from period to period, reflecting increased compensation and benefits expenses for current staff and increased staffing levels. Continued growth of our emerging market centers around the world is an important factor in our ability to manage and control the growth of our compensation and benefit expenses. As of May 31, 2010, approximately 47.9% of our employees were located in emerging market centers compared to 35.3% as of May 31, 2009.

During the three months ended May 31, 2010, compensation and benefits costs were \$44.8 million, a decrease of \$1.8 million, or 3.9%, compared to \$46.6 million in the same period of 2009. The decrease reflects lower stock based compensation expense of \$3.7 million and reduced severance costs of \$0.5 million. Additionally, during the three months ended May 31, 2009 we incurred \$1.2 million of costs related to the separation from Morgan Stanley which were not incurred in the current year. These decreases were offset, in part, by \$3.7 million in higher costs related to current staff and increased staffing levels.

Stock based compensation expense for the three months ended May 31, 2010 was \$5.2 million, a decrease of \$3.7 million, or 41.4%, compared to \$8.9 million in same period of 2009. For the three months ended May 31, 2010, stock based compensation consisted of \$2.0 million for the founders grant award, \$1.7 million for restricted stock units granted as a component of the 2008 and 2009 annual bonus awards, and \$1.4 million for retirement eligible employees. For the three months ended May 31, 2009, stock based compensation consisted of \$7.3 million for the founders grant award, \$0.8 million for retirement eligible employees, and \$0.8 million for restricted stock units granted as a component of the 2008 annual bonus award. The decrease in the expense related to the founders grant award is primarily attributable to the vesting of the first tranche in November 2009, representing one-half of the award, and increased expense in the prior year due to adjustments to the estimated rates of forfeiture.

Non-compensation expenses for the three months ended May 31, 2010 was \$25.9 million, an increase of \$9.2 million, or 54.8%, compared to \$16.7 million in the same period of 2009. The increase reflects \$5.3 million in costs related to the acquisition of RiskMetrics as well as increased market data, information technology, third party consulting, travel and entertainment and occupancy costs of \$4.6 million. The increases were partially offset by a \$0.7 million year over year decrease in costs resulting from the elimination of costs allocated by Morgan Stanley following our May 22, 2009 separation.

#### Cost of Services

Cost of services includes costs related to our research, data management and production, software engineering and product management functions. Costs in these areas include staff compensation and benefits, occupancy costs, market data fees, information technology services and, for the period prior to our May 22, 2009 separation, costs allocated by Morgan Stanley for staffing services. Compensation and benefits generally contribute to a majority of our expense increases from period to period, reflecting increases for existing staff and increased staffing levels.

For the three months ended May 31, 2010, total cost of services expenses increased \$1.2 million, or 4.1%, to \$30.5 million compared to \$29.3 million for the three months ended May 31, 2009. The change was largely due to an increase in market data and third party consulting costs, partially offset by the elimination of cost allocations from Morgan Stanley as a result of our separation on May 22, 2009.

Compensation and benefits expenses for the three months ended May 31, 2010 and 2009 was \$22.4 million. The cost associated with increased staffing levels was offset by the previously discussed decrease in founders grant expense. Non-compensation expenses for the three months ended May 31, 2010 increased \$1.3 million, or 18.6%, to \$8.1 million compared to \$6.8 million in the same period of 2009. The change is largely due to higher market data and third party consulting costs, offset in part, by the elimination of cost allocations from Morgan Stanley as a result of our separation on May 22, 2009.

Our cost of services expenses are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Had the U.S. dollar not strengthened relative to exchange rates at the beginning of the year, our cost of services for the three months ended May 31, 2010 would have been higher by \$0.7 million.

#### Selling, General and Administrative

SG&A includes expenses for our sales and marketing staff, and our finance, human resources, legal and compliance, information technology infrastructure, corporate administration personnel and, for the period prior to our May 22, 2009 separation, costs allocated from Morgan Stanley. As with cost of services, the largest expense in this category relates to compensation and benefits. Other significant expenses are for occupancy costs, consulting services and information technology costs. For the three months ended May 31, 2010, SG&A expenses were \$40.2 million, an increase of \$6.1 million, or 18.0%, compared to \$34.1 million in the same period of 2009.

Compensation expenses of \$22.4 million decreased by \$1.8 million, or 7.3%, for the three months ended May 31, 2010 compared to \$24.2 million in the same period of 2009. The decrease was primarily due to lower founders grant expense, as previously discussed, offset, in part, by costs associated with current staff and increased staffing levels.

Non-compensation expenses for the three months ended May 31, 2010 increased \$7.9 million, or 79.8%, to \$17.8 million compared to \$9.9 million in the same period of 2009. The increase reflects \$5.3 million in costs related to the acquisition of RiskMetrics as well as increased information technology, third party consulting, travel and entertainment and occupancy costs totaling \$3.2 million. These increases were partially offset by a \$0.6 million year over year decrease in costs resulting from the elimination of costs allocated by Morgan Stanley following our May 22, 2009 separation.

Our SG&A expenses are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Had the U.S. dollar not strengthened relative to exchange rates at the beginning of the year, our SG&A expenses for the three months ended May 31, 2010 would have been higher by \$1.0 million.

#### Amortization of Intangibles

Amortization of intangibles expense relates to the intangible assets arising from the acquisition of Barra in June 2004. For the three months ended May 31, 2010, amortization of intangibles expense totaled \$4.3 million compared to \$6.4 million for the same period in 2009. A portion of the intangible assets became fully amortized at the end of fiscal 2009, resulting in the decrease of \$2.2 million, or 33.5%, versus the prior year.

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

For the three months ended May 31, 2010 and 2009, depreciation and amortization of property, equipment, and leasehold improvements totaled \$3.6 million and \$3.0 million, respectively.

#### Other Expense (Income), Net

Other expense (income), net for the three months ended May 31, 2010 was \$8.7 million, an increase of \$4.0 million, or 86.8%, compared to \$4.7 million for the same period of 2009. The increase reflects accelerated interest expense of \$3.1 million associated with the termination of our interest rate swap and \$3.1 million associated with the accelerated recognition of deferred financing and debt discount costs as a result of \$297.0 million in debt prepayments made during the three months ended May 31, 2010. Partially offsetting this increase was a \$2.2 million decrease in interest on our term loans due to lower average outstanding debt and the impact of decreased interest rates.

#### Income Taxes

The provision for income tax expense was \$13.9 million for the three months ended May 31, 2010, an increase of \$1.5 million, or 12.4%, compared to \$12.4 million for the same period in 2009. The increase was the result of higher taxable income and the impact of costs related to the acquisition of RiskMetrics, which are not tax deductible, partially offset by the net discrete tax benefits recognized during the three months ended May 31, 2010. Our effective tax rate was 36.6% for the three months ended May 31, 2010. This rate reflects the impact of the acquisition costs and net discrete tax benefits recognized during the three months May 31, 2010 which increased our effective tax rate by approximately 1.6%. Our effective tax rate was 38.6% for the three months ended May 31, 2009. This rate reflects the impact of net discrete tax expenses recognized during the three months ended May 31, 2009 which increased our effective tax rate by approximately 2.3%.

#### Results of Operations

Six Months Ended May 31, 2010 Compared to the Six Months Ended May 31, 2009:

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|   | Six Months Ended<br>May 31, |            | Increase/(Decrease)                   |         |
|---|-----------------------------|------------|---------------------------------------|---------|
|   | 2010                        | 2009       | (in thousands, except per share data) |         |
| Operating Revenues  | \$ 246,850                  | \$ 215,290 | \$ 31,560                             | 14.7%   |
| Operating expenses:   |                             |            |                                       |         |
| Cost of services  | 59,754                      | 58,204     | 1,550                                 | 2.7%    |
| Selling, general and administrative   | 77,638                      | 68,768     | 8,870                                 | 12.9%   |
| Amortization of intangible assets   | 8,555                       | 12,857     | (4,302)                               | (33.5%) |
| Depreciation and amortization of property,<br>equipment, and leasehold improvements | 6,949                       | 6,023      | 926                                   | 15.4%   |
| Total operating expenses  | 152,896                     | 145,852    | 7,044                                 | 4.8%    |
| Operating income  | 93,954                      | 69,438     | 24,516                                | 35.3%   |
| Other expense (income), net   | 12,166                      | 11,081     | 1,085                                 | 9.8%    |
| Provision for income taxes  | 30,203                      | 22,015     | 8,188                                 | 37.2%   |
| Net income  | \$ 51,585                   | \$ 36,342  | \$ 15,243                             | 41.9%   |
| Earnings per basic common share   | \$ 0.48                     | \$ 0.35    | \$ 0.13                               | 37.1%   |
| Earnings per diluted common share   | \$ 0.48                     | \$ 0.35    | \$ 0.13                               | 37.1%   |
| Operating margin  | 38.1%                       | 32.3%      |                                       |         |

### Operating Revenues

The following table summarizes the revenue by category for the six months ended May 31, 2010 compared to the six months ended May 31, 2009:

|                                       | Six Months Ended<br>May 31, |           | Increase/(Decrease) |         |
|---------------------------------------|-----------------------------|-----------|---------------------|---------|
|                                       | 2010                        | 2009      | (in thousands)      |         |
| Equity indices:                       |                             |           |                     |         |
| Equity index subscriptions            | \$ 104,397                  | \$ 92,549 | \$ 11,848           | 12.8 %  |
| Equity index asset based fees         | 50,681                      | 28,402    | 22,279              | 78.4 %  |
| Total equity indices                  | 155,078                     | 120,951   | 34,127              | 28.2 %  |
| Equity portfolio analytics            | 59,024                      | 63,722    | (4,698 )            | (7.4 %) |
| Multi-asset class portfolio analytics | 21,952                      | 19,195    | 2,757               | 14.4 %  |
| Other products                        | 10,796                      | 11,422    | (626 )              | (5.5 %) |
| Total operating revenues              | \$246,850                   | \$215,290 | \$31,560            | 14.7 %  |

Total operating revenues for the six months ended May 31, 2010 increased \$31.6 million, or 14.7%, to \$246.9 million compared to \$215.3 million for the six months ended May 31, 2009. The growth was comprised of increases in asset based fees and subscription revenues of \$22.3 million and \$9.3 million, respectively. 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 six months ended May 31, 2010 would have been higher by \$1.8 million.

Revenues related to equity indices increased \$34.1 million, or 28.2%, to \$155.1 million for the six months ended May 31, 2010 compared to \$121.0 million in the same period in 2009. Revenues from the equity index subscriptions sub-category were up 12.8% to \$104.4 million during the six months ended May 31, 2010, with strength across all regions, most notably in EMEA. This growth was led by strong increases in our custom equity indices, the emerging market and small cap market index modules as well as our equity index user fees.

Revenues attributable to the equity index asset based fees sub-category increased \$22.3 million, or 78.4%, to \$50.7 million in the six months ended May 31, 2010 compared to \$28.4 million in the same period of 2009. The average value of assets in ETFs linked to MSCI equity indices increased 88.5% to \$246.0 billion for the six months ended May 31, 2010 compared to \$130.5 billion for the six months ended May 31, 2009. As of May 31, 2010, the value of assets in ETFs linked to MSCI equity indices was \$237.6 billion, representing an increase of 35.1% from \$175.9 billion as of May 31, 2009. We estimate that the \$61.7 billion year-over-year increase in value of assets in ETFs linked to MSCI equity indices was attributable to \$32.5 billion of net cash inflows and \$29.2 billion of net asset appreciation.



Revenues related to equity portfolio analytics decreased \$4.7 million, or 7.4%, to \$59.0 million for the six months ended May 31, 2010 compared to \$63.7 million for the six months ended May 31, 2009. Within equity portfolio analytics, Aegis revenue declined 10.0% to \$38.3 million and equity models direct revenues declined 5.4% to \$17.7 million, partially offset by an increase of 24.8% to \$3.0 million in our Barra on Vendors product.

Revenues related to multi-asset class portfolio analytics increased \$2.8 million, or 14.4%, to \$22.0 million for the six months ended May 31, 2010 compared to \$19.2 million for the six months ended May 31, 2009. This reflects an increase of 25.2% to \$18.3 million for BarraOne, offset in part by a decrease of 20.2% to \$3.7 million for TotalRisk, which is in the process of being decommissioned with its existing users being offered the opportunity to transition to BarraOne.

Revenues from other products decreased \$0.6 million, or 5.5%, to \$10.8 million in the six months ended May 31, 2010 compared to \$11.4 million for the six months ended May 31, 2009. The decline reflects a decrease of 97.6% in asset based fees from investment products linked to MSCI investable hedge fund indices and a decrease of 16.3% for fixed income analytics, partially offset by a 7.1% increase for our energy and commodity analytics products. The decline in MSCI investable hedge fund indices revenues reflects the termination of licenses to create a fund based on an MSCI investable hedge fund index.

#### Aggregate and Core Retention Rates

The following table sets forth our Aggregate Retention Rates by product category for the six months ended:

|                             | May 31,<br>2010 |   | May 31,<br>2009 |   |
|-----------------------------|-----------------|---|-----------------|---|
| Equity Index                | 93.9            | % | 93.9            | % |
| Equity Portfolio Analytics  | 88.4            | % | 84.1            | % |
| Multi-Asset Class Analytics | 85.9            | % | 87.6            | % |
| Other                       | 83.5            | % | 85.8            | % |
| Total                       | 90.6            | % | 89.2            | % |

The following table sets forth our Core Retention Rates by product category for the six months ended:

|                             | May 31,<br>2010 |   | May 31,<br>2009 |   |
|-----------------------------|-----------------|---|-----------------|---|
| Equity Index                | 94.6            | % | 94.1            | % |
| Equity Portfolio Analytics  | 90.1            | % | 85.4            | % |
| Multi-Asset Class Analytics | 91.5            | % | 92.8            | % |
| Other                       | 85.0            | % | 86.8            | % |
| Total                       | 92.2            | % | 90.4            | % |

The Aggregate Retention Rates for any six month period are calculated by annualizing the cancellations for which we have received a notice of termination or non-renewal and we have determined that such notice evidences the client's final decision to terminate or not renew the applicable subscription or agreement, even though such notice is not effective until a later date. This annualized cancellation figure is then divided by the subscription Run Rate at the beginning of the year to calculate a cancellation rate. This cancellation rate is then subtracted from 100% to derive the

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

#### Operating Expenses

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

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|   | Six Months Ended |            | Increase/(Decrease) |          |
|---|------------------|------------|---------------------|----------|
|   | 2010             | 2009       |                     |          |
|   | May 31,          |            |                     |          |
|   | (in thousands)   |            |                     |          |
| Cost of services  |                  |            |                     |          |
| Compensation and benefits                                       | \$ 44,721        | \$ 43,727  | \$ 994              | 2.3 %    |
| Non-compensation expenses                                       | 15,033           | 14,477     | 556                 | 3.8 %    |
| Total cost of services  | 59,754           | 58,204     | 1,550               | 2.7 %    |
| Selling, general and administrative                             |                  |            |                     |          |
| Compensation and benefits                                       | 45,069           | 47,373     | (2,304)             | (4.9) %  |
| Non-compensation expenses                                       | 32,569           | 21,395     | 11,174              | 52.2 %   |
| Total selling, general and administrative                       | 77,638           | 68,768     | 8,870               | 12.9 %   |
| Amortization of intangible assets                               | 8,555            | 12,857     | (4,302)             | (33.5) % |
| Depreciation of property, equipment, and leasehold improvements | 6,949            | 6,023      | 926                 | 15.4 %   |
| Total operating expenses  | \$ 152,896       | \$ 145,852 | \$ 7,044            | 4.8 %    |
| Compensation and benefits                                       | \$ 89,790        | \$ 91,100  | \$ (1,310)          | (1.4) %  |
| Non-compensation expenses                                       | 47,602           | 35,872     | 11,730              | 32.7 %   |
| Amortization of intangible assets                               | 8,555            | 12,857     | (4,302)             | (33.5) % |
| Depreciation of property, equipment, and leasehold improvements | 6,949            | 6,023      | 926                 | 15.4 %   |
| Total operating expenses  | \$ 152,896       | \$ 145,852 | \$ 7,044            | 4.8 %    |

Operating expenses were \$152.9 million for the six months ended May 31, 2010, an increase of \$7.0 million, or 4.8%, compared to \$145.9 million in the same period of 2009. The increase reflects \$7.5 million in costs associated with the acquisition of RiskMetrics, higher non-compensation costs and depreciation expenses offset, in part, by reduced amortization of our intangible assets, decreased compensation and benefits costs and the elimination of costs allocated by Morgan Stanley following our May 22, 2009 separation. Our operating expenses are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Had the U.S. dollar not strengthened relative to exchange rates at the beginning of the year, our operating expense for the six months ended May 31, 2010 would have been higher by \$2.7 million.

During the six months ended May 31, 2010, compensation and benefits costs were \$89.8 million, a decrease of \$1.3 million, or 1.4%, compared to \$91.1 million in the same period of 2009. The decrease reflects lower stock based compensation expense of \$6.5 million and reduced severance and other employee benefits costs of \$1.3 million. Additionally, during the six months ended May 31, 2009 we incurred costs of \$1.3 million related to the separation from Morgan Stanley which were not incurred in the current year. These decreases were offset, in part, \$7.8 million of higher costs related to current staff and increased staffing levels.

Stock based compensation expense for the six months ended May 31, 2010 was \$10.2 million, a decrease of \$6.4 million, or 38.8%, compared to \$16.6 million in same period of 2009. For the six months ended May 31, 2010, stock based compensation consisted of \$4.1 million for the founders grant award, \$3.1 million for restricted stock units granted as a component of the 2008 and 2009 annual bonus awards and \$2.8 million for retirement eligible employees. For the six months ended May 31, 2009, stock based compensation consisted of \$13.5 million for the founders grant award, \$1.6 million for retirement eligible employees, and \$1.5 million for restricted stock units granted as a component of the 2008 annual bonus award. The decrease in the expense related to the founders grant award is primarily attributable to the vesting of the first tranche in November 2009, representing one-half of the

award, and increased expense in the prior year due to adjustments to the estimated rates of forfeiture.

Non-compensation expenses for the six months ended May 31, 2010 increased 32.7% to \$47.6 million compared to \$35.9 million in the same period of 2009. The increase reflects \$7.5 million in costs related to the acquisition of RiskMetrics as well as increased market data, information technology, third party consulting, travel & entertainment and occupancy costs of \$6.0 million. These increases were partially offset by a \$1.8 million year over year decrease in costs resulting from the elimination of costs allocated by Morgan Stanley following our May 22, 2009 separation.

Cost of Services

For the six months ended May 31, 2010, total cost of services was \$59.8 million, an increase of \$1.6 million, or 2.7%, compared to \$58.2 million for the six months ended May 31, 2009. The change was largely due to an increase in compensation and benefits and market data costs, partially offset by the elimination of cost allocations from Morgan Stanley as a result of our separation on May 22, 2009.

Compensation and benefit expense for the six months ended May 31, 2010 was \$44.7 million, an increase of 2.3% compared to \$43.7 million in the same period of 2009. The increase reflects higher costs related to current staff and increased staffing levels offset, in part, by a decrease in founders grant expense as previously discussed. Non-compensation expense for the six months ended May 31, 2010 was \$15.0 million, an increase of 3.8% compared to \$14.5 million in the same period of 2009. The increase was largely due to higher market data and occupancy costs offset, in part, by the elimination of cost allocations from Morgan Stanley as a result of our separation on May 22, 2009.

Our cost of services expenses are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Had the U.S. dollar not strengthened relative to exchange rates at the beginning of the year, our cost of services for the six months ended May 31, 2010 would have been higher by \$1.0 million.

#### Selling, General and Administrative

SG&A expenses were \$77.6 million for the six months ended May 31, 2010, an increase of \$8.9 million, or 12.9%, compared to \$68.8 million in the same period of 2009. The increase reflects costs associated with the acquisition of RiskMetrics and higher non-compensation costs offset, in part, by a decrease in compensation and benefits and the elimination of cost allocations from Morgan Stanley reflecting our separation as of May 22, 2009.

Compensation and benefit expense for the six months ended May 31, 2010 was \$45.1 million, a decrease of 4.9%, compared to \$47.4 million in the same period of 2009. The change was largely due to a decrease in founders grant expense, as previously discussed, offset by higher costs related to current staff and increased staffing levels. Non-compensation expense for the six months ended May 31, 2010 was \$32.6 million, an increase of 52.2%, compared to \$21.4 million in the same period of 2009. The increase was due to \$7.5 million in costs associated with the acquisition of RiskMetrics as well as increased information technology, recruiting, occupancy and travel and entertainment offset, in part, by the elimination of cost allocations from Morgan Stanley as a result of our separation on May 22, 2009.

Our SG&A expenses are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Had the U.S. dollar not strengthened relative to exchange rates at the beginning of the year, our SG&A expenses for the six months ended May 31, 2010 would have been higher by \$1.5 million.

#### Amortization of Intangibles

Amortization of intangibles expense relates to the intangible assets arising from the acquisition of Barra in June 2004. For the six months ended May 31, 2010, amortization of intangibles expense totaled \$8.6 million compared to \$12.9 million for the same period in 2009. A portion of the intangible assets became fully amortized at the end of fiscal 2009, resulting in the decrease of \$4.3 million, or 33.5%, versus the prior year

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

For the six months ended May 31, 2010 and 2009, depreciation and amortization of property, equipment, and leasehold improvements totaled \$6.9 million and \$6.0 million, respectively.

Other Expense (Income), Net

Other expense (income), net for the six months ended May 31, 2010 was an expense of \$12.2 million, an increase of \$1.1 million, or 9.8%, compared to \$11.1 million for the same period of 2009. The increase reflects accelerated interest expense of \$3.1 million associated with the termination of our interest rate swap and \$3.1 million associated with the accelerated recognition of deferred financing and debt discount costs as a result of \$297.0 million in debt prepayments. Partially offsetting these amounts was a \$3.4 million decrease in interest on our term loans due to lower average outstanding debt and the impact of decreased interest rates. Additionally, we had higher interest income and decreased losses from changes in foreign exchange rates for the six months ended May 31, 2010 compared to the same period of 2009.

Income Taxes

The provision for income tax expense was \$30.2 million for the six months ended May 31, 2010, an increase of \$8.2 million, or 37.2%, compared to \$22.0 million for the same period in 2009. The increase was the result of higher taxable income and the impact of costs related to the acquisition of RiskMetrics, which are not tax deductible, partially offset by the net discrete tax benefits recognized during the six months ended May 31, 2010. The effective tax rate was 36.9% and 37.7% for the six months ended May 31, 2010 and 2009, respectively. Our effective tax rate was approximately 0.3% higher for the six months ended May 31, 2010 as a result of the acquisition costs and net discrete tax benefits recognized during the period.

#### Critical Accounting Policies and Estimates

We describe our significant accounting policies in Note 1, "Introduction and Basis of Presentation," of the Notes to Consolidated Financial Statements included in our Form 10-K for the fiscal year ended November 30, 2009 and also in Note 2, "Recent Accounting Pronouncements," in Notes to Condensed Consolidated Financial Statements included herein. We discuss our critical accounting estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the fiscal year ended November 30, 2009. There were no significant changes in our accounting policies or critical accounting estimates since the end of the fiscal year ended November 30, 2009.

#### Liquidity and Capital Resources

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

On June 1, 2010, we paid \$71.8 million to retire our then-existing credit facility and interest rate swaps plus the related accrued interest. On that same day, we entered into a new senior secured credit agreement with Morgan Stanley Senior Funding, Inc., as administrative agent, Morgan Stanley & Co. Incorporated, as collateral agent, and the other lenders party thereto, which is comprised of (i) a \$1,275.0 million six-year term loan facility and (ii) a \$100.0 million five-year revolving credit facility, which includes a \$25.0 million letter of credit subfacility and a \$10.0 million swingline loan subfacility (the "New Credit Facility"). We are required to repay 1.00% of the principal of the term loan facility per year in quarterly installments. The New Credit Facility also contains number of mandatory prepayment requirements, including a requirement to repay a specified amount of the term loan facility annually from a portion of our excess cash flows (as defined in the New Credit Facility, which varies based on our leverage ratio). Any remaining principal of the term loan facility will be payable on the final maturity date of the facility. We expect to repay the New Credit Facility with cash generated from our ongoing operations.

The senior secured term loan facility matures in June 2016. We are permitted to use the proceeds of the senior secured term loan facility to pay the cash consideration for the acquisition of RiskMetrics, the outstanding credit facilities of MSCI and RiskMetrics and related fees and expenses. The revolving credit facility matures in June 2015 and is available to fund our working capital requirements and for other general corporate purposes. We borrowed the full amount of the \$1,275.0 million senior secured term loan facility on June 1, 2010 and used the proceeds to fund in part the \$1,146.7 million cash consideration for our acquisition of RiskMetrics.

Borrowings under the New Credit Facility will bear interest at a rate equal to the sum of the greater of the London Interbank Offered Rate and 1.50%, and a margin of 3.25%, which margin will be subject to adjustment based on our leverage ratio after we deliver our first quarterly compliance certificate (as defined in the New Credit Facility). In addition, we are required by the terms of our New Credit Facility to enter into an interest rate swap within 60 days of June 1, 2010 such that at least 30% of our borrowings bear interest at a fixed or maximum rate.

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



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

- incur liens and further negative pledges;
- incur additional indebtedness or prepay, redeem or repurchase indebtedness;
  - make loans or hold investments;
- merge, dissolve, liquidate, consolidate with or into another person;
  - enter into acquisition transactions;
    - make capital expenditures;
  - issuance of disqualified capital stock;
    - sell, transfer or dispose of assets;
- pay dividends or make other distributions in respect of our capital stock or engage in stock repurchases, redemptions and other restricted payments;
  - create new subsidiaries;
  - permit certain restrictions affecting our subsidiaries;
  - change the nature of our business, accounting policies or fiscal periods;
- enter into any transactions with affiliates other than on an arm's length basis;
  - modify or waive material documents; and
  - prepay, redeem or repurchase debt.

The New Credit Facility also requires us to achieve specified financial and operating results and maintain compliance with the following financial ratios on a consolidated basis: (1) a maximum total leverage ratio (as defined in the New Credit Facility) measured quarterly on a rolling four-quarter basis shall not exceed (a) 4.00:1.00 through February 28, 2011, (b) 3.75:1.00 from March 1, 2011 through May 31, 2011, (c) 3.50:1.00 from June 1, 2011 through August 31, 2011, (d) 3.25:1.00 from September 1, 2011 through December 31, 2011 and (e) 2.75:1.00 thereafter; and (2) a minimum interest coverage ratio (as defined in the New Credit Facility) measured quarterly on a rolling four-quarter basis shall be (a) 4.50:1.00 through February 28, 2011, and (b) 5.00:1.00 thereafter.

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

#### Cash flows

#### Cash and cash equivalents

|                           | As of          |              |
|---------------------------|----------------|--------------|
|                           | May 31,        | November 30, |
|                           | 2010           | 2009         |
|                           | (in thousands) |              |
| Cash and cash equivalents | \$ 152,148     | \$ 176,024   |

#### Cash provided by (used in) operating, investing and financing activities

|  | For the six months ended |         |
|--|--------------------------|---------|
|  | May 31,                  | May 31, |
|  | 2010                     | 2009    |
|  | (in thousands)           |         |

|   |              |              |
|---|--------------|--------------|
| Cash provided by operating activities           | \$ 55,104    | \$ 69,157    |
| Cash provided by (used in) investing activities | \$ 229,862   | \$ (254,253) |
| Cash used in financing activities               | \$ (308,413) | \$ (11,700)  |

#### Cash flows from operating activities

Cash flows from operating activities consist of net income adjusted for certain non-cash items and changes in assets and liabilities. Cash flow from operating activities for the six months ended May 31, 2010 was \$55.1 million compared to

\$69.2 million for the same period of 2009. The change primarily reflects increased cash payments for income taxes and a decrease in non-cash items during the six months ended May 31, 2010 compared to the same period in 2009.

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

#### Cash flows from investing activities

Cash flows provided by investing activities were \$229.9 million for the six months ended May 31, 2010 compared to cash used in investing activities of \$254.3 million for the six months ended May 31, 2009. The increase reflects a net inflow of \$479.2 million related to the purchase of and proceeds from the liquidation of short-term investments, a significant portion of which was utilized to prepay \$297.0 million of our long-term debt during the three months ended May 31, 2010, and a decrease in capital expenditures of \$4.8 million.

#### Cash flows from financing activities

Cash flows used in financing activities were \$308.4 million and \$11.7 million for six months ended May 31, 2010 and 2009, respectively. The change reflects \$298.5 million in increased payments on the outstanding long-term debt and a \$1.8 million increase to repurchase shares to be held in treasury to satisfy tax obligations related to converted shared based compensation awards. Partially offsetting these were the receipt of \$2.2 million in proceeds from the exercise of employee stock options and \$1.5 million in excess tax benefits related to the exercise of options and the conversion of restricted stock units that occurred during the six months ended May 31, 2010.

#### Off-Balance Sheet Arrangements

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

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### Foreign Currency Risk

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

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

Revenues from index-linked investment products represented approximately \$50.7 million, or 20.5%, and \$28.9 million, or 13.4%, of our operating revenues for the six months ended May 31, 2010 and May 31, 2009, respectively. While our fees for index-linked investment products are generally invoiced in U.S. dollars, the fees are based on the investment product's assets, substantially all of which are invested in securities denominated in currencies other than the U.S. dollar. Accordingly, declines in such other currencies against the U.S. dollar will decrease the fees payable to us under such licenses. In addition, declines in such currencies against the U.S. dollar could impact the attractiveness of such investment products resulting in net fund outflows, which would further reduce the fees payable under such licenses.

We generally invoice our clients in U.S. dollars; however, we invoice a portion of clients in euros, pounds sterling, Japanese yen and a limited number of other non-U.S. dollar currencies. Approximately \$24.7 million, or 10.0%, and \$27.4

million, or 12.7%, of our revenues for the six months ended May 31, 2010 and 2009, respectively, were denominated in foreign currencies, the majority of which were in euros, pounds sterling and Japanese yen.

We are exposed to additional foreign currency risk in certain of our operating costs. Approximately \$62.0 million, or 40.5%, and \$44.8 million, or 30.7%, of our expenses for the six months ended May 31, 2010 and 2009, respectively, were denominated in foreign currencies, the significant majority of which were denominated in Swiss francs, pounds sterling, Hong Kong dollars, euros, Hungarian forints, Indian rupees, and Japanese yen. Expenses paid in foreign currency may increase as we expand our business outside the U.S.

We have certain monetary assets and liabilities denominated in currencies other than local functional amounts and when these balances were remeasured into their local functional currency, either a gain or a loss resulted from the change of the value of the functional currency as compared to the originating currencies. As a result of these positions, we recognized foreign currency exchange losses of \$0.1 million and \$0.6 million for the six months ended May 31, 2010 and May 31, 2009, respectively. These amounts were recorded in "other expense (income)" in our Condensed Consolidated Statements of Income. Although we do not currently hedge the foreign exchange risk of assets and liabilities denominated in currencies other than the functional currency, we minimize exposure by reducing the value of the assets and liabilities in currencies other than the functional currency of the legal entity in which they are located.

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

#### Interest Rate Sensitivity

We had unrestricted cash and cash equivalents totaling \$152.1 million at May 31, 2010 and \$176.0 million at November 30, 2009, respectively. These amounts were held primarily in checking and money market accounts in the countries where we maintain banking relationships. The unrestricted cash and cash equivalents are held for working capital purposes. At May 31, 2010 and November 30, 2009, we had invested \$61.4 million and \$295.3 million, respectively, in debt securities with maturity dates ranging from 91 to 365 days from the date of purchase. We do not enter into investments for trading or speculative purposes. We believe we do not have any material exposure to changes in fair value as a result of changes in interest rates. Declines in interest rates, however, will reduce future interest income.

Borrowings under the Credit Facility accrued interest at a variable rate equal to LIBOR plus a fixed margin subject to interest rate step-downs based on the achievement of consolidated leverage ratio conditions (as defined in the Credit Facility).

On February 13, 2008, we entered into two interest rate swap agreements effective through the end of November 2010 for an aggregate notional principal amount of \$251.7 million. By entering into these agreements, we reduced interest rate risk by effectively converting floating-rate debt into fixed-rate debt. This action reduced our risk of incurring higher interest costs in periods of rising interest rates and improved the overall balance between floating and fixed rate debt. On April 1, 2010 and on April 15, 2010, we prepaid a portion of our Credit Facility, fully terminated one of our interest rate swaps, partially terminated the other interest rate swap and intended to pay the remaining portion of our existing credit facility on or about June 1, 2010. As a result, we discontinued prospective hedge accounting on the remaining swap contract at April 15, 2010 as it no longer met the strict requirements for hedge accounting.

These events would have resulted in a greater sensitivity to interest rate volatility. However, on June 1, 2010, we paid \$70.9 million to retire our existing Credit Facility and \$0.7 million to retire our remaining interest rate swap. As a result, we do not believe that the exposure to changes in LIBOR interest rates at May 31, 2010 on our existing Credit Facility is material.

On June 1, 2010, we entered into a New Credit Facility comprised of a \$1,275.0 million six-year term loan facility and a \$100.0 million five-year revolving credit facility. See “Item 2. Management’s Discussion and Analysis—Liquidity and Capital Resources” for additional information.

#### Controls and Procedures

##### Item 4.

Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”), as of May 31, 2010

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

There were no changes during the three months ended May 31, 2010 in our internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## PART II

### Item 1. Legal Proceedings

From time to time we are party to various litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings the resolution of which we believe would have a material adverse effect on our business, operating results, financial condition or cash flows.

### Item 1A. Risk Factors

The risk factors below supplement the risks disclosed under “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended November 30, 2009 and replace the risks disclosed under “Risk Factors” in Item 1A of our Quarterly Report on Form 10-Q for the period ended February 28, 2010.

#### Risks Related to the Acquisition of RiskMetrics Group, Inc.

Our business relationships, including client relationships, may be subject to disruption due to uncertainty associated with the merger.

Parties with which we do business, including clients and suppliers, may experience uncertainty associated with the merger, including with respect to our current or future business relationships. Our business relationships may be subject to disruption as clients, suppliers and others may attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than us. These disruptions could have an adverse effect on the businesses, financial condition, results of operations or prospects of the combined business.

We may fail to realize the anticipated benefits and cost savings of the merger, which could adversely affect the value of our class A common stock.

The success of the merger will depend, in part, on our ability to realize the anticipated benefits and cost savings from combining our business with RiskMetrics’ business. Our ability to realize these anticipated benefits and cost savings is subject to certain risks including:

- Our ability to successfully combine our business with RiskMetrics’ business;
- whether the combined businesses will perform as expected;
- the possibility that we paid more than the value we will derive from the acquisition;
- the reduction of our cash available for operations and other uses, the increase in amortization expense related to identifiable assets acquired and the incurrence of indebtedness to finance the acquisition; and
- the assumption of certain known and unknown liabilities of RiskMetrics.

If we are not able to successfully combine our business with RiskMetrics’ business within the anticipated time frame, or at all, the anticipated benefits and cost savings of the merger may not be realized fully or at all or may take longer to realize than expected, we may not perform as expected and the value of our class A common stock may be adversely affected.

It is possible that the integration process could result in the loss of key employees, the disruption of our ongoing business or in unexpected integration issues, higher than expected integration costs and an overall post-closing integration process that takes longer than originally anticipated. Specifically, issues that must be addressed in integrating the operations of RiskMetrics into our operations in order to realize the anticipated benefits of the merger



so we perform as expected, include, among other things:

- combining the companies' sales, marketing, data, operations and research and development functions;
- integrating the companies' technologies, products and services;
- identifying and eliminating redundant and underperforming operations and assets;
- harmonizing the companies' operating practices, employee development and compensation programs,

- internal controls and other policies, procedures and processes;
- addressing possible differences in business backgrounds, corporate cultures and management philosophies;
- consolidating the companies' corporate, administrative and information technology infrastructure;
- coordinating sales, distribution and marketing efforts;
- managing the movement of certain positions to different locations, including certain of our offices outside the U.S.;
- maintaining existing agreements with customers and suppliers and avoiding delays in entering into new agreements with prospective customers and suppliers;
- coordinating geographically dispersed organizations; and
- consolidating our offices with those of RiskMetrics that are currently in the same location.

In addition, at times, the attention of certain members of our management and resources may be focused on the integration of the businesses of the two companies and diverted from day-to-day business operations, which may disrupt our business.

Our future results may suffer if we do not effectively manage RiskMetrics' risk management platform and RiskMetrics' other operations following the merger.

We plan to combine RiskMetrics' risk management platform with our expertise in portfolio equity models and analytics to provide clients with the capability to understand risk across their entire investment processes. Our future success depends, in part, upon the ability to manage this combination as well as its other businesses, including RiskMetrics' corporate governance operation, which will pose challenges for management, including challenges relating to the management and monitoring of new operations and the coordination of activities across a larger organization. We cannot assure you that it will be successful or that we will realize expected operational efficiencies, cost savings, revenue enhancement and other benefits currently anticipated from the merger.

We may have difficulty attracting, motivating and retaining executives and other key employees as a result of the merger.

Uncertainty about the success of the integration process and the effect of the merger on employees may have an adverse effect on the combined business. This uncertainty may impair our ability to attract, retain and motivate key personnel. Employee retention may be particularly challenging during the integration process, as employees may experience uncertainty about their future roles with the combined business. Additionally, RiskMetrics' officers and employees may have owned shares of RiskMetrics' common stock and/or had vested stock option grants and, may have been entitled to the merger consideration upon the closing of the transaction, the payment of which could provide sufficient financial incentive for certain officers and employees to no longer pursue employment with the combined business. If key employees depart because of issues relating to the uncertainty and difficulty of integration, financial incentives or a desire not to become employees of the combined business, we may have to incur significant costs in identifying, hiring and retaining replacements for departing employees, which could adversely affect our ability to realize the anticipated benefits of the merger.

Our increased level of indebtedness as a result of the merger could adversely affect us.

In connection with the merger, we incurred acquisition debt financing of \$1,275.0 million, which replaced our senior credit facility of \$70.9 million and the senior secured credit facilities of RiskMetrics of \$206.7 outstanding as of May 31, 2010. Covenants to which we agreed to in connection with the acquisition debt financing, and our substantial increased indebtedness and higher debt-to-equity ratio following completion of the merger in comparison to that of the pre-merger Company on a recent historical basis, has the effect, among other things, of reducing our flexibility to respond to changing business and economic conditions and will increase borrowing costs. In addition, the amount of

cash required to service our increased indebtedness levels and thus the demands on our cash resources will be significantly greater than the percentages of cash flows required to service the indebtedness of us or RiskMetrics individually prior to the merger. The increased levels of indebtedness could also reduce funds available

for our investment in product development as well as capital expenditures and other activities, and may create competitive disadvantages for us relative to other companies with lower debt levels.

We will incur significant transaction and integration-related costs in connection with the merger.

We expect to incur a number of non-recurring costs associated with combining the operations of the two companies. The substantial majority of non-recurring expenses resulting from the merger will be comprised of transaction costs related to the merger, facilities and systems consolidation costs and employment-related costs. As of May 31, 2010, we incurred \$7.5 million of transaction related fees and expense. We will also incur transaction fees and costs related to formulating and implementing integration plans. We continue to assess the magnitude of these costs and additional unanticipated costs may be incurred in the integration of the two companies' businesses. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to offset incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all.

The merger may not be accretive, and may be dilutive, to our earnings per share, which may negatively affect the market price of our class A common stock.

We currently anticipate that the merger will be accretive to earnings per share during the first full calendar year after the merger. This expectation is based on preliminary estimates that may materially change. In addition, future events and conditions could decrease or delay the accretion that is currently expected or could result in dilution, including adverse changes in market conditions, additional transaction and integration related costs and other factors such as the failure to realize all of the benefits anticipated in the merger. Any dilution of, or decrease or delay of any accretion to, our earnings per share could cause the price of our common stock to decline.

#### Risks Related to Our Business

If we lose key outside suppliers of data and products or if the data or products of these suppliers have errors or are delayed, we may not be able to provide our clients with the information and products they desire.

Our ability to produce our products and develop new products is dependent upon the products of other suppliers, including certain data, software and service suppliers. Our index and analytics products are dependent upon (and of little value without) updates from our data suppliers and most of our software products are dependent upon (and of little value without) continuing access to historical and current data. As of May 31, 2010, we utilized and distributed certain data provided to us by over 240 data sources, including large volumes of data from certain stock exchanges around the world. If the products of our suppliers have errors, are delayed, have design defects, are unavailable on acceptable terms or are not available at all, our business, financial condition or results of operations could be materially adversely affected.

Some of our agreements with data suppliers allow them to cancel on short notice and we have not completed formal agreements with all of our data suppliers, such as certain stock exchanges. Many of these data suppliers compete with one another and, to some extent, with us. For example, ISS relies on a data feed agreement with Broadridge Financial Solutions which allows for many ballots to be received and proxy votes to be made electronically, minimizing the manual aspects of the proxy voting process and limiting the risk of error inherent in manual processes. If the data feed agreement with Broadridge was terminated, we would have to incur significant expenses in order to input our clients' voting instructions directly into Broadridge's proprietary electronic voting systems and our business and results of operations would be materially and adversely affected. Since ISS also competes with Broadridge in some markets with respect to providing certain aspects of proxy voting services, Broadridge may have an incentive not to renew ISS' data feed agreement when its initial term expires or to offer renewal terms which we may deem unreasonable. From

time to time we receive notices from data suppliers , including stock exchanges, threatening to terminate the provision of their data to us. Termination of one or more of our significant data agreements or exclusion from, or restricted use of, or litigation in connection with, a data provider's information could decrease the available information for us to use and offer our clients and may have a material adverse effect on our business, financial condition or results of operations.

Although data suppliers and stock exchanges typically benefit from broad access to their data, some of our competitors could enter into exclusive contracts with our data suppliers, including with certain stock exchanges. If our competitors enter into such exclusive contracts, we may be precluded from receiving certain data from these suppliers or restricted in our use of such data, which would give our competitors a competitive advantage. Such exclusive contracts would hinder our ability to provide our clients with the data they prefer, which could lead to a decrease in our client base and could have a material adverse effect on our business, financial condition or results of operations.

Some data suppliers may seek to increase licensing fees for providing their content to us. If we are unable to renegotiate acceptable licensing arrangements with these data suppliers or find alternative sources of equivalent content, we may be required to reduce our profit margins or experience a reduction in our market share.

Some of our third-party suppliers also are our competitors, increasing the risks noted above.

We are dependent on key personnel in our professional staff for their expertise. If we fail to attract and retain the necessary qualified personnel, our business, financial condition or results of operations could be materially adversely affected.

The development, maintenance and support of our products is dependent upon the knowledge, experience and ability of our highly skilled, educated and trained employees. Accordingly, the success of our business depends to a significant extent upon the continued service of our executive officers and other key management, research, sales and marketing, operations, information technology and other technical personnel. In addition, the members of ISS' policy board use their experience and expertise in corporate governance and policy formation to ensure ISS' voting policies are developed and applied within a framework of corporate governance best practices. Other ISS employees have extensive experience in the process and mechanics of voting proxies. Although we do not believe that we are dependent upon any individual employee, the loss of a group of our key professional employees could have a material adverse effect on our business, financial condition or results of operations. We believe our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, research, sales and marketing, information technology, software engineering and other technical personnel. Competition for such personnel worldwide is intense, and there can be no assurance that we will be successful in attracting or retaining such personnel. Additionally, in connection with our IPO, we issued founders grants to some of our employees and as these awards vest their effectiveness as a retention tool diminishes. If the equity incentive plans that we currently have in place do not adequately compensate our key employees or are not competitive, we may lose key personnel. If we fail to attract and retain the necessary qualified personnel our products may suffer, which could have a material adverse effect on our business, financial condition or results of operations.

Our indebtedness could materially adversely affect our business, financial condition or results of operations.

On June 1, 2009, we entered into a senior secured credit agreement, which is comprised of (i) a 1,275.0 million six-year term loan facility and (ii) a \$100.0 million five-year revolving credit facility ("New Credit Facility"). "Item 2.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

The New Credit Facility is guaranteed on a senior secured basis by each of our direct and indirect wholly-owned domestic subsidiaries and secured by a valid and perfected first priority lien and security interest in substantially all of the shares of the capital stock of our present and future domestic subsidiaries and up to 65% of the shares of capital stock of our foreign subsidiaries, substantially all of our and our domestic subsidiaries' present and future property and assets and the proceeds thereof. In addition, the New Credit Facility contains restrictive covenants that limit our ability and our existing future subsidiaries' abilities to, among other things, incur liens; incur additional indebtedness; make or hold investments; make acquisitions, merge, dissolve, liquidate, consolidate with or into another person; sell, transfer or dispose of assets; pay dividends or other distributions in respect of our capital stock; change the nature of our business; enter into any transactions with affiliates other than on an arm's length basis; and prepay, redeem or repurchase debt.

The New Credit Facility also requires us and our subsidiaries to achieve specified financial and operating results and maintain compliance with the following financial ratios on a consolidated basis: (1) the maximum total leverage ratio (as defined in the New Credit Facility) measured quarterly on a rolling four-quarter basis shall not exceed (a) 4.0:1.00 through February 28, 2011, (b) 3.75:1.00 from March 1, 2011 through May 31, 2011, (c) 3.5:1.00 from June 1, 2011 through August 31, 2011, (d) 3.25:1.00 from September 1, 2011 through December 31, 2011 and (e) 2.75:1.00 thereafter; and (2) the minimum interest coverage ratio (as defined in the New Credit Facility) measured quarterly on a rolling four-quarter basis shall be (a) 4.5:1.00 through February 28, 2011, (b) 5.0:1.00 thereafter.

In addition, our New Credit Facility contains the following affirmative covenants, among others: periodic delivery of financial statements, budgets and officer's certificates; payment of other obligations; compliance with laws and regulations; payment of taxes and other material obligations; maintenance of property and insurance; performance of material leases; right of the lenders to inspect property, books and records; notices of defaults and other material events; and maintenance of books and records.

In addition, we may need to incur additional indebtedness in the future in the ordinary course of business. Our level of indebtedness could increase our vulnerability to general economic consequences; require us to dedicate a substantial portion of our cash flow and proceeds of any additional equity issuances to payments of our indebtedness; make it difficult for us to optimally capitalize and manage the cash flow for our business; limit our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate; place us at a competitive disadvantage to our competitors that have less debt; limit our ability to borrow money or sell stock to fund our working capital and capital expenditures; limit our ability to consummate acquisitions; and increase our interest expense.

Changes in government regulations could materially adversely affect our business, financial condition or results of operations.

The financial services industry is subject to extensive regulation at the federal and state levels, as well as by foreign governments. It is very difficult to predict the future impact of the broad and expanding legislative and regulatory requirements affecting our business and our clients' businesses. If we fail to comply with any applicable laws, rules or regulations, we could be subject to fines or other penalties. There can be no assurance that changes in laws, rules or regulations will not have a material adverse effect on our business, financial condition or results of operations.

- **Investment Advisers Act**—Except with respect to our Institutional Shareholder Services, Inc. (“ISS”) subsidiary, we believe that our products do not provide investment advice for purposes of the Investment Advisers Act of 1940. Future developments in our product line or changes to the current laws, rules or regulations could cause this status to change. It is possible we may become registered as an investment adviser under the Investment Advisers Act or similar laws in states or foreign jurisdictions. As a registered investment adviser, we would be subject to the requirements and regulations of the Investment Advisers Act, which relate to, among other things, fiduciary duties, recordkeeping and reporting requirements, disclosure requirements, limitations on agency and principal transactions between an adviser and advisory clients, as well as general anti-fraud prohibitions. Our ISS subsidiary is a registered investment advisor in the U.S. and is therefore subject to these requirements and regulations. We may also be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets around the world. In addition, we may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business.
- **Data Privacy Legislation**—Changes in laws, rules or regulations, or consumer environments relating to consumer privacy or information collection and use may affect our ability to collect and use data. There could be a material adverse impact on our direct marketing, data sales and business due to the enactment of legislation or industry regulations, or simply a change in customs, arising from public concern over consumer privacy issues. Restrictions could be placed upon the collection, management, aggregation and use of information that is currently legally available, in which case our cost of collecting some kinds of data could materially increase. It is also possible that we could be prohibited from collecting or disseminating certain types of data, which could affect our ability to meet our clients' needs.
- **Soft Dollars**—Approximately 7% and 12% of our revenues were paid through softdollar arrangements for the six months ended May 31, 2010 and 2009, respectively. Approximately 8%, 12% and 13% of our revenues were paid through soft dollar arrangements for the fiscal years ended November 30, 2009, 2008 and 2007, respectively. U.S. clients accounted for 73%, 62% and 68% of total soft dollar revenues for the fiscal years ended November 30, 2009, 2008 and 2007, respectively. On July 18, 2006, the SEC issued Interpretive Release No. 34-54165, which became effective on July 24, 2006. The release provides guidance on asset managers' use of client commissions to pay for brokerage and research services within the scope of Section 28(e) of the Securities Exchange Act of 1934 (the “Exchange Act”). The Interpretive Release outlines a framework for determining what types of research services fall within the safe harbor provisions of that section. Market participants had a six-month grace period that ended on January 24, 2007 to bring their soft dollar practices into compliance with the new guidance. We rely on our clients to determine whether our products fall within the description of eligible research services, whether our products provide lawful and appropriate assistance to the money manager in undertaking investment decisions, and whether the commissions are reasonable in relation to the value of the products provided for their particular business in the U.S. and abroad. If clients decide they cannot or will not pay for our products through soft dollar arrangements, or if



additional rules are issued or certain interpretations are followed that narrow the definition of research or brokerage services that can be paid for on behalf of a money manager through use of soft dollars in the U.S. or abroad or the safe harbor provisions of Section 28(e) of the Exchange Act are eliminated, our revenues could decrease.

We are subject to political, economic, legal, operational, franchise and other risks as a result of our international operations, which could adversely impact our businesses in many ways.

In order to continue to expand our growth outside the United States, we must establish and maintain a local presence of sales, distribution and customer service by establishing local offices throughout the world. As we continue to expand our international operations, we increase our exposure to political, economic, legal, operational, franchise and other risks that are inherent in operating in many countries, including risks of possible capital controls, exchange controls and other restrictive governmental actions, as well as the outbreak of hostilities or political and governmental instability. We have established and intend to further grow our presence in the Middle East, Asia, Africa, Eastern Europe and Latin America. In the last few years, we have opened offices in Budapest, Dubai, Monterrey, Mumbai and Shanghai. A significant number of our employees are

located in offices outside of the United States and a number of those employees are located in emerging market centers. In many countries, the laws and regulations applicable to the financial services industries are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market. Our inability to maintain consistent internal policies and procedures across our office and remain in compliance with local laws in a particular market could have a significant and negative effect not only on our businesses in that market but also on our reputation generally.

In order to penetrate markets outside of the United States, we must provide a suite of products and services that fit the needs of the local market. Demand for our products and services are still nascent in many parts of the world. Many countries have not fully developed laws and regulations regarding risk management and corporate governance and, in many cases, institutions in these countries have not developed widely accepted best practices regarding the same. If we do not appropriately tailor our products and services that fit the needs of the local market, we may be unable to effectively grow sales of our products and services outside of the United States. There can be no assurances that demand for our products and services will develop in these countries.

Any perceived conflicts of interest resulting from providing products and services to institutional investors in addition to proxy voting recommendations, or providing products and services to corporations which are the subject of our proxy recommendations or other analytical products and services could harm our reputation and business.

ISS' institutional clients rely on ISS to provide them with informed vote recommendations, benchmark proxy voting guidelines and unbiased analyses of companies' environmental, social and governance attributes. The institutional clients of both our and ISS businesses, particularly hedge funds and more active institutional investors, may have material economic and other interests in the corporations on which ISS provides proxy analyses and ratings or which are the subject of our financial research and analysis products and services. In some cases these institutional clients pay us a significant amount of money for our or ISS products and services and, accordingly, there may be a perception that we might advocate a particular position or provide research that supports a particular conclusion with respect to a corporation in order to satisfy the unique economic or other interests of a particular institutional client. As a result, institutional clients, competitors and other market participants could raise questions about our ability to provide unbiased services, which could harm our reputation.

Through our ISS Corporate Services subsidiary, we provide products and services to corporate clients who often use our services to learn about and improve their governance practices. Accordingly, there may be a perceived conflict of interest between the services we provide to institutional clients and the services, including our Compensation Advisory Services, provided to certain corporate clients. For example, when we provide corporate governance services to a corporate client and at the same time provide proxy vote recommendations to institutional clients regarding that corporation's proxy items, there may be a perception that we may treat that corporation more favorably due to its use of our services.

The safeguards that we have implemented may not be adequate to manage these apparent conflicts of interest, and clients or competitors may question the integrity of our services. In the event that we fail to adequately manage these perceived conflicts of interest, we could incur reputational damage, which could have a material adverse effect on our business, financial condition and operating results.

Changes in the legislative, regulatory and corporate environments in which our clients operate may adversely impact our financial results.

ISS' historical growth has been due, in large part, to increased regulatory requirements, highly visible corporate scandals, increased shareholder activism and corporate chief executive officers and boards of directors that are increasingly concerned about, and responsive to, shareholder concerns. To the extent that any of these trends change,

the demand for ISS' products and services could be reduced, and this could have a material adverse effect on our business, financial condition or results of operation. To the extent these regulations change or are not extended to other markets, our business, financial condition and results of operation could be materially adversely affected.

ISS' products and services support the proxy voting processes of clients. Consequently, we may be exposed to potential liability claims brought by ISS' clients or third parties as a result of the operational failure of our products and services.

ISS' products and services support the proxy voting processes of clients. If ISS were to fail to provide the services provided for in its client contracts, we could be required to provide credits to its clients and in some cases we may be subject to contractual penalties. ISS' client agreements generally have provisions designed to limit our exposure to potential liability claims brought by its clients or other third parties based on the operational failure of its products and services. However, these provisions could be invalidated by unfavorable judicial decisions or by federal, state, foreign or local laws. Any such

claim, even if the outcome were to be ultimately favorable to us, could involve a significant commitment of management, personnel, financial and other resources.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There have been no unregistered sales of equity securities.

The table below sets forth the information with respect to purchases made by or on behalf of the Company of its common shares during the quarter ended May 31, 2010.

### Issuer Purchases of Equity Securities

| Period  | Total Number<br>of Shares<br>Purchased | Average Price<br>Paid Per Share | Total Number<br>of Shares<br>Purchased As<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | Approximate<br>Dollar Value of<br>Shares that May<br>Yet Be Purchased<br>Under the Plans or<br>Programs |
|---|--|---------------------------------|--|---|
| <b>Month #1</b><br>(March 1, 2010-March 31, 2010) |  |                                 |  |   |
| Employee Transactions (1)                         | 142                                    | \$32.61                         | N/A  | N/A   |
| <b>Month #2</b><br>(April 1, 2010-April 30, 2010) |  |                                 |  |   |
| Employee Transactions (1)                         | —                                      | \$—                             | N/A  | N/A   |
| <b>Month #3</b><br>(May 1, 2010-May 31, 2010)     |  |                                 |  |   |
| Employee Transactions (1)                         | —                                      | \$—                             | N/A  | N/A   |
| <b>Total</b>                                      |  |                                 |  |   |
| Employee Transactions (1)                         | 142                                    | \$32.61                         | N/A  | N/A   |

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

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information.

None.

Item 6. Exhibits

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

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SIGNATURES

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

Dated: July 1, 2010

MSCI INC.  
(Registrant)

By: /s/ David M.  
Obstler  
David M.  
Obstler  
Principal  
Financial  
Officer

EXHIBIT INDEX

MSCI INC.

QUARTER ENDED MAY 31, 2010

- 3.1 Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Form 10-K (File No. 001-33812), filed with the SEC on February 28, 2008)
- 3.2 Amended and Restated By-laws (filed as Exhibit 3.2 to the Company's Form 10-K (File No. 001-33812), filed with the SEC on February 28, 2008)
- 10.1 Credit Agreement dated as of June 1, 2010 among MSCI Inc., as the Borrower, Morgan Stanley Senior Funding, Inc., as Administrative Agent, Morgan Stanley & Co. Incorporated, as Collateral Agent, Morgan Stanley Senior Funding, Inc., as Swing Line Lender and L/C Issuer and the other lenders party thereto (filed as Exhibit 2.2 to the Company's Form 8-K (File No. 001-33812), filed with the SEC on June 1, 2010 and incorporated herein by reference herein)
- \*†10.2 Amendment to Index License Agreement for Funds, dated as of December 9, 2008, between MSCI Inc. and Barclays Global Investors, N.A.
- \*†10.3 Amendment to Index License Agreement for Funds, dated as of May 21, 2009, between MSCI Inc. and Barclays Global Investors, N.A.
- \* 10.4 Amendment to Index License Agreement for Funds, dated as of September 30, 2009, between MSCI Inc. and Barclays Global Investors, N.A.
- \*†10.5 Amendment to Index License Agreement for Funds, dated as of October 27, 2009, between MSCI Inc. and Barclays Global Investors, N.A.
- 10.6 RiskMetrics Group, Inc. 2000 Stock Option Plan (filed as Exhibit 99.1 to the Company's Post-Effective Amendment No. 1 on Form S-8 to Form S-4 (File No. 333-165888), filed on June 3, 2010 and incorporated by reference herein)
- 10.7 RiskMetrics Group, Inc. 2004 Stock Option Plan (filed as Exhibit 99.2 to the Company's Post-Effective Amendment No. 1 on Form S-8 to Form S-4 (File No. 333-165888), filed on June 3, 2010 and incorporated by reference herein)
- 10.8 Institutional Shareholder Services Holdings, Inc. Equity Incentive Plan (filed as Exhibit 99.3 to the Company's Post-Effective Amendment No. 1 on Form S-8 to Form S-4 (File No. 333-165888), filed on June 3, 2010 and incorporated by reference herein)
- 10.9 RiskMetrics Group, Inc. 2007 Omnibus Incentive Compensation Plan (filed as Exhibit 99.4 to the Company's Post-Effective Amendment No. 1 on Form S-8 to

Form S-4 (File No. 333-165888), filed on June 3, 2010 and incorporated by reference herein)

\*†10.10 Datafeed License Agreement, dated October 27, 2003, between ISS and ADP Investor Communications Services, Inc.

\*†10.11 First Amendment to Datafeed License Agreement, dated as of January 3, 2005, between ISS and ADP Investor Communications Services, Inc.

11 Statement Re: Computation of Earnings Per Common share (The calculation per share earnings is in Part I, Item I, Note 3 to the Condensed Consolidated Financial Statements (Earnings Per Common Share) and is omitted in accordance with Section (b)(11) of Item 601 of Regulation S-K.

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\* 15 Letter of awareness from Deloitte & Touche LLP, dated July 1, 2010, concerning unaudited interim financial information

\*\* 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer

\*\* 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer

\*\* 32.1 Section 1350 Certification of the Chief Executive Officer and the Chief Financial Officer

\* Filed herewith

\*\*Furnished herewith

† Portions of this Exhibit have been omitted pursuant to a request for confidential treatment. These portions have been filed separately with the Securities and Exchange Commission.

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