

MSCI Inc.  
Form 10-Q  
May 04, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from            to

Commission file number 001-33812

**MSCI INC.**

(Exact Name of Registrant as Specified in its Charter)

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**Delaware**  
(State of Incorporation)

**13-4038723**  
(I.R.S. Employer Identification Number)

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

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

**10005**  
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of April 30, 2012, there were 121,546,233 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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FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2012

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AVAILABLE INFORMATION

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

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

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

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

Corporate Governance Policies; and

Code of Ethics and Business Conduct.

MSCI Inc.'s Code of Ethics and Business Conduct applies to all directors, officers and employees, including its Chief Executive Officer and its Chief Financial Officer. MSCI Inc. will post any amendments to the Code of Ethics and Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange, Inc. (NYSE) on its internet site. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, One Chase Manhattan Plaza, 44<sup>th</sup> Floor, New York, NY 10005; (212) 804-1583. The information on MSCI Inc.'s internet site is not incorporated by reference into this report.

**Table of Contents****PART I****Item 1. Condensed Consolidated Financial Statements****MSCI INC.****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(in thousands, except share and per share data)**

	March 31, 2012	As of December 31, 2011 (unaudited)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 266,022	\$ 252,211
Short-term investments	194,157	140,490
Trade receivables (net of allowances of \$767 and \$857 as of March 31, 2012 and December 31, 2011, respectively)	172,181	180,566
Deferred taxes	40,039	40,952
Prepaid taxes	16,741	38,022
Prepaid and other assets	23,992	25,702
<b>Total current assets</b>	<b>713,132</b>	<b>677,943</b>
Property, equipment and leasehold improvements (net of accumulated depreciation of \$65,682 and \$60,088 at March 31, 2012 and December 31, 2011, respectively)	39,710	37,623
Goodwill	1,708,585	1,708,585
Intangible assets (net of accumulated amortization of \$268,758 and \$255,579 at March 31, 2012 and December 31, 2011, respectively)	628,922	644,881
Other non-current assets	22,698	23,964
<b>Total assets</b>	<b>\$ 3,113,047</b>	<b>\$ 3,092,996</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 166	\$ 239
Accrued compensation and related benefits	32,194	107,506
Other accrued liabilities	48,439	45,504
Current maturities of long term debt	10,342	10,339
Deferred revenue	330,050	289,217
<b>Total current liabilities</b>	<b>421,191</b>	<b>452,805</b>
Long term debt, net of current maturities	1,063,962	1,066,548
Deferred taxes	235,429	240,456
Other non-current liabilities	27,861	27,755
<b>Total liabilities</b>	<b>1,748,443</b>	<b>1,787,564</b>

**Commitments and Contingencies (see Note 8)****Shareholders equity:**

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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; 123,073,966 and 122,713,226 class A shares issued and 121,502,892 and 121,212,191 class A shares outstanding at March 31, 2012 and December 31, 2011, respectively; no class B shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively)	1,231	1,227
Treasury shares, at cost (1,571,074 and 1,501,035 shares at March 31, 2012 and December 31, 2011, respectively)	(52,136)	(49,827)
Additional paid in capital	1,011,036	995,665
Retained earnings	407,427	363,461
Accumulated other comprehensive income (loss)	(2,954)	(5,094)
<b>Total shareholders equity</b>	<b>1,364,604</b>	<b>1,305,432</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 3,113,047</b>	<b>\$ 3,092,996</b>

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	
Operating revenues	\$ 229,052	\$ 223,298
Cost of services	72,291	70,218
Selling, general and administrative	55,436	51,418
Restructuring	(29)	4,431
Amortization of intangible assets	15,959	16,692
Depreciation and amortization of property, equipment and leasehold improvements	4,416	5,110
Total operating expenses	148,073	147,869
<b>Operating income</b>	<b>80,979</b>	<b>75,429</b>
Interest income	(223)	(143)
Interest expense	12,355	16,587
Other expense	608	5,641
<b>Other expense (income), net</b>	<b>12,740</b>	<b>22,085</b>
Income before provision for income taxes	68,239	53,344
Provision for income taxes	24,273	19,823
<b>Net income</b>	<b>\$ 43,966</b>	<b>\$ 33,521</b>
Earnings per basic common share	\$ 0.36	\$ 0.28
Earnings per diluted common share	\$ 0.35	\$ 0.27
Weighted average shares outstanding used in computing earnings per share		
Basic	121,754	120,282
Diluted	123,113	122,013

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

**Table of Contents****MSCI INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	
Net income	\$ 43,966	\$ 33,521
Other comprehensive income (loss):		
Foreign currency translation adjustments	3,529	1,873
Income tax effect	(1,390)	(732)
Foreign currency translation adjustments, net	2,139	1,141
Unrealized gains (losses) on cash flow hedges	28	(8)
Income tax effect	(33)	3
Unrealized gains (losses) on cash flow hedges, net	(5)	(5)
Unrealized losses on available-for-sale securities	(9)	
Income tax effect	3	
Unrealized losses on available-for-sale securities, net	(6)	
Pension and other post-retirement adjustments	17	(4)
Income tax effect	(5)	
Pension and other post-retirement adjustments, net	12	(4)
Other comprehensive income, net of tax	2,140	1,132
Comprehensive income	\$ 46,106	\$ 34,653

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

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	
<b>Cash flows from operating activities</b>		
Net income	\$ 43,966	\$ 33,521
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	15,959	16,692
Share-based expense	5,843	8,454
Depreciation and amortization of property, equipment and leasehold improvements	4,416	5,110
Amortization of debt origination fees	1,268	1,847
Deferred taxes	(5,687)	12,063
Amortization of discount on long term debt	229	340
Excess tax benefits from share-based compensation	(1,262)	(2,577)
Other non-cash adjustments	(74)	1,131
Changes in assets and liabilities, net of assets and liabilities acquired:		
Trade receivables	8,574	(46,949)
Prepaid income taxes	22,596	(6,857)
Prepaid and other assets	1,761	(1,475)
Accounts payable	(70)	271
Deferred revenue	40,951	14,344
Accrued compensation and related benefits	(71,230)	(61,747)
Other accrued liabilities	1,392	