

MSCI Inc.
Form 10-Q
July 07, 2008
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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 May 31, 2008

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

10005

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(Address of Principal Executive Offices)

(Zip Code)

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

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

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

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

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

As of June 30, 2008, there were 47,012,928.00 shares of the Registrant's Class A Common Stock, \$0.01 par value, outstanding and 53,038,764.79 shares of Registrant's Class B Common Stock, \$0.01 par value, outstanding.

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We own or have rights to use trademarks, trade names and service marks that we use in conjunction with the operation of our business, including, but not limited to: @CREDIT, @ENERGY, @INTEREST, ACWI, Aegis, Alphabuilder, Barra, Barra One, BarraOne, Cosmos, EAFE, FEA, GICS, IndexMap, Market Impact Model, MSCI, ProStorage, StructureTool, TotalRisk, VaRdelta and VaRworks. All other trademarks, trade names and service marks included in this Quarterly Report on Form 10-Q are property of their respective owners. For ease of reading, designations of trademarks and registered marks have been omitted from the text of this Quarterly Report on Form 10-Q.

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AVAILABLE INFORMATION

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

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

MSCI Inc. has a Corporate Governance webpage. You can access information about MSCI Inc.'s corporate governance at www.msicibarra.com/about/company/governance. MSCI Inc. posts the following on its Corporate Governance webpage:

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

Corporate Governance Policies; and

Code of Ethics and Business Conduct.

MSCI Inc.'s Code of Ethics and Business Conduct applies to all directors, officers and employees, including its Chief Executive Officer and its Chief Financial Officer. MSCI Inc. will post any amendments to the Code of Ethics and Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange, Inc. (NYSE) on its internet site. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, Wall Street Plaza, 88 Pine Street, New York, NY 10005; (212) 804-1583. The information on MSCI Inc.'s internet site is not incorporated by reference into this report.

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

	May 31, 2008	As of November 30, 2007 (unaudited)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 32,294	\$ 33,818
Cash deposited with related parties	203,315	137,625
Trade receivables (net of allowances of \$211 and \$1,584 as of May 31, 2008 and November 30, 2007, respectively)	106,204	77,748
Due from related parties	1,965	2,627
Deferred taxes	22,239	17,425
Prepaid and other assets	16,613	12,160
Total current assets	382,630	281,403
Property, equipment and leasehold improvements, (net of accumulated depreciation of \$12,144 and \$13,404 at May 31, 2008 and November 30, 2007, respectively)	15,367	4,246
Investments in unconsolidated company	3,000	3,000
Goodwill	441,623	441,623
Intangible assets (net of accumulated amortization of \$108,793 and \$94,543 at May 31, 2008 and November 30, 2007, respectively)	160,157	174,407
Total assets	1,002,777	\$ 904,679
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Payable to related parties	\$ 32,150	\$ 17,143
Income taxes payable	25,937	16,212
Accrued compensation and related benefits	36,009	53,831
Other accrued liabilities	20,238	10,265
Current maturities of long-term debt	22,250	22,250
Deferred revenue	168,824	125,230
Total current liabilities	305,408	244,931
Long-term debt, net of current maturities	391,625	402,750
Deferred taxes	54,883	56,977
Total liabilities	751,916	704,658
Commitments and Contingencies (see note 8)		
Shareholders Equity		
Common stock (par value \$0.01, 500,000,000 class A shares authorized and 250,000,000 class B shares authorized; 47,012,928 class A shares and 53,038,765 class B shares issued and outstanding)	1,001	1,000

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Treasury shares, at cost (18,198 shares at May 31, 2008 and 0 shares at November 30, 2007)	(557)	
Additional paid in capital	277,173	265,098
Accumulated deficit	(29,491)	(65,884)
Accumulated other comprehensive income (loss)	2,735	(193)
Total shareholders equity	250,861	200,021
Total liabilities and shareholders equity	1,002,777	\$ 904,679

See Notes to Condensed Consolidated Financial Statements

Table of Contents**MSCI INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except share and per share data)

	Three Months Ended May 31,		Six Months Ended May 31,	
	2008 (unaudited)	2007 (unaudited)	2008 (unaudited)	2007 (unaudited)
Operating revenues ⁽¹⁾	\$ 108,195	\$ 88,752	\$ 213,146	\$ 175,821
Cost of services ⁽¹⁾	30,011	30,341	61,597	62,607
Selling, general and administrative ⁽¹⁾	37,611	25,489	69,161	44,453
Amortization of intangible assets	7,125	6,265	14,250	12,531
Total operating expenses	74,747	62,095	145,008	119,591
Operating income	33,448	26,657	68,138	56,230
Interest income ⁽¹⁾	3,508	5,524	5,880	10,586
Interest expense ⁽¹⁾	(6,668)	(502)	(15,131)	(597)
Other income	97	26	233	53
Interest income (expense) and other, net	(3,063)	5,048	(9,018)	10,042
Income before provision for income taxes	30,385	31,705	59,120	66,272
Provision for income taxes	11,754	11,854	22,555	24,779
Net income	\$ 18,631	\$ 19,851	\$ 36,565	\$ 41,493
Earnings per basic common share	\$ 0.19	\$ 0.24	\$ 0.37	\$ 0.49
Earnings per diluted common share	\$ 0.18	\$ 0.24	\$ 0.36	\$ 0.49
Weighted average shares outstanding used in computing earnings per share				
Basic	100,026	83,900	100,019	83,900
Diluted	101,282	83,900	101,223	83,900

⁽¹⁾ Amounts related to related parties are as follows:

	For the Three Months Ended May 31,		For the Six Months Ended May 31,	
	2008 (in thousands)	2007 (in thousands)	2008 (in thousands)	2007 (in thousands)
Operating revenues	\$ 3,085	\$ 2,911	\$ 6,235	\$ 7,019
Cost of services	\$ 2,628	\$ 3,556	\$ 6,034	\$ 7,108
Selling, general and administrative	\$ 3,132	\$ 2,778	\$ 6,038	\$ 5,688
Interest income	\$ 2,065	\$ 5,484	\$ 4,384	\$ 10,496
Interest expense	\$ 171	\$ 250	\$ 362	\$ 345

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended May 31,	
	2008	2007
	(unaudited)	
Cash flows from operating activities		
Net income	\$ 36,565	\$ 41,493
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, equipment and leasehold improvements	1,006	1,089
Amortization of intangible assets	14,250	12,531
Compensation payable in common stock and options	12,097	
Provision for (recovery of) bad debts	(1,336)	50
Deferred taxes	(6,908)	(2,784)
Loss on sale or disposal of property, equipment and leasehold improvements, net	18	10
Changes in assets and liabilities:		
Trade receivables	(27,120)	(31,091)
Due from related parties	662	32,613
Prepaid and other assets	(4,453)	51
Payable to related parties	15,007	(34,383)
Deferred revenue	43,594	37,286
Accrued compensation and related benefits	(18,160)	(19,545)
Income taxes payable	9,725	(108)
Other accrued liabilities	5,790	4,173
Net cash provided by operating activities	\$ 80,737	\$ 41,385
Cash flows from investing activities		
Cash deposited with related parties	(65,690)	(36,779)
Purchased property, equipment and leasehold improvements	(5,820)	(357)
Net cash used in investing activities	(71,510)	(37,136)
Cash flows from financing activities		
Repayment of long-term debt	(11,125)	
Repurchase of treasury shares	(557)	
Net cash used by financing activities	(11,682)	
Effect of exchange rate changes	931	1,340
Net increase (decrease) in cash	(1,524)	5,589