MSCI Inc. Form 10-Q July 07, 2008 Table of Contents

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 x 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 x (Do not check if a smaller reporting company)

Smaller reporting company "

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

As of 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.

MSCI INC.

FORM 10-Q

FOR THE QUARTER ENDED MAY 31, 2008

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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.mscibarra.com*. You can access MSCI Inc. s Investor Relations webpage at *www.mscibarra.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.mscibarra.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.

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PART I

Item 1. Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands, except share and per share data)

Current Assets \$ 32,294 \$ 33,818 Cash and cash equivalentis 203,315 137,625 Trade receivables (net of allowances of \$211 and \$1,584 as of May 31, 2008 and November 30, 2007, respectively) 106,6204 77,748 Due from related parties 1,905 2,627 Dreforred taxes 22,239 17,425 Prepaid and other assets 282,630 281,403 Property, equipment and leasehold improvements, (net of accumulated depreciation of \$12,144 and \$1,208 and November 30, 2007, respectively) 15,367 4,246 Investments in unconsolidated company 3,000 3,000 3,000 3,000 Goodwill 441,623 441,623 441,623 441,623 441,623 Intangible assets (net of accumulated amorization of \$108,793 and \$94,543 at May 31, 2008 and 1,002,777 \$ 904,679 LIABILITIES AND SHAREHOLDERS EQUITY 22,250 22,250 22,250 Current Liabilities 36,009 53,881 1,012,777 \$ 904,679 LOPATEL Contrent Liabilities 22,5937 16,212 441,623 441,623 Intangible assets (net or facurent maturities of		As of				
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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	Deferred taxes	54,	883		56,977	
Shareholders Equity Common stock (par value \$0.01, 500,000,000 class A shares authorized and 250,000,000 class B shares	Total liabilities	751,	916		704,658	
Common stock (par value \$0.01, 500,000,000 class A shares authorized and 250,000,000 class B shares	Commitments and Contingencies (see note 8)					
Common stock (par value \$0.01, 500,000,000 class A shares authorized and 250,000,000 class B shares	Shareholders Equity					
authorized; 47,012,928 class A shares and 53,038,765 class B shares issued and outstanding) 1,001 1,000	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

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

	Three Mon May 2008 (unaud	31, 2007	Six Mont May 2008 (unau	2007 31,
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:

	Fo	For the Three Months Ended May 31,		For the Six Mon Ended May 31				
	:	2008	2007		2008		2007	
		(in thousands) (in			(in thou	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

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MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS CASH FLOWS

(in thousands)

	Six Months Ended May 3 2008 2007 (unaudited)		
Cash flows from operating activities	(una	uuncu)	
Net income	\$ 36.565	\$	41,493
Adjustments to reconcile net income to net cash provided by operating activities:	\$ 20,200	Ψ	.1,190
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		<i>,</i>
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