

MSCI Inc.  
Form 10-Q  
May 02, 2014  
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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, 2014**

**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)**

**7 World Trade Center**

**250 Greenwich Street, 49<sup>th</sup> Floor**

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

**10007**  
**(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.

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 28, 2014, there were 116,704,758 shares of the registrant's common stock, par value \$0.01, outstanding.

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AVAILABLE INFORMATION

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

MSCI Inc.'s website 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 website, statements of beneficial ownership of MSCI Inc.'s equity securities filed by its directors, officers, 5% or greater shareholders and others under Section 16 of the Exchange Act.

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 MSCI Inc.'s Audit Committee, Compensation Committee and Nominating and Governance Committee;

Corporate Governance Policies;

Procedures for Submission of Ethical Accounting Related Complaints; and

Code of Ethics and Business Conduct.

MSCI Inc.'s Code of Ethics and Business Conduct applies to all directors, officers and employees, including its Chief Executive Officer and its Chief Financial Officer. MSCI Inc. will post any amendments to the Code of Ethics and Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange, Inc. on its website. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, 7 World Trade Center, 250 Greenwich Street, 49<sup>th</sup> Floor, New York, NY 10007; (212) 804-1583. The information on MSCI Inc.'s website is not incorporated by reference into this report.

FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to future events or to future financial performance and involve known and unknown risks, uncertainties and other factors that may cause MSCI Inc.'s actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements. In some cases, you can identify

forward-looking statements by the use of words such as may, could, expect, intend, plan, seek, anticipate, estimate, predict, potential, or continue, or the negative of these terms or other comparable terminology. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond MSCI Inc.'s control and that could materially affect actual results, levels of activity, performance, or achievements.

Other factors that could materially affect actual results, levels of activity, performance or achievements can be found in MSCI Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on February 28, 2014, and in quarterly reports on Form 10-Q and current reports on Form 8-K filed with the SEC. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what MSCI Inc. projected. Any forward-looking statement in this report reflects MSCI Inc.'s current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to MSCI Inc.'s operations, results of operations, growth strategy and liquidity. MSCI Inc. assumes no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise, except as required by law.

#### WEBSITE AND SOCIAL MEDIA DISCLOSURE

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

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)**

	<b>As of</b>	
	<b>March 31,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 260,450	\$ 358,434
Accounts receivable (net of allowances of \$698 and \$1,280 at March 31, 2014 and December 31, 2013, respectively)	191,905	169,490
Deferred taxes	75,931	52,888
Prepaid taxes	17,091	27,333
Prepaid and other assets	27,810	28,890
Assets held for sale	415,673	
<b>Total current assets</b>	<b>988,860</b>	<b>637,035</b>
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$77,854 and \$75,371 at March, 2014 and December 31, 2013, respectively)	79,758	85,588
Goodwill	1,547,173	1,798,821
Intangible assets (net of accumulated amortization of \$338,141 and \$374,377 at March 31, 2014 and December 31, 2013, respectively)	462,348	595,707
Other non-current assets	15,679	17,386
<b>Total assets</b>	<b>\$ 3,093,818</b>	<b>\$ 3,134,537</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 1,542	\$ 1,198
Accrued compensation and related benefits	42,635	121,124
Other accrued liabilities	40,252	41,212
Current maturities of long-term debt	19,775	19,772
Deferred revenue	314,247	319,735
Liabilities held for sale	128,200	
<b>Total current liabilities</b>	<b>546,651</b>	<b>503,041</b>

Long-term debt, net of current maturities	783,065	788,010
Deferred taxes	159,141	221,054
Other non-current liabilities	41,230	46,068
<b>Total liabilities</b>	<b>1,530,087</b>	<b>1,558,173</b>

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

Preferred stock (par value \$0.01; 100,000,000 shares authorized; no shares issued)		
Common stock (par value \$0.01; 750,000,000 common shares authorized; 126,062,931 and 125,555,268 common shares issued and 116,702,810 and 118,083,111 common shares outstanding at March 31, 2014 and December 31, 2013, respectively)	1,261	1,256
Treasury shares, at cost (9,360,121 and 7,472,157 common shares held at March 31, 2014 and December 31, 2013, respectively)	(345,550)	(268,391)
Additional paid in capital	1,057,386	1,073,893
Retained earnings	850,655	770,256
Accumulated other comprehensive income (loss)	(21)	(650)
<b>Total shareholders equity</b>	<b>1,563,731</b>	<b>1,576,364</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 3,093,818</b>	<b>\$ 3,134,537</b>

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

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## MSCI INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	<b>Three Months Ended March 31, 2014      2013 (unaudited)</b>	
<b>Operating revenues</b>	\$ 239,688	\$ 219,469
<b>Operating expenses:</b>		
Cost of services	75,427	65,300
Selling, general and administrative	67,658	55,515
Amortization of intangible assets	11,270	11,166
Depreciation and amortization of property, equipment and leasehold improvements	5,828	4,597
<b>Total operating expenses</b>	160,183	136,578
<b>Operating income</b>	79,505	82,891
Interest income	(156)	(237)
Interest expense	5,059	7,016
Other expense (income)	1,071	1,922
<b>Other expense (income), net</b>	5,974	8,701
<b>Income from continuing operations before provision for income taxes</b>	73,531	74,190
Provision for income taxes	26,385	21,232
<b>Income from continuing operations</b>	47,146	52,958
<b>Income from discontinued operations, net of income taxes</b>	33,253	5,979
<b>Net income</b>	\$ 80,399	\$ 58,937
<b>Earnings per basic common share:</b>		
Earnings per basic common share from continuing operations	\$ 0.40	\$ 0.44
Earnings per basic common share from discontinued operations	0.28	0.05
<b>Earnings per basic common share</b>	\$ 0.68	0.49
<b>Earnings per diluted common share:</b>		
Earnings per diluted common share from continuing operations	\$ 0.40	\$ 0.43
Earnings per diluted common share from discontinued operations	0.28	0.05



<b>Earnings per diluted common share</b>	\$ 0.68	\$ 0.48
Weighted average shares outstanding used in computing earnings per share:		
<b>Basic</b>	117,582	120,746
<b>Diluted</b>	118,597	121,702

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

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**MSCI INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(in thousands)**

	<b>Three Months Ended March 31, 2014      2013 (unaudited)</b>	
Net income	\$ 80,399	\$ 58,937
Other comprehensive income (loss):		
Foreign currency translation adjustments	1,032	(5,462)
Income tax effect	(400)	2,110
Foreign currency translation adjustments, net	632	(3,352)
Unrealized gains (losses) on cash flow hedges		593
Income tax effect		(226)
Unrealized gains (losses) on cash flow hedges, net		367
Unrealized gains (losses) on available-for-sale securities		(5)
Income tax effect		2
Unrealized gains (losses) on available-for-sale securities, net		(3)
Pension and other post-retirement adjustments	(7)	92
Income tax effect	4	(31)
Pension and other post-retirement adjustments, net	(3)	61
Other comprehensive income (loss), net of tax	629	(2,927)
Comprehensive income	\$ 81,028	\$ 56,010

**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 March 31, 2014      2013 (unaudited)</b>	
<b>Cash flows from operating activities</b>		
Net income	\$ 80,399	\$ 58,937
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	14,010	14,486
Stock-based compensation expense	5,171	6,811
Depreciation and amortization of property, equipment and leasehold improvements	6,047	5,080
Amortization of debt origination fees	445	762
Deferred taxes	(26,271)	(5,143)
Amortization of discount on long-term debt	121	246
Excess tax benefits from stock-based compensation	(1,174)	(1,172)
Other non-cash adjustments	(102)	(1,108)
Changes in assets and liabilities, net of assets and liabilities acquired:		
Accounts receivable	(38,879)	(14,213)
Prepaid income taxes	10,385	18,418
Prepaid and other assets	(618)	827
Accounts payable	349	(2,179)
Deferred revenue	46,167	43,405
Accrued compensation and related benefits	(68,646)	(61,639)
Other accrued liabilities	3,480	2,814
Other	(5,635)	4,715
<b>Net cash provided by operating activities</b>	<b>25,249</b>	<b>71,047</b>
<b>Cash flows from investing activities</b>		
Proceeds from redemption of short-term investments		70,900
Acquisitions, net of cash acquired		(23,168)
Proceeds from the sale of capital equipment	7	
Capitalized software development costs	(1,559)	(231)
Capital expenditures	(8,501)	(4,569)
<b>Net cash (used in) provided by investing activities</b>	<b>(10,053)</b>	<b>42,932</b>
<b>Cash flows from financing activities</b>		
Repayment of long-term debt	(5,063)	(26,000)
Repurchase of treasury shares	(107,159)	(9,397)
Proceeds from exercise of stock options	1,710	3,764

Excess tax benefits from stock-based compensation	1,174	1,172
<b>Net cash used in financing activities</b>	(109,338)	(30,461)
<b>Effect of exchange rate changes</b>	566	(3,798)
<b>Net increase (decrease) in cash and cash equivalents</b>	(93,576)	79,720
<b>Cash and cash equivalents, beginning of period</b>	358,434	183,309
<b>Less: Cash and cash equivalents attributed to discontinued operations</b>	(4,408)	
<b>Cash and cash equivalents, end of period</b>	\$ 260,450	\$ 263,029
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 4,542	\$ 5,240
Cash paid for income taxes	\$ 21,131	\$ 10,175
Supplemental disclosure of non-cash investing activities:		
Property, equipment and leasehold improvements in other accrued liabilities	\$ 2,842	\$ 1,255

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

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**Table of Contents****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 global provider of investment decision support tools, including indexes, portfolio risk and performance analytics. The Company's flagship products are its global equity indexes and environmental, social and governance (ESG) products marketed under the MSCI and MSCI ESG Research brands, its private real estate benchmarks marketed under the IPD brand, its portfolio risk and performance analytics covering global equity and fixed income markets marketed under the Barra brand, its market and credit risk analytics marketed under the RiskMetrics and Barra brands, its performance reporting products and services offered to the investment consultant community marketed under the InvestorForce brand and its valuation models and risk management software for the energy and commodities markets marketed under the FEA brand.

On March 17, 2014, MSCI entered into a definitive agreement to sell Institutional Shareholder Services Inc. (ISS). As a result, the Company reported the operating results of ISS in Income from discontinued operations, net of income taxes in the Unaudited Condensed Consolidated Statements of Income for the three months ended March 31, 2014 and 2013. In addition, the assets and liabilities associated with ISS are reported as Assets held for sale and Liabilities held for sale, respectively, in the Unaudited Condensed Consolidated Statement of Financial Condition as of March 31, 2014 (see Note 3, Discontinued Operations, for additional details). As a result of this change, the Company now operates as one segment. Unless otherwise indicated, the disclosures accompanying these unaudited condensed consolidated financial statements reflect the Company's continuing operations.

**Basis of Presentation and Use of Estimates**

These unaudited condensed consolidated financial statements include the accounts of MSCI Inc. and its subsidiaries and include all adjustments of a normal, recurring nature necessary to present fairly the financial condition as of March 31, 2014 and December 31, 2013, the results of operations and comprehensive income for the three months ended March 31, 2014 and 2013 and cash flows for the three months ended March 31, 2014 and 2013. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in MSCI's Annual Report on Form 10-K for the year ended December 31, 2013. The unaudited condensed consolidated financial statement information as of December 31, 2013 has been derived from the 2013 audited consolidated financial statements. The results of operations for interim periods are not necessarily indicative of results for the entire year.

The Company's unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These accounting principles require the Company to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the unaudited condensed consolidated financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Significant estimates and assumptions made by management include the deferral and recognition of revenue, research and development and software capitalization, the allowance for doubtful accounts, impairment of long-lived assets, accrued compensation, income taxes and other matters that affect the unaudited condensed consolidated financial statements and related disclosures. The Company believes that estimates used in the preparation of these unaudited condensed consolidated financial statements are reasonable; however, actual results could differ materially from these estimates.

Intercompany balances and transactions are eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current year financial statement presentation.

### ***Concentrations***

Financial instruments that may potentially subject the Company to concentrations of credit risk consist principally of cash deposits and short-term investments. At March 31, 2014 and December 31, 2013, cash and cash equivalent amounts were \$260.5 million and \$358.4 million, respectively. The Company held no short-term investments at March 31, 2014 or December 31, 2013. The Company receives interest at prevailing money market fund rates on its cash deposits.

For the three months ended March 31, 2014, BlackRock, Inc. accounted for 10.4% of the Company's operating revenues. For the three months ended March 31, 2013, no single customer accounted for 10.0% or more of the Company's operating revenues.

## **2. RECENT ACCOUNTING STANDARDS UPDATES**

In July 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, or ASU 2013-11. The amendments in this update require that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss

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carryforward, a similar tax loss, or a tax credit carryforward, except under a few limited circumstances. The amendments in this update do not require new recurring disclosures. This new guidance is to be applied prospectively for interim and annual periods beginning after December 15, 2013. The adoption of ASU 2013-11 did not have a material impact on the Company's unaudited condensed consolidated financial statements.

In April 2014, the FASB issued Accounting Standards Update No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, or ASU 2014-08. The amendments in this update change the requirements for reporting discontinued operations under ASC Subtopic 205-20, *Presentation of Financial Statements - Discontinued Operations*, such as limiting discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. The amendments in this update also require expanded disclosures in order to provide users of financial statements with more information about the assets, liabilities, revenues and expenses of discontinued operations. Further, the amendments require an entity to disclose the pretax profit or loss of an individually significant component of an entity that does not qualify for discontinued operations reporting. This new guidance is to be applied prospectively for annual periods beginning on or after December 15, 2014, and interim periods within those years, with early adoption permitted. The Company has elected not to early adopt ASU 2014-08 and is still evaluating the potential impact that the update will have on the Company's unaudited condensed consolidated financial statements.

**3. DISCONTINUED OPERATIONS**

On March 17, 2014, MSCI entered into a definitive agreement to sell ISS. MSCI determined that ISS became a long-lived asset held for sale during the three months ended March 31, 2014. A long-lived asset classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell. Since the carrying value of ISS at March 31, 2014 was less than the estimated fair value less cost to sell, no adjustment to the carrying value of this long-lived asset was necessary at that date.

ISS was classified as a discontinued operation during the three months ended March 31, 2014, and therefore MSCI has segregated the operating results of ISS, together with the CFRA product line that was disposed of in March 2013, in *Income from discontinued operations, net of income taxes* in the Unaudited Condensed Consolidated Statements of Income for the three months ended March 31, 2014 and 2013. The assets of ISS have been reclassified to *Assets held for sale* and the liabilities have been reclassified to *Liabilities held for sale* in the Unaudited Condensed Consolidated Statement of Financial Condition as of March 31, 2014.

The carrying amounts of the major classes of assets and liabilities of ISS were as follows:

	<b>As of March 31, 2014 (in thousands)</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 4,408
Accounts receivable	16,947
Deferred taxes	3,070
Prepaid taxes	945
Prepaid and other assets	1,723

<b>Total current assets</b>	27,093
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$4,200)	7,945
Goodwill	252,093
Intangible assets (net of accumulated amortization of \$50,283)	121,269
Other non-current assets	7,273
<b>Total non-current assets</b>	388,580
<b>Total assets held for sale</b>	\$ 415,673
<b>LIABILITIES</b>	
Accrued compensation and related benefits	\$ 4,421
Other accrued liabilities	3,971
Deferred revenue	52,113
<b>Total current liabilities</b>	60,505
Deferred taxes	62,135
Other non-current liabilities	5,560
<b>Total non-current liabilities</b>	67,695
<b>Total liabilities held for sale</b>	\$ 128,200



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**Net Income from Discontinued Operations.** The activity associated with the discontinuation of ISS is as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Revenue from discontinued operations	\$ 32,210	\$ 32,440
Income from discontinued operations before provision for (benefit from) income taxes	\$ 6,217	\$ 9,361
Provision for (benefit from) income taxes <sup>(1)</sup>	(27,036)	3,382
<b>Income from discontinued operations, net of income taxes</b>	<b>\$ 33,253</b>	<b>\$ 5,979</b>

<sup>(1)</sup> The three months ended March 31, 2014 included a \$30.6 million income tax benefit associated with establishing a net deferred tax asset on the difference between ISS tax basis and book basis. This net deferred tax asset is expected to be realized in the quarter ending June 30, 2014 upon the closing of the sale.

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

As required by FASB's Accounting Standards Codification (ASC) Subtopic 220-10, *Comprehensive Income Overall*, the following table presents the amounts reclassified from accumulated other comprehensive income (loss) by the respective line item in the Unaudited Condensed Consolidated Statements of Income:

#### **Reclassifications Out of Accumulated Other Comprehensive Income (Loss)<sup>(1)</sup>**

(in thousands)

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Three Months Ended		Affected Line Item in the Unaudited Condensed Consolidated Statements of Income
	March 31, 2014	March 31, 2013	
Unrealized losses on cash flow hedges			
Interest rate contracts	\$	\$ (593)	Interest expense
		226	Tax benefit

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	\$	\$	(367)	Net of tax
Unrealized gains on available-for-sale securities				
Short-term investments	\$	\$	5	Interest income
			(2)	Tax expense
	\$	\$	3	Net of tax
Total reclassifications for the period, net of tax	\$	\$	(364)	

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

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Basic earnings per share ( EPS ) is computed by dividing income available to MSCI common shareholders by the weighted average number of common shares outstanding during the period. Common shares outstanding include common stock and vested restricted stock unit awards where recipients have satisfied either the explicit vesting terms or retirement-eligible requirements. Diluted EPS reflects the assumed conversion of all dilutive securities. There were 104,272 stock options excluded from the calculation of diluted EPS for the three months ended March 31, 2014, because of their anti-dilutive effect. There were no anti-dilutive securities excluded from the calculation of diluted EPS for the three months ended March 31, 2013.

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:

	<b>Three Months Ended</b>	
	<b>March 31, 2014</b>	<b>March 31, 2013</b>
<b>(in thousands, except per share amounts)</b>		
Income from continuing operations, net of income taxes	\$ 47,146	\$ 52,958
Income from discontinued operations, net of income taxes	33,253	5,979
Net income	80,399	58,937
Less: Allocations of earnings to unvested restricted stock units <sup>(1)</sup>	(132)	(237)
Earnings from continuing operations available to MSCI common shareholders	\$ 80,267	\$ 58,700
Basic weighted average common shares outstanding	117,582	120,746
Effect of dilutive securities:		
Stock options and restricted stock units	1,015	956
Diluted weighted average common shares outstanding	118,597	121,702
Earnings per basic common share from continuing operations	\$ 0.40	\$ 0.44
Earnings per basic common share from discontinued operations	0.28	0.05
<b>Earnings per basic common share</b>	<b>\$ 0.68</b>	<b>\$ 0.49</b>
Earnings per diluted common share from continuing operations	\$ 0.40	\$ 0.43
	0.28	0.05

Earnings per diluted common share from discontinued operations

<b>Earnings per diluted common share</b>	\$ 0.68	\$ 0.48
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- (1) Restricted stock units granted to employees prior to 2013 and all restricted stock units granted to independent directors of the Company have a right to participate in all of the earnings of the Company in the computation of basic EPS and, therefore, these restricted stock units are not included as incremental shares in the diluted EPS computation.

## 6. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements at March 31, 2014 and December 31, 2013 consisted of the following:

Type	Estimated Useful Lives	As of	
		March 31, 2014 <sup>(1)</sup>	December 31, 2013
(in thousands)			
Computer & related equipment	3 to 5 years	\$ 89,386	\$ 86,384
Furniture & fixtures	7 years	8,869	9,108
Leasehold improvements	3 to 21 years	48,349	52,776
Work-in-process		11,008	12,691
Subtotal		157,612	160,959
Accumulated depreciation and amortization		(77,854)	(75,371)
Property, equipment and leasehold improvements, net		\$ 79,758	\$ 85,588

- (1) Property, equipment and leasehold improvements as of March 31, 2014 reflects the reclassification of the amounts associated with the discontinued operations of ISS to Assets held for sale. See Note 3, Discontinued Operations, for additional information.

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Depreciation and amortization expense of property, equipment and leasehold improvements was \$5.8 million and \$4.6 million for the three months ended March 31, 2014 and 2013, respectively.

**7. GOODWILL AND INTANGIBLE ASSETS****Goodwill**

The Company carries goodwill reflected in the table below:

<b>(in thousands)</b>	<b>Goodwill</b>
Goodwill at December 31, 2013	\$ 1,798,821
Changes to goodwill <sup>(1)</sup>	(252,093)
Foreign exchange translation adjustment	445
Goodwill at March 31, 2014	\$ 1,547,173

<sup>(1)</sup> Changes to goodwill reflects the reclassification of the goodwill associated with the discontinued operations of ISS to Assets held for sale. See Note 3, Discontinued Operations, for additional information.

**Intangible Assets**

Amortization expense related to intangible assets for the three months ended March 31, 2014 and 2013 was \$11.3 million and \$11.2 million, respectively.

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

<b>(in thousands)</b>	<b>March 31, 2014<sup>(1)</sup></b>	<b>As of December 31, 2013</b>
<b>Gross intangible assets:</b>		
Customer relationships	\$ 359,235	\$ 478,735
Trademarks/trade names	223,182	257,282
Technology/software	187,184	199,778
Proprietary process		3,800
Proprietary data	28,527	28,527
Subtotal	798,128	968,122
Foreign exchange translation adjustment	2,361	1,962
<b>Total gross intangible assets</b>	<b>\$ 800,489</b>	<b>\$ 970,084</b>

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Accumulated amortization:		
Customer relationships	\$ (100,837)	\$ (125,359)
Trademarks/trade names	(72,567)	(75,696)
Technology/software	(161,560)	(168,481)
Proprietary process		(2,269)
Proprietary data	(2,893)	(2,326)
Subtotal	(337,857)	(374,131)
Foreign exchange translation adjustment	(284)	(246)
Total accumulated amortization	\$ (338,141)	\$ (374,377)
Net intangible assets:		
Customer relationships	\$ 258,398	\$ 353,376
Trademarks/trade names	150,615	181,586
Technology/software	25,624	31,297
Proprietary process		1,531
Proprietary data	25,634	26,201
Subtotal	460,271	593,991
Foreign exchange translation adjustment	2,077	1,716
Total net intangible assets	\$ 462,348	\$ 595,707

- (1) Intangible assets and the associated accumulated amortization as of March 31, 2014 reflects the reclassification of the amounts associated with the discontinued operations of ISS to Assets held for sale. See Note 3, Discontinued Operations, for additional information.

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The estimated amortization expense for succeeding years is presented below:

Fiscal Year	Amortization Expense (in thousands)
Remainder 2014	\$ 34,430
2015	46,296
2016	45,772
2017	40,099
2018	36,899
2019	36,115
Thereafter	222,737
Total	\$ 462,348

**8. COMMITMENTS AND CONTINGENCIES**

**Legal matters.** From time to time, the Company is party to various litigation matters incidental to the conduct of its business. The Company is not presently party to any legal proceedings the resolution of which the Company believes would have a material effect on its business, operating results, financial condition or cash flows.

**Leases.** The Company leases facilities under non-cancelable operating lease agreements. The terms of certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on the straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Rent expense for the three months ended March 31, 2014 and 2013 was \$6.3 million and \$5.2 million, respectively.

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

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On December 13, 2012, as part of the 2012 Repurchase Program, the Company entered into an accelerated share repurchase ( ASR ) agreement with a financial institution to initiate a repurchase aggregating \$100.0 million (the December 2012 ASR Program ). As a result of the December 2012 ASR Program, the Company received 2.2 million shares on December 14, 2012 and 0.8 million shares on July 31, 2013 for a combined average purchase price of \$33.47 per share.

On August 1, 2013, MSCI entered into a second ASR agreement to initiate share repurchases aggregating \$100.0 million (the August 2013 ASR Program ). As a result of the August 2013 ASR Program, the Company received 1.9 million shares on August 2, 2013 and 0.5 million shares on December 30, 2013 for a combined average purchase price of \$41.06 per share.

On February 6, 2014, MSCI utilized the remaining repurchase authorization provided by the 2012 Repurchase Program by entering into a new ASR agreement to initiate share repurchases aggregating \$100.0 million (the February 2014 ASR Program ). The February 2014 ASR Program is structured as a capped ASR in which, on February 7, 2014, the Company paid \$100.0 million and received 1.7 million shares, representing the minimum number of common shares to be repurchased based on a calculation using a specific capped price per share. This price is capped such that only under limited circumstances may the Company be required to deliver shares or pay cash at settlement. The Company anticipates that all repurchases under the February 2014 ASR Program will be completed no later than the final repurchase date in May 2014, although settlement may be accelerated under certain circumstances. Additionally, depending on the average share price through the completion date in May 2014, the Company may receive additional shares under the February 2014 ASR Program.

The \$100.0 million payment was initially split and recorded as a \$70.0 million increase to Treasury stock and a \$30.0 million decrease to Additional paid in capital on the Company's Unaudited Condensed Consolidated Statement of Financial Condition to reflect the initial estimate of the value of shares received.

On February 4, 2014, the Board of Directors approved a stock repurchase program authorizing the purchase of up to \$300.0 million worth of shares of MSCI's common stock which will be available from time to time at management's discretion (the 2014 Repurchase Program ). The 2014 Repurchase Program may be modified, suspended or terminated by the Company at any time without prior notice.

**Long-term debt.** On June 1, 2010, the Company entered into a senior secured credit agreement comprised of (i) a six-year term loan facility (the 2010 Term Loan ) and (ii) a five-year revolving credit facility (the revolving credit facility, together with the 2010 Term Loan, the 2010 Credit Facility ).

On March 14, 2011, the Company completed the repricing of the 2010 Credit Facility pursuant to Amendment No. 2 to the 2010 Credit Facility ( Amendment No. 2 ). Amendment No. 2 provided for the incurrence of a new senior secured term loan (the 2011 Term Loan ). The proceeds of the 2011 Term Loan, together with cash on hand, were used to repay the remaining outstanding balance of the 2010 Term Loan in full. The 2011 Term Loan was to mature in March 2017.

On May 4, 2012, the Company amended and restated its 2010 Credit Facility (the credit agreement as so amended and restated, the Amended and Restated Credit Facility ). The Amended and Restated Credit Facility provides for the incurrence of a new senior secured five-year Term Loan A Facility in an aggregate amount of \$880.0 million (the 2012 Term Loan ) and a \$100.0 million senior secured revolving facility (the 2012 Revolving Credit Facility ). The proceeds of the Amended and Restated Credit Facility, together with cash on hand, were used to repay the remaining outstanding principal of the then-existing 2011 Term Loan. The 2012 Term Loan and the 2012 Revolving Credit Facility were scheduled to mature on May 4, 2017.



The Amended and Restated Credit Facility also amended certain negative covenants, including financial covenants.

In March 2013, the Company made a \$15.0 million prepayment on the 2012 Term Loan.

On December 12, 2013, the Company entered into an agreement that extended the maturity of the Amended and Restated Credit Facility from May 2017 to December 2018 ( New Amended and Restated Credit Facility ). The Company also amended the amortization schedule of required debt payments under the 2012 Term Loan. Pursuant to the New Amended and Restated Credit Facility, the Company is required to repay \$5.1 million in quarterly payments over the first two years and \$10.1 million in quarterly payments over the following three years, with the exception of the final payment in December 2018, which will be \$658.1 million (assuming no further prepayments).

The 2012 Term Loan bears interest equal to LIBOR plus a margin. As of March 31, 2014, the 2012 Term Loan bore interest at LIBOR plus a margin of 2.00%, or 2.15%.

Current maturities of long-term debt at March 31, 2014 were \$19.8 million, net of a \$0.5 million discount. Long-term debt, net of current maturities at March 31, 2014 was \$783.1 million, net of a \$1.6 million discount.

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Current maturities of long-term debt at December 31, 2013 were \$19.8 million, net of a \$0.5 million discount. Long-term debt, net of current maturities at December 31, 2013 was \$788.0 million, net of a \$1.7 million discount.

In connection with entering into the New Amended and Restated Credit Facility, certain fees were paid and are being amortized over the life of the New Amended and Restated Credit Facility. At March 31, 2014, \$7.9 million of the deferred financing fees remain unamortized, \$1.8 million of which is included in Prepaid and other assets and \$6.1 million of which is included in Other non-current assets on the Company's Unaudited Condensed Consolidated Statement of Financial Condition.

The Company amortized \$0.4 million and \$0.8 million of deferred financing fees in interest expense during the three months ended March 31, 2014 and 2013, respectively. Approximately \$0.1 million and \$0.2 million of debt discount was amortized in interest expense during the three months ended March 31, 2014 and 2013, respectively.

At March 31, 2014 and December 31, 2013, the fair market value of the Company's debt obligations were \$806.9 million and \$812.0 million, respectively. The Company utilizes the market approach and obtains security pricing from a vendor who uses broker quotes and third-party pricing services to determine fair values.

As of March 31, 2014, the Company's retained earnings of \$850.7 million were restricted as to the payments of dividends. As outlined in the New Amended and Restated Credit Facility, the Company cannot pay or declare any dividends except out of amounts available for restricted payments. As of March 31, 2014, the amount available for restricted payments was \$482.0 million, reflecting the Company's cumulative retained excess cash flows ( CRECF ), as defined in the New Amended and Restated Credit Facility, through December 31, 2013 and adjusted for, among other things, any restricted payments made during the three months ended March 31, 2014. To the extent the CRECF is utilized for other actions restricted under the New Amended and Restated Credit Facility, including stock repurchases, the amount available for restricted payments will be reduced.

***Derivatives and Hedging Activities.*** The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company had previously entered into derivative financial instruments to manage exposures that arose from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates, and may do so again in the future. The Company's derivative financial instruments were used to manage differences in the amount, timing and duration of the Company's known or expected cash payments principally related to the Company's borrowings.

Certain of the Company's foreign operations expose the Company to fluctuations of foreign exchange rates. These fluctuations may impact the value of the Company's cash receipts and payments in terms of the Company's functional currency, the U.S. dollar. The Company enters into derivative financial instruments to protect the value or fix the amount of certain obligations in terms of its functional currency.

***Cash Flow Hedges of Interest Rate Risk.*** As a result of the repayment of the 2011 Term Loan on May 4, 2012 and the 2010 Term Loan on March 14, 2011, the Company discontinued prospective hedge accounting on its then-existing interest rate swaps as they no longer met hedge accounting requirements. The Company has not entered into new interest rate swaps to hedge its debt and it is not required to do so under the New Amended and Restated Credit Facility. The Company continued to report the net loss related to the discontinued cash flow hedges in Accumulated Other Comprehensive Income (Loss) and reclassified this amount into earnings through the contractual term of the

swap agreements which ended in August 2013.

*Non-designated Hedges of Foreign Exchange Risk.* Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to foreign exchange rate movements but do not meet the strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of March 31, 2014, the Company had two outstanding foreign currency forwards with a combined notional amount of \$27.5 million that were not designated as hedges in qualifying hedging relationships.

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

(in thousands)	Unaudited Condensed Consolidated Statements of Financial Condition Location	As of March 31, 2014	As of December 31, 2013
Non-designated hedging instruments:			
Liability derivatives:			
Foreign exchange contracts	Other accrued liabilities	\$ (38)	\$ (156)
Asset derivatives:			
Foreign exchange contracts	Prepaid and other assets	\$ 64	\$

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

Derivatives in Cash Flow Hedging Relationships (in thousands)	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivatives (Effective Portion) for the Three Months Ended March 31,		Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income for the Three Months Ended March 31,		Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing) for the Three Months Ended March 31,		
	2014	2013	2014	2013	Testing)	2014	2013	
Interest rate swaps	\$	\$	Interest expense	\$	\$ (593)	Interest expense	\$	\$

Derivatives Not Designated as Hedging Instruments (in thousands)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives for the Three Months Ended March 31,	
		2014	2013
Foreign exchange contracts	Other expense	\$ 160	\$ 522

**9. FAIR VALUE MEASURES**

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2014:

Description	Balance as of March 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
<b>Assets:</b>				
Foreign exchange contracts	\$ 64	\$	\$ 64	\$
<b>Liabilities:</b>				
Foreign exchange contracts	\$ (38)	\$	\$ (38)	\$

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The Company did not hold any financial assets as of December 31, 2013. The following table summarizes the Company's financial liabilities measured at fair value on a recurring basis as of December 31, 2013:

Description	Balance as of December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)				
<b>Liabilities:</b>				
Foreign exchange contracts	\$ (156)	\$	\$ (156)	\$

The Company's financial assets and liabilities are valued using market prices on both active markets (Level 1) and less active markets (Level 2). The Company did not have any transfers between Level 1 and Level 2 fair value measurements during the periods presented. The Company does not hold any financial instruments that would be valued using Level 3 inputs as of the periods presented.

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

**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. Costs relating to 401(k), pension and post-retirement benefit expenses were \$7.3 million and \$5.8 million for the three months ended March 31, 2014 and 2013, respectively. Amounts included in cost of services were \$4.2 million and \$3.3 million for the three months ended March 31, 2014 and 2013, respectively. Amounts included in selling, general and administrative expense related to pension and post-retirement expenses for the three months ended March 31, 2014 and 2013 were \$3.1 million and \$2.5 million, 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 were \$6.7 million and \$5.2 million for the three months ended March 31, 2014 and 2013, respectively.

*Net Periodic Benefit Expense.* Net periodic benefit expense related to defined benefit pension plans was \$0.6 million in each of the three months ended March 31, 2014 and 2013.

**11. INCOME TAXES**

The Company's provision for income taxes was \$26.4 million and \$21.2 million for the three months ended March 31, 2014 and 2013, respectively. These amounts reflect effective tax rates of 35.9% and 28.6% for the three months ended March 31, 2014 and 2013, respectively.

The effective rate of 35.9% for the three months ended March 31, 2014 reflects the Company's estimate of the effective tax rate for the period and is impacted by certain discrete items totaling \$0.2 million, the effect of which was to decrease the Company's effective tax rate by 0.2 percentage points. The effective rate of 28.6% for the three months ended March 31, 2013 reflects the Company's estimate of the effective tax rate for the period and is impacted by certain discrete items totaling \$3.9 million, the effect of which was to decrease the Company's effective tax rate by 5.3 percentage points.

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

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The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions in which it files income tax returns. The Company has established unrecognized tax benefits that the Company believes are adequate in relation to the potential for additional assessments. Once established, the Company adjusts unrecognized tax benefits only when more information is available or when an event occurs necessitating a change. As part of the Company's periodic review of unrecognized tax benefits and based on new information regarding the status of federal and state examinations, the Company's unrecognized tax benefits were remeasured. It is reasonably possible that significant changes in the balance of unrecognized tax benefits may occur within the next 12 months. At this time, however, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and the impact on the effective tax rate over the next 12 months.

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:

<b>Tax Jurisdiction</b>	<b>Tax Years</b>
United States	2005-2012
California	2009-2012
New York State	2007-2012
New York City	2007-2012
Hong Kong	2007-2012
United Kingdom	2012
Canada	2006-2012
Japan	2009-2012
India	2008-2013

**12. SEGMENT INFORMATION**

Prior to March 31, 2014, MSCI operated as two segments, the Performance and Risk business and the Governance business. These designations were made as the discrete operating results of these segments were reviewed by the Company's CODM for purposes of making operating decisions and assessing financial performance.

On March 17, 2014, MSCI entered into a definitive agreement to sell ISS, which, together with the previously disposed of CFRA product line, made up the Company's Governance segment and are now reflected in "Income from discontinued operations, net of income taxes" in the Unaudited Condensed Consolidated Statements of Income. As a result, the Company now operates and reports as a single business segment (see Note 3, "Discontinued Operations," and Note 13, "Acquisitions and Dispositions," for further details).

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:

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
<b>Revenues</b>		
Americas:		
United States	\$ 110,832	\$ 101,268



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Other	9,427	7,767
<b>Total Americas</b>	<b>120,259</b>	<b>109,035</b>
EMEA:		
United Kingdom	37,476	34,018
Other	51,128	46,440
<b>Total EMEA</b>	<b>88,604</b>	<b>80,458</b>
Asia & Australia:		
Japan	11,960	12,116
Other	18,865	17,860
<b>Total Asia &amp; Australia</b>	<b>30,825</b>	<b>29,976</b>
<b>Total</b>	<b>\$ 239,688</b>	<b>\$ 219,469</b>

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Long-lived assets consist of property, equipment, leasehold improvements, goodwill and intangible assets, net of accumulated depreciation and amortization.

The following table sets forth long-lived assets on the dates indicated by geographic area:

	<b>March 31, 2014<sup>(1)</sup></b>	<b>As of December 31, 2013</b>
	<b>(in thousands)</b>	
<b>Long-lived assets</b>		
Americas:		
United States	\$ 1,931,255	\$ 2,323,781
Other	3,959	4,082
<b>Total Americas</b>	<b>1,935,214</b>	<b>2,327,863</b>
EMEA:		
United Kingdom	132,864	133,411
Other	13,515	11,871
<b>Total EMEA</b>	<b>146,379</b>	<b>145,282</b>
Asia & Australia:		
Japan	1,177	1,543
Other	6,509	5,428
<b>Total Asia &amp; Australia</b>	<b>7,686</b>	<b>6,971</b>
<b>Total</b>	<b>\$ 2,089,279</b>	<b>\$ 2,480,116</b>

(1) As a result of MSCI entering into a definitive agreement to sell ISS, long-lived assets as of March 31, 2014 exclude amounts classified as assets held for sale. See Note 3, Discontinued Operations, for more information on the sale.

**13. ACQUISITIONS AND DISPOSITIONS**

The 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 the Company has adopted as required. The total purchase price is allocated to the net tangible and intangible assets based upon their fair values as of the acquisition dates. The excess of the purchase price over the fair values of the net tangible assets and intangible assets was recorded as goodwill. The allocation of the purchase price was based upon a valuation and is subject to change within the one-year measurement period following the acquisition. 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.

***Acquisition of InvestorForce***

On January 29, 2013, MSCI completed the acquisition of Investor Force Holdings, Inc. ( InvestorForce ) by paying \$23.6 million in cash. The acquisition of InvestorForce enhances MSCI s position as a leader in performance analysis and risk transparency and furthers its goal of providing investment decision support tools to institutional investors across all client segments and asset classes. InvestorForce is a leading provider of performance reporting solutions to the institutional investment community in the United States, providing investment consultants with an integrated solution for daily monitoring, analysis of and reporting on institutional assets. InvestorForce was deemed to not be a significant acquisition and, therefore, no pro forma financial results have been presented.

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The final purchase price allocations for the InvestorForce acquisition were \$11.6 million for goodwill, \$9.1 million for identifiable intangible assets, \$6.4 million for assets other than identifiable intangible assets and \$3.5 million for other liabilities.

***Disposition of CFRA***

On March 31, 2013, MSCI completed the sale of its CFRA product line, which was a component of the Governance segment. The results of operations from the CFRA product line and the sale of CFRA were not material to the Company.

***Disposition of ISS***

On March 17, 2014, MSCI entered into a definitive agreement to sell ISS. The sale of ISS was completed on April 30, 2014 for approximately \$367.4 million, subject to final working capital adjustments. The Company does not expect to incur a cash tax liability on the proceeds from the sale (see Note 3, Discontinued Operations, for additional details). The Company expects to record a net gain on the sale, which will be reflected in Income from discontinued operations, net of income taxes in the Company's Unaudited Condensed Consolidated Statements of Income in the quarter ending June 30, 2014.

The results of operations from ISS and the CFRA product line are now reflected in Income from discontinued operations, net of income taxes in the Unaudited Condensed Consolidated Statements of Income.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of MSCI Inc.

We have reviewed the accompanying condensed consolidated balance sheet of MSCI Inc. and its subsidiaries as of March 31, 2014, and the related condensed consolidated statements of income and of comprehensive income for the three month period ended March 31, 2014 and the condensed consolidated statement of cash flows for the three month period ended March 31, 2014. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

/s/ PricewaterhouseCoopers LLP

May 2, 2014

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of MSCI Inc.:

We have reviewed the accompanying condensed consolidated statements of income, comprehensive income and cash flows of MSCI Inc. and subsidiaries (the Company) for the three month period ended March 31, 2013. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to 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 December 31, 2013 and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the fiscal year then ended prior to reclassification for the discontinued operations (not presented herein); and in our report dated February 28, 2014, 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 December 31, 2013 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

February 28, 2014 (May 2, 2014 as to the effects of the discontinued operations as discussed in Note 3)

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**Table of Contents****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 December 31, 2013 (the "Form 10-K"). This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in Item 1A, Risk Factors, in our Form 10-K for the fiscal year ended December 31, 2013.*

**Overview**

We are a leading global provider of investment decision support tools, including indexes, portfolio risk and performance analytics. Our products and services address multiple markets, asset classes and geographies and are sold to a diverse client base, including asset owners such as pension funds, endowments, foundations, central banks, family offices and insurance companies; institutional and retail asset managers, such as managers of pension assets, mutual funds, exchange traded funds (ETFs), real estate, hedge funds and private wealth; financial intermediaries such as banks, broker-dealers, exchanges, custodians and investment consultants; and corporate clients. As of March 31, 2014, we had offices related to continuing operations in 34 cities in 22 countries in order to help serve our diverse client base, with 50.1% of our revenue from clients in the Americas, 37.0% in Europe, the Middle East and Africa (EMEA) and 12.9% in Asia and Australia based on revenues for the three months ended March 31, 2014.

Our principal sales model is to license annual, recurring subscriptions to our products and services for use at specified locations, often by a given number of users or for a certain volume of services for an annual fee paid up front. Additionally, our recurring subscriptions are increasingly related to our managed services offering whereby we oversee the production of risk and performance reports on behalf of our clients. Fees attributable to annual, recurring subscriptions are recorded as deferred revenues on our Unaudited Condensed Consolidated Statement of Financial Condition and are recognized on our Unaudited Condensed Consolidated Statement of Income as the service is rendered. Additionally, a portion of our revenues come from clients who use our indexes as the basis for index-linked investment products such as ETFs or as the basis for passively managed funds and separate accounts. These clients commonly pay us a license fee for the use of our intellectual property based on the investment product's assets. We generate a limited amount of our revenues from certain exchanges that use our indexes as the basis for futures and options contracts and pay us a license fee for the use of our intellectual property based on their volume of trades. We also receive revenues from one-time fees related to implementation, historical or customized reports, advisory and consulting services and from certain products and services that are designed for one-time usage.

In evaluating our financial performance, we focus on revenue growth for the Company in total and by product category as well as operating profit growth. In addition, we focus on operating metrics, including Run Rates and retention rates to manage the business. Our business is not highly capital intensive and, as such, we expect to continue to convert a high percentage of our 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 product offerings, including combining existing product features or data derived from our products to create new products; and (c) actively seeking to acquire products, technologies and companies that will enhance, complement or expand our client base and our product offerings.

To maintain and accelerate our revenue and operating income growth, we expect to continue to invest in and expand our operating functions and infrastructure, including additional product management, sales and client support staff and facilities in locations around the world and additional staff and supporting technology for our research and our data operations and technology functions. At the same time, managing and controlling our operating expenses is very

important to us and a distinct part of our culture.

The purpose of these investments is to maximize our medium-term revenue and operating income growth, while at the same time ensuring that we will remain a leading provider of investment decision support tools into the future. As a result, the rate of growth of our investments may from time to time exceed that of our revenues, which would slow the growth of, or even reduce, our operating profit. For example, for the three months ended March 31, 2014, our revenues grew by 9.2% but our operating income decreased by 4.1% compared to 2013 due, in part, to increased investment in our business. We anticipate that our increases in spending in areas such as sales, client service, information technology and product development in 2014 will continue to exceed the rate of growth of our revenues and will again slow the growth of our operating profit. However, we believe these investments will result in higher revenue and operating profit growth over the medium-term.

#### Changes in Presentation

On March 17, 2014, we entered into a definitive agreement to sell Institutional Shareholder Services Inc. ( ISS ) which, together with the previously disposed of CFRA product line, made up our Governance segment. The sale of ISS was completed on April 30, 2014 for approximately \$367.4 million, subject to final working capital adjustments. As a result, we now operate as a single business segment and the operating results of ISS and the CFRA product line are reported as discontinued operations for all periods presented. Prior to March 31, 2014, we operated under two segments: the Performance and Risk business and the Governance business. Our Performance and Risk business is a leading global provider of investment decision support tools, including indexes and portfolio risk and performance analytics, credit analytics and environmental, social and governance ( ESG ) products. Our Governance business was a leading provider of corporate governance products and services and specialized financial research and analysis services to institutional investors and corporations around the world.



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In addition, we had previously reported energy and commodity analytics products separately as its own product category for disclosures related to operating revenues, Run Rate and Aggregate and Core Retention Rates. Beginning with the three months ended March 31, 2014, we reported the results of energy and commodity analytics products as part of the risk management analytics product category as we view the product offerings and customer base of energy and commodity analytics products to be similar in nature to those in the risk management analytics product category. Prior periods have also been presented to reflect this change in categorization.

**Factors Affecting the Comparability of Results***Term Loan Repricing*

On June 1, 2010, we entered into a senior secured credit agreement comprised of (i) a six-year term loan facility (the 2010 Term Loan ) and (ii) a five-year revolving credit facility (the 2010 Revolving Credit Facility, together with the 2010 Term Loan, the 2010 Credit Facility ).

On March 14, 2011, we completed the repricing of the 2010 Credit Facility pursuant to Amendment No. 2 to the 2010 Credit Facility ( Amendment No. 2 ). Amendment No. 2 provided for the incurrence of a new senior secured term loan (the 2011 Term Loan ). The proceeds of the 2011 Term Loan, together with cash on hand, were used to repay the remaining outstanding balance of the 2010 Term Loan in full. The 2011 Term Loan would have matured in March 2017.

On May 4, 2012, we amended and restated our 2010 Credit Facility (the credit agreement as so amended and restated, the Amended and Restated Credit Facility ). The Amended and Restated Credit Facility provided for the incurrence of a new senior secured five-year Term Loan A Facility in an aggregate amount of \$880.0 million (the 2012 Term Loan ) and a \$100.0 million senior secured revolving facility (the 2012 Revolving Credit Facility ). The proceeds of the Amended and Restated Credit Facility, together with cash on hand, were used to repay the remaining outstanding principal of the then-existing 2011 Term Loan. Prior to the amendment to the Amended and Restated Credit Facility discussed below, the 2012 Term Loan and the 2012 Revolving Credit Facility were to mature on May 4, 2017.

At March 31, 2014, the 2012 Term Loan bore interest of LIBOR plus 2.00%, or 2.15%.

*Share Repurchase*

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

On December 13, 2012, as part of the 2012 Repurchase Program, we entered into an accelerated share repurchase ( ASR ) agreement with a financial institution to initiate a repurchase aggregating \$100.0 million (the December 2012 ASR Program ). As a result of the December 2012 ASR Program, we received 2.2 million shares on December 14, 2012 and 0.8 million shares on July 31, 2013 for a combined average purchase price of \$33.47 per share.

On August 1, 2013, we entered into a second ASR agreement to initiate share repurchases aggregating \$100.0 million (the August 2013 ASR Program ). As a result of the August 2013 ASR Program, we received 1.9 million shares on August 2, 2013 and 0.5 million shares on December 30, 2013 for a combined average purchase price of \$41.06 per share.

On February 6, 2014, we utilized the remaining repurchase authorization provided by the 2012 Repurchase Program by entering into a new ASR agreement to initiate share repurchases aggregating \$100.0 million (the February 2014 ASR Program ). The February 2014 ASR Program is structured as a capped ASR in which, on February 7, 2014, we paid \$100.0 million and received 1.7 million shares, representing the minimum number of common shares to be repurchased based on a calculation using a specific capped price per share. This price is capped such that only under limited circumstances may we be required to deliver shares or pay cash at settlement. We anticipate that all repurchases under the February 2014 ASR Program will be completed no later than the final repurchase date in May 2014, although settlement may be accelerated under certain circumstances. Additionally, depending on the average share price through the completion date in May 2014, we may receive additional shares under the February 2014 ASR Program.

The discussion of our results of operations for the three months ended March 31, 2014 and 2013 are presented below. The results of operations for interim periods may not be indicative of future results.

**Table of Contents****Three Months Ended March 31, 2014 Compared to the Three Months Ended March 31, 2013****Results of Operations**

The following table presents the results of operations for the three months ended March 31, 2014 and 2013:

	<b>Three Months Ended</b>			
	<b>March 31,</b>			
	<b>2014</b>	<b>2013</b>	<b>Increase/(Decrease)</b>	
	<b>(in thousands, except per share data)</b>			
Operating revenues	\$ 239,688	\$ 219,469	\$ 20,219	9.2%
Operating expenses:				
Cost of services	75,427	65,300	10,127	15.5%
Selling, general and administrative	67,658	55,515	12,143	21.9%
Amortization of intangible assets	11,270	11,166	104	0.9%
Depreciation and amortization of property, equipment, and leasehold improvements	5,828	4,597	1,231	26.8%
<b>Total operating expenses</b>	<b>160,183</b>	<b>136,578</b>	<b>23,605</b>	<b>17.3%</b>
Operating income	79,505	82,891	(3,386)	(4.1%)
Other expense (income), net	5,974	8,701	(2,727)	(31.3%)
Income from continuing operations before provision for income taxes	73,531	74,190	(659)	(0.9%)
Provision for income taxes	26,385	21,232	5,153	24.3%
Income from continuing operations	47,146	52,958	(5,812)	(11.0%)
Income from discontinued operations, net of income taxes	33,253	5,979	27,274	456.2%
Net income	\$ 80,399	\$ 58,937	\$ 21,462	36.4%
Earnings per basic common share:				
From continuing operations	\$ 0.40	\$ 0.44	\$ (0.04)	(9.1%)
From discontinued operations	0.28	0.05	0.23	460.0%
Earnings per basic common share	\$ 0.68	\$ 0.49	\$ 0.19	38.8%
Earnings per diluted common share:				
From continuing operations	\$ 0.40	\$ 0.43	\$ (0.03)	(7.0%)
From discontinued operations	0.28	0.05	0.23	460.0%
Earnings per diluted common share	\$ 0.68	\$ 0.48	\$ 0.20	41.7%
Operating margin	33.2%	37.8%		

***Operating Revenues***

Our revenues are grouped into the following three product and/or service categories:

Index and ESG

Risk management analytics

Portfolio management analytics

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The following table summarizes the revenue by product category for the three months ended March 31, 2014 compared to the three months ended March 31, 2013:

	<b>Three Months Ended March 31,</b>		<b>Increase / (Decrease)</b>	
	<b>2014</b>	<b>2013</b>		
<b>Index and ESG:</b>				
Subscriptions	\$ 97,343	\$ 84,888	\$ 12,455	14.7%
Asset-based fees	40,900	36,515	4,385	12.0%
<b>Total index and ESG products</b>	<b>138,243</b>	<b>121,403</b>	<b>16,840</b>	<b>13.9%</b>
Risk management analytics	75,580	70,420	5,160	7.3%
Portfolio management analytics	25,865	27,646	(1,781)	(6.4%)
<b>Total operating revenues</b>	<b>\$ 239,688</b>	<b>\$ 219,469</b>	<b>\$ 20,219</b>	<b>9.2%</b>
Recurring subscriptions	\$ 194,972	\$ 179,663	\$ 15,309	8.5%
Asset-based fees	40,900	36,515	4,385	12.0%
Non-recurring revenue	3,816	3,291	525	16.0%
<b>Total operating revenues</b>	<b>\$ 239,688</b>	<b>\$ 219,469</b>	<b>\$ 20,219</b>	<b>9.2%</b>

Our index and ESG products primarily consist of equity and real estate index subscriptions, equity index asset-based fees products and ESG products. Our index and ESG products are used to benchmark investment performance, as a basis for index-linked investment products, the assessment of corporate management of ESG risks and opportunities, investment manager selection and investment research. We derive revenues from our index and ESG products through index data and ESG subscriptions, fees based on assets in investment products linked to our indexes and non-recurring licenses of our index historical data. Revenues related to index and ESG products increased \$16.8 million, or 13.9%, to \$138.2 million for the three months ended March 31, 2014 compared to \$121.4 million for the three months ended March 31, 2013.

Subscription revenues from the index and ESG products were up 14.7% to \$97.3 million for the three months ended March 31, 2014 compared to \$84.9 million for the three months ended March 31, 2013. The increase was primarily driven by growth in revenues from equity index benchmark products, in addition to the impact of the timing of revenue recognition related to IPD products, which contributed to an increase in revenues of \$5.2 million relative to the three months ended March 31, 2013.

Asset-based fee revenues attributable to index and ESG products increased \$4.4 million, or 12.0%, to \$40.9 million for the three months ended March 31, 2014 compared to \$36.5 million for the three months ended March 31, 2013. The year-over-year difference resulted from higher fees from non-ETF passive funds and ETFs linked to MSCI indexes, in addition to a change in the mix of ETFs linked to MSCI indexes, which more than offset a decline of \$38.2 billion, or 10.4%, in the average value of assets in ETFs linked to MSCI indexes. The decrease in the average value of assets in ETFs linked to MSCI indexes was primarily related to the decision of The Vanguard Group, Inc. to change the target benchmarks of 22 of its ETFs from MSCI's equity indexes (the Vanguard ETFs). The transition of the

Vanguard ETFs was completed by the end of June 2013. Excluding the \$2.5 million of asset-based fees related to the Vanguard ETFs included in the three months ended March 31, 2013, asset-based fees would have grown by 20.3%.

As of March 31, 2014, the value of assets in ETFs linked to MSCI equity indexes was \$340.8 billion, representing a decrease of \$16.5 billion, or 4.6%, from \$357.3 billion as of March 31, 2013. Of the \$340.8 billion of assets in ETFs linked to MSCI equity indexes as of March 31, 2014, 54.5% were linked to indexes related to developed markets outside of the U.S., 24.2% were linked to emerging market indexes, 16.4% were linked to U.S. market indexes and 4.9% were linked to other global indexes.

The following table sets forth the value of assets in ETFs linked to MSCI indexes and the sequential change of such assets under management ( AUM ) as of the periods indicated:

(in billions)	March 31, 2013	June 30, 2013	Period Ended		
			September 30, 2013	December 31, 2013	March 31, 2014
AUM in ETFs linked to MSCI Indexes	\$ 357.3	\$ 269.7	\$ 302.6	\$ 332.9	\$ 340.8
Sequential Change (\$ in Billions)					
Market Appreciation/(Depreciation)	\$ 16.0	\$ (13.2)	\$ 20.2	\$ 10.9	\$ 1.3
Cash Inflow/Outflow	(61.0) <sup>(1)</sup>	(74.4) <sup>(1)</sup>	12.7	19.4	6.6
Total Change	\$ (45.0)	\$ (87.6)	\$ 32.9	\$ 30.3	\$ 7.9

Source: Bloomberg and MSCI

<sup>(1)</sup> Includes \$82.8 billion and \$74.8 billion of AUM related to certain Vanguard ETFs as of March 31, 2013 and June 30, 2013, respectively.

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The following table sets forth the average value of assets in ETFs linked to MSCI indexes for the periods indicated:

(in billions)	Quarterly Average				2014 March
	2013 March	2013 June	2013 September	2013 December	
AUM in ETFs linked to MSCI Indexes	\$ 369.0	\$ 324.1	\$ 286.2	\$ 321.5	\$ 330.8

Source: Bloomberg and MSCI

The historical values of the assets in ETFs linked to our indexes as of the last day of the month and the monthly average balance can be found under the link [AUM in ETFs Linked to MSCI Indexes](http://ir.msci.com) on our website at <http://ir.msci.com>. This information is updated on the second U.S. business day of each month. 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.

Our risk management analytics products offer risk and performance assessment frameworks for managing and monitoring investments in organizations globally. These products allow clients to analyze investments in a variety of asset classes and are based on our proprietary integrated fundamental multi-factor risk models, value-at-risk methodologies, performance attribution frameworks and asset valuation models. We also offer products for monitoring, analyzing and reporting on institutional assets. Additionally, we provide products consisting of software applications which help users value, model and hedge physical assets and derivatives across a number of market segments including energy and commodity assets.

Revenues related to risk management analytics products increased \$5.2 million, or 7.3%, to \$75.6 million for the three months ended March 31, 2014 compared to \$70.4 million for the three months ended March 31, 2013. The increase in risk management analytics revenues was driven primarily by higher revenues from our RiskManager and BarraOne products, as well as from one additional month of revenues from InvestorForce products totaling \$0.9 million, which were acquired on January 29, 2013.

Our portfolio management analytics products consist of equity portfolio analytics tools and fixed income portfolio analytics tools. Revenues related to portfolio management analytics products decreased 6.4% to \$25.9 million for the three months ended March 31, 2014 compared to \$27.6 million for three months ended March 31, 2013. The decrease in revenues was the result of lower sales of equity analytics products in prior periods, as well as lower revenue from fixed income 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 revenues for the next 12 months from all subscriptions and investment product licenses we currently provide to our clients under renewable contracts or agreements assuming all contracts or agreements that come up for renewal are renewed and assuming then-current currency exchange rates. For any license where fees are linked to an investment product's assets or trading volume, the *Run Rate* calculation reflects, for ETF fees, the market value on the last trading day of the period, and for non-ETF funds and futures and options, the most recent periodic fee earned under such license or subscription. 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 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 revenues, 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 changes in certain investment products' total expense ratios, market movements or from investment inflows into and outflows from investment products linked to our indexes;



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fluctuations in fees based on trading volumes of futures and options contracts linked to our indexes;

fluctuations in the number of hedge funds for which we provide investment information and risk analysis to hedge fund investors;

price changes;

revenue recognition differences under U.S. GAAP;

fluctuations in foreign exchange rates; and

the impact of acquisitions and dispositions.

The following table sets forth our Run Rates as of the dates indicated and the percentage of growth over the periods indicated:

	As of			Year-Over- Year Comparison	Sequential Comparison
	March 31, 2014	March 31, 2013	December 31, 2013		
	(in thousands)				
<b>Run Rates</b>					
<b>Index and ESG products</b>					
Subscription	\$ 382,383	\$ 344,267	\$ 371,511	11.1%	2.9%
Asset-based fees	161,882	134,186	158,305	20.6%	2.3%
<b>Index and ESG products total</b>	<b>544,265</b>	<b>478,453</b>	<b>529,816</b>	<b>13.8%</b>	<b>2.7%</b>
Risk management analytics	307,460	287,554	301,957	6.9%	1.8%
Portfolio management analytics	103,531	106,091	103,125	(2.4%)	0.4%
<b>Total Run Rate</b>	<b>\$ 955,256</b>	<b>\$ 872,098</b>	<b>\$ 934,898</b>	<b>9.5%</b>	<b>2.2%</b>
<b>Subscription total</b>	<b>\$ 793,374</b>	<b>\$ 737,912</b>	<b>\$ 776,593</b>	<b>7.5%</b>	<b>2.2%</b>
<b>Asset-based fees total</b>	<b>161,882</b>	<b>134,186</b>	<b>158,305</b>	<b>20.6%</b>	<b>2.3%</b>
<b>Total Run Rate</b>	<b>\$ 955,256</b>	<b>\$ 872,098</b>	<b>\$ 934,898</b>	<b>9.5%</b>	<b>2.2%</b>

Total Run Rate grew by \$83.2 million, or 9.5%, to \$955.3 million as of March 31, 2014 compared to \$872.1 million as of March 31, 2013. Changes in foreign currency rates positively impacted Run Rate by \$5.5 million relative to March 31, 2013.

Subscription Run Rate from the index and ESG products grew by \$38.1 million, or 11.1%, to \$382.4 million at March 31, 2014 from \$344.3 million at March 31, 2013 driven primarily by growth in equity index benchmark and data products, in addition to strong growth in IPD and ESG products.

Asset-based fee Run Rate from index and ESG products increased by \$27.7 million, or 20.6%, to \$161.9 million at March 31, 2014, from \$134.2 million at March 31, 2013. The increase was primarily driven by higher market performance and inflows into ETFs linked to MSCI indexes. The March 31, 2013 asset-based fee Run Rate excludes those Vanguard ETFs that later switched benchmarks.

As of March 31, 2014, AUM in ETFs linked to MSCI indexes were \$340.8 billion, down \$16.5 billion, or 4.6%, from March 31, 2013 and up \$7.9 billion, or 2.4%, from December 31, 2013. During the three months ended March 31, 2014, MSCI-linked ETFs were impacted by market increases of \$1.3 billion and net inflows of \$6.6 billion. If the AUM related to those Vanguard ETFs which transitioned in 2013 were excluded from the March 31, 2013 balance, AUM in MSCI-linked ETFs would have risen \$55.4 billion, or 19.4%, compared to March 31, 2013.

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Risk management analytics products Run Rate increased \$19.9 million, or 6.9%, to \$307.5 million at March 31, 2014 compared to \$287.6 million at March 31, 2013, primarily driven by strong growth in Run Rate from our RiskManager products. Changes in foreign currency positively benefited Run Rate by \$3.5 million compared to Run Rate at March 31, 2013.

Portfolio management analytics products Run Rate declined \$2.6 million, or 2.4%, to \$103.5 million at March 31, 2014 from \$106.1 million at March 31, 2013. Year over year Run Rate was negatively impacted by product swaps totaling \$1.5 million and by changes in foreign currency exchange rates, which lowered Run Rate by an additional \$0.7 million.

**Aggregate and Core Retention Rates**

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

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
Index and ESG products	94.9%	95.0%
Risk management analytics	91.0%	93.4%
Portfolio management analytics	90.6%	81.7%
Total	92.8%	92.4%

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

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
Index and ESG products	94.9%	95.0%
Risk management analytics	91.0%	93.7%
Portfolio management analytics	93.4%	82.8%
Total	93.2%	92.7%

The Aggregate Retention Rates for a period are calculated by annualizing the cancellations for which we have received a notice of termination or where we believe there is an intention to not renew during the period and we believe that such notice or intention evidences the client's final decision to terminate or not renew the applicable 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 period. 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.

For the calculation of the Core Retention Rate, the same methodology is used except the cancellations in the 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 indexes or to trading volumes of futures and options contracts linked to our indexes.

In our businesses, Aggregate and Core Retention Rates are generally higher during the first three fiscal quarters and lower in the fourth fiscal quarter.

***Operating Expenses***

We group our operating expenses into four categories:

Cost of services

Selling, general and administrative ( SG&A )

Amortization of intangible assets

Depreciation and amortization of property, equipment and leasehold improvements

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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:

	<b>Three Months Ended</b>		<b>Increase/(Decrease)</b>	
	<b>March 31,</b>			
	<b>2014</b>	<b>2013</b>		
	<b>(in thousands)</b>			
<b>Cost of services:</b>				
Compensation and benefits	\$ 56,282	\$ 49,404	\$ 6,878	13.9%
Non-compensation expenses	19,145	15,896	3,249	20.4%
<b>Total cost of services</b>	<b>75,427</b>	<b>65,300</b>	<b>10,127</b>	<b>15.5%</b>
<b>Selling, general and administrative:</b>				
Compensation and benefits	46,133	40,350	5,783	14.3%
Non-compensation expenses	21,525	15,165	6,360	41.9%
<b>Total selling, general and administrative</b>	<b>67,658</b>	<b>55,515</b>	<b>12,143</b>	<b>21.9%</b>
Amortization of intangible assets	11,270	11,166	104	0.9%
Depreciation and amortization of property, equipment, and leasehold improvements	5,828	4,597	1,231	26.8%
<b>Total operating expenses</b>	<b>\$ 160,183</b>	<b>\$ 136,578</b>	<b>\$ 23,605</b>	<b>17.3%</b>
<b>Operating expenses by category:</b>				
Compensation and benefits	\$ 102,415	\$ 89,754	\$ 12,661	14.1%
Non-compensation expenses	40,670	31,061	9,609	30.9%
Amortization of intangible assets	11,270	11,166	104	0.9%
Depreciation and amortization of property, equipment, and leasehold improvements	5,828	4,597	1,231	26.8%
<b>Total operating expenses</b>	<b>\$ 160,183</b>	<b>\$ 136,578</b>	<b>\$ 23,605</b>	<b>17.3%</b>

Operating expenses were \$160.2 million for the three months ended March 31, 2014, an increase of \$23.6 million, or 17.3%, compared to \$136.6 million for the three months ended March 31, 2013 reflecting increases in product development, sales and marketing, client service and corporate infrastructure.

Compensation and benefits expenses represent the majority of our expenses across all of our operating functions and typically have represented approximately 60% of 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 from increased hiring. We had 2,623 and 2,233 employees not related to the ISS operations as of March 31, 2014 and 2013, respectively, with the increase primarily driven by 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 March 31, 2014, 47.1% of our

employees not expected to leave as part of the ISS disposition were located in emerging market centers compared to 40.4% as of March 31, 2013.

During the three months ended March 31, 2014, compensation and benefits costs were \$102.4 million, an increase of 14.1% compared to \$89.8 million for the three months ended March 31, 2013. The increase in compensation and benefits costs was driven primarily by increases in technology, client coverage and product management personnel.

Non-compensation expenses for the three months ended March 31, 2014 increased \$9.6 million, or 30.9%, to \$40.7 million compared to \$31.1 million for the three months ended March 31, 2013. The increase was associated with increased professional services, information technology, occupancy, market data fees, marketing and recruiting costs, among other items.

### ***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 and information technology 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 March 31, 2014, total cost of services increased \$10.1 million, or 15.5%, to \$75.4 million compared to \$65.3 million for the three months ended March 31, 2013.

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Compensation and benefits expenses for the three months ended March 31, 2014 increased \$6.9 million, or 13.9%, to \$56.3 million compared to \$49.4 million for the three months ended March 31, 2013. The increase in compensation and benefits expenses was primarily impacted by increased costs related to current staff and increased staffing levels.

Non-compensation expenses for the three months ended March 31, 2014 increased 20.4% to \$19.1 million compared to \$15.9 million for the three months ended March 31, 2013. The increase was primarily driven by higher costs related to market data, occupancy and professional services.

### ***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 and corporate administration personnel. As with cost of services, the largest expense in this category relates to compensation and benefits. Other significant expenses are for occupancy costs, third-party professional fees and information technology costs. For the three months ended March 31, 2014, SG&A increased 21.9% to \$67.7 million compared to \$55.5 million for the three months ended March 31, 2013.

Compensation and benefits expenses increased 14.3% to \$46.1 million for the three months ended March 31, 2014 compared to \$40.4 million for the three months ended March 31, 2013. Similar to compensation and benefits expenses in cost of services, the increase was primarily impacted by increased costs related to current staff and increased staffing levels.

Non-compensation expenses for the three months ended March 31, 2014 increased 41.9% to \$21.5 million compared to \$15.2 million for the three months ended March 31, 2013. The increase was primarily driven by higher costs related to professional services, information technology, marketing and recruiting.

### ***Amortization of Intangible Assets***

Amortization of intangible assets expense relates to the intangible assets arising from the acquisitions of Barra, LLC in June 2004, RiskMetrics Group, LLC in June 2010, Measurisk, LLC in July 2010, IPD Group Limited in November 2012 and Investor Force Holdings, Inc. in January 2013, as well as capitalized software development costs. Amortization of intangible assets expense totaled \$11.3 million and \$11.2 million for the three months ended March 31, 2014 and 2013, respectively.

### ***Depreciation and Amortization of Property, Equipment and Leasehold Improvements***

Depreciation and amortization of property, equipment and leasehold improvements was \$5.8 million and \$4.6 million for the three months ended March 31, 2014 and 2013, respectively. The increase was related to higher depreciation associated with investments in the information technology infrastructure.

### ***Other Expense (Income), Net***

Other expense (income), net for the three months ended March 31, 2014 was \$6.0 million, a decrease of \$2.7 million compared to \$8.7 million for the three months ended March 31, 2013, primarily driven by lower average outstanding principal on our debt and lower associated interest rates.

### ***Provision For Income Taxes***

The provision for income taxes for the three months ended March 31, 2014 was \$26.4 million, an increase of \$5.2 million, or 24.3%, compared to \$21.2 million for the three months ended March 31, 2013. These amounts reflect effective tax rates of 35.9% and 28.6% for the three months ended March 31, 2014 and 2013, respectively. For the three months ended March 31, 2014, income tax expense benefited from discrete items of \$0.2 million, which were primarily related to a reduction in state taxes.

***Income from Discontinued Operations, Net of Income Taxes***

As a result of entering into the definitive agreement to sell ISS, that business, together with the previously sold CFRA product line, is now reflected as discontinued operations in our unaudited condensed consolidated financial statements. Income from discontinued operations, net of income taxes was \$33.3 million for the three months ended March 31, 2014 compared to \$6.0 million for three months ended March 31, 2013. The three months ended March 31, 2014 included a \$30.6 million income tax benefit associated with establishing a net deferred tax asset on the difference between the ISS tax basis and book basis. This net deferred tax asset is expected to be realized upon the closing of the sale.



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The sale of ISS was completed on April 30, 2014 for approximately \$367.4 million, subject to final working capital adjustments. We do not expect to incur a cash tax liability on the proceeds from the sale. The gain on the sale of ISS will be reported in Income from discontinued operations, net of income taxes in the quarter ending June 30, 2014.

## **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 December 31, 2013 and also in Note 2, Recent Accounting Standards Updates, in the Notes to Unaudited 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 December 31, 2013. There have been no significant changes in our accounting policies or critical accounting estimates since the end of the fiscal year ended December 31, 2013.

## **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, 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, acquisitions and repurchases of our common stock. 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 entered into the 2010 Credit Facility which was comprised of (i) the 2010 Term Loan and (ii) the 2010 Revolving Credit Facility. On March 14, 2011, we completed the repricing of the 2010 Credit Facility pursuant to Amendment No. 2. Amendment No. 2 provided for the incurrence of the 2011 Term Loan. The proceeds of the 2011 Term Loan, together with cash on hand, were used to repay the remaining outstanding balance of the 2010 Term Loan in full. The 2011 Term Loan was scheduled to mature in March 2017.

On May 4, 2012, we amended and restated our existing senior credit facilities by entering into the Amended and Restated Credit Facility, which consists of the 2012 Term Loan in an aggregate amount of \$880.0 million and the \$100.0 million 2012 Revolving Credit Facility. The proceeds of the Amended and Restated Credit Facility, together with cash on hand, were used to repay the remaining outstanding principal of the then-existing 2011 Term Loan. The 2012 Term Loan and the 2012 Revolving Credit Facility were scheduled to mature on May 4, 2017. In connection with the repayment of the 2011 Term Loan, we terminated our then-existing interest rate swaps and are not required to enter into new interest rate swaps to hedge our debt under the Amended and Restated Credit Facility.

In March 2013, we made a \$15.0 million prepayment on the 2012 Term Loan.

On December 12, 2013, we entered into Amendment No. 1 to the Amended and Restated Credit Facility (the New Amended and Restated Credit Facility), which extended the maturity of the Amended and Restated Credit Facility from May 2017 to December 2018. It also amended the amortization schedule of required debt payments under the 2012 Term Loan. We are required to repay \$5.1 million in quarterly payments over the first two years and \$10.1 million in quarterly payments over the next three years, with the exception of the final payment in December 2018, which will be \$658.1 million (assuming no prepayments).

The effective combined rate on our debt was 2.16% at March 31, 2014.

The obligations under the New Amended and Restated Credit Facility are guaranteed by each of our material direct and indirect wholly-owned domestic subsidiaries, subject to limited exceptions. The obligations under the New Amended and Restated Credit Facility are secured by a lien on substantially all of the equity interests of our present and future material 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 Amended and Restated 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;

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issue 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; and

amend our organizational documents or amend, modify or change the terms of certain agreements relating to our indebtedness.

The New Amended and Restated 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. None of the restrictions above are expected to impact our ability to effectively operate the business.

The New Amended and Restated Credit Facility also requires us and our subsidiaries to achieve financial and operating results sufficient to maintain compliance with the following financial ratios on a consolidated basis through the termination of the New Amended and Restated Credit Facility: (1) the maximum Consolidated Leverage Ratio (as defined in the New Amended and Restated Credit Facility) measured quarterly on a rolling four-quarter basis shall not exceed 3.25:1.00 and (2) the minimum Consolidated Interest Coverage Ratio (as defined in the New Amended and Restated Credit Facility) measured quarterly on a rolling four-quarter basis shall be at least 5.00:1.00. As of March 31, 2014, our Consolidated Leverage Ratio (as defined in the New Amended and Restated Credit Facility) was 1.89:1.00 and our Consolidated Interest Coverage Ratio (as defined in the New Amended and Restated Credit Facility) was 21.57:1.00.

On February 6, 2014, we entered into a new ASR agreement to initiate share repurchases aggregating \$100.0 million. The new ASR agreement is structured as a capped ASR in which, on February 7, 2014, we paid \$100.0 million and received 1.7 million shares, representing the minimum number of common shares to be repurchased based on a calculation using a specific capped price per share. This price is capped such that only under limited circumstances may we be required to deliver shares or pay cash at settlement. Additionally, depending on the average share price through the completion date in May 2014, we may receive additional shares under this ASR agreement.

**Cash Flows**

*Cash and cash equivalents*

	As of	
	March 31, 2014	December 31, 2013
	(in thousands)	

Cash and cash equivalents	\$ 260,450	\$ 358,434
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Cash and cash equivalents were \$260.5 million and \$358.4 million as of March 31, 2014 and December 31, 2013, respectively. As of March 31, 2014 and December 31, 2013, \$61.5 million and \$95.6 million, respectively, of the cash and cash equivalents were held by foreign subsidiaries, which could be subject to U.S. federal income taxation on repatriation to the U.S. and some of which could be subject to local country taxes if repatriated to the U.S. In addition, repatriation of some foreign cash is further restricted by local laws.

We believe that domestic cash flows from operations, together with existing cash and cash equivalents and short-term investments, will continue to be sufficient to fund our domestic operating activities and cash commitments for investing and financing activities, such as scheduled debt repayments and material capital expenditures, for at least the next 12 months and for the foreseeable future thereafter. In addition, we expect existing foreign cash flows from operations, together with existing cash and cash equivalents, will continue to be sufficient to fund our foreign operating activities for at least the next 12 months and for the foreseeable future thereafter.

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	<b>For the Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Cash provided by operating activities	\$ 25,249	\$ 71,047
Cash (used in) provided by investing activities	(10,053)	42,932
Cash used in financing activities	(109,338)	(30,461)
Effect of exchange rates on cash and cash equivalents	566	(3,798)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>\$ (93,576)</b>	<b>\$ 79,720</b>

*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 provided by operating activities was \$25.2 million and \$71.0 million for the three months ended March 31, 2014 and 2013, respectively. The year-over-year decrease reflects increased expenses and a related increase in cash payments as well as increased payments for income taxes and previously accrued compensation amounts.

Our primary uses of cash from operating activities are for the payment of cash compensation expenses, office rent, technology costs, market data costs, interest expenses 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 used in investing activities was \$10.1 million for the three months ended March 31, 2014 compared to cash provided by investing activities of \$42.9 million for the three months ended March 31, 2013. The \$53.0 million year-over-year increase in cash used in investing activities primarily reflects decreased cash proceeds from the maturation of short-term investments without any corresponding reinvestment of the proceeds during the three months ended March 31, 2014 compared to the three months ended March 31, 2013. Partially offsetting this was a decrease in net cash outflows resulting from acquisitions during the three months ended March 31, 2014 compared to the three months ended March 31, 2013. In the three months ended March 31, 2013 we began investing excess cash in money market funds and other similar cash equivalents rather than U.S. Treasury securities and other short-term investments as we had in prior periods.

*Cash flows from financing activities*

Cash used in financing activities was \$109.3 million and \$30.5 million for the three months ended March 31, 2014 and 2013, respectively. The year-over-year change primarily reflects higher purchases of treasury shares, partially offset by lower repayments on our debt.

**Balance Sheet Items**

Total current assets increased 55.2% to \$988.9 million as of March 31, 2014 from \$637.0 million as of December 31, 2013. Total current liabilities increased 8.7% to \$546.7 million as of March 31, 2014 from \$503.0 million as of December 31, 2013. The increase was primarily driven by the reclassification of certain non-current asset line items into Assets held for sale and certain non-current liability line items into Liabilities held for sale which are reflected as current assets and current liabilities, respectively.

### **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.

A significant portion 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, revenues and expenses are translated using

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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 non-operating Other expense (income), net in our Unaudited Condensed Consolidated Statements of Income.

Revenues from index-linked investment products represented approximately \$40.9 million, or 15.0%, and \$36.5 million, or 14.5%, of our total revenues for the three months ended March 31, 2014 and 2013, respectively. While our fees for index-linked investment products are generally invoiced in U.S. dollars, the fees are based on the investment products' assets, a large majority 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, British pounds sterling, Japanese yen and a limited number of other non-U.S. dollar currencies. For the three months ended March 31, 2014 and 2013, approximately 15.3% and 14.1% of our total revenues, respectively, were invoiced in currencies other than U.S. dollars. For the three months ended March 31, 2014, 50.4% of our foreign currency revenues were in Euros, 24.0% were in British pounds sterling and 11.6% were in Japanese yen. For the three months ended March 31, 2013, 60.2% of our foreign currency revenues were in Euros, 15.6% were in Japanese yen and 13.3% were in British pounds sterling.

We are exposed to additional foreign currency risk in certain of our operating costs. Approximately \$83.3 million, or 44.7%, and \$68.4 million, or 42.4%, of our total operating costs for the three months ended March 31, 2014 and 2013, respectively, were denominated in foreign currencies, the significant majority of which were denominated in British pounds sterling, Euros, Indian rupees, Swiss francs, Hungarian forints, Hong Kong dollars, and Mexican pesos. Expenses incurred 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. We manage foreign currency exchange rate risk, in part, through the use of derivative financial instruments comprised principally of forward contracts on foreign currency which are not designated as hedging instruments for accounting purposes. The objective of the derivative instruments is to minimize the income statement impact associated with intercompany loans that are denominated in certain foreign currencies. As a result of these positions, we recognized total foreign currency exchange losses of \$0.9 million and \$1.8 million for the three months ended March 31, 2014 and 2013, respectively. These amounts were recorded in Other expense (income), net in our Unaudited Condensed Consolidated Statements of Income.

***Interest Rate Sensitivity***

We had unrestricted cash and cash equivalents totaling \$260.5 million at March 31, 2014 and \$358.4 million at December 31, 2013, 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. We do not enter into investments for trading or speculative purposes. We believe that 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 2012 Term Loan bear interest at a rate equal to the sum of LIBOR and a margin of 2.00%, which margin will be subject to adjustment based on our leverage ratio. As of March 31, 2014, the 2012 Term Loan, as amended, bore interest at 2.15%. Assuming an average of \$797.3 million of variable rate debt outstanding, a hypothetical 100 basis point increase in LIBOR for a one year period would result in approximately \$8.0 million of additional interest rate expense.

**Item 4. Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures, as defined in Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended, (the Exchange Act ), as of March 31, 2014, 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 Exchange Act 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.



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There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II****Item 1. Legal Proceedings**

Various lawsuits, claims and proceedings have been or may be instituted or asserted against the Company, which arise in the ordinary course of business. While the amounts claimed could be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that exist. Therefore, it is possible that MSCI's business, operating results, financial condition or cash flows in a particular period could be materially affected by certain contingencies. However, based on facts currently available, management believes that the disposition of matters that are currently pending or asserted will not, individually or in the aggregate, have a material effect on MSCI's business, operating results, financial condition or cash flows.

**Item 1A. Risk Factors**

For a discussion of the risk factors affecting the Company, see Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

**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 three months ended March 31, 2014.

**Issuer Purchases of Equity Securities**

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
			Plans or Programs	Programs	
Month #1 (January 1, 2014-January 31, 2014)	27,537	\$ 43.72			\$ 100,000,000
Month #2 (February 1, 2014-February 28, 2014) <sup>(3)</sup>	1,856,782	N/A	1,718,214		\$ 300,000,000

Month #3 (March 1, 2014-March 31, 2014)	3,645	\$ 44.36		\$ 300,000,000
Total	1,887,964	N/A	1,718,214	\$ 300,000,000

- (1) Includes (i) shares withheld to satisfy tax withholding obligations on behalf of employees that occur upon vesting and delivery of outstanding shares underlying restricted stock units and (ii) shares repurchased pursuant to the 2012 Repurchase Program. The value of the shares withheld were determined using the fair market value of the Company's common stock on the date of withholding, using a valuation methodology established by the Company.
- (2) See Note 8, Commitments And Contingencies of the Notes to the Unaudited Condensed Consolidated Financial Statements for further information regarding our stock repurchase programs.
- (3) Average price paid per share information will not be available for the February 2014 ASR Program until final settlement.

### Item 3. Defaults Upon Senior Securities

None.

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**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

An exhibit index has been filed as part of this report on page EX-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: May 2, 2014

MSCI INC.

(Registrant)

By: /s/ Robert Qutub  
Robert Qutub

Chief Financial Officer,

Principal Financial Officer and Duly  
Authorized Signatory

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**EXHIBIT INDEX**

**MSCI INC.**

**QUARTER ENDED MARCH 31, 2014**

2.1	Stock Purchase Agreement dated as of March 17, 2014 among MSCI Inc., RiskMetrics Group Holdings, LLC and VISS Acquisition Corp. (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 001-33812), filed with the SEC on March 20, 2014 and incorporated herein by reference)
3.1	Third Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Form 10-Q (File No. 001-33812), filed with the SEC on May 4, 2012 and incorporated by reference herein)
3.2	Amended and Restated By-laws (filed as Exhibit 3.2 to the Company's Form 10-Q (File No. 001-33812), filed with the SEC on May 4, 2012 and incorporated by reference herein)
*10.1	Letter Agreement regarding a Fixed Dollar Capped Accelerated Share Repurchase Transaction, dated as of February 6, 2014, between MSCI Inc. and Morgan Stanley & Co. LLC
*10.2	Form of Award Agreement for Restricted Stock Units for Directors under the MSCI Inc. Independent Directors' Equity Compensation Plan, as amended
*10.3	Summary of Non-Employee Director Compensation
11	Statement Re: Computation of Earnings Per Common Share (The calculation of per share earnings is in Part I, Item 1, Note 5 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)
*15.1	Letter of awareness from PricewaterhouseCoopers LLP, dated May 2, 2014, concerning unaudited interim financial information
*15.2	Letter of awareness from Deloitte & Touche LLP, dated May 2, 2014, 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
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

\* Filed herewith.

\*\* Furnished herewith.

Indicates a management compensation plan, contract or arrangement.

EX-1