

MSCI Inc.  
Form 10-K  
January 31, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended November 30, 2010

Commission file number 001-33812

**MSCI INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of

Incorporation or Organization)

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

New York, New York 10005

(Address of Principal Executive Offices, zip code)

(212) 804-3900

**13-4038723**  
(I.R.S. Employer

Identification Number)

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(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES  NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES  NO

The aggregate market value of Common Stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter (based on the closing price of these securities as reported by The New York Stock Exchange on May 31, 2010) was approximately \$3,054,920,949. Shares of Common Stock held by executive officers and directors of the registrant are not included in the computation. However, the registrant has made no determination that such individuals are affiliates within the meaning of Rule 405 under the Securities Act of 1933.

As of January 24, 2011, there were 119,699,741 shares of the Registrant's Class A common stock, \$0.01 par value, outstanding and no shares of Registrant's Class B common stock, \$0.01 par value, outstanding.

Documents incorporated by reference: Portions of the Registrant's proxy statement for its annual meeting of stockholders, to be held on May 5, 2011, are incorporated herein by reference into Part III of this Form 10-K.



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**MSCI INC.**

**FORM 10-K**

**FOR THE YEAR ENDED NOVEMBER 30, 2010**

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*Except as the context otherwise indicates, the terms "MSCI," "we," "our," and "us" refer to MSCI Inc. together with its subsidiaries. References to "RiskMetrics" refer to RiskMetrics Group, Inc., a wholly-owned subsidiary of ours that we acquired in June 2010 and its subsidiaries, including Institutional Shareholders Inc. and its subsidiaries, which is referred to as "ISS" herein, except that references to ISS products exclude certain KLD and Innovest products, which are included in the index and ESG product category (KLD, Innovest and ESG defined below).*

*When we refer to "fiscal year 2010" or "the fiscal year ended November 30, 2010," we mean December 1, 2009 through November 30, 2010.*

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**FORWARD-LOOKING STATEMENTS**

*We have included in this Annual Report on Form 10-K and from time to time may make in our public filings, press releases or other public statements, certain statements that constitute forward-looking statements. In addition, our management may make forward-looking statements to analysts, investors, representatives of the media and others. These forward-looking statements are not historical facts and represent only MSCI's beliefs regarding future events, many of which, by their nature, are inherently uncertain and beyond our control.*

*In some cases you can identify these statements by forward-looking words such as may, might, should, anticipates, expects, intends, plans, seeks, estimates, potential, continue, believes and similar expressions, although some forward-looking statements are expressed differently. Statements concerning our financial position, business strategy and plans or objectives for future operations are forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict and may cause actual results to differ materially from the forward-looking statements and from management's current expectations. Such risks and uncertainties include those set forth under Risk Factors in Part I, Item 1A of this Annual Report on Form 10-K. The forward-looking statements in this report speak only as of the time they are made and do not necessarily reflect our outlook at any other point in time. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or for any other reason. However, readers should carefully review the risk factors set forth in other reports or documents we file from time to time with the Securities and Exchange Commission (the SEC).*

**PART I**

**Item 1. Business  
Overview**

We are a leading global provider of investment decision support tools, including indices, portfolio risk and performance analytics and corporate governance products and services. 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), hedge funds and private wealth; financial intermediaries, such as banks, broker-dealers, exchanges, custodians and investment consultants; and corporate clients. As of November 30, 2010, we had approximately 5,800 clients across 78 countries. We had 33 offices in 19 countries to help serve our diverse client base, with approximately 53.3% of our revenue from clients in the Americas, 32.4% in Europe, the Middle East and Africa (EMEA) and 14.3% in Asia and Australia, based on revenues for the year ended November 30, 2010. See Clients below for an explanation of how we calculate our number of clients.

Effective with the acquisition of RiskMetrics, the Company consists of two industry leading businesses: the Performance and Risk business and the Governance business. Together, these businesses offer what we believe is the most comprehensive suite of performance, risk management and corporate governance products and services available in our industry. See Company History and Acquisitions below.

Our Performance and Risk business is a leading global provider of investment decision support tools, including equity indices, portfolio risk and performance analytics, credit analytics and environmental, social and governance (ESG) products. Our Performance and Risk products are used in many areas of the investment process, including portfolio construction and rebalancing, performance benchmarking and attribution, risk management and analysis, index-linked investment product creation, asset allocation, assessment of social responsibility and environmental stewardship and the effects of climate change on investments, investment manager selection and investment research. The flagship products within our Performance and Risk business are our Global Equity Indices and ESG products marketed under the MSCI brand, our market and credit risk analytics marketed under the RiskMetrics and Barra brands, our portfolio risk and performance analytics covering global equity and fixed income markets marketed under the Barra brand and our valuation models and risk management software for the energy and commodities markets marketed under the FEA brand.

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Our Governance business is a leading provider of corporate governance and specialized financial research and analysis services to institutional investors and corporations around the world. Among other things, the Governance business facilitates the voting of proxies by institutional investors and provides in-depth research and analysis to help inform voting decisions and identify issuer-specific risk. The Governance business offers both global security coverage and fully integrated products and services, including proxy voting, policy creation, research, vote recommendations, vote execution, post-vote disclosure and reporting and analytical tools. Within a firewall designed to separate it from the rest of the Governance business, a unit of the Governance business also provides products and services to corporate clients who may use those products and services to learn about and improve their governance and executive compensation practices. The flagship products within our Governance business are our governance research and outsourced proxy voting and reporting services marketed under the ISS brand and our forensic accounting risk research, legal and regulatory risk assessment and due diligence products marketed under the CFRA brand.

Our principal sales model in both of our business segments 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, we have increasing recurring subscriptions to our managed services offering in which our staff oversee the production of risk and performance reports on behalf of our clients. For the year ended November 30, 2010, approximately \$537.8 million, or 81.1%, of our revenues was attributable to annual, recurring subscriptions. Furthermore, \$104.1 million of our revenues comes from clients who use our indices as the basis for index-linked investment products such as ETFs. We also derive revenues from certain institutional clients that use our indices 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 indices 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, overages relating to the proxy research and voting services and from certain products and services that are designed for one-time usage.

Our Aggregate and Core Retention Rates for the year ended November 30, 2010 were 87.2% and 88.1% and are lower than pre-financial crisis peaks due to the recent adverse financial environment and increased competition which resulted in client liquidations and consolidations, price pressure and declines in demand for discretionary financial research products. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Retention Rates, for definitions of Aggregate and Core Retention Rates.

## **Company History and Acquisitions**

We were a pioneer in developing the market for global equity index products and introduced our first equity index products in 1969. We were incorporated in Delaware in 1998 and until we became a public company in November 2007 our only two shareholders were Morgan Stanley and Capital Group International, Inc. ( Capital Group International ).

In June 2004, we acquired Barra, Inc. ( Barra ), a provider of portfolio risk analytics tools that launched its first risk analytics products in 1975, broadening our product range beyond index products.

In November 2007, we completed an initial public offering ( IPO ) of approximately 16.1 million shares of our class A common stock. In connection with the IPO, we reclassified our outstanding common stock into shares of class A common stock and class B common stock and immediately following the IPO, Morgan Stanley held approximately 81.0 million shares of our class B common stock and Capital Group International held approximately 2.9 million shares of our class B common stock. Under the terms of our Amended and Restated Certificate of Incorporation, when shares of class B common stock convert into shares of class A common stock, they do so on a one-to-one basis.

In May 2008, Morgan Stanley converted approximately 28.0 million shares of our class B common stock into class A common stock by selling such shares in a registered secondary equity offering. Capital Group

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International converted approximately 2.9 million shares of our class B common stock, representing all of its equity interest in us, into shares of our class A common stock and transferred them to its affiliate The Capital Group Companies Charitable Foundation ( Capital Group Charitable Foundation ). Capital Group Charitable Foundation sold all of these shares pursuant to the same registered secondary equity offering.

In July 2008, Morgan Stanley converted approximately 25.0 million shares of our class B common stock into shares of class A common stock by selling such shares pursuant to a registered secondary equity offering.

In May 2009, Morgan Stanley converted approximately 27.7 million shares of our class B common stock, representing the remainder of its equity interest in us, into shares of our class A common stock by selling such shares pursuant to a registered secondary offering. Currently, there are no shares of our class B common stock outstanding and management has no intention of issuing any shares of our class B common stock. Although we began the transition to an independent, stand-alone public company at the time of our IPO in November 2007, we became an independent, stand-alone public company following the May 2009 secondary offering.

In November 2009, we issued approximately 3.8 million shares of our class A common stock pursuant to a registered offering completed in conjunction with our inclusion in the S&P MidCap 400 Index.

In June 2010, we acquired RiskMetrics, a leading provider of risk management and governance products and services, in a cash-and-stock transaction valued at approximately \$1,572.4 million. In connection with the acquisition, we issued approximately 12.6 million shares of class A common stock and we also entered into a senior secured credit agreement, which is comprised of (i) a \$1,275.0 million six-year term loan facility and (ii) a \$100.0 million five-year revolving credit facility. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. RiskMetrics' operating revenues for the calendar year ended December 31, 2009 were \$303.4 million. Immediately prior to the acquisition, RiskMetrics had over 3,400 clients located in 56 countries and approximately 1,100 employees located in 12 countries. RiskMetrics owns ISS, a pioneer in the development of policy-based proxy voting recommendations. ISS expands our product and service offerings to include a fully-outsourced proxy research, voting and vote reporting service, and corporate governance products and services. RiskMetrics acquired the Center for Financial Research and Analysis ( CFRA ), Innovest Strategic Advisors ( Innovest ) and KLD Research and Analytics, Inc. ( KLD ) in August 2007, March 2009 and October 2009, respectively. The acquisitions of these companies permits us to offer financial research and analysis products that provide our clients with research reports and analytical tools covering many investment criteria that we believe have become increasingly important to investors, including accounting and compensation practices, and environmental, social and governance products and services. As a part of MSCI, we believe RiskMetrics helps (i) increase our already strong operating cash flow, (ii) increase our recurring revenue and (iii) leverage the power of our brand, technology and our global reach. See Note 4, Restructuring, for a discussion of certain costs incurred in connection with the integration of RiskMetrics.

In July 2010, we acquired Measurisk, LLC ( Measurisk ), a provider of risk transparency and risk measurement tools for hedge fund investors, to aid us in developing a broad platform and setting the standard for analyzing and reporting hedge fund risk in response to our clients' demands for increasing levels of transparency from their hedge fund managers.

Over the course of more than 40 years, we believe our organization has accumulated an in-depth understanding of the investment process worldwide. Based on this wealth of knowledge, we have created and continue to develop, enhance and refine sophisticated tools to meet the growing, complex and diverse needs of our clients' investment processes. Our models and methodologies are the intellectual foundation of our business and include the innovative algorithms, formulas and analytical and quantitative techniques that we use, together with market data, to produce our products. Our long history has allowed us to build extensive databases of proprietary index, risk and governance data, as well as accumulate valuable historical market data, which we believe would be difficult to replicate and which provides us with a substantial competitive advantage.

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We have grown significantly, organically and through acquisitions, such as those described above, with respect to our number of employees and revenues. As we have grown, we have increased our operations outside of the United States. We currently have branches or subsidiaries located in the following countries: Australia, Belgium, Brazil, Canada, China, France, Germany, Hungary, India, Italy, Japan, Mexico, the Philippines, Singapore, South Africa, Switzerland, United Arab Emirates, the U.K. and the U.S.

### **Business Segments, Products and Services**

We divide our business operations into two segments: the Performance and Risk business and the Governance business. Business segment revenue, segment income from operations and assets attributable to foreign and domestic operations are set forth in Note 14, Segment Information, of the Notes to the Consolidated Financial Statements, included herein.

### **Performance and Risk Business Segment**

Our primary Performance and Risk products consist of indices, portfolio risk and performance analytics, credit analytics and ESG products. We also have product offerings in the areas of energy and commodity asset valuation analytics and fixed income portfolio analytics. Our products are generally comprised of proprietary index data, proprietary risk and analytics data and ESG ratings, analysis and research and delivered via data feeds and proprietary software applications. Our index and risk data are created by applying our models and methodologies to market and fundamental data. For example, we input closing stock prices and other market data into our index methodologies to calculate our index data, and we input fundamental data and other market data into our risk models to produce risk forecasts for individual assets and portfolios of multiple asset classes, including equities, bonds, commodities, foreign exchange, futures, options, derivatives, structured products, interest-rate products and credit products. Our clients can use our data together with our proprietary software applications, third-party applications or their own applications in their investment process. Our software applications offer our clients sophisticated portfolio analytics to perform in-depth analysis of their portfolios, using our risk data, the client's portfolio data and fundamental and market data. Our equity index products are typically branded MSCI. Our portfolio risk, performance analytics and credit analytics are typically branded Barra and RiskMetrics. In addition to MSCI branded ESG indices, we offer other environmental, social and governance products that are branded MSCI ESG Research. Our valuation models and risk management software for the energy and commodities markets are typically branded FEA.

### ***Index and ESG Products***

Our MSCI-branded equity indices are designed to measure returns available to investors across a wide variety of markets (*e.g.*, Europe, Japan or emerging markets), sizes (*e.g.*, small capitalization or large capitalization), styles (*e.g.*, growth or value) and industries (*e.g.*, banks or media). Our MSCI branded ESG indices are designed to help clients incorporate environmental, social and governance factors into their investment decisions. As of November 30, 2010, we calculated over 148,000 indices daily.

In addition to delivering our products directly to our clients, as of November 30, 2010, we also had more than 65 third-party financial information and analytics software providers who distribute our various equity index products worldwide. The performance of our equity indices is also frequently referenced when selecting investment managers, assigning return benchmarks in mandates, comparing performance and providing market and academic commentary. The performance of certain of our equity indices is reported on a daily basis in the financial media.

Our primary index products are:

*MSCI Global Equity Indices.* The MSCI Global Equity Indices are our flagship index products. They are designed to measure returns available to global investors across a variety of public equity markets. As of November 30, 2010, the MSCI Global Equity Indices covered 76 countries, including, among



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others, those in our developed market, emerging market and frontier market categories, as well as various regional and composite indices built from the component country indices, including the well-known MSCI EAFE (Europe, Australasia, and Far East), MSCI World, MSCI ACWI IMI (All Country World Investable Market Index) and MSCI Emerging Market Indices. In addition, the MSCI Global Equity Indices include industry indices, thematic and strategy indices, value and growth style indices and large-, mid-, small- and micro-capitalization size segment indices.

We believe that the MSCI Global Equity Indices are the most widely used benchmarks for cross border equity funds. We continue to enhance and expand this successful product offering. Recently, various pension plans have announced their use of our broad equity index, MSCI ACWI IMI, as the policy benchmark for their equities portion. We have also recently introduced new indices such as the MSCI All Cap Indices, the MSCI Micro Cap Indices for all developed countries and regions, the MSCI Frontier Markets Small Cap Indices and the MSCI Value Weighted Indices.

*MSCI US Equity Indices.* The MSCI US Equity Indices are designed to reflect the full breadth of investment opportunities within the US equity markets. The MSCI US Equity Indices include value and growth style indices, large-, mid-, small- and micro-capitalization size segment indices and sectors/industries indices.

*MSCI Custom Indices.* Over the years we have significantly expanded our capabilities to calculate custom indices. We currently calculate over 5,000 custom indices, which apply a client's customization criteria to an existing MSCI index. Examples of customization criteria include currency, hedging, stock exclusions or special weighting. Custom indices can reflect specific investment criteria, such as socially responsible investment requirements or regulatory constraints, and can be used for back-testing a strategy or developing a specialized investment product, minimizing portfolio tracking error and constructing index-linked products.

*MSCI ESG Indices.* The MSCI ESG Indices allow clients to more effectively benchmark ESG investment performance and manage, measure and report on their compliance with ESG mandates, as well as to issue index-based ESG investment products. The MSCI ESG Indices include sustainability indices, indices that take into account certain values, norms or ethical standards, environmental-themed indices such as alternative energy or clean technology and custom indices based on clients' unique ESG requirements.

*Global Industry Classification Standard (GICS).* The Global Industry Classification Standard was developed and is maintained jointly by MSCI and Standard & Poor's Financial Services, LLC (Standard & Poor's). We designed this classification system to respond to our clients' needs for a consistent, accurate and complete framework for classifying companies into industries. GICS has been widely accepted as an industry analysis framework for investment research, portfolio management and asset allocation. Our equity index products classify constituent securities according to GICS.

We also offer GICS Direct, a joint product of MSCI and Standards & Poor's. GICS Direct is a database of more than 40,000 active companies and over 45,000 securities classified by sector, industry group, industry and sub-industry in accordance with proprietary GICS methodology.

*MSCI ESG Research.* MSCI ESG Research products and services help investors integrate ESG factors into their investment decisions. Investors integrate ESG factors to better understand investment risk and opportunities and/or to align investment with a set of ESG values.

Products include research, screening and modeling tools that allow institutional investors and asset managers to align investments with a set of ESG values such as perceptions of certain business activities, religious views or international norms; generate buy/restricted lists of companies that meet those criteria; understand the implications of restrictions on portfolios; and examine company specific profiles.

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MSCI ESG Research also provides ESG ratings and analysis on thousands of companies worldwide. These sector based research reports are designed to identify and analyze key ESG issues for the sector, which may include the intersection of a corporations major social and environmental impacts with its core business operations, thereby identifying potential risks and opportunities for the company and its investors.

### ***Portfolio Management Analytics Products***

Our Barra-branded portfolio management analytics products are designed to assist investment professionals in analyzing and managing risks and returns for equities at both the asset and portfolio level in major equity markets worldwide. Barra equity models identify and analyze the factors that influence equity asset returns and risk. Our most widely used Barra equity products utilize our fundamental multi-factor equity risk model data to help our clients construct, analyze, optimize and manage portfolios. Our multi-factor models identify common factors that influence stock price movements, such as industry and style characteristics, based on market and fundamental data. The proprietary risk data available in our products identifies an asset s or a portfolio s sensitivities to these common factors. Risk not attributable to the common factors is risk unique to the asset.

Our global equity models include the following:

*Barra Global Equity Model ( GEM2 ).* GEM2 is an investment decision support tool designed for global equity portfolio management and construction. It uses a set of factors that best explain the sources of global equity risk and returns.

*Barra Integrated Model ( BIM ).* BIM provides a detailed view of risk across markets and asset classes, including currencies, equities, fixed income assets, commodities, mutual fund assets and hedge fund assets. It begins by identifying the factors that affect the returns of equity and fixed income securities and currencies in each individual country or market. These factors are then combined into a single global model that can forecast the risk of multi-asset class, global portfolios.

Our single country and regional risk models include the following:

*Barra Single Country Equity Models.* Our single country equity models identify the unique set of factors most able to explain sources of risks and returns of portfolios in that country. Examples include the Barra US Equity Model ( USE3 ) which models risk for U.S. equity assets and portfolios and is our most frequently licensed model, and the Barra UK Equity Model ( UKE7 ) which models risk for United Kingdom equity assets and portfolios.

*Barra Regional Equity Models.* We produce two regional equity models, the Europe Equity Model ( EUE3 ) and the Asia-Pacific Equity Model ( ASE1 ). These models are designed to be used across a broad range of applications and are available in different versions to reflect local and regional commonalities, as well as short-term and long-term investment horizons. The EUE3 model covers approximately 11,000 stocks in 29 markets, including many emerging and frontier markets in Eastern Europe. The ASE1 model covers approximately 21,600 stocks in 15 markets, including emerging and frontier markets in the region.

When assigning investment mandates to asset managers, institutional asset owners often prescribe investment restrictions for portfolio risk and tracking error that are measured, reported and monitored using Barra products. Our clients can use our portfolio analytics by installing our proprietary software applications and equity risk data in their technology platforms, by accessing our software applications and risk data via the Internet, by integrating our equity risk data into their own applications or through third-party applications, like those provided by FactSet Research Systems Inc. ( FactSet ), that have incorporated our equity risk data and analytics into their offerings.

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Our primary portfolio analytics products are:

*Barra Aegis.* Barra Aegis is our flagship equity risk management and analytics system. It is a sophisticated software application for equity risk management and portfolio analysis that is powered by our proprietary equity risk data. It is deployed by the client as a desktop application. Barra Aegis is an integrated suite of equity investment analytics modules, specifically designed to help clients actively manage their equity risk against their expected returns. It also enables clients to construct optimized portfolios based on client-specified expectations and constraints.

Barra Aegis also provides a factor-based performance attribution module which allows clients to analyze realized returns relative to risk factors by sectors, styles, currencies and regions. Barra Aegis tools also help clients identify returns attributable to stock selection skills. Additionally, using Barra Aegis advanced automation tools, clients can back-test their portfolio construction strategies over time.

*Barra Portfolio Manager.* Barra Portfolio Manager is an integrated risk and performance platform that is designed to help fund managers and their teams gain additional portfolio insight, manage a more systematic investment process and make faster, more informed investment decisions. The web-based interactive user interface allows users to quickly and easily analyze risk and return, monitor portfolios and conduct pre-trade what-if analysis across a number of scenarios. The platform supports optional data management services that allow users to outsource the loading and reconciliation of their portfolio and other proprietary data.

*Barra Equity Models Direct.* Barra Equity Models Direct delivers our proprietary risk data to clients for integration into their own software applications. The proprietary risk data in Barra Equity Models Direct is also available via third-party providers. We offer the proprietary risk data from global, regional and single country Barra risk models and most of these models are available in short-term and long-term time horizons so that clients can select the risk data that best suits their investment processes.

*Barra Cosmos.* Barra Cosmos enables global fixed income portfolio managers to manage risk and optimize return in a multi-currency, global bond portfolio. This adaptable product integrates specific bond, derivative and currency strategies to reflect each user's investment style, while monitoring the overall risk exposure of the portfolio. Barra Cosmos is deployed by the client as a desktop application.

### ***Risk Management Analytics Products***

Our risk management analytics products offer a consistent risk assessment framework for managing and monitoring investments in a variety of asset classes across an organization. The products are based on our proprietary integrated fundamental multi-factor risk models, value-at-risk methodologies and asset valuation models. They enable clients to identify, monitor, report and manage potential market risks from equities, fixed income, derivatives contracts and alternative investments, and to analyze portfolios and systematically analyze risk and return across multiple asset classes, including equities, bonds, commodities, foreign exchange, futures, options, derivatives, structured products, interest-rate products and credit products. Using these tools, clients can identify the drivers of market and credit risk across their investments, produce daily risk reports, run pre-trade analysis, perform what-if stress-tests and simulation analysis and optimizations, evaluate and monitor multiple asset managers and investment teams and access correlations across a group of selected assets or portfolios.

We have two major products in this area, BarraOne and RiskManager:

*BarraOne.* BarraOne, powered by the Barra Integrated Model, provides clients with global, multi-asset class risk analysis using Barra fundamental factor technology. BarraOne also includes VaR simulation, stress testing, optimization and performance attribution modules that enable clients to manage multi-asset class portfolios, carry out risk allocation budgeting, manager monitoring, performance attribution and regulatory risk reporting. The product is accessed by clients via a secure, interactive web-based session, web services or on an outsourced basis.

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*RiskManager.* RiskManager is an industry leader in VaR simulation and stress testing. Clients use RiskManager for daily analyzing, measuring and monitoring of market risk at fund and firm level, for sensitivity and stress testing, and interactive what-if analysis. RiskManager is a highly scalable platform accessed by clients via a license to a secure, interactive web-based application service, as an outsourced risk reporting service or as a web service in which a client's systems access RiskMetrics core risk elements by connecting directly to our systems. RiskManager includes, among other modules, the CounterParty Risk Reporting module that provides clients with counterparty exposures and is offered as either a web service or a managed service in which our staff oversee the production of CounterParty Risk reports on behalf of our clients.

In addition, we offer:

*Hedge Fund Risk Transparency Solutions.* HedgePlatform, a reporting service, and InterSight, an interactive web-based reporting service, allow clients that invest in hedge funds, including funds of funds, pension funds and endowments, to measure, evaluate and monitor the risk of their hedge fund investments across multiple hedge fund strategies. We collect position-level information from hedge funds on a monthly basis and provide our clients with a risk report for each individual hedge fund in which they invest as well as an aggregate risk report for their overall portfolio of hedge funds. Our clients who use RiskManager to measure the risk of their own holdings can further integrate the positions collected via our HedgePlatform and InterSight services to allow computation of risk across their entire portfolio, while the confidential and proprietary nature of the underlying hedge fund holdings is maintained. HedgePlatform and InterSight reports include statistics such as exposure (long, short, net and gross), sensitivities, scenario analysis, stress tests and VAR analysis.

*DataMetrics.* DataMetrics is a data service that allows clients to access the market data embedded in RiskManager for use in their own proprietary or other third-party systems. In addition to direct access to market data time series, DataMetrics can provide clients with customized data processing services.

*WealthBench.* WealthBench is an investment planning platform for private banks, financial advisors, brokerages and trust companies. WealthBench delivers fully-informed, tailored investment planning proposals for high net worth individuals reflecting their needs, goals and risk tolerances while remaining consistent with firm-driven investment and risk-based policies. WealthBench incorporates robust analytics, market-consistent inputs and transparent methodologies.

*CreditManager.* Our CreditManager product is a portfolio credit risk management system used primarily by banks to calculate economic capital and credit scores, facilitate risk-based pricing and measure risk concentrations. The application is designed to consolidate and compare risks and opportunities across multiple credit exposures including bonds, credit derivatives and traditional lending.

### ***Energy and Commodity Analytics Products***

Our Energy and Commodity Analytics products are software applications that offer a variety of quantitative analytics tools for valuing, modeling and facilitating the hedging of physical assets and derivatives across a number of market segments including energy and commodity assets. These products are used by investors, traders and those hedging investments in these asset classes. The software applications are not provided with any market data or proprietary index or risk data. These products are typically branded FEA and include products such as FEA@Energy, FEA VaRworks and FEA StructureTool.

### **Governance Segment**

Our Governance business is a leading provider of corporate governance and financial research and analysis services to institutional investors and corporations around the world. We categorize our Governance business

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into three distinct categories: (i) Proxy Research and Voting, Global Proxy Distribution ( GPD ) and Securities Class Action Services ( SCAS ), (ii) ISS Corporate Services and (iii) Financial Research and Analysis ( FR&A ). The pricing model for our Governance business products and services is primarily subscription-based and varies depending on the product or service purchased.

### ***Proxy Research and Voting, GPD and SCAS***

Our Proxy Research and Voting, GPD and SCAS products are designed to provide proxy services, including proxy voting and in-depth research and analysis to help inform voting decisions and assess issuer-specific risk, to institutional investors globally. ISS is the largest proxy advisory firm that offers a fully-integrated, end-to-end proxy voting service, including policy creation, comprehensive research, vote recommendations, vote execution and reporting and analytical tools. During fiscal year 2010, Proxy Research and Voting, GPD and SCAS accounted for approximately 72.3% of revenues attributable to our Governance business.

Our primary product categories are:

*Proxy Research and Voting.* Through its ProxyExchange platform, ISS provides clients with vote recommendations, comprehensive analyses and online voting capabilities that enable users to make informed decisions about how to vote on all items with respect to each shareholder meeting agenda that is covered, execute their votes and monitor and track their votes for reporting purposes. Research coverage is currently provided on over 6,400 U.S.-based companies and approximately 25,000 non-U.S. companies. ISS research and recommendations are based on benchmark, specialized and custom policies. ISS benchmark policies are designed to serve as an industry standard and best practice guide to corporate governance and are developed with the input of institutional clients and industry professionals around the world. In addition to our benchmark policies, we recognize that the philosophies and policies used to make proxy voting decisions range widely among different types of investors. Understanding the diverse needs of our clients, we are able to create policies that meet their requirements through a number of specialized policies such as SRI policies based on environmentally and socially responsible guidelines and ISS Taft-Hartley benchmark policy which is based on guidelines of the American Federation of Labor and Congress of Industrial Organizations. For many institutional investors with highly specialized or unique needs for proxy research and policy guidelines, we also offer custom proxy advisory services in which we work with our clients to develop and refine governance policy guidelines that match their particular views and are unique to them. ISS M&A Edge provides independent, in-depth research analysis that focuses specifically on proposed merger and acquisition deals and proxy contests to inform institutional investors. It also delivers ongoing deal notes that keep users abreast of key events as the deal or contest evolves and analysis covers key aspects of a transaction, including strategic rationale, corporate governance and shareholder rights issues.

ISS proxy voting services include notifying clients of upcoming shareholder meetings, receiving proxy ballots from third-party proxy distributors, generating consolidated proxy ballots and instructions across its clients portfolios, executing and tabulating its clients votes in accordance with their instructions, maintaining voting records and providing comprehensive vote reporting.

*Global Proxy Distribution Services ( GPD ).* Our GPD service offers a complete global proxy distribution solution to custodian banks for non-U.S. securities through a single independent platform. GPD provides for the efficient distribution and voting of proxies giving clients the ability to review and download detailed meeting information and individualized account information. GPD also provides online access to customized record-keeping and reporting across all custodians and sub-custodians.

*Securities Class Action Services ( SCAS ).* We deliver a complete class action monitoring and claims filing service to institutional investors who have potential recovery rights in class action lawsuits. We

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provide an extensive securities litigation database, including up-to-date case information and detailed historical class action data, and provide fully-outsourced notification, tracking and claims filing services to our institutional clients. Our arrangements with claims administrators and law firms around the world enable us to advise on new developments in global markets and streamline the filing process.

SCAS offers more detailed portfolio specific views of cases and settlements with an online report library that allows clients to keep track of the complete securities class action lifecycle from when a case is first identified until payment is disbursed. Securities class action data provided to our clients include class periods, settlement dates, status reports, award amounts, claim deadline dates, claims administrator details and pertinent related data.

### ***ISS Corporate Services***

Our ISS Corporate Services products and services are designed to help clients reduce risk and build shareholder value through strong governance programs by leveraging our expertise in the areas of executive compensation, governance ratings, capital structure, voting trends and corporate governance research. ISS Corporate Services tools and advisory services help clients to design, manage and measure their corporate governance programs. The majority of ISS Corporate Services revenues are one-time, non-recurring. During fiscal year 2010, ISS Corporate Services products and services accounted for approximately 18.4% of revenues attributable to our Governance business.

Our primary ISS Corporate Services products and services include:

*Compensation and Corporate Advisory Services.* We provide a set of turnkey products and services that enable compensation professionals and board committee members to optimize compensation plan design by modeling, analyzing and benchmarking executive compensation. Our Compensation and Corporate Advisory Services provide access to experienced and dedicated compensation plan analysts and support to our clients in modeling the cost of equity compensation plans and determining optimal compensation plan design. Alternatively, we provide a web-based compensation modeling tool, Compass, that measures the cost of equity-based incentive plans using a binomial option pricing model.

*Governance Exchange.* Governance Exchange provides a high-quality online discussion forum to facilitate constructive dialogue on corporate governance issues between those involved in corporate governance, including institutional investors, board directors and corporate executives. Members of Governance Exchange also have access to a diverse range of corporate governance viewpoints and research through webcasts, white papers, surveys, and expert analysis.

*Proxy Research and Publications.* Proxy Research and Publications offers a searchable database of publications, research articles and online reports designed to help corporate secretaries, investor relations professionals, executives, directors and other professionals track ISS recommendations and analysis. Through an alerts service, users of Proxy Research also receive the latest proxy research reports released for their company or for peer companies, and can opt to be alerted when proxy research reports containing specific proposal types are released.

### ***Financial Research and Analysis***

Our FR&A products and services are designed to assess the overall financial health of companies by analyzing the investment implications of companies' accounting policies, legal and regulatory exposure, environmental, social and governance practices, mergers and acquisitions initiatives and compensation plans. Our FR&A product and service offerings are provided primarily to portfolio managers for investment analysis, to corporations to monitor compliance with corporate governance practices and to professional services organizations to support due diligence efforts. These offerings are either bundled with other services or sold on an individual basis and allow investors to add specialized, qualitative analysis to more traditional research used in the investment decision-making process. During fiscal year 2010, FR&A accounted for approximately 9.3% of revenues attributable to our Governance business.

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*CFRA Forensic Accounting Research.* Through a rigorous and proprietary research process, our global team of analysts assesses the reported financial results of over 10,000 companies worldwide. We focus on providing our clients with timely and actionable risk analysis reports regarding earnings and cash flow quality and sustainability, legal and regulatory risk and overall business health. Our clients rely on our continuous analysis and objective perspective. Accounting Lens, our largest product, is a leading forensic accounting risk research report offering for investors, providing early warning signals for companies showing signs of operational or financial distress. The reports consist of in-depth company research, educational and industry research, access to our proprietary earnings quality database and research analyst contact. In addition, CFRA's Legal Edge product is focused on identifying and analyzing hidden legal and regulatory risks. CFRA also provides customized research services for client-defined projects.

## **Growth Strategy**

We have experienced growth in recent years with operating revenues and operating income increasing by 49.7% and 36.5%, respectively, for the year ended November 30, 2010 compared to the year ended November 30, 2009, and by 2.8% and 11.2%, respectively, for the year ended November 30, 2009 compared to the year ended November 30, 2008. Excluding the impact of the RiskMetrics and Measurisk acquisitions, our operating revenues and operating income increased by 14.3% and 22.5%, respectively, for the year ended November 30, 2010 compared to the year ended November 30, 2009.

We believe we are well-positioned for significant growth over time and have a multi-faceted growth strategy that builds on our strong client relationships, products, brands and integral role in the investment process. Most of our clients are in the financial services industry. In 2008 and 2009, stock market volatility and lack of available credit led to increased budgetary pressures at a number of our clients and the closure or consolidation of a number of our clients, which negatively impacted our financial results for those periods. Although our Retention Rates and new sales growth have generally improved in 2010 compared to the last two years, we expect to see continued improvement over time. Additionally, we believe that our acquisition of RiskMetrics meaningfully advances each of the growth strategies that we have identified and pursued over the last three years. Set forth below are the principal elements of our strategy to grow our Company and meet the increasing needs of our clients for investment decision support tools:

*Client Growth.* We believe there are significant opportunities to increase the number of users and locations and the number of products we license to existing client organizations, and to obtain new clients in both existing and new geographic markets and client types worldwide. We intend to:

*Increase product subscriptions and users within our current client base.* Many of our clients use only one or a limited number of our products, and we believe there are substantial opportunities to cross sell our other investment decision support tools as we have expanded our suite of equity index, ESG, risk, governance and research products. For example, we will continue to seek opportunities to sell risk and portfolio analytics products to our existing index only clients. In addition, we will continue to focus on adding new users, new locations and new modules for current products with existing clients. In the year ended November 30, 2010, approximately 75.4% of our new sales resulted from sales to existing clients.

*Expand client base in current client types.* We plan to add new clients by leveraging our brand strength, our products, our broad access to the global investment community and our strong knowledge of the investment process. This includes client types in which we already have a strong penetration for our flagship global equity index, risk management analytics, portfolio analytics and governance products.

*Increase licensing of indices for ETFs.* During the year ended November 30, 2010, increases in the assets in ETFs linked to MSCI indices reflected in the table below contributed significantly to revenue growth in the Index and ESG product category. We believe that there is potential for

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continued growth and expansion in this market in the future and we will continue to increase licensing of our indices for index-linked investment products to capitalize on their growth in number and variety.

**Assets in ETFs Linked to MSCI Indices**

MSCI Equity Index	2010	As of November 30,	
		2009	2008
		(in billions)	
Emerging Markets	\$ 102.7	\$ 63.3	\$ 22.6
EAFE	39.4	39.6	29.6
US Broad Market	15.6	12.9	8.2
Brazil	12.8	12.9	3.9
Europe	8.0	7.9	4.0
Japan	7.8	7.4	8.0
Subtotal	186.3	144.0	76.3
Other Indices	124.7	90.2	42.7
<b>Total</b>	<b>\$ 311.0</b>	<b>\$ 234.2</b>	<b>\$ 119.0</b>

Source: Bloomberg & MSCI.

**Number of Primary Exchange Listings of ETFs Linked to MSCI Equity Indices**

Region	As of November 30,		
	2010	2009	2008
Americas	130	93	76
EMEA	253	165	85
Asia	20	10	6
<b>Total</b>	<b>403</b>	<b>268</b>	<b>167</b>

*Expand licensing of other index based financial products.* We believe that additional opportunities exist to expand the licensing of our index products as the basis of derivatives.

*Build a dedicated sales team and provide services tied to regulatory changes.* We believe that increased regulation in Europe such as the U.K.'s Stewardship Code will increase the market size and opportunity for ISS as the market leader. In the U.S. we believe regulation tied to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) will increase requirements for financial services firms to disclose and report proxy voting and create new sales opportunities as the market for proxy services grows. Additionally, we are building a dedicated sales team for the ISS business that will allow us to better capture these opportunities and compete for market share.

*Expand the use of ESG in the traditional investment process.* We plan to leverage MSCI's non-ESG client relationships to sell MSCI ESG Research to investment analysts and portfolio managers who may not have previously used it. We believe that portfolio managers and analysts will increasingly utilize MSCI ESG Research to provide additional insight into investment



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risks and opportunities. Furthermore, in October 2010, MSCI became a signatory to the UN Principles for Responsible Investment ( PRI ), which is a global initiative supporting the integration of ESG factors into institutional investing practices. By joining many of our clients as signatories to the PRI, we are demonstrating our commitment to provide critical investment tools to the growing number of asset owners and investment managers that are integrating ESG factors into their investment decisions.

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*Managed services offering in Risk and Portfolio Management products.* We plan to expand our fully-outsourced or managed service offering in which our staff oversee the production of risk and performance reports on behalf of our clients.

*Expand into client types in which we are underrepresented.* We plan to expand into client types in which we do not currently have a leading presence. In particular, we intend to focus on increasing the number of pension funds, sovereign wealth funds, hedge fund managers, fund-of-fund managers, banks, brokers and endowments using our products. For example, many pension funds are familiar with us and our Global Equity Indices because the performance of their equity asset managers is measured in relation to our indices. We believe that our equity and multi-asset class portfolio analytics products would be useful to pension funds managing their investment risk. With the acquisition of RiskMetrics, we have expanded our presence with sell-side institutions, banks and hedge funds.

*Expand global presence.* We have a strong presence in many developed markets. While we have established a presence in selected emerging market countries, there is potential for further penetration and growth in these markets. We intend to leverage our strong brands, reputation, products and existing presence to continue to expand in these markets and gain more clients. We believe that the international market for governance products and service is growing, and that we will be able to capitalize on increased demand by leveraging our globally-recognized ISS brand, international presence and sales force.

*Product Growth.* We plan to develop new product offerings and continue to enhance our existing products through internal product development.

*Create innovative new product offerings and enhancements.* In order to maintain and enhance our leadership position, we plan to introduce innovative new products and enhancements to existing products. We maintain an active dialogue with our clients in order to understand their needs and anticipate market developments. In fiscal year 2011, we anticipate significant further innovation with the integration of HedgePlatform and Measurisk, new developments in equity factor models, multi-asset class performance attribution, tail risk modeling and instrument valuation, and major changes to the Barra Integrated Model which will both extend global coverage, including significant upgrades to our fixed-income models and provide numerous modeling advancements.

*Expand our capacity to design and produce new products.* We intend to increase our investments in new model research, data production systems and software application design to enable us to design and produce new products more quickly and cost-effectively. Increasing our ability to process additional models and data, and design and code software applications more effectively, will allow us to respond faster to client needs and bring new products and product enhancements to the market more quickly.

*Expand our presence across all asset classes.* We will continue to extend the market and instrument coverage offered in our multi-asset class risk products. Our investments include expanded data sets and models for emerging and frontier markets, private asset classes, including private real estate and private equity, and pricing models for instruments with complex payoff structures.

*Expand our collection of proprietary governance data to increase product subscriptions and expand the reporting functionality of ProxyExchange to take advantage of regulatory changes.* We plan to increase our data collection capabilities in the area of executive compensation allowing us to target new sales opportunities. We will also expand the reporting functionality of ProxyExchange to offer clients more custom reporting opportunities and deliver compliance reporting services associated with the changing regulatory landscape.

*Growth through acquisitions.* We intend to continue to actively seek to acquire products, technologies and companies that will enhance, complement or expand our product offerings and



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client base, as well as increase our ability to provide investment decision support tools to equity, fixed income and multi-asset class investment institutions. In fiscal year 2010, we acquired RiskMetrics and Measurisk.

### **Competitive Advantages**

We believe our competitive advantages include the following:

*Strong brand recognition.* Our Global Equity Indices and ESG products and services are marketed under the MSCI brand, our portfolio risk and performance analytics covering global equity and fixed income are marketed under the Barra brand, our market and credit risk analytics are marketed under the RiskMetrics and Barra brands, our energy and commodity asset valuation analytics are marketed under the FEA brand and our corporate governance products and services are marketed under the ISS brand. These brands are well-established and recognized throughout the investment community worldwide. Our brand strength reflects the longstanding quality and widespread use of our products. We believe our products are well-positioned to be the tools of choice for investment institutions increasingly looking to third-party products and services for help with benchmarking, index-linked product creation and portfolio risk management.

*Strong client relationships and deep understanding of their needs.* Our consultative approach to product development, dedication to client support and range of products have helped us build strong relationships with investment institutions around the world. We believe the skills, knowledge and experience of our research, software engineering, data management and production and product management teams enable us to develop and enhance our models, methodologies, data and software applications in accordance with client demands and needs. We consult with our clients and other market participants during the product development and construction process to take into account their actual investment process requirements.

*Client reliance on our products.* Many of our clients have come to rely on our products in their investment management processes, integrating our products into their performance measurement and risk management processes, where they become an integral part of their daily portfolio management functions. In certain cases, our clients are requested by their customers to report using our tools or data. Consequently, we believe that certain of our clients may experience business disruption and additional costs if they chose to cease using or replace our products. As a result of the recent global financial crisis, many of our clients became increasingly subject to budgeting constraints in fiscal years 2009 and 2010. We believe that our levels of new sales and improved Aggregate and Core Retention Rates for fiscal year 2010, despite these budgeting constraints, evidences the extent to which our clients rely on our products.

*Sophisticated models with practical application.* We have invested significant time and resources for more than three decades in developing highly sophisticated and practical index methodologies and risk models that combine financial theory and investment practice. We enhance our existing models to reflect the evolution of markets and to incorporate methodological advances in risk forecasting. New models and major enhancements to existing models are reviewed by our model review committee.

*Open architecture and transparency.* We have an open architecture philosophy. Clients can access our data through our software applications, third-party applications or their own applications. We also recognize that the marketplace is complex and that a competitor in one context may be a supplier or distributor in another context. For example, Standard & Poor's competes with us in index products, supplies index data that we distribute in our portfolio analytics software products and jointly developed and maintains GICS and GICS Direct with us. In order to provide transparency, we document and disclose many details of our models and methodologies to our clients so that they can better understand and utilize the tools we offer. We strongly believe this open architecture approach benefits us and our clients.

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*Scalable application platforms.* We continue to make significant investments in our data centers and software services to provide highly scalable solutions for the processing of large volumes of assets/portfolios. In doing so, we are able to offer clients computing grid capacity that they would otherwise not be able to economically access through internal development.

*Global products and operations.* Our products cover most major investment markets throughout the world. For example, as of November 30, 2010, our MSCI Global Equity Indices included 76 countries, including, among others, those in our developed, emerging and frontier market categories; and we produced equity risk data for 45 single country models, models covering 29 European countries and 14 Asia Pacific countries, and an integrated multi-asset class risk model that covered 59 equity markets and 48 fixed income markets. As of November 30, 2010, our clients were located in 78 countries and many of them have a presence in multiple locations around the world. As of November 30, 2010, our employees were located in 19 countries in order to maintain close contact with our clients and the international markets we follow. We believe our global presence and focus allow us to serve our clients well and capitalize on a great number of business opportunities in many countries and regions of the world.

*Highly skilled employees.* Our workforce is highly skilled, technical and, in some instances, specialized. In particular, our research and software application development departments include experts in advanced mathematics, statistics, finance, portfolio investment and software engineering, who combine strong academic credentials with market experience. As of November 30, 2010, over 20 of our employees held doctorate degrees. Over 130 employees in our diverse global client coverage group held MBAs or other Masters degrees. Our employees' experience and knowledge gives us access to, and allows us to add value at, the highest levels of our clients organizations.

*Extensive historical databases.* We have accumulated comprehensive databases of historical global market data, proprietary equity index and risk data and governance data. We believe our substantial and valuable databases of proprietary index and risk data, including over 40 years of certain index data history, over 30 years of certain risk data history and over 15 years of certain historical governance data, would be difficult and costly for another party to replicate. The information is not available from any single source and would require intensive data checking and quality assurance testing that we have performed over our many years of accumulating this data. Historical data is a critical component of our clients' investment processes, allowing them to research and back-test investment strategies and analyze portfolios over many investment and business cycles and under a variety of historical situations and market environments.

## **Clients**

For the year ended November 30, 2010, we served approximately 5,800 clients across 78 countries worldwide with 53.3% of revenue from our client base in the Americas, 32.4% in EMEA, 14.3% in Asia and Australia. Our clients include 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, ETFs, hedge funds and private wealth; and financial intermediaries such as banks, broker-dealers, exchanges, custodians and investment consultants. To calculate the number of clients, we may count certain affiliates and business units within a single organization as separate clients. For example, the asset management and broker-dealer units of a diversified financial services firm may be treated as separate clients, even though the financial services firm is the only party to the applicable subscriptions or licenses. Our client count includes clients from which revenue has been generated in the past 12 months for a product or service of a non-recurring nature and which currently have no recurring subscription with us. While our product subscription Retention Rates (defined below) were not consistent with pre-financial crisis peaks, they have improved from the lower levels experienced during the financial crisis. Our Aggregate Retention Rates were 87.2% and 83.7% for the years ended November 30, 2010 and 2009, respectively. Our Core Retention Rates were 88.1% and 84.3% for the years ended November 30, 2010 and 2009, respectively. For a description of the calculation of our Aggregate

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and Core Retention Rates, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Key Financial Metrics and Drivers Retention Rate.

Revenues from our ten largest clients contributed a total of 27.4%, 27.3% and 28.6% of our total revenues for the years ended November 30, 2010, 2009 and 2008, respectively.

In the years ended November 30, 2010 and 2009, our largest client organization by revenue, BlackRock and its affiliates ( BlackRock ), accounted for 9.9% of our operating revenues. For the years ended November 30, 2010 and 2009, approximately 82.9% and 87.5% of our revenues from BlackRock were attributable to fees based on the assets of ETFs linked to MSCI equity indices. On December 1, 2009, BlackRock, Inc. and Barclays PLC announced the completion of the merger between BlackRock, Inc. and Barclays Global Investors, the Barclays PLC investment unit that includes the iShares exchange traded funds business. For purposes of this Annual Report on Form 10-K, references to revenues for the fiscal year 2009 attributable to BlackRock include revenues generated from Barclays Plc and the Barclays Global Investors iShares exchange traded funds business.

## **Marketing**

We market our products to investment institutions and service providers worldwide. See Clients above. Our research and product management teams seek to understand our clients' investment process and their needs and design tools that help clients address them. Because of the sophisticated nature of our products, our main means of marketing is through face-to-face meetings and 24-hour client support, as described in

Sales and Client Support below. These marketing and support efforts are supplemented by our website, our email newsletters, our client seminars, our participation in industry conferences, our ongoing product consultations and research papers, and our public relations efforts.

Members of our research team and other employees regularly speak at industry conferences, as well as at our own seminars. We hosted over 270 seminars, webinars, conferences and workshops in various locations across the globe in fiscal 2010. These seminars, webinars, conferences and workshops bring our staff and our clients together, expose those clients to our latest research and product enhancements and give our staff an opportunity to gain insight into our clients' needs. Our marketing communications professionals also arrange interviews for our sales people in prominent industry journals and issue press releases on product developments and releases. We also communicate directly with both clients and prospective clients through our email newsletters which deliver research, company news and product specific news to currently over 10,000 recipients who have opted to receive them. Our strategic marketing department collaborates with our product specialists to analyze our clients use of our products and to analyze the competitive landscape for our products.

## **Sales and Client Support**

As of November 30, 2010, our client coverage offices included approximately 270 sales people and 200 client support people worldwide. Of these, over 90 were located in our New York headquarters and over 75 were located in our London office. In the last few years we have expanded our sales effort in two ways. We have opened client coverage offices in Budapest, Dubai, Mumbai, Shanghai, Monterrey, Mexico and Boston, Chicago and Stamford. We have also created more teams dedicated solely to the needs of certain client types such as hedge funds, asset owners and broker dealers. In total, our sales and client support staff was based in 32 offices around the world enabling us to provide valuable face-to-face client service.

Our sales people service established clients and develop new ones. Our client support team provides 24-hour support five days a week to our clients as needed. We believe that the size, quality, knowledge and experience of our sales and client support staff, as well as their proximity to clients, differentiate us from our competitors. Almost all of our sales and client support staff now operate in teams based on both client and product specialization. Our goal is to do this in all markets where we have sufficient scale of business to permit it. Because of the sophisticated nature of our products and their uses, our sales and client support staff have strong

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academic and financial backgrounds. Our sales people are compensated under a salary and bonus system and do not receive commissions, except that sales employees of RiskMetrics, including those in the Governance business, prior to the acquisition who were compensated on a salary and commission basis continued to be so compensated for the year ended November 30, 2010.

The sales cycle for new clients varies based on the product. Because of the sophisticated nature of our products, most new sales require several face-to-face meetings with the prospective client. Once the sales group has obtained a new client, the client is introduced to our client support team. For Barra and RiskMetrics-branded products, sales and client support personnel are available to provide intensive on-site training in the use of the models, data and software application underlying each product. They also provide continuing support, which may include on-site visits, telephone support and routine client support needed in connection with the use of the product, all of which are included in the recurring subscription fee.

## **Product Development and Production**

We take a coordinated team approach to product development and production. Our product management, research, data operations and technology and software engineering departments are at the center of this process. Despite the challenging market environment, we remained committed to our product development and production efforts and, in some cases, increased these efforts.

Utilizing a deep understanding of the investment process worldwide, our research department develops, reviews and enhances our various methodologies and models. Our global data operations and technology team designs and manages our processes and systems for market data procurement, proprietary data production and quality control. Our software engineering team builds our sophisticated software applications. As part of our product development process, we also commonly undertake extensive consultations with our clients and other market participants to understand their specific needs and investment process requirements. Our product management team facilitates this collaborative product development and production approach.

*Research.* Our models are developed by a cross-functional research team of mathematicians, statisticians, physicists, financial engineers and investment industry experts. As of November 30, 2010, our performance and risk research department consisted of over 130 employees, including more than 40 who held Ph.Ds. Our performance and risk research department combines extensive academic credentials with broad financial and investment industry experience. We monitor investment trends and their drivers globally, as well as analyze product-specific needs in areas such as instrument valuation, risk modeling, portfolio construction and value-at-risk simulation. An important way we monitor global investment trends and their implications for our business is through the forum provided by our Editorial Advisory Board ( EAB ). Our EAB, which was established in 1999, meets twice a year and is comprised of senior investment professionals from around the world and senior members of our performance and risk research team. In 2010, our performance and risk researchers participated in over 25 industry events and conferences, and their papers have been published in leading academic and industry journals. We host an annual performance and risk client conference, which took place in 13 cities around the world in fiscal 2010, where our researchers discuss their current work, research papers and projects. Our researchers also participate in such discussions at a number of seminars, workshops and webinars we host throughout the year. Our researchers work on both developing new models and methodologies and enhancing existing ones. In our equity analytics business, we introduced the ASE1 model in May 2010. Our ASE1 model is designed to provide portfolio risk forecasts and better explanatory power of the sources of portfolio return. We currently have performance and risk research offices in China, India, Hungary, Mexico, Switzerland, the U.K. and the U.S. In order to further enhance our risk management analytics product set, we are currently working on new and enhanced product offerings which include, a multi-asset class performance and attribution system, private asset class modeling and enhanced counter party risk models.

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As of November 30, 2010, our governance research department consisted of over 150 employees. ISS policy board works to ensure ISS voting policies are developed and applied within a framework of corporate governance best practices. Each year, through an annual policy survey of our institutional clients and other forums, institutional investors are invited to share their ideas on corporate governance issues including board structure, executive compensation, mergers and acquisitions and corporate accountability to ensure that our standard voting policies are aligned with the views of our institutional clients. We currently have governance research offices in Australia, Belgium, Canada, Germany, Japan, France, the Philippines, Singapore, the U.K. and the U.S.

*Data Operations and Technology.* As of November 30, 2010, our data operations and technology team consisted of more than 400 people in eleven countries, and involved a combination of information technology and operations specialists. We licensed a large volume and variety of market data for every major market in the world, including fundamental and return data, from more than 190 third party sources in 2010. We apply our models and methodologies to this market data to produce our proprietary index and risk data. Our data operations and technology team oversees this complex process. Our experienced information technology staff builds internal systems and proprietary software and databases that house all of the data we license or produce in order for our data operations and technology teams to perform data quality checks and run our data production systems. This data factory produces our proprietary index data such as end of day and real time equity indices, and our proprietary risk data such as daily and monthly equity risk forecasts. Our data operations and technology team also performs certain data collection and analysis functions in support of our ESG and Governance businesses. We have data operations and technology offices in the U.S., Canada, Mexico, Europe and Asia.

*Software Engineering.* Certain of our proprietary risk data are made available to clients through our proprietary software applications, such as Barra Aegis, Barra Cosmos, BarraOne, RiskManager, HedgePlatform and WealthBench. As of November 30, 2010, our software engineering team consisted of over 172 individuals, including 5 who held Ph.Ds, with significant experience in both the finance and software industries. Our staff has an extensive skill set, including expertise in both the Java-based technologies used in our web-based, on-demand software application tool for multi-asset class risk analysis and reporting and the Microsoft-based technologies used in our desktop equity and fixed income analytics software products. We also have extensive experience with database technologies, computational programming techniques, scalability and performance analysis and tuning and quality assurance. We use a customized software development methodology that leverages best practices from the software industry, including agile programming, test-driven development, parallel tracking, iterative cycles, prototyping and beta releases. We build our software applications by compiling multiple components, which enables us to reuse designs and codes in multiple products. Our software development projects involve extensive collaboration with our product management team and directly with clients. We have software engineering offices in the U.S., Europe and Asia.

### **Our Competition**

Many industry participants compete directly with us by offering one or more similar products. Our principal competitors on a global basis for our MSCI Global Equity Index products are FTSE International, Ltd (a joint venture between The Financial Times, and The London Stock Exchange), Russell Investment Group (a unit of Northwestern Mutual Life Insurance Group) and Standard & Poor's (a division of The McGraw-Hill Companies, Inc.).

Additionally, we compete with equity index providers whose primary strength is in a local market or region. These include CME Group Index Services, LLC (a joint venture company owned 90% by CME Group Inc. and 10% by Dow Jones & Company), Russell Investment Group and Standard & Poor's in the U.S.; STOXX Ltd. and the CAC index published by NYSE Euronext in Europe; and Nikkei Inc., Russell Investment Group, Nomura Securities, Ltd. and Tokyo Stock Exchange, Inc. in Japan. There are also many smaller companies that create custom indices primarily for use as the basis of ETFs.



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The principal competitors for our portfolio analytics products are Applied Portfolio Technologies (a unit of Sungard), Axioma, Inc., Capital IQ's ClariFI, a Standard & Poor's business, FactSet, Northfield Information Services, Inc., and Wilshire Analytics. In addition, our risk management analytics products compete with firms such as BlackRock Inc.'s BlackRock Solutions unit, DST Systems Inc., FactSet, Fimalac S.A.'s Algorithmics unit, Moody Corporation's KMV unit, and SunGard Data Systems Inc.

Additionally, many of the larger broker-dealers have developed proprietary risk management analytics tools for their clients. Similarly, many investment institutions, particularly the larger global organizations, have developed their own internal risk management analytics tools. ISS competes with firms such as Broadridge Financial Solutions (which provides proxy voting services) and Glass, Lewis & Co. (which provides research, voting recommendation and voting execution services). ISS also competes with local niche proxy voting and research providers in certain international markets.

For our other products where our revenues are less significant, we also have a variety of other competitors.

## **Employees**

As of November 30, 2010, the number of employees increased 1,199 to 2,077 from 878 on November 30, 2009. Approximately 87.2% of the increase was attributable to employees who joined the Company as part of the RiskMetrics and Measurisk acquisitions. As of November 30, 2010, approximately 30.0% of our employees were located in emerging market centers.

None of our employees are represented by a union. The employees in our Monterrey, Mexico office are protected by a standard common collective bargaining agreement that we have entered into with an independent organization. This agreement was renewed in January 2011. We are current on all of our employee-related obligations under this agreement and have never experienced a walkout or strike.

## **Government Regulation**

ISS is a registered investment advisor and must comply with the requirements of the Investment Advisers Act of 1940 and related SEC regulations. Such requirements relate to, among other things, disclosure obligations, recordkeeping and reporting requirements, marketing restrictions and general anti-fraud prohibitions. A subsidiary of ISS in Australia is also registered as an investment advisor with the Australian Financial Services Authority and must comply with its applicable requirements.

## **Available Information**

Our corporate headquarters are located at One Chase Manhattan Plaza, New York, New York 10005, and our telephone number is (212) 804-3900. We maintain an Investor Relations website on the Internet at [www.msci.com](http://www.msci.com). We make available free of charge, on or through this website, our annual, quarterly and current reports and any amendments to those reports as soon as reasonably practicable following the time they are electronically filed with or furnished to the SEC. To access these, click on the "SEC Filings" link found on our Investor Relations homepage.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet website that contains reports, proxy and information statements and other information that we file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

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### **Item 1A. Risk Factors**

*You should carefully consider the following risks and all of the other information set forth in this Annual Report on Form 10-K. If any of the following risks actually occurs, our business, financial condition or results of operations would likely suffer. You should read the section titled *Special Note Regarding Forward-Looking Statements* beginning on page 1 for a discussion of what types of statements are forward-looking statements, as well as the significance of such statements in the context of this Annual Report on Form 10-K.*

### **Risks Related to Our Business**

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

Our ability to produce our products and develop new products is dependent upon the products of other suppliers, including certain data, software and service suppliers. Our index and analytics products are dependent upon (and of little value without) updates from our data suppliers and most of our software products are dependent upon (and of little value without) continuing access to historical and current data. As of November 30, 2010, throughout our businesses we utilized in a variety of ways certain data provided to us by over 190 data sources, including large volumes of data from certain stock exchanges around the world. If the data from our suppliers has errors, is delayed, has design defects, is unavailable on acceptable terms or is not available at all, our business, financial condition or results of operations could be materially adversely affected.

Some of our agreements with data suppliers allow them to cancel on short notice and we have not completed formal agreements with all of our data suppliers, such as certain stock exchanges. Many of these data suppliers compete with one another and, in some cases, with us. For example, ISS relies on a data feed agreement with Broadridge Financial Solutions which allows for a large number of proxy ballots to be received, and proxy votes to be processed, electronically, minimizing the manual aspects of the proxy voting process and limiting the risk of error inherent in manual processes. If the data feed agreement with Broadridge was terminated, we would have to incur significant expenses in order to input our clients' voting instructions directly into Broadridge's proprietary electronic voting systems and our business and results of operations would be materially and adversely affected. Since ISS also competes with Broadridge in some markets with respect to providing certain aspects of proxy voting services, Broadridge may have an incentive to not renew ISS' data feed agreement when its initial term expires in 2011 or to offer renewal terms which we may deem unreasonable. From time to time we receive notices from data suppliers, including stock exchanges, threatening to terminate the provision of their data to us, and some data suppliers, including at least one stock exchange, have terminated the provision of their data to us. Termination of one or more of our significant data agreements or exclusion from, or restricted use of, or litigation in connection with, a data provider's information could decrease the available information for us to use (and offer our clients) and may have a material adverse effect on our business, financial condition or results of operations.

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

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

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***Any failure to ensure and protect the confidentiality of client data could adversely affect our reputation and have a material adverse effect on our business, financial condition or results of operations.***

Many of our products provide for the exchange of sensitive information with our clients through a variety of media, including the Internet, software applications and dedicated transmission lines. We rely on a complex system of internal processes and software controls to protect the confidentiality of client data, such as client portfolio data that may be provided to us or hosted on our systems. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in the implementation of our internal controls, unauthorized disclosure or misappropriation of client data could occur. Such unauthorized disclosure or misappropriation could damage our reputation and/or result in claims against us by our clients and have a material adverse effect on our business, financial condition or results of operations.

***We have implemented information barrier procedures to protect the confidentiality of the material, non-public information regarding changes to the composition of our indices. If our information barrier procedures fail, our reputation could be damaged and our business, financial condition or results of operations could be materially adversely affected.***

We change the composition of our indices from time to time. We believe that, in some cases, the changes we make to our indices can affect the prices of constituent securities as well as products based on our indices. Our index clients rely on us to keep confidential material non-public information about changes to the future composition of an index and to protect against the misuse of that information until the change to the composition of the index is disclosed to clients. We have implemented information barrier procedures to limit access to this information and to prevent the unauthorized disclosure and misuse of information regarding material non-public changes to the composition of our indices. If our information barrier procedures fail and we inadvertently disclose, or an individual deliberately misuses, material non-public information about a change to one of our indices, our reputation may suffer. Clients' loss of trust and confidence in our information barrier policies and procedures could lead to a negative reputation throughout the investment community, which could have a material adverse effect on our business, financial condition or results of operations.

In addition, certain exchanges permit our clients to list exchange traded funds or other financial products based on our indices only if we provide a representation to the exchange that we have reasonable information barrier procedures in place to address the unauthorized disclosure and misuse of material, non-public information about changes to the composition of our indices. If an exchange determines that our information barrier procedures are not sufficient, the exchange might refuse to list or might delist investment products based on our indices, which may have a material adverse effect on our business, financial condition or results of operations.

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

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

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Through our ISS Corporate Services subsidiary, we provide products and services to corporate clients who use these services to learn about and improve their corporate governance practices. Accordingly, there is a potential conflict of interest between the services we provide to institutional clients and the services, including our Compensation Advisory Services, provided to clients of the ISS Corporate Services subsidiary. For example, when we provide corporate governance services to a corporate client and at the same time provide proxy vote recommendations to institutional clients regarding that corporation's proxy items, there may be a perception that the ISS team providing research to our institutional clients may treat that corporation more favorably due to its use of our services. We have implemented an information barrier and other procedures designed to prevent any potential conflict of interest from impacting the ability of our research team to provide unbiased analyses.

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

***Legal protections for our intellectual property rights and other rights may not be sufficient or available to protect our competitive advantages. Third parties may infringe on our intellectual property rights, and pending third-party litigation may adversely affect our ability to protect our intellectual property rights.***

We consider many aspects of our products and processes to be proprietary. We rely primarily on a combination of trade secret, patent, copyright and trademark rights, as well as contractual protections and technical measures, to protect our products and processes. Despite our efforts, third parties may still try to challenge, invalidate or circumvent our rights and protections. There is no guarantee that any trade secret, patent, copyright or trademark rights that we may obtain will protect our competitive advantages, nor is there any assurance that our competitors will not infringe upon our rights. Even if we attempt to protect our intellectual property rights through litigation, it may require considerable cost, time and resources to do so, and there is no guarantee that we would be successful. Furthermore, our competitors may also independently develop and patent or otherwise protect products and processes that are the same or similar to ours. In addition, the laws of certain foreign countries in which we operate do not protect our proprietary rights to the same extent as do the laws of the U.S. Also, some elements of our products and processes may not be subject to intellectual property protection.

**Trademarks and Service Marks** We have registered MSCI, Barra and RiskMetrics as trademarks or service marks in the U.S. and in certain foreign countries. We have also registered other marks for certain products and services in the U.S. and in certain foreign countries. When we enter a new geographic market or introduce a new product brand, there can be no assurance that our existing trademark or service mark of choice will be available. Furthermore, the fact that we have registered trademarks is not an assurance that other companies may not use the same or similar names.

**Patents** We currently hold 19 U.S. and foreign patents. We currently have 8 U.S. and foreign patent applications pending. Patent applications can be extremely costly to process and defend. There can be no assurance that we will be issued any patents that we apply for or that any of the rights granted under any patent that we obtain will be sufficient to protect our competitive advantages.

**Copyrights** We believe our proprietary software and proprietary data are copyright protected. If a court were to determine that any of our proprietary software or proprietary data, such as our index level data, is not copyright protected, it could have a material adverse effect on our business, financial condition or results of operations.

**Confidentiality and Trade Secrets** Our license agreements limit our clients' right to copy or disclose our proprietary software and data. It is possible, however, that a client might still make unauthorized copies of our proprietary software or data, which could have a material adverse effect on our business, financial condition or results of operations. For example, if a client who licensed a large volume of our proprietary historical data made that information publicly available, we might lose potential clients

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who could freely obtain a copy of the data. We also seek to protect our proprietary software and data through trade secret protection and through non-disclosure agreements with our employees. However, if an employee breaches his or her non-disclosure agreement and reveals a trade secret, we could lose the trade secret protection, which could have a material adverse effect on our business, financial condition or results of operations. Furthermore, it may be very difficult to ascertain if a former employee is inappropriately using or disclosing our proprietary information. Additionally, the enforceability of our license and non-disclosure agreements and the remedies available to us in the event of a breach vary due to the many different jurisdictions in which our clients and employees are located.

**License Agreements** Our products are generally made available to end users on a periodic subscription basis under a nontransferable license agreement signed by the client. We also permit access to some data, such as certain index information, through the Internet under on-line licenses that are affirmatively acknowledged by the licensee or under terms of use. The enforceability of on-line licenses and terms of use has not been conclusively determined by the courts. There can be no assurance that third parties will abide by the terms of our licenses or that all of our license agreements will be enforceable.

**Third-Party Litigation** There is currently third-party litigation on appeal in the U.S. regarding whether issuers of index-linked investment products are required to obtain a license from the index owner or whether companies may issue and trade investment products based on a publicly-available index without the need for permission from (or payment to) the index owner. In July 2010, the Circuit Court of Cook County, Illinois found that the trading of index options on the Dow Jones Industrial Average ( DJIA ) and the S&P 500 index by the International Stock Exchange ( ISE ) without a license would misappropriate the index providers' rights in their indexes. The ISE was permanently restrained and enjoined from listing or providing an exchange market for the trading of DJIA and/or S&P 500 index options and the Options Clearing Corporation was permanently restrained and enjoined from participating in the facilitation of an ISE index option based upon the DJIA and/or S&P 500 and from issuing, clearing or settling the exercise of such DJIA and/or S&P 500 index options. This decision is now under appeal. In another relevant case, in 2009, the German Federal Supreme Court concluded that the owner of a trademark who publishes an index generally available to all market participants cannot prohibit, on the basis of German trademark law, a third party from referring to the index as a reference value in option warrants issued by the third party if the trademark is used for informational and factual purposes and does not imply that a relationship exists with the trademark owner. If other courts in relevant jurisdictions determine that a license is not required to issue investment products linked to indices, this could have a material adverse effect on our business, financial condition or results of operations. It might also lead to changes in current industry practices such that we would no longer make our index level data publicly available, such as via our website or news media.

***Third parties may claim we infringe upon their intellectual property rights.***

Third parties may claim we infringe upon their intellectual property rights. Businesses operating in the financial services sector, including our competitors and potential competitors, have in recent years increasingly pursued patent protection for their technologies and business methods. If any third parties were to obtain a patent on a relevant index methodology, risk model or software application, we could be sued for infringement. Furthermore, there is always a risk that third parties will sue us for infringement or misappropriation of other intellectual property rights, such as trademarks, copyrights or trade secrets.

From time to time, such complaints are filed by or we receive such notices from others alleging intellectual property infringement or potential infringement. The number of these claims may grow. We have made and expect to continue making expenditures related to the use of technology and intellectual property rights as part of our strategy to manage this risk.

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Responding to intellectual property claims, regardless of merit, can consume valuable time, result in costly litigation or cause delays. We may be forced to settle such claims on unfavorable terms, and there can be no assurance that we would prevail in any litigation arising from such claims if such claims are not settled. We may be required to pay damages, required to stop selling or using the affected products or applications or required to enter into royalty and licensing agreements. There can be no assurance that any royalty or licensing agreements will be made, if at all, on terms that are commercially acceptable to us. We may also be called upon to defend partners, clients, suppliers or distributors against such third-party claims under indemnification clauses in our contracts. Therefore, the impact of claims of intellectual property infringement could have a material adverse effect on our business, financial condition or results of operations.

***Our use of open source code could impose unanticipated delays or costs in deploying our products, or impose conditions or restrictions on our ability to commercialize our products or keep them confidential.***

We rely on open source code to develop software and to incorporate it in our products, as well as to support our internal systems and infrastructure. We monitor our use of open source code to attempt to avoid subjecting our products to conditions we do not intend. The terms of many open source code licenses, however, are ambiguous and have not been interpreted by U.S. courts. Accordingly, there are risks that there may be a failure in our procedures for controlling the usage of open source code or that these licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. In either event, we could be required to seek licenses from third parties in order to continue offering our products, to make generally available (in source code form) proprietary code that links to certain open source code modules, to re-engineer our products or systems or to discontinue the licensing of our products if re-engineering could not be accomplished on a timely basis. Any of these requirements could materially adversely affect our business, financial condition or results of operations.

***We are dependent on the use of third-party software and data, and any reduction in third-party product quality or any failure by us to comply with our licensing requirements could have a material adverse effect on our business, financial condition or results of operations.***

We rely on third-party software and data in connection with our product development and offerings. We depend on the ability of third-party software and data providers to deliver and support reliable products, enhance their current products, develop new products on a timely and cost-effective basis, and respond to emerging industry standards and other technological changes. The third-party software and data we use may become obsolete or incompatible with future versions of our products. We also monitor our use of third-party software and data to comply with applicable license requirements. Despite our efforts, there can be no assurance that such third parties may not challenge our use, resulting in increased software or data acquisition costs, loss of rights and/or costly legal actions. Our business could be materially adversely affected if we are unable to timely or effectively replace the functionality provided by software or data that becomes unavailable or fails to operate effectively for any reason. In addition, our operating costs could increase if license fees for third-party software or data increase or the efforts to incorporate enhancements to third-party or other software or data are substantial. Some of these third-party suppliers are also our competitors, increasing the risks noted above.

***If our products fail to perform properly due to undetected errors or similar problems, it could have a material adverse effect on our business, financial condition or results of operation.***

Products we develop or license may contain undetected errors or defects despite testing. Such errors can exist at any point in a product's life cycle, but are frequently found after introduction of new products or enhancements to existing products. We continually introduce new products and new versions of our products. Despite internal testing and testing by current and potential clients, our current and future products may contain serious defects or malfunctions. If we detect any errors before we release a product, we might have to delay the product release for an extended period of time while we address the problem. We might not discover errors that affect our new or current products or enhancements until after they are deployed, and we may need to provide

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enhancements to correct such errors. Errors may occur in our products that could have a material adverse effect on our business and could result in harm to our reputation, lost sales, delays in commercial release, third-party claims, contractual disputes, negative publicity, delays in or loss of market acceptance of our products, license terminations or renegotiations, or unexpected expenses and diversion of resources to remedy errors.

Furthermore, our clients may use our products together with their own software, data or products from other companies. As a result, when problems occur, it might be difficult to identify the source of the problem. Even when our products do not cause these problems, the existence of these errors might cause us to incur significant costs, divert the attention of our technical personnel from our product development efforts, impact our reputation, cause significant client relations problems or result in legal claims against us. The realization of any of these events could materially adversely affect our business, financial condition or results of operations.

***To remain competitive and generate customer demand, we must successfully develop new products and effectively manage transitions.***

Due to the highly volatile and competitive nature of the industry in which we operate and the impact of technological change on our products, we must continually introduce new products and services, enhance existing products and services, and effectively generate customer demand for new and upgraded products and services. This requires accurate anticipation of clients' changing needs and emerging investment trends. We must make long-term investments and commit significant resources before knowing whether these investments will eventually result in products and services that satisfy our clients' needs and generate the revenues required to provide the desired results.

If, among other things, we fail to accurately anticipate and meet the needs of our clients through the successful development of new products and services, if our new products and services are not attractive to our clients, if our new products do not perform as well as anticipated or if the launch of new products and offering of new services is not timely, we could lose market share and clients to our competitors and that could materially adversely affect our business, financial condition and results of operations. Also see [If our products fail to perform properly due to undetected errors or similar problems, it could have a material adverse effect on our business, financial condition or results of operations](#) above.

Transitioning clients to enhanced products and services presents execution risks and challenges. If we are unable to effectively manage transitions to new or enhanced products and services, our business, financial condition and results of operations could be materially adversely affected.

***Increased competition in our industry may cause price reductions or loss of market share, which may materially adversely affect our business, financial condition or results of operations.***

We face competition across all markets for our products. Our competitors range in size from large companies with substantial resources to small, single-product businesses that are highly specialized. Our larger competitors may have access to more resources and may be able to achieve greater economies of scale, and our competitors that are focused on a narrower product line may be more effective in devoting technical, marketing and financial resources to compete with us with respect to a particular product. In addition, barriers to entry may be low in many cases, including for single-purpose product companies. The Internet as a distribution channel has allowed free or relatively inexpensive access to information sources, which has reduced barriers to entry even further. Low barriers to entry could lead to the emergence of new competitors; for example, broker-dealers and data suppliers could begin developing their own proprietary risk analytics or equity indices. Financial and budgetary pressures affecting our clients, including those arising from the financial crisis, may lead certain clients to seek products at a lower cost than what we provide. These competitive pressures may also result in fewer clients, fewer subscriptions or investment product licenses, price reductions, and increased operating costs, such as for marketing, resulting in lower revenue, gross margins and operating income. See [Part I. Item 1. Business Our Competition](#) above.

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***Our business is dependent on the financial viability of our clients. If our clients are negatively impacted by adverse conditions in the financial markets and are forced to shut-down or consolidate, our business, financial condition or results of operations may be materially adversely affected.***

Most of our clients are in the financial services industry. For example, asset managers accounted for 52.4% and 66.6% of our revenues as of November 30, 2010 and 2009, respectively. The global financial crisis led to the closure or consolidation of a number of our clients, including asset manager, broker-dealer and hedge fund clients. Such events impacted our financial results, including our Run Rates and Aggregate and Core Retention Rates, in 2009 and 2010 and may continue to do so in the near term.

Furthermore, if such trends continue, we may not be able to generate future growth and demand for our products may decrease, which could have a material adverse effect on our business, financial condition or results of operations.

As a result of the global financial crisis, the U.S. Congress undertook major financial reform which led to the enactment, on July 21, 2010, of the Dodd-Frank Act. The Dodd-Frank Act will have a significant impact on many aspects of the way in which the financial services industry conducts business and will impose substantial new regulation on, and regulatory oversight of, a wide variety of financial services institutions. The changes resulting from the Dodd-Frank Act will likely have a material impact on many of our clients and could negatively impact the business, operations and financial viability of many of our clients which, in turn, could have a negative impact on our business, and results of operations.

If our clients do not remain financially viable or if the negative conditions in the financial markets persist or worsen, we may be forced to increase our provisions for bad debts, which could adversely affect our profitability.

***Consolidation within our target markets may affect our business.***

Consolidation in the financial services industry could reduce our existing client base and the number of potential clients. For example, the recent global financial crisis led to the closure or merger of a number of our clients, including broker-dealer, asset manager and hedge fund clients. If consolidation continues, it may negatively impact our ability to generate future growth and may reduce demand for our products, which could have a material adverse effect on our business, financial condition or results of operations.

***Our business is dependent on our clients' continued investment in equity securities. If our clients significantly reduce their investments in equity securities, our business, financial condition or results of operations may be materially adversely affected.***

A significant portion of our revenues comes from our products that are focused on various aspects of managing or monitoring portfolios. To the extent our clients significantly deemphasize equity securities in their investment strategies, the demand for equity products would likely decrease, which could have a material adverse effect on our business, financial condition or results of operations.

***Our revenues and earnings are affected by changes in the capital markets, particularly the equity capital markets.***

Clients that use our indices as the basis for certain index-linked investment products, such as exchange traded funds and mutual funds, commonly pay us a fee based on the investment product's assets. These asset-based fees make up a significant portion of our revenues. They were 16.0%, 16.2% and 16.7% of revenues for the years ended November 30, 2010, 2009 and 2008, respectively. These asset-based fees accounted for 45.2%, 43.9% and 48.0% of the revenues from our ten largest clients in the fiscal years ended November 30, 2010, 2009 and 2008, respectively. Volatile capital markets, such as those witnessed in 2009 and the second half of 2008 as well as changing investment styles, may influence an investor's decision to invest in and maintain an investment in an index-linked investment product. For example, as of November 30, 2010, the month-end value of assets in ETFs linked to MSCI equity indices was \$311.0 billion, which was 32.8% higher than the value of such assets as of November 30, 2009, and the value of such assets at November 30, 2009 was 96.8% higher than the value of such assets as of November 30, 2008.



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*A portion of our business is dependent on our clients continuing to measure the performance of their equity investments against equity benchmarks. If our clients discontinue use of equity benchmarks to measure performance, our business, financial condition or results of operations could be materially adversely affected.*

Our equity index products serve as equity benchmarks against which our clients can measure the performance of their investments. If clients decide to measure performance on an absolute return basis instead of against an equity benchmark, the demand for our indices could decrease. Any such decrease in demand for our equity index products could have a material adverse effect on our business, financial condition or results of operations.

*Our clients that pay us a fee based on the assets of an investment product may seek to negotiate a lower asset-based fee percentage or may cease using our indices, which could limit the growth of or decrease our revenues from asset-based fees.*

A portion of our revenues are from asset-based fees and these revenues streams are concentrated in some of our largest clients. Our clients may seek to negotiate a lower asset-based fee percentage for a variety of reasons. As the assets of index-linked investment products managed by our clients change, they may request to pay us lower asset-based fee percentages. Additionally, as competition among our clients increases, they may have to lower the fees they charge to their clients, which could cause them to try to decrease our fees correspondingly or otherwise lead to a reduction of our fees in certain cases. For example, competition is intense and increasing among our clients that provide exchange traded funds. The fees they charge their clients are one of the competitive differentiators for these exchange traded fund managers. Additionally, clients that have licensed our indices to serve as the basis of index-linked investment products are generally not required to continue to use our indices and could elect to cease offering the product or could change the index to a non-MSCI index, in which case our asset-based fees could dramatically decrease, which could have a material adverse effect on our business, financial condition or results of operations.

*A limited number of clients account for a material portion of our revenue. Cancellation of subscriptions or investment product licenses by any of these clients could have a material adverse effect on our business, financial condition or results of operations.*

For the fiscal years ended November 30, 2010, 2009 and 2008, revenues from our ten largest clients accounted for 27.4%, 27.3% and 28.6% of our total revenues, respectively. If we fail to obtain a significant number of new clients or if one of our largest clients cancels or reduces its subscriptions or investment product licenses and we are unsuccessful in replacing those subscriptions or licenses, our business, financial condition or results of operation could be materially adversely affected. For the fiscal year ended November 30, 2010, our largest client organization by revenue, BlackRock, Inc. and affiliates ( BlackRock ), accounted for 9.9% our total revenues. For the fiscal year ended November 30, 2010, approximately 82.9% of the revenue from BlackRock came from fees based on the assets in BlackRock's exchange traded funds based on MSCI indices.

*Cancellation of subscriptions or investment product licenses or renegotiation of terms by a significant number of clients could have a material adverse effect on our business, financial condition or results of operations.*

Our primary commercial model is to license annual, recurring subscriptions to our products for use at a specified location and by a given number of users or for a certain volume of products or services during that annual period. For most of our products, our clients may cancel their subscriptions or investment product licenses at the end of the current term. A disproportionately high percentage of contract value in the Governance business comes up for renewal in December. While we believe the annual, recurring subscription model supports our marketing efforts by allowing clients to subscribe without the requirement of a long-term commitment, the cancellation of subscriptions or investment product licenses by a significant number of clients at any given time may have a material adverse effect on our business, financial condition or results of operations.

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***Our clients may become more self-sufficient, which may reduce demand for our products and materially adversely affect our business, financial condition or results of operations.***

Our clients may develop internally certain functionality contained in the products they currently license from us. For example, some of our clients who currently license our risk data to analyze their portfolio risk may develop their own tools to collect data and assess risk, making our products unnecessary for them. To the extent that our clients become more self-sufficient, demand for our products may be reduced, which could have a material adverse effect on our business, financial condition or results of operations.

***Increased accessibility to free or relatively inexpensive information sources may reduce demand for our products and materially adversely affect our business, financial condition or results of operations.***

In recent years, more free or relatively inexpensive information has become available, particularly through the Internet, and this trend may continue. The availability of free or relatively inexpensive information may reduce demand for our products. Weak economic conditions also can result in clients seeking to utilize lower-cost information that is available from alternative sources. To the extent that our clients choose to use these sources for their information needs, our business, financial condition or results of operations may be materially adversely affected.

***Our growth and profitability may not continue at the same rate as we have experienced in the past, which could have a material adverse effect on our business, financial condition or results of operations.***

We have experienced significant growth since we began operations. There can be no assurance that we will be able to maintain the levels of growth and profitability that we have experienced in the past. Among other things, there can be no assurance that we will be as successful in our marketing efforts as we have been in the past, or that such efforts will result in growth or profit margins comparable to those we have experienced in the past. See We must continue to introduce new products and product enhancements to address our clients' changing needs, market changes and technological developments above, We are dependent on key personnel in our professional staff for their expertise below, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 1. Business. Any failure to continue to grow our business and maintain profitability could have a material adverse effect on our business, financial condition or results of operations.

***Our growth may place significant strain on our management and other resources.***

We must plan and manage our growth effectively to increase revenue and maintain profitability. Our growth, including in emerging market centers, has placed, and is expected to continue to place, significant demands on our personnel, management and other resources. We must continue to improve our operational, financial, management, legal and compliance processes and information systems to keep pace with the growth of our business. There can also be no assurance that, if we continue to grow internally or by way of acquisitions, management will be effective in attracting, training and retaining additional qualified personnel, including additional managers, expanding our physical facilities and information technology infrastructure, integrating acquired businesses or otherwise managing growth. Any failure to effectively manage growth or to effectively manage the business could have a material adverse effect on our business, financial condition or results of operations. See We must continue to introduce new products and product enhancements to address our clients' changing needs, market changes and technological developments above, We are dependent on key personnel in our professional staff for their expertise below, Risks Related to the Acquisition of RiskMetrics Group, Inc. below, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 1 Business.

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*There is considerable risk embedded in growth through acquisitions, which may materially adversely affect our business, financial condition or results of operations.*

A principal element of our growth strategy is growth through acquisitions. Any future acquisitions could present a number of risks, including:

incorrect assumptions regarding the future results of acquired operations or assets or expected cost reductions or other synergies expected to be realized as a result of acquiring operations or assets;

failure to integrate the operations or management of any acquired operations or assets successfully and on a timely and cost effective basis;

failure to achieve assumed synergies;

insufficient knowledge of the operations and markets of acquired businesses;

increased debt, which may be incurred under terms less favorable than those associated with our current debt and may, among other things, reduce our free cash flow and increase our risk of default;

dilution of your common stock;

loss of key personnel;

diversion of management's attention from existing operations or other priorities; and

inability to secure, on terms we find acceptable, sufficient financing that may be required for any such acquisition or investment. In the event that we experience a high level of acquisition related activity within a limited period of time the possibility of occurrence of these risks would likely increase for that period. In addition, if we are unsuccessful in completing acquisitions of other businesses, operations or assets or if such opportunities for expansion do not arise, our future growth, business, financial condition or results of operations could be materially adversely affected. See [Risks Related to the Acquisition of RiskMetrics Group, Inc.](#) below.

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

## Edgar Filing: MSCI Inc. - Form 10-K

Revenues from index-linked investment products represented approximately 16.0% and 16.3% of operating revenues for the fiscal years ended November 30, 2010 and 2009, respectively. While our fees for index-linked investment products are generally invoiced in U.S. dollars, the fees are based on the investment product's assets, a significant percentage 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.

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We generally invoice our clients in U.S. dollars; however, we invoice a portion of our clients in Euros, British Pounds, Japanese Yen and a limited number of other non-U.S. dollar currencies. For the fiscal years ended November 30, 2010 and 2009, approximately 12.8% and 12.3%, respectively, of our operating revenues were invoiced in currencies other than U.S. dollars. For the fiscal year ended November 30, 2010, 55.9% of our foreign currency revenues were in Euros, 28.2% were in Japanese Yen and 10.3% were in British Pounds. For the fiscal year ended November 30, 2009, 46.2% of our foreign currency revenues were in Euros, 39.4% were in Japanese Yen and 12.6% were in British Pounds.

We are exposed to additional foreign currency risk in certain of our operating costs. Approximately 34.2% and 35.0% of our operating expenses for the fiscal years ended November 30, 2010 and 2009, respectively, were denominated in foreign currencies, the significant majority of which were denominated in British Pounds, Swiss Francs, Hong Kong Dollars, Hungarian Forints, Euros, Indian Rupees and Japanese Yen. Expenses incurred in foreign currency may increase as we expand our business outside the U.S.

We have certain assets and liabilities denominated in currencies other than local functional amounts and when these balances were remeasured into their local functional currency, a loss resulted from the devaluation of the value of the functional currency. As a result of these positions, we recognized foreign currency exchange losses of \$3.0 million for the fiscal year ended November 30, 2010. These losses on foreign currency exchange were primarily due to the weakening of the U.S. dollar in the last six months of the fiscal year. We do not currently hedge the foreign exchange risk of assets and liabilities denominated in currencies other than the functional currency.

To the extent that our international activities recorded in local currencies increase in the future, our exposure to fluctuations in currency exchange rates will correspondingly increase and could have a material adverse effect on our business, financial condition or results of operations.

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

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

*Investment Advisers Act.* Except with respect to certain products provided by ISS and certain of its subsidiaries, we believe that our products do not constitute or provide investment advice as contemplated by the Investment Advisers Act of 1940 ( Advisers Act ). Future developments in our product line or changes to the current laws, rules or regulations could cause this status to change. It is possible that in addition to ISS, other entities in our corporate family may be required to become registered as an investment adviser under the Advisers Act or similar laws in states or foreign jurisdictions. The Advisers Act imposes fiduciary duties, recordkeeping and reporting requirements, disclosure requirements, limitations on agency and principal transactions between an adviser and advisory clients, as well as general anti-fraud prohibitions.

We may also be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets around the world. In addition, we may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business.

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*Data Privacy Legislation.* Changes in laws, rules or regulations, or consumer environments relating to consumer privacy or information collection and use may affect our ability to collect and use data. There could be a material adverse impact on our direct marketing, data sales and business due to the enactment of legislation or industry regulations, or simply a change in practices, arising from public concern over consumer privacy issues. Restrictions could be placed upon the collection, management, aggregation and use of information that is currently legally available, in which case our cost of collecting some kinds of data could materially increase. It is also possible that we could be prohibited from collecting or disseminating certain types of data, which could affect our ability to meet our clients' needs.

*Proposed Regulation for Fiduciaries.* On October 21, 2010, the U.S. Department of Labor issued a proposed regulation that would expand the definition of a fiduciary to any entity that provides investment advice to employee benefit plans for a fee or other compensation for purposes of the Employee Retirement Income Security Act of 1974, as amended ( ERISA ). The proposed regulation also provides that consultants that are investment advisers as defined in the Advisers Act could be considered fiduciaries. If, as a result of being registered as an investment advisor with the SEC, ISS is deemed to be a fiduciary under ERISA, it could be subject to the rules and regulations thereunder, including those related to conflicts of interest and this could have an impact on the manner in which ISS and its affiliates conduct business.

*Proposed Proxy Plumbing Regulations.* On July 14, 2010, the SEC voted unanimously to issue for public comment a concept release focusing on a wide range of topics related to the U.S. proxy voting system. The release is organized around, and seeks comment on, three general topics: (1) the accuracy, transparency and efficiency of the proxy voting system; (2) communications with shareholders and shareholder participation in voting; and (3) the relationship between voting power and economic interest, including questions about proxy advisory firms, such as ISS, and concerns raised by corporate issuers and other observers about the role, power and manner in which proxy advisory firms operate. The SEC may, but is not required, to engage in rulemaking with respect to the various issues and questions raised in the concept release. At this point we are unable to determine whether the SEC will pursue rulemaking on these matters and, if so, the extent to which any rule might impact our businesses, whether the process by which we provide proxy research and voting services to clients, the manner in which ISS operates as a proxy advisory firm or otherwise. However, as with any regulatory change, we may have to change business practices and operational procedures and incur costs in response to possible modifications to the proxy system that could result from any rulemaking that stems from the concept release.

***We may become subject to liability based on the use of our products by our clients.***

Our products support the investment processes of our clients, which, in the aggregate, manage trillions of dollars of assets. Our client agreements have provisions designed to limit our exposure to potential liability claims brought by our clients or third parties based on the use of our products. However, these provisions have certain exceptions and could be invalidated by unfavorable judicial decisions or by federal, state, foreign or local laws. Use of our products as part of the investment process creates the risk that clients, or the parties whose assets are managed by our clients, may pursue claims against us for very significant dollar amounts. Any such claim, even if the outcome were to be ultimately favorable to us, would involve a significant commitment of our management, personnel, financial and other resources and could have a negative impact on our reputation. In addition, such claims and lawsuits could have a material adverse effect on our business, financial condition or results of operations.

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

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

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

In connection with our acquisition of RiskMetrics, on June 1, 2010, we entered into a senior secured credit agreement, which is comprised of (i) a 1,275.0 million six-year term loan facility and (ii) a \$100.0 million five-year revolving credit facility ( New Credit Facility ). See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. The New Credit Facility replaced our senior credit facility of \$70.9 million and the senior secured facilities of RiskMetrics of \$206.7 million outstanding as of May 31, 2010.

As of November 30, 2010, we had \$1,268.6 million of indebtedness under the New Credit Facility (\$56.0 million in current maturities and \$1,212.6 million in long term debt), \$226.6 million of cash and cash equivalents and \$73.9 million in short-term investments. During first quarter 2011, we will be required to make a payment under the excess cash flow provision of the New Credit Facility of approximately \$56.0 million.

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

The New Credit Facility also requires us and our subsidiaries to achieve specified financial and operating results and maintain compliance with the following financial ratios on a consolidated basis: (1) the maximum total leverage ratio (as defined in the New Credit Facility) measured quarterly on a rolling four-quarter basis shall not exceed (a) 4.0:1.00 through February 28, 2011, (b) 3.75:1.00 from March 1, 2011 through May 31, 2011, (c) 3.50:1.00 from June 1, 2011 through August 31, 2011, (d) 3.25:1.00 from September 1, 2011 through December 31, 2011 and (e) 2.75:1.00 thereafter; and (2) the minimum interest coverage ratio (as defined in the New Credit Facility) measured quarterly on a rolling four-quarter basis shall be at least (a) 4.50:1.00 through February 28, 2011 and (b) 5.00:1.00 thereafter. On December 10, 2010, our Board of Directors approved a change in our fiscal year end from November 30<sup>th</sup> to December 31<sup>st</sup>, commencing with the twelve-month period ended December 31, 2011. The measurement periods for compliance with the financial ratios will be adjusted accordingly.

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

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In addition, we may need to incur additional indebtedness in the future in the ordinary course of business. Our level of indebtedness could increase our vulnerability to general economic consequences; require us to dedicate a substantial portion of our cash flow and proceeds of any additional equity issuances to payments of our indebtedness; make it difficult for us to optimally capitalize and manage the cash flow for our business; limit our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate; place us at a competitive disadvantage to our competitors that have less debt; limit our ability to borrow money or sell stock to fund our working capital and capital expenditures; limit our ability to consummate acquisitions; and increase our interest expense. Because the New Credit Facility resulted in a substantial increase in our level of indebtedness and higher debt-to-equity ratio following the completion of the acquisition in comparison to periods prior to the acquisition, the potential for the occurrence of the consequences described in the preceding sentence could be increased compared to periods prior to the acquisition.

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

The development, maintenance and support of our products is dependent upon the knowledge, experience and ability of our highly skilled, educated and trained employees. Accordingly, the success of our business depends to a significant extent upon the continued service of our executive officers and other key management, research, sales and marketing, operations, information technology and other technical personnel. Although we do not believe that we are overly dependent upon any individual employee, the loss of a group of our key professional employees could have a material adverse effect on our business, financial condition or results of operations. We believe our future success will also depend in large part upon our ability to attract and retain highly skilled managerial, research, sales and marketing, information technology, software engineering and other technical personnel. Competition for such personnel worldwide is intense, and there can be no assurance that we will be successful in attracting or retaining such personnel. Additionally, in connection with our IPO, we issued founders grants to some of our employees and as these awards vest (the final tranche representing 25% of the total award will vest in November 2011) their effectiveness as a retention tool diminishes. If the equity incentive plans that we currently have in place do not adequately compensate our key employees or are not competitive, we may lose key personnel. If we fail to attract and retain the necessary qualified personnel our products may suffer, which could have a material adverse effect on our business, financial condition or results of operations.

***Our business relies heavily on electronic delivery systems and the Internet, and any failures or disruptions may materially adversely affect our ability to serve our clients.***

We depend heavily on the capacity, reliability and security of our electronic delivery systems and the Internet. Heavy use of our electronic delivery systems and other factors such as loss of service from third parties, operational failures, sabotage, break-ins and similar disruptions from unauthorized tampering or hacking, human error, national disasters, power loss or computer viruses could cause our systems to operate slowly or interrupt their availability for periods of time. Our ability to effectively use the Internet may be impaired due to infrastructure failures, service outages at third-party Internet providers or increased government regulation. If disruptions, failures or slowdowns of our electronic delivery systems or the Internet occur, our ability to distribute our products effectively and to serve our clients may be materially and adversely affected.

***Certain events could lead to interruptions in our operations, which may materially adversely affect our business, financial condition or results of operations.***

Our operations depend on our ability to protect our equipment and the information stored in our databases against fires, floods, earthquakes and other natural disasters, as well as power losses, computer and telecommunications failures, technological breakdowns, unauthorized intrusions, terrorist attacks on sites where we or our clients are located, and other events. We also depend on accessible office facilities for our employees in order for our operations to function properly. There is no assurance that the business continuity plans that we have sufficiently cover or reduce the risk of interruption in our operations caused by these events.



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Such events could also have a material adverse effect on our clients. For example, immediately after the terrorist attacks on September 11, 2001, our clients who were located in the World Trade Center area were concentrating on disaster recovery rather than licensing additional products. In addition, delivery of some of the data we receive from New York-based suppliers was delayed. The grounding of air transportation impaired our ability to conduct sales visits and other meetings at client sites. During the resulting temporary closure of the U.S. stock markets, some of the data updates supporting our products were interrupted. These types of interruptions could affect our ability to sell and deliver products and could have a material adverse effect on our business, financial condition or results of operations.

Although we currently estimate that the total cost of developing and implementing our business continuity plans will not have a material impact on our business, financial condition or results of operations, we cannot provide any assurance that our estimates regarding the timing and cost of implementing these plans will be accurate.

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

As we continue to expand our international operations, we increase our exposure to political, economic, legal, operational, franchise and other risks that are inherent in operating in many countries, including risks of possible capital controls, exchange controls and other restrictive governmental actions, as well as the outbreak of hostilities or political and governmental instability. We have established and intend to further grow our presence in Mexico, the Middle East, Asia, Africa, Eastern Europe and Central and South America. In the last few years, we have opened offices in Budapest, Dubai, Monterrey, Mumbai and Shanghai. A significant number of our employees are located in offices outside of the United States and a number of those employees are located in emerging market centers. In many countries, the laws and regulations applicable to the financial services industries are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market. Our inability to maintain consistent internal policies and procedures across our office and remain in compliance with local laws in a particular market could have a significant and negative effect not only on our businesses in that market but also on our reputation generally.

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

***We may incur unanticipated costs in connection with establishing and maintaining offices in emerging market locations.***

Our plans call for us to continue to increase the proportion of our employees in emerging market locations. The cost of establishing and maintaining these offices, including costs related to information technology infrastructure, as well as the costs of attracting, training and retaining employees in these locations may be higher, or may increase at a faster rate, than we anticipate which could have a material adverse effect on our business, financial condition or results of operations.

***We may have exposure to additional tax liabilities.***

As a global corporation, we are subject to income taxes as well as non-income taxes, in the United States and various foreign jurisdictions. Significant judgment is required in determining our global provision for income taxes and other tax liabilities. In the ordinary course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. We are regularly under audit by tax authorities.

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Although we believe that our tax estimates are reasonable, we cannot assure you that the final determination of tax audits or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals. To the extent we are required to pay amounts in excess of our reserves, such differences could have a material adverse effect on our statement of income for a particular future period. In addition, an unfavorable tax settlement could require use of our cash and result in an increase in our effective tax rate in the period in which such resolution occurs.

We are also subject to non-income taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes, in the United States and various foreign jurisdictions. We are regularly under audit by tax authorities with respect to these non-income taxes and may have exposure to additional non-income tax liabilities.

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

ISS historical growth has been due, in large part, to increased regulatory requirements, highly visible corporate scandals, increased shareholder activism and corporate chief executive officers and boards of directors that are increasingly concerned about, and responsive to, shareholder concerns. To the extent that any of these trends change, the demand for ISS products and services could be reduced, and this could have a material adverse effect on our business, financial condition or results of operation. To the extent these regulations change or are not extended to other markets, our business, financial condition and results of operation could be materially adversely affected.

***Our investments in recorded goodwill and other intangible assets as a result of acquisitions, including goodwill and other intangible assets resulting from our RiskMetrics acquisition could be impaired as a result of future business conditions, requiring us to record substantial write-downs that would reduce our operating income.***

We have goodwill and intangible assets of \$2,422.9 million recorded on our balance sheet as of November 30, 2010. We evaluate the recoverability of recorded goodwill amounts and intangible assets annually, or when evidence of potential impairment exists. The annual impairment test is based on several factors requiring judgment. Changes in fair market valuations and our operating performance or business conditions, in general, could result in future impairments of goodwill which could be material to our results of operations. In addition, if we are not successful in achieving anticipated operating efficiencies associated with acquisitions, our goodwill and intangible assets may become impaired.

***We have engaged in hedging transaction and may engage in other hedging transactions which involve risks that could have a materially adverse effect on our financial condition or results of operations.***

In July 2010, we entered into two interest rate swap agreements to reduce our interest rate risk and to manage interest expense, and we may engage in similar transactions in the future. As of November 30, 2010, the interest rate swaps had an aggregate notional principal amount of \$445.1 million and a fair value liability of \$1.8 million. Our interest rate swaps effectively changed a portion of our variable-rate debt obligations pursuant to our credit facilities to fixed-rate debt obligations. Developing an effective strategy for movements in interest rates is complex, and no strategy can completely insulate us from risks associated with such fluctuations. In addition, the counterparty to a derivative instrument could default on its obligation thereby exposing us to credit risk. Further, we may have to repay certain costs, such as transaction fees or brokerage costs, if a derivative instrument is terminated by us. Finally, our interest rate risk management activities could expose us to substantial losses if interest rates move materially differently from our expectations. As a result, our economic hedging activities may not effectively manage our interest rate sensitivity or have the desired beneficial impact on our financial condition or results of operations.

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*The obligations associated with being a public company require significant resources and management attention.*

As a public company, we are subject to the rules and regulations promulgated by the SEC and the New York Stock Exchange. For example, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial conditions and the Sarbanes Oxley Act of 2002 (the Sarbanes-Oxley Act ) requires, among other things, that we establish and maintain effective internal controls and procedures for financial reporting. Our efforts to comply with these rules and regulations have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management's time from other business activities. See Changes in government regulations could materially adversely affect our business, financial condition or results of operations above.

*In connection with our IPO and separation from Morgan Stanley, we entered into agreements with Morgan Stanley where we agreed to indemnify Morgan Stanley for, among other things, certain past, present and future liabilities related to our business.*

Pursuant to certain agreements we entered into with Morgan Stanley relating to the ongoing provision of services and other matters, we agreed to indemnify Morgan Stanley for, among other matters, certain past, present and future liabilities related to our business. Such liabilities include certain unknown liabilities, which could be significant.

### **Risks Related to Ownership of Our Class A Common Stock**

*If equity research analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our class A common stock, the price of our class A common stock could decline.*

The trading market for our class A common stock relies in part on the research and reports that equity research analysts publish about us and our business. The price of our stock could decline if one or more securities analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business.

*The market price of our class A common stock may be volatile, which could result in substantial losses for you.*

For example, some of the factors that may cause the market price of our class A common stock to fluctuate include:

fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;

changes in operating margins due to variability in revenues from licensing our equity indices as the basis of ETFs;

changes in estimates of our financial results or recommendations by securities analysts;

failure of any of our products to achieve or maintain market acceptance;

failure to produce or distribute our products;

changes in market valuations of similar companies;

success of competitive products;

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changes in our capital structure, such as future issuances of securities or the incurrence of additional debt;

announcements by us or our competitors of significant products, contracts, acquisitions or strategic alliances;

regulatory developments in the U.S., foreign countries or both;

litigation involving our company, our general industry or both;

additions or departures of key personnel;

investors' general perception of us, including any perception of misuse of sensitive information;

changes in general economic, industry and market conditions; and

changes in regulatory and other dynamics.

In addition, if the market for stocks in our industry, or the stock market in general, experiences a loss of investor confidence, the trading price of our class A common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

***Future sales of our common stock, or the perception that such sales may occur, could depress our class A common stock price.***

Sales of a substantial number of shares of our common stock, or the perception that such sales may occur, could depress the market price of our class A common stock. This would include sales of our common stock underlying restricted shares of class A common stock and options to purchase shares of class A common stock granted in connection with our IPO and pursuant to our equity incentive compensation plan.

As of November 30, 2010, 119,522,043 shares of our class A common stock were outstanding and freely tradable without restriction or further registration under the Securities Act of 1933, as amended, by persons other than our affiliates within the meaning of Rule 144 under the Securities Act.

In November 2007, we filed a registration statement registering under the Securities Act the 12,500,000 shares of class A common stock reserved for issuance in respect of incentive awards to our officers and certain of our employees pursuant to the MSCI Amended and Restated 2007 Equity Incentive Compensation Plan and the 500,000 shares of class A common stock reserved for issuance in respect of equity awards made to our directors who are not employees of the Company or Morgan Stanley pursuant to the MSCI Independent Directors' Equity Compensation Plan. As of November 30, 2010, we had issued 2,947,305 and 66,605 shares of class A common stock under the MSCI Amended and Restated 2007 Equity Incentive Compensation Plan and MSCI Independent Directors' Equity Compensation Plan, respectively. In connection with the acquisition of RiskMetrics, we filed a registration statement registering under the Securities Act the 4,257,779 shares of MSCI class A common stock reserved for issuance in respect of incentive awards to officers and certain employees of RiskMetrics pursuant to the RiskMetrics Group, Inc. 2000 Stock Option Plan, RiskMetrics Group, Inc. 2004 Stock Option Plan, Institutional Shareholder Services Holdings, Inc. Equity Incentive Plan and RiskMetrics Group, Inc. 2007 Omnibus Incentive Compensation Plan (collectively, the "RMG Plans"). As of November 30, 2010, we had issued 1,037,836 shares of class A common stock under the RMG Plans. In June 2010, we also filed a registration statement assuming 3,060,090 shares available under the RiskMetrics Group, Inc. 2007 Omnibus Incentive Compensation Plan.

Also in the future, we may issue additional shares of our common stock in connection with investments and acquisitions. The amount of our common stock issued in connection with an investment or acquisition could constitute a material portion of the outstanding common stock.



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*Provisions in our Amended and Restated Certificate of Incorporation and By-laws and Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our class A common stock.*

Provisions of our Amended and Restated Certificate of Incorporation and By-laws and Delaware law may discourage, delay or prevent a merger, acquisition or other change in control that shareholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares of our class A common stock. These provisions may also prevent or frustrate attempts by our shareholders to replace or remove our management. These provisions include:

limitations on the removal of directors;

advance notice requirements for shareholder proposals and director nominations;

the inability of shareholders, after a change in control, to act by written consent or to call special meetings;

the ability of our Board of Directors to make, alter or repeal our By-laws; and

the ability of our Board of Directors to designate the terms of and issue new series of preferred stock without shareholder approval. Generally, the amendment of our Amended and Restated Certificate of Incorporation requires approval by our Board of Directors and a majority vote of shareholders. Any amendment to our By-laws requires the approval of either a majority of our Board of Directors or holders of at least 80% of the votes entitled to be cast by the outstanding capital stock in the election of our Board of Directors.

Section 203 of the General Corporation Law of the State of Delaware prohibits a person who acquires more than 15% but less than 85% of all classes of our outstanding voting stock without the approval of our Board of Directors from merging or combining with us for a period of three years, unless the merger or combination is approved by a two-thirds vote of the shares not owned by such person. These provisions would apply even if the proposed merger or acquisition could be considered beneficial by some shareholders.

The existence of the foregoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our class A common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that a premium would be paid for your class A common stock in an acquisition.

*We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our class A common stock.*

We do not intend to pay any cash dividends on our common stock for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth, including growth through acquisitions. The payment of any future dividends will be determined by the Board of Directors in light of conditions then existing, including our earnings, financial condition and capital requirements, business conditions, corporate law requirements and other factors.

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

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

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



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our ability to successfully and cost effectively combine our business with RiskMetrics' business;

whether the combined businesses will perform as expected;

the possibility that we paid more than the value we will derive from the acquisition;

the reduction of our cash available for operations and other uses, the increase in amortization expense related to identifiable assets acquired and the incurrence of indebtedness to finance the acquisition; and

the assumption of certain known and unknown liabilities of RiskMetrics.

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

It is possible that the integration process could result in the loss of key employees, the disruption of our ongoing business or in unexpected integration issues, higher than expected integration costs and an overall integration process that takes longer than originally anticipated. Specifically, issues that must be addressed in integrating the operations of RiskMetrics into our operations in order to realize the anticipated benefits of the merger so we perform as expected, include, among other things:

combining the companies' sales, marketing, data, operations and research and development functions;

integrating the companies' technologies, products and services;

identifying and eliminating redundant and underperforming operations and assets;

harmonizing the companies' operating practices, employee development and compensation programs,

internal controls and other policies, procedures and processes;

addressing possible differences in business backgrounds, corporate cultures and management philosophies;

consolidating the companies' corporate, administrative and information technology infrastructure;

coordinating sales, distribution and marketing efforts;

managing the movement of certain positions to different locations, including certain of our offices outside the U.S.;



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maintaining existing agreements with customers and suppliers and avoiding delays in entering into new agreements with prospective customers and suppliers;

coordinating geographically dispersed organizations; and

consolidating our offices with those of RiskMetrics that are currently in the same location.

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

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

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

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*Our future results may suffer if we do not effectively manage RiskMetrics risk management platform and RiskMetrics other operations.*

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

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

Uncertainty about the success of the integration process and the effect of the merger on employees may have an adverse effect on the combined business. This uncertainty may impair our ability to attract, retain and motivate key personnel. Employee retention may be particularly challenging during the integration process, as employees may experience uncertainty about their future roles with the combined business. If key employees depart because of issues relating to the uncertainty and difficulty of integration, financial incentives or a desire not to continue as employees of the combined business, we may have to incur significant costs in identifying, hiring and retaining replacements for departing employees, which could adversely affect our ability to realize the anticipated benefits of the merger.

*We will continue to incur restructuring and integration-related costs in connection with the merger.*

We expect to continue to incur a number of non-recurring costs associated with combining the operations of the two companies. The substantial majority of non-recurring expenses resulting from the merger will be comprised of restructuring costs related to the elimination of overlapping positions and duplicative occupancy costs and the termination of overlapping vendor contracts. We will also incur fees and costs related to the continued implementation of integration plans. As of November 30, 2010, we incurred \$10.0 million of restructuring and integration related fees and expense. We continue to assess the magnitude of these costs and additional unanticipated costs may be incurred in the integration of the two companies businesses. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to offset incremental restructuring and merger-related integration costs over time, this net benefit may not be achieved in the near term, or at all.

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

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

**Item 1B. Unresolved Staff Comments**

Nothing required to be disclosed.

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Our corporate headquarters is located in New York, New York. This is also our largest sales office and one of our main research centers. As of November 30, 2010, our principal offices consisted of the following leased properties:

Location	Square Feet	Number of Offices	Expiration Date
New York, New York	76,880	2	August 14, 2012 and December 31, 2014
Rockville, Maryland	56,280	1	June 30, 2013
London, England	52,891	2	February 14, 2015 and February 28, 2022
Berkeley, California	34,178	1	February 28, 2020
Mumbai, India	32,220	1	August 7, 2017
Manila, Philippines	25,000	1	March 31, 2014
Norman, Oklahoma	23,664	1	May 31, 2014
Boston, Massachusetts	18,785	2	May 31, 2011 and January 31, 2016
Budapest, Hungary	18,337	1	February 28, 2014
Monterrey, Mexico	12,671	2	January 31, 2011 and March 31, 2020
Geneva, Switzerland	11,883	1	March 31, 2019

As of November 30, 2010, we also leased sales and client support offices in the following locations: Hong Kong, China; San Francisco, California; Beijing, China; Brussels, Belgium; Tokyo, Japan; Chicago, Illinois; Ann Arbor, Michigan; Toronto, Canada; Shanghai, China; Edison, New Jersey; Frankfurt, Germany; Sydney, Australia; Stamford, Connecticut; Cape Town (Newlands), South Africa; Melbourne, Australia; Singapore; Paris, France; Milan, Italy; Sao Paulo, Brazil; Leeds, England; and Dubai, United Arab Emirates.

In January 2011, we vacated the space that we maintained in Leeds, England and one of the offices we maintained in London, England.

We believe that our properties are in good operating condition and adequately serve our current business operations. We also anticipate that suitable additional or alternative space, including those under lease options, will be available at commercially reasonable terms for future expansion.

**Item 3. 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 our 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 our business, operating results, financial condition or cash flows in a particular period could be materially adversely 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 adverse effect on MSCI's business, operating results, financial condition or cash flows.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities  
Stock Price and Dividends**

Our class A common stock has traded on the New York Stock Exchange since November 15, 2007 under the symbol MSCI. Prior to that time, there was no public market for our common stock. As of January 24, 2011, there were approximately 334 shareholders of record of our class A common stock. The following table sets forth the high and low closing sales prices per share of our class A common stock from December 1, 2007 through November 30, 2010.

Years ended November 30,	High	Low
<b>2010</b>		
First Quarter	\$ 34.50	\$ 27.88
Second Quarter	37.96	28.59
Third Quarter	33.39	27.23
Fourth Quarter	37.44	30.82
<b>2009</b>		
First Quarter	\$ 18.65	\$ 14.69
Second Quarter	23.64	13.20
Third Quarter	30.55	22.47
Fourth Quarter	33.60	25.98

On January 24, 2011, the closing price of our class A common stock on the New York Stock Exchange was \$35.50.

Our class B common stock is neither listed nor publicly traded. As of January 24, 2011, there were no shareholders of record of our class B common stock.

*Dividend Policy*

We declared and paid dividends prior to the IPO. We do not, however, intend to pay any dividends in the foreseeable future and intend to retain all available funds for use in the operation and expansion of our business, including growth through acquisitions. The payment of any future dividends will be determined by the Board of Directors in light of conditions then existing, including our earnings, financial condition and capital requirements, business conditions, corporate law requirements and other factors. In addition, our Credit Facility contains restrictions on the payment of dividends. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

The Transfer Agent and Registrar for the common stock is BNY Mellon Shareowner Services.

**Equity Compensation Plans**

On November 2, 2007 and November 5, 2007, our shareholders and Board of Directors approved, respectively, the implementation of the MSCI Independent Directors' Equity Compensation Plan (as amended and restated on January 12, 2011, the IDECP). Under the IDECP, the directors that are not employees of the Company receive annual Board retainer fees and fees for serving on the Company's committees, if applicable, and pursuant to the terms of the IDECP, a director may make an election to receive all or any portion of such director's retainer and committee fees in shares of our class A common stock. Effective on the date of the 2011 annual shareholders' meeting, directors who are not employees of the Company are entitled to receive an annual grant of \$90,000 each in stock units and the lead director is entitled to an additional \$25,000 in stock units, which are subject to a vesting schedule. The total number of shares authorized to be awarded under the plan is 500,000.

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On November 2, 2007 and November 5, 2007, our shareholders and Board of Directors approved, respectively, the implementation of the MSCI 2007 Equity Incentive Compensation Plan. On April 8, 2008, our shareholders approved the MSCI Amended and Restated 2007 Equity Incentive Compensation Plan. The MSCI Amended and Restated 2007 Equity Incentive Compensation Plan permits the Compensation Committee to make grants of a variety of equity based awards (such as stock, restricted stock, stock units and options) totaling up to 12.5 million shares to eligible recipients, including employees and consultants. No awards under this plan are permitted after November 2, 2017.

In connection with the acquisition of RiskMetrics, we filed a registration statement registering under the Securities Act the 4,257,779 shares of MSCI class A common stock reserved for issuance in respect of incentive awards to officers and certain employees of RiskMetrics pursuant to the RiskMetrics Group, Inc. 2000 Stock Option Plan, RiskMetrics Group, Inc. 2004 Stock Option Plan, Institutional Shareholder Services Holdings, Inc. Equity Incentive Plan and RiskMetrics Group, Inc. 2007 Omnibus Incentive Compensation Plan (collectively, the RMG Plans). In June 2010, we also filed a registration statement assuming 3,060,090 shares available under the RiskMetrics Group, Inc. 2007 Omnibus Incentive Compensation Plan.

The following table sets forth certain information with respect to our equity compensation plans at November 30, 2010:

	Number of Securities to be Issued Upon Vesting of Restricted Stock Units and Exercise of Outstanding Options a	Weighted Average Unit Award Value of Restricted Stock Units and Weighted-Average Exercise Price of Outstanding Options b	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (a)) c
<i>Equity Compensation Plans Approved by Security Holders</i>			
MSCI Independent Directors Equity Compensation Plan <sup>(1)</sup>	9,770	\$ 34.97	423,625
MSCI Amended and Restated 2007 Equity Incentive Compensation Plan	3,360,057	\$ 21.41	7,191,047
RiskMetrics Group, Inc. 2000 Stock Option Plan	298,700	\$ 3.03	17
RiskMetrics Group, Inc. 2004 Stock Option Plan	942,162	\$ 13.10	6,864
Institutional Shareholder Services Holdings, Inc. Equity Incentive Plan	3,270	\$ 3.21	
RiskMetrics Group, Inc. 2007 Omnibus Incentive Compensation Plan	1,824,973	\$ 22.06	3,144,047
Total	6,438,932	\$ 19.54	10,765,600

(1) The MSCI Independent Directors Equity Compensation Plan does not authorize the issuance of options to purchase MSCI common stock.

**Table of Contents****Stock Repurchases**

The table below sets forth the information with respect to purchases made by or on behalf of the Company of its common shares during the quarter ended November 30, 2010.

## Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	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
Month #1 (September 1, 2010-September 30, 2010) Employee Transactions <sup>(1)</sup>	12,075	\$ 31.39	N/A	N/A
Month #2 (October 1, 2010-October 31, 2010) Employee Transactions <sup>(1)</sup>	11,042	\$ 34.24	N/A	N/A
Month #3 (November 1, 2010-November 30, 2010) Employee Transactions <sup>(1)</sup>	255,670	\$ 35.94	N/A	N/A
Total Employee Transactions <sup>(1)</sup>	278,787	\$ 35.67	N/A	N/A

- (1) Includes shares purchased to satisfy tax withholding obligations on behalf of employees that occur upon vesting and delivery of outstanding shares underlying restricted stock units and/or upon the exercise of employee stock options. The value of the shares purchased was determined using the fair market value of the Company's class A common shares on the date of purchase, using a valuation methodology established by the Company.

**Recent Sales of Unregistered Securities.**

None.

**Use of Proceeds from Sale of Registered Securities**

None.

**Table of Contents****37 MONTH STOCK PERFORMANCE GRAPH**

The following graph compares the cumulative total stockholders return on our class A common stock, the Standard & Poor's 500 Stock Index and the NYSE Composite Index since November 15, 2007 assuming an investment of \$100 at the closing price on November 15, 2007. In calculating total annual stockholder return, reinvestment of dividends, if any, is assumed. The indices are included for comparative purpose only. They do not necessarily reflect management's opinion that such indices are an appropriate measure of the relative performance of the class A common stock. This graph is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any of our filings under the Securities Act of 1933, as amended, or the Exchange Act, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

	<b>For the Years Ended November 30,</b>			
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
MSCI Inc.	\$ 130	\$ 117	\$ 59	\$ 106
S&P 500	\$ 81	\$ 76	\$ 62	\$ 102
NYSE Composite Index	\$ 77	\$ 73	\$ 58	\$ 102

**Table of Contents****Item 6. Selected Consolidated Financial Data**

Our selected consolidated financial data for the periods presented should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto beginning on page F-1 of this Annual Report on Form 10-K.

The selected Consolidated Statements of Income data for the years ended November 30, 2010, 2009, and 2008 and the selected Consolidated Statements of Financial Condition data as of November 30, 2010 and 2009 are derived from our audited consolidated financial statements beginning on page F-1 of this Annual Report on Form 10-K. Our consolidated financial statements for the years ended November 30, 2010, 2009 and 2008 have been audited and reported upon by an independent registered public accounting firm. The selected Consolidated Statement of Income data for the years ended November 30, 2007 and 2006 and the selected Consolidated Statement of Financial Condition data as of November 30, 2008, 2007 and 2006 are derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K.

The selected financial information presented below may not be indicative of our future performance and does not necessarily reflect what our financial position and results of operations would have been had we operated as a stand-alone company during the periods presented.

	2010 <sup>(1)</sup>	For the years ended November 30,			2006
		2009	2008	2007	
		(in thousands, except operating margin and per share data)			
Operating revenues	\$ 662,901	\$ 442,948	\$ 430,961	\$ 369,886	\$ 310,698
Total operating expenses	456,778	291,956	295,171	239,927	227,649
Operating income	206,123	150,992	135,790	129,959	83,049
Other expense (income), net	52,632	19,271	26,147	(3,333)	(16,420)
Provision for income taxes	61,321	49,920	41,375	52,181	36,097
Income before discontinued operations	92,170	81,801	68,268	81,111	63,372
Income from discontinued operations					8,073
Net income	\$ 92,170	\$ 81,801	\$ 68,268	\$ 81,111	\$ 71,445
Earnings per basic common share:					
Continuing operations	\$ 0.82	\$ 0.80	\$ 0.66	\$ 0.94	\$ 0.76
Discontinued operations					0.10
Earnings per basic common share	\$ 0.82	\$ 0.80	\$ 0.66	\$ 0.94	\$ 0.85
Earnings per diluted common share:					
Continuing operations	\$ 0.81	\$ 0.80	\$ 0.66	\$ 0.94	\$ 0.76
Discontinued operations					0.10
Earnings per diluted common share	\$ 0.81	\$ 0.80	\$ 0.66	\$ 0.94	\$ 0.85
Weighted average shares outstanding used in computing earnings per share					
Basic	112,074	100,607	100,037	84,606	83,900
Diluted	113,357	100,860	100,281	84,611	83,900
Operating margin	31.1%	34.1%	31.5%	35.1%	26.7%
Cash and cash equivalents	\$ 226,575	\$ 176,024	\$ 268,077	\$ 33,818	\$ 24,362



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Short-term investments	\$ 73,891	\$ 295,304	\$	\$	\$
Cash deposited with related parties	\$	\$	\$	\$ 137,625	\$ 330,231
Trade receivables (net of allowances)	\$ 147,662	\$ 77,180	\$ 85,723	\$ 77,748	\$ 62,337
Goodwill and intangible assets, net of accumulated amortization	\$ 2,422,921	\$ 561,812	\$ 587,530	\$ 616,030	\$ 642,383
Deferred revenue	\$ 271,300	\$ 152,944	\$ 144,711	\$ 125,230	\$ 102,368
Current maturities of long-term debt	\$ 54,916	\$ 42,088	\$ 22,086	\$ 22,250	\$
Long-term debt, net of current maturities	\$ 1,207,881	\$ 337,622	\$ 379,709	\$ 402,750	\$
Total shareholders' equity	\$ 1,080,117	\$ 507,056	\$ 286,382	\$ 200,021	\$ 825,712
Total assets	\$ 3,023,166	\$ 1,200,269	\$ 1,015,048	\$ 904,679	\$ 1,112,775

(1) Includes the results of RiskMetrics and Measurisk as of the June 1, 2010 and July 30, 2010 acquisition dates, respectively. Numbers may not total due to rounding.

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### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this 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.*

#### **Overview**

We are a leading global provider of investment decision support tools, including indices, portfolio risk and performance analytics and corporate governance products and services. 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), hedge funds and private wealth; and financial intermediaries such as banks, broker-dealers, exchanges, custodians, investment consultants; and corporate clients. As of November 30, 2010, we had approximately 5,800 clients across 78 countries. We had 33 offices in 19 countries to help serve our diverse client base, with approximately 53.3% of our revenue from clients in the Americas, 32.4% in Europe, the Middle East and Africa (EMEA) and 14.3% in Asia and Australia, based on revenues for the year ended November 30, 2010. See Item 1. Business Clients above for an explanation of how we calculate our number of clients.

Effective with the acquisition of RiskMetrics Group, Inc. (RiskMetrics) discussed below under Strategic Initiatives, the Company consists of two industry leading businesses: the Performance and Risk business and the Governance business. Together, these businesses offer what we believe is the most comprehensive suite of performance, risk management and corporate governance products and services available in our industry. See Note 14, Segment Information, for further information about MSCI's operating segments.

Our Performance and Risk business is a leading global provider of investment decision support tools, including equity indices, portfolio risk and performance analytics, credit analytics and environmental, social and governance (ESG) products. Our Performance and Risk products are used in many areas of the investment process, including portfolio construction and rebalancing, performance benchmarking and attribution, risk management and analysis, index-linked investment product creation, asset allocation, assessment of social responsibility and environmental stewardship and the effects of climate change on investments, investment manager selection and investment research. The flagship products within our Performance and Risk business are our Global Equity Indices and ESG products marketed under the MSCI brand, our market and credit risk analytics marketed under the RiskMetrics and Barra brands, our portfolio risk and performance analytics covering global equity and fixed income markets marketed under the Barra brand and our valuation models and risk management software for the energy and commodities markets marketed under the FEA brand.

Our Governance business is a leading provider of corporate governance and specialized financial research and analysis services to institutional investors and corporations around the world. Among other things, the Governance business facilitates the voting of proxies by institutional investors and provides in-depth research and analysis to help inform voting decisions and identify issuer-specific risk. The Governance business offers both global security coverage and fully integrated products and services, including proxy voting, policy creation, research, vote recommendations, vote execution, post-vote disclosure and reporting and analytical tools. Within a firewall designed to separate it from the rest of the Governance business, a unit of the Governance business also provides products and services to corporate clients who may use those products and services to learn about and improve their governance practices. The flagship products within our Governance business are our governance research and outsourced proxy voting and reporting services marketed under the ISS brand and our forensic accounting risk research, legal/regulatory risk assessment and due diligence products marketed under the CFRA brand.

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Our Governance business serves both institutional and corporate clients and we recognize that there is a potential for conflict of interest with respect to the provision of products and services to corporate issuers through ISS Corporate Services and the products and services we provide to our institutional investor clients through Institutional Shareholders Services ( ISS ). We have instituted multiple safeguards to mitigate any real or perceived conflicts of interests. We formed ISS Corporate Services as a subsidiary with distinct resources and a firewall that prevents the flow of information outside of ISS Corporate Services. Every ISS Corporate Services contract indicates that the purchase of corporate services will not result in preferential treatment from ISS and does not influence ISS proxy recommendations or other research coverage. Recommendations and research coverage are based solely on the application of ISS published policies and by an issuer s actual governance policies and practices.

In evaluating our financial performance, we focus on revenue growth for the Company in total and by product category as well as operating profit growth and the level of profitability as measured by our operating margin. Our business is not highly capital intensive and, as such, we expect to continue to convert a high percentage of our operating profits into excess cash in the future. See Liquidity and Capital Resources below for a discussion of payments required to be made under the excess cash flow provision of the New Credit Facility (defined below). Our revenue growth strategy includes, among other things,: (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. In furtherance of this revenue growth strategy, we recently completed the acquisitions of RiskMetrics and Measurisk, LLC ( Measurisk ) discussed below under Strategic Initiatives.

To maintain and accelerate our revenue and operating income growth, we will continue to invest in and expand our operating functions and infrastructure, including product management, new sales and client support staff and facilities in locations around the world and additional staff and supporting technology for our research and our data operations and technology functions. At the same time, managing and controlling our operating expenses is very important to us and a distinct part of our culture. Over time, our goal is to keep the rate of growth of our operating expenses below the rate of growth of our revenues, allowing us to expand our operating margins. However, at times, because of significant market opportunities, it may be more important for us to invest in our business in order to support increased efforts to attract new clients and to develop new product offerings, rather than emphasize short-term operating margin expansion. Furthermore, in some periods our operating expense growth may exceed our operating revenue growth due to the variability of revenues from several of our products, including our equity indices licensed as the basis of ETFs and non-recurring fees.

### Change in Fiscal Year End

On December 8, 2010, the Board of Directors of the Company approved a change in the Company s fiscal year end from November 30 to December 31 of each year. This change to the calendar year reporting cycle began January 1, 2011. As a result of the change, the Company will have a December 2010 fiscal month transition period, the results of which will be separately reported in the Company s Quarterly Report on Form 10-Q for the calendar quarter ending March 31, 2011 and in the Company s Annual Report on Form 10-K for the calendar year ending December 31, 2011.

### Strategic Initiatives

#### *Acquisition of RiskMetrics*

On June 1, 2010, we completed our acquisition of RiskMetrics in a cash-and-stock transaction valued at approximately \$1,572.4 million. In connection with the acquisition, we entered into a senior secured credit agreement, which is comprised of (i) a \$1,275.0 million six-year term loan facility and (ii) a \$100.0 million five-

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year revolving credit facility, which includes a \$25.0 million letter of credit subfacility and \$10.0 million swingline loan subfacility (the New Credit Facility). See Liquidity and Capital Resources below for additional information.

For the year ended November 30, 2009, we had total operating revenues of \$442.9 million and operating expenses of \$292.0 million. For the year ended December 31, 2009, RiskMetrics had total operating revenues of \$303.4 million and operating expenses of \$236.4 million. We assigned a significant value to the intangible assets of RiskMetrics as part of the acquisition, which increased and is expected to increase the amortization expense we recognized and we will recognize. See Note 10, Intangible Assets for further information. We also have incurred increased interest expense as a result of the New Credit Facility we entered into in connection with the acquisition. We therefore expect that the acquisition of RiskMetrics will have a significant impact on our financial results in future periods. Additionally, we may have additional exposure to foreign currency risk following the acquisition as a result of the subsequent change in the relative mix of our non-U.S. dollar revenues and expenses.

### *Acquisition of Measurisk*

On July 30, 2010, we acquired Measurisk to expand our product offerings to hedge fund investors. The value we assigned to the intangible assets of Measurisk will further increase the amortization expense that we recognized during the year ended November 30, 2010 and that we will recognize in the future. See Note 10, Intangible Assets for further information.

## **Key Financial Metrics and Drivers**

### ***Revenues***

Our principal sales model in both of our business segments 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, we have increasing recurring subscriptions to our managed services offering in which our staff oversee the production of risk and performance reports on behalf of our clients. For the year ended November 30, 2010, approximately \$537.8 million, or 81.1%, of our revenues was attributable to annual, recurring subscriptions. These fees are recorded as deferred revenues on our Consolidated Statement of Financial Condition and are recognized on our Consolidated Statement of Income as the service is rendered. Additionally, \$104.1 million of our revenues comes from clients who use our indices as the basis for index-linked investment products such as ETFs. We derive revenues from certain institutional clients that use our indices 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 products' assets. We generate a limited amount of our revenues from certain exchanges that use our indices as the basis for futures and options contracts and pay us a license fee 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 overages relating to the proxy research and voting services.

As a part of establishing the Performance and Risk and the Governance operating segments and how they will be managed, we have revised our product categories. Our revenues are now grouped into the following five product and/or service categories:

### *Index and ESG*

This category includes subscription fees from MSCI equity index data and ESG research and analytics products, fees based on assets in investment products linked to our equity indices, fees from non-recurring licenses of our equity index historical data and fees from custom MSCI indices. We also generate a limited amount of revenues based on the trading volume of futures and options contracts linked to our indices.

Clients typically subscribe to equity index data modules for use by a specified number of users at a particular location. Clients may select delivery from us or delivery via a third-party vendor. We are able to grow

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our revenues for data subscriptions by expanding the number of client users and their locations and the number of third-party vendors the client uses for delivery of our data modules. The increasing scope and complexity of a client's data requirements beyond standard data modules, such as requests for historical data or customized indices, also provide opportunities for further revenue growth from an existing client. Clients who utilize our ESG research and analytics products and services pay an annual subscription fee and access these products and services via a web based application.

Revenues from our index-linked investment product licenses, such as ETFs, increase or decrease as a result of changes in value of the assets in the investment products. These changes in the value of the assets in the investment products can result from equity market price changes, investment inflows and outflows and changes in foreign currency exchange rates. In most cases, fees for these licenses are paid quarterly in arrears and are calculated by multiplying a negotiated basis point fee times the average daily assets in the investment product for the most recent period.

### *Risk Management Analytics Products*

This category includes revenues from annual, recurring subscriptions to our risk management analytics products including our two major products, RiskManager and BarraOne. We have increasing recurring subscriptions to our managed services offering in which our staff oversee the production of risk and performance reports on behalf of our clients. Other products in this category include HedgePlatform, InterSight, DataMetrics, Wealthbench, Counterparty Risk and Credit Manager. The products offer a consistent risk assessment framework for managing and monitoring investments in a variety of asset classes across an organization. We are able to grow our revenues by licensing additional users and locations as well as sell additional products and services.

RiskManager is used by clients for daily analyzing, measuring and monitoring of market risk at fund and firm level, for sensitivity and stress testing, and interactive what-if analysis. RiskManager is a highly scalable platform accessed by clients via a license to a secure, interactive web-based application service, as a fully outsourced risk reporting service or as a web service in which a client's systems access RiskMetrics core risk elements by connecting directly to our systems.

BarraOne, powered by the Barra Integrated Model, provides clients with global, multi-asset class risk analysis using Barra fundamental factor technology. The product is accessed by clients via a secure, interactive web-based session, web services or on an outsourced basis.

Clients generally subscribe to the other products in this category on an annual recurring basis.

### *Portfolio Management Analytics*

This category includes revenues from annual, recurring subscriptions to Barra Aegis and our proprietary risk data in Barra Aegis; Equity Models Direct products; and our proprietary equity risk data incorporated in third-party software application offerings (e.g., Barra on Vendors). This category also includes revenues from annual, recurring subscriptions to our fixed income portfolio analytics products.

Barra Aegis has many uses, including portfolio risk analysis and forecasting, optimization and factor-based portfolio performance attribution. A base subscription for use in portfolio analysis typically involves a subscription to Barra Aegis and various risk data modules. A client may add portfolio performance attribution, optimization tools, process automation tools or other features to its Barra Aegis subscription. By licensing the client to receive additional software modules and risk data, or increasing the number of permitted client users or client locations, we can increase our revenues per client further.

Our Equity Models Direct risk data is distributed directly to clients who then combine it with their own software applications or upload the risk data onto third-party applications. A base subscription to our Equity

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Models Direct product provides equity risk data for a set fee that authorizes one to two users. By licensing the client to receive equity risk model data for additional countries, or increasing the number of permitted client users or client locations, we can further increase our revenues per client.

The Barra on Vendors product makes our proprietary risk data from our Equity Models Direct product available to clients via third party providers, such as FactSet Research Systems, Inc.

The Barra Cosmos System for fixed income portfolio analytics products enables global fixed income portfolio managers to manage risk and optimize return in a multi-currency, global bond portfolio. This product is a desktop application.

### *Energy and Commodity Analytics*

Our energy and commodity analytics products consist of software applications which help users value and model physical assets and derivatives across a number of market segments including energy and commodity assets.

### *Governance*

Our governance products consist of corporate governance products and services, including proxy research, recommendation and voting services for asset owners and asset managers as well as governance advisory and compensation services for corporations. It also includes forensic accounting research as well as class action monitoring and claims filing services to aid institutional investors in the recovery of funds from securities. The products were all acquired as part of the RiskMetrics acquisition. The substantial majority of the revenues are annual, subscription based revenues. The largest portion of our non-recurring revenues are included in this category as a result of advisory and consulting services and overages relating to the proxy research and voting services.

The Performance and Risk business is comprised of index and ESG, risk management analytics, portfolio management analytics and energy & commodity analytics products. The Governance business is comprised of the governance products.

### ***Run Rate***

At the end of any period, we generally have subscription and investment product license agreements in place for a large portion of our total revenues for the following 12 months. We measure the fees related to these agreements and refer to this as our Run Rate. The Run Rate at a particular point in time represents the forward-looking fees for the next 12 months from all subscriptions and investment product licenses we currently provide to our clients under renewable contracts assuming all contracts that come up for renewal are renewed and assuming then-current exchange rates. For any license where fees are linked to an investment product's assets or trading volume, the Run Rate calculation reflects an annualization of the most recent periodic fee earned under such license. The Run Rate does not include fees associated with one-time and other non-recurring transactions. In addition, we remove from the Run Rate the fees associated with any subscription or investment product license agreement with respect to which we have received a notice of termination or non-renewal during the period and we have determined that such notice evidences the client's final decision to terminate or not renew the applicable subscription or agreement, even though such notice is not effective until a later date.

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

revenues associated with new subscriptions and non-recurring sales;

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modifications, cancellations and non-renewals of existing agreements, subject to specified notice requirements;

fluctuations in asset-based fees, which may result from market movements or from investment inflows into and outflows from investment products linked to our indices;

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

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 set forth our Run Rates and the percentage growth over the periods indicated. Run Rates have been adjusted to conform to the product categorization used for accounting revenues. In order to provide a more meaningful comparison, the historical numbers have been adjusted to include RiskMetrics as if the acquisition had occurred on November 30, 2008.

	November 30,			Comparison of	
	2010	2009 (in thousands)	2008	November 30, 2010 to 2009	November 30, 2009 to 2008
<b>Run Rates</b>					
<b>Index and ESG:</b>					
Subscriptions	\$ 235,370	\$ 202,785	\$ 177,675	16.1%	14.1%
Asset based fees	114,233	95,201	52,539	20.0%	81.2%
<b>Total index and ESG</b>	<b>349,603</b>	<b>297,986</b>	<b>230,214</b>	<b>17.3%</b>	<b>29.4%</b>
Risk management analytics <sup>(1)</sup>	235,422	197,997	188,453	18.9%	5.1%
Portfolio management analytics	117,256	122,192	132,956	(4.0%)	(8.1%)
Energy and commodity analytics	15,330	15,365	13,506	(0.2%)	13.8%
Governance	105,534	111,841	117,942	(5.6%)	(5.2%)
<b>Total Run Rate</b>	<b>\$ 823,145</b>	<b>\$ 745,381</b>	<b>\$ 683,071</b>	<b>10.4%</b>	<b>9.1%</b>
<b>Subscription total</b>	<b>708,912</b>	<b>650,180</b>	<b>630,532</b>	<b>9.0%</b>	<b>3.1%</b>
<b>Asset based fees total</b>	<b>114,233</b>	<b>95,201</b>	<b>52,539</b>	<b>20.0%</b>	<b>81.2%</b>
<b>Total Run Rate</b>	<b>\$ 823,145</b>	<b>\$ 745,381</b>	<b>\$ 683,071</b>	<b>10.4%</b>	<b>9.1%</b>

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- (1) Included in the above table is approximately \$13.4 million of Run Rate associated with the Measurisk acquisition as of November 30, 2010. The prior period run rates have not been restated for the impact of the Measurisk acquisition. Changes in Run Rate between periods reflect increases from new subscriptions, decreases from cancellations, increases or decreases, as the case may be, from the change in the value of assets of investment products linked to MSCI indices, the change in trading volumes of futures and options contracts linked to MSCI indices, price changes and fluctuations in foreign exchange rates.



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The following table sets forth our net new recurring subscription sales (as if we had completed the RiskMetrics acquisition as of the dates indicated) for the years ended:

	2010	November 30, 2009 (in thousands)	2008
New recurring subscription sales	\$ 136,393	\$ 97,191	\$ 144,241
Subscription cancellations	(84,567)	(103,734)	(65,243)
Net new recurring subscription sales	\$ 51,826	\$ (6,543)	\$ 78,998

**Retention Rates**

Other key metrics are our Aggregate Retention Rate and Core Retention Rate, which are collectively referred to as Retention Rates. These metrics are important because subscription cancellations decrease our Run Rate and ultimately our operating revenues. The annual Aggregate Retention Rate represents the retained subscription Run Rate (beginning subscription Run Rate less actual cancels during the year) as a percentage of the subscription Run Rate at the beginning of the fiscal year. If a client reduces the number of products to which it subscribes or switches between our products, we treat it as a cancellation for purposes of calculating our Aggregate Retention Rate. Our Core Retention Rate is calculated in the same way as our Aggregate Retention Rate, except that the Core Retention Rate does not treat switches between products as a cancellation. Our Aggregate and Core Retention Rates are computed on a product-by-product basis. In addition, we treat any reduction in fees resulting from renegotiated contracts as a cancellation in the calculation to the extent of the reduction. We do not calculate Aggregate or Core Retention Rates for that portion of our Run Rate attributable to assets in investment products linked to our indices or to trading volumes of futures and options contracts linked to our indices. Aggregate and Core Retention Rates for a non-annual period reflect the annualization of the cancels recorded in the period.

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The following table sets forth our Aggregate Retention Rates by product category for the periods indicated for the years ended November 30, 2010, 2009 and 2008 as if we had completed the RiskMetrics acquisition as of the dates indicated:

	Index and ESG	Risk Management Analytics	Portfolio Management Analytics	Energy and Commodity Analytics	Governance	Total
<b>2010</b>						
Qtr Ended February 28,	93.8%	81.5%	92.3%	85.5%	74.2%	86.2%
Qtr Ended May 31,	92.4%	91.3%	84.6%	80.5%	86.0%	89.2%
Qtr Ended August 31,	90.9%	89.7%	83.7%	90.5%	86.4%	88.4%
Qtr Ended November 30,	92.1%	85.4%	69.1%	83.4%	86.3%	84.6%
Year Ended November 30,	92.3%	87.4%	82.4%	85.0%	83.3%	87.2%
<b>2009</b>						
Qtr Ended February 28,	93.8%	85.5%	86.5%	90.5%	73.0%	85.6%
Qtr Ended May 31,	92.8%	79.5%	82.2%	91.3%	84.6%	85.1%
Qtr Ended August 31,	90.5%	80.4%	69.1%	84.5%	85.4%	81.9%
Qtr Ended November 30,	88.5%	80.2%	77.7%	88.5%	78.7%	82.0%
Year Ended November 30,	91.4%	81.4%	78.9%	88.7%	80.4%	83.7%
<b>2008</b>						
Qtr Ended February 29,	97.8%	92.6%	95.1%	91.4%	87.0%	93.3%
Qtr Ended May 31,	94.2%	86.5%	89.6%	96.1%	90.1%	90.1%
Qtr Ended August 31,	95.5%	88.4%	87.5%	97.1%	86.5%	89.8%
Qtr Ended November 30,	89.2%	78.8%	69.6%	83.3%	83.9%	80.5%
Year Ended November 30,	94.2%	86.6%	85.5%	92.0%	86.9%	88.5%

The following table sets forth our Core Retention Rates by product category for the periods indicated for the years ended November 30, 2010, 2009 and 2008 as if we had completed the RiskMetrics acquisition as of the dates indicated:

	Index and ESG	Risk Management Analytics	Portfolio Management Analytics	Energy and Commodity Analytics	Governance	Total
<b>2010</b>						
Qtr Ended February 28,	94.5%	82.9%	94.3%	85.5%	74.2%	87.2%
Qtr Ended May 31,	92.9%	92.3%	86.3%	80.5%	86.0%	90.0%
Qtr Ended August 31,	91.2%	92.0%	86.8%	90.5%	86.4%	89.8%
Qtr Ended November 30,	92.4%	85.4%	71.2%	83.4%	86.3%	85.0%
Year Ended November 30,	92.7%	88.5%	84.7%	85.0%	83.3%	88.1%
<b>2009</b>						
Qtr Ended February 28,	94.0%	85.5%	87.8%	90.6%	73.0%	85.9%
Qtr Ended May 31,	93.1%	81.4%	83.7%	91.3%	84.6%	86.1%
Qtr Ended August 31,	91.2%	81.0%	70.5%	84.5%	85.4%	82.6%
Qtr Ended November 30,	89.1%	81.2%	78.4%	89.9%	78.7%	82.6%
Year Ended November 30,	91.9%	82.3%	80.1%	89.1%	80.4%	84.3%
<b>2008</b>						
Qtr Ended February 29,	97.9%	92.6%	96.6%	91.4%	87.0%	93.7%
Qtr Ended May 31,	94.4%	86.5%	92.4%	96.1%	90.1%	90.8%
Qtr Ended August 31,	95.9%	88.9%	92.4%	97.1%	86.5%	91.2%
Qtr Ended November 30,	89.4%	79.1%	80.3%	86.3%	83.9%	83.2%
Year Ended November 30,	94.4%	86.8%	90.4%	92.7%	86.9%	89.7%



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The quarterly Retention Rates are calculated by annualizing the actual cancellations recorded during the quarter. 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 Retention Rate for the quarter.

For example, in the fourth quarter of 2010, we recorded cancellations of \$25.5 million. To derive the Aggregate Retention Rate for the fourth quarter, we annualized the actual cancellations during the quarter of \$25.5 million to derive \$102.1 million of annualized cancellations. This \$102.1 million was then divided by the \$661.3 million subscription Run Rate at the beginning of the year, adjusted for the Measurisk acquisition, to derive a cancellation rate of 15.4%. The 15.4% was then subtracted from 100.0% to derive an Aggregate Retention Rate of 84.6% for the fourth quarter.

For the calculation of the Core Retention Rate the same methodology was used except the amount of cancellations in the quarter was reduced by the amount of product swaps. For example, in fourth quarter 2010 we had product swaps of \$0.8 million which was subtracted from the \$25.5 million of actual cancels to derive core cancels of \$24.7 million. This \$24.7 million was annualized to derive \$99.0 million of annualized cancellations which was then divided by the \$661.3 million subscription Run Rate at the beginning of the year, adjusted for the Measurisk acquisition, to derive a cancellation rate of 15.0%. The 15.0% was then subtracted from 100.0% to derive the Core Retention Rate of 85.0% for the fourth quarter.

Retention Rates for the year ended November 30, 2010 remained lower than pre-financial crisis peaks due to the recent adverse financial environment and increased competition which resulted in liquidations and consolidations, price pressures and declines in demand for discretionary financial research products. For the year ended November 30, 2010, 30.2% of our cancellations occurred in the fourth fiscal quarter. Historically, Retention Rates have generally been higher during the first three quarters and lower in the fourth fiscal quarter.

### ***Expenses***

Compensation and benefits costs represent the majority of our expenses across all of our operating functions and typically have represented approximately 50% to 60% of our total operating expenses. These costs generally contribute to the majority of our expense increases from period to period, reflecting existing staff compensation and benefit increases and increased staffing levels. Employing individuals in 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 costs. As of November 30, 2010, we had approximately 2,077 employees throughout the world, of which approximately 30.0% were located in emerging market centers.

We group our operating expenses into five categories:

Cost of services,

Selling, general and administrative ( SG&A ),

Restructuring,

Amortization of intangible assets, and

Depreciation and amortization of property, equipment and leasehold improvements.

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



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### ***Cost of Services***

This category includes costs related to our research, data operations and technology, software engineering, product management and proxy research and voting functions. Costs in these areas include staff compensation and benefits, occupancy, market data fees, proxy voting fees, information technology and other miscellaneous costs. Prior to May 22, 2009, a portion of these costs were allocated to us by Morgan Stanley which was the controlling shareholder through that date. The largest expense in this category is compensation and benefits. As such, it generally contributes to a majority of our expense increases from period to period, reflecting compensation increases for current staff and increased staffing levels.

### ***Selling, General and Administrative***

This category includes compensation and benefits costs for our sales and marketing staff, and our finance, human resources, legal and compliance, information technology and corporate administration personnel. As with cost of services, the largest expense in this category is compensation and benefits. As such, it generally contributes to a majority of our expense increases from period to period, reflecting compensation increases for current staff and increased staffing levels. Other significant expenses were for occupancy, third party consulting costs and information technology. Prior to May 22, 2009, a portion of these costs were allocated to us by Morgan Stanley.

### ***Restructuring***

During the year ended November 30, 2010, MSCI's management approved, committed to and initiated a plan to restructure the Company's operations due to its acquisition of RiskMetrics. Restructuring includes expenses associated with the elimination of overlapping positions and duplicative occupancy costs, the termination of overlapping vendor contracts and the discontinuance of the planned integration of a product into RiskMetrics' standard product offering suite.

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

Amortization of intangibles expense relates to the intangible assets arising from the acquisition of Barra in June 2004, RiskMetrics in June 2010 and Measurisk in July 2010. Our intangible assets consist primarily of technology and software, trademarks, client relationships and non-competition agreements. The intangible assets have useful lives ranging from one to 20 years.

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

This category consists of expenses related to depreciating the cost of furniture and fixtures, computer and related equipment and leasehold improvements over the estimated useful life of the assets.

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

This category consists primarily of interest we pay on our credit facilities, interest we collect on cash and short-term investments, foreign currency gains and losses, as well as other non-operating income and expense items.

### **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). These accounting principles require us to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the periods presented. We believe the estimates and judgments upon which we rely are reasonable based upon information

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available to us at the time these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, our consolidated financial statements will be affected. The accounting policies that reflect our more significant estimates and judgments and that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include revenue recognition, research and development and software capitalization, allowance for doubtful accounts, tax contingencies, impairment of long-lived assets and accrued compensation. If different assumptions or conditions were to be utilized, the results could be materially different from our reported results.

### ***Revenue Recognition***

Revenue related to our non-software-related recurring arrangements is recognized pursuant to the requirements of Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Subtopic 605-25, *Revenue Arrangements with Multiple Deliverables*. Under the provisions of ASC Subtopic 605-25, transactions with multiple elements should be considered separate units of accounting if all of the following criteria are met:

The delivered item has stand-alone value to the client,

There is objective and reliable evidence of the fair value of the undelivered item(s), and

If the arrangement includes a general right of return, delivery or performance of the undelivered items is considered probable and substantially in the control of the vendor.

We have signed subscription agreements with all of our clients that set forth the fees paid to us by the clients. Further, we regularly assess the receivable balances for each client. Our subscription agreements for non-software-related products include provisions that, among other things, allow clients, for no additional fee, to receive updates and modifications that may be made from time to time, for the term of the agreement, typically one year. As we currently do not have objective and reliable evidence of the fair value of the undelivered element of the transaction, we do not account for the delivered item as a separate element. Accordingly, we recognize revenue ratably over the term of the license agreement.

Our software-related recurring revenue arrangements do not require significant modification or customization of any underlying software applications being licensed. Accordingly, we recognize software revenues excluding the energy and commodity asset valuation analytics products, pursuant to the requirements of ASC Subtopic 985-605, *Software-Revenue Recognition*. In accordance with ASC Subtopic 985-605, we begin to recognize revenues from subscriptions, maintenance and client technical support, and professional services when all of the following criteria are met: (1) we have persuasive evidence of a legally binding arrangement, (2) delivery has occurred, (3) client fee is deemed fixed or determinable, and (4) collection is probable.

We have signed subscription agreements with all of our clients that set forth the fees paid to us by the clients. Further, we regularly assess the receivable balances for each client. Our subscription agreements for software products include provisions that, among other things, would allow clients to receive unspecified future software upgrades for no additional fee as well as the right to use the software products with maintenance for the term of the agreement, typically one year. As we do not have vendor specific objective evidence ( VSOE ) for these elements (except for the support related to energy and commodity asset valuation products), we do not account for these elements separately. Accordingly, except for revenues related to energy and commodity asset valuation products, we recognize revenue ratably over the term of the license agreement.

Our software license arrangements generally do not include acceptance provisions. Such provisions generally allow a client to test the software for a defined period of time before committing to license the software. If a license agreement includes an acceptance provision, we do not record subscription revenues until the earlier of the receipt of a written client acceptance or, if not notified by the client that it is cancelling the license agreement, the expiration of the acceptance period.

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For our energy and commodity asset valuation analytics products, we use the residual method to recognize revenue when a product agreement includes one or more elements to be delivered at a future date and VSOE of the fair value if all undelivered elements exist. In virtually all of our contracts, the only element that remains undelivered at the time of delivery of the product is support. The fair value of support is determined based upon what the fees for the support are for clients who purchase support separately. Under the residual method, the fair value of the undelivered element is deferred and the remaining portion of the contract fee is recognized as product revenue. Support fees for these products are recognized ratably over the support period.

We apply SEC Staff Accounting Bulletin No. 104 ( SAB 104 ), *Revenue Recognition*, in determining revenue recognition related to clients that use our indices as the basis for certain index-linked investment products such as exchange traded funds or futures contracts. These clients commonly pay us a license fee for the use of our intellectual property based on the investment product's assets under management or contract volumes. These fees are calculated based upon estimated assets in the investment product or contract volumes obtained either through independent third-party sources or the most recently reported information of the client.

We recognize revenue when all the following criteria are met:

The client has signed a contract with us,

The service has been rendered,

The amount of the fee is fixed or determinable based on the terms of the contract, and

Collectability is reasonably assured.

We have signed contracts with all clients that use our indices as the basis for certain index-linked investment products, such as exchange traded funds or futures contracts. The contracts state the terms under which these fees are to be calculated. These fees are billed in arrears, after the fees have been earned. The fees are earned as we supply the indices to the client. We assess the creditworthiness of these clients prior to entering into a contract and regularly review the receivable balances related to them.

### ***Research and Development and Software Capitalization***

We account for research and development costs in accordance with several accounting pronouncements, including ASC Subtopic 730-10, *Research and Development*, and ASC Subtopic 985-730, *Software-Research and Development*. ASC Subtopic 730-10 requires that research and development costs generally be expensed as incurred. ASC Subtopic 985-730 specifies that costs incurred in researching and developing a computer software product should be charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs should be capitalized until the product is available for general release to clients. Judgment is required in determining when technological feasibility of a product is established. Costs incurred after technological feasibility is established have not been material, and accordingly, we have expensed all research and development costs when incurred. Research and development costs for the years ended November 30, 2010, 2009 and 2008 were approximately \$73.2 million, \$53.3 million and \$56.5 million, respectively.

### ***Share-Based Compensation***

Certain of our employees have received share-based compensation under certain compensation programs. Our compensation expense reflects the fair value method of accounting for share-based payments under ASC Subtopic 718-10, *Compensation-Stock Compensation*. ASC Subtopic 718-10 requires measurement of compensation cost for equity-based awards at fair value and recognition of compensation cost over the service period, net of estimated forfeitures. The fair value of MSCI restricted stock units is determined based on the number of units granted and the grant date fair value of MSCI common stock, measured as the closing price on the date of grant. The fair value of MSCI stock options is determined using the Black-Scholes valuation model



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and the single grant life method. Under the single grant life method, option awards with graded vesting are valued using a single weighted-average expected option life. Compensation for all stock-based payment awards is recognized using the graded vesting attribution method. MSCI reserved approximately 4.3 million class A common shares for outstanding vested and unvested stock options and unvested restricted stock awards assumed as part of the acquisition of RiskMetrics on June 1, 2010. The fair values of stock options assumed were estimated using a Hull-White Lattice option-pricing model. The Hull-White model is commonly used for estimating the fair value of in-the-money and out-of-the-money options, as it explicitly models the exercise behavior of option holders considering the amount by which each such grant is in- or out-of-the-money. The major assumptions utilized are the stock price, the remaining contractual term, the remaining time to vest, forfeiture behavior, dividend yield, the risk-free interest rate, expected volatility and the early exercise multiple.

Based on interpretive guidance related to Stock Compensation, our policy is to accrue the estimated cost of share-based awards that were granted to retirement-eligible employees over the course of the current year rather than expensing the awards on the date of grant.

**Allowance for Doubtful Accounts**

An allowance for doubtful accounts is recorded when it is probable and estimable that a receivable will not be collected. The allowance for doubtful accounts was approximately \$1.0 million at November 30, 2010, \$0.8 million at November 30, 2009, and \$0.7 million at November 30, 2008. Changes in the allowance for doubtful accounts from November 30, 2008 to November 30, 2010 were as follows:

	<b>Amount (in thousands)</b>
Balance as of December 1, 2007	\$ 1,584
Recovery of bad debt	(817)
Amounts written off	(55)
Balance as of November 30, 2008	\$ 712
Addition to provision	977
Amounts written off	(842)
Balance as of November 30, 2009	847
Addition to provision <sup>(1)</sup>	931
Amounts written off	(765)
Balance as of November 30, 2010	\$ 1,013

(1) Includes an allowance of \$0.3 million assumed upon the acquisition of RiskMetrics on June 1, 2010.

**Tax Contingencies**

Prior to May 2, 2008, we were a member of the Morgan Stanley consolidated group and our taxable income was included in the consolidated U.S. federal income tax return of Morgan Stanley as well as in returns filed by Morgan Stanley with certain state and local taxing jurisdictions. After May 2, 2008, upon the disposition by Morgan Stanley of a portion of its equity interest in us, we were no longer eligible to join in the filing of a consolidated federal income tax return with Morgan Stanley. We have filed and will continue to file our consolidated U.S. federal income tax return as a taxable group separate from Morgan Stanley. Our foreign income tax returns have been filed on a separate company basis. Our federal and foreign income tax liability has been computed and presented in the consolidated financial statements as if we were a separate taxpaying entity in the periods presented. The state and local liability presented in these statements reflects the fact that we are included in certain filings of Morgan Stanley through May 22, 2009, the date on which Morgan Stanley disposed of its remaining equity interest in us, and that our tax liability is affected by the attributions of the Morgan Stanley group. We continued to file certain state income tax returns with Morgan Stanley on a consolidated,

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combined, or unitary basis under applicable state law through May 22, 2009. After May 22, 2009, we were no longer eligible for inclusion in any state or local consolidated, combined, or unitary return filed by Morgan Stanley and, from that date forward, we have been filing the relevant state income tax returns as a separate taxable group.

Although management believes that the judgments and estimates discussed in this Annual Report on Form 10-K are reasonable, actual results could differ, and we may be exposed to losses or gains that could be material. We regularly assess the likelihood of additional assessments in each of the taxing jurisdictions in which we are required to file income tax returns. We have recorded additional tax expense related to open tax years, which we believe is adequate in relation to the potential for assessments. These amounts have been recorded in other non-current liabilities on the Consolidated Statement of Financial Condition. We believe the resolution of tax matters will not have a material effect on our consolidated financial condition. However, to the extent we are required to pay amounts in excess of our reserves, a resolution could have a material impact on our consolidated statement of income for a particular future period. In addition, an unfavorable tax settlement could require use of our cash and result in an increase in our effective tax rate in the period in which such resolution occurs.

### ***Goodwill***

Goodwill is recorded as part of our acquisitions of businesses when the purchase price exceeds the fair value of the net tangible and separately identifiable intangible assets acquired. The carrying amount of our goodwill is \$1,706.7 million primarily relating to the acquisitions of Barra, RiskMetrics and Measurisk. The goodwill is not amortized, but rather is subject to an impairment test each year, or more often if conditions indicate impairment may have occurred, pursuant to ASC Topic 350, *Goodwill and Other Intangible*. For the years ended November 30, 2010, 2009 and 2008, goodwill impairment was determined by comparing the fair value of the reporting unit with its book value. If the estimated fair value exceeds the book value, goodwill is not deemed to be impaired. If the estimated fair value is below book value, however, further analysis is required to determine the amount of the impairment. As the acquisitions of RiskMetrics and Measurisk occurred during the year ended November 30, 2010, no impairment test was performed related to the goodwill associated with these acquisitions. The fair value of the reporting units exceeded the book value in the years ended November 30, 2010, 2009 and 2008 and, as a result, no impairment of the goodwill was recorded.

### ***Intangible Assets***

Intangible assets consist of those definite-lived intangibles from the acquisitions of Barra in June 2004, RiskMetrics in June 2010 and Measurisk in July 2010. The Company amortizes definite-lived intangible assets over their estimated useful lives. Definite-lived intangible assets are tested for impairment annually or when impairment indicators are present, and, if impaired, written down to fair value based on either discounted cash flows or appraised values. No impairment of intangible assets has been identified during any of the periods presented. The Company has no indefinite-lived intangibles. The intangible assets have useful lives ranging from one to 20 years.

### ***Accrued Compensation***

We make significant estimates in determining our accrued non-stock based compensation and benefits expenses. A significant portion of our employee incentive compensation programs are discretionary. Each year end we determine the amount of discretionary cash bonus pools. We also review compensation and benefits expenses throughout the year to determine how overall performance compares to management's expectations. We take these and other factors, including historical performance, into account in reviewing accrued discretionary cash compensation estimates quarterly and adjusting accrual rates as appropriate. Changes to these factors could cause a material increase or decrease in the amount of expense that we report in a particular period. Accrued non stock-based compensation and related benefits as of November 30, 2010 was \$93.4 million.

**Table of Contents****Factors Affecting the Comparability of Results**

The results of RiskMetrics and Measurisk were not included in our results of operations until their acquisition dates of June 1, 2010 and July 30, 2010, respectively. The RiskMetrics acquisition has had a significant impact on our results of operations and will affect the comparability of our results in the future.

*Restructuring*

In connection with the acquisition of RiskMetrics, we initiated a plan to restructure the Company's operations to eliminate overlapping positions and duplicative occupancy costs, terminate overlapping vendor contracts, and discontinue the planned integration of a product into RiskMetrics standard product offering suite. We initiated restructuring activities during the third quarter of 2010 and expect the elimination of overlapping positions to be substantially complete by the end of the first quarter of 2011 and the elimination of leases or vendor contracts is anticipated to be completed over the next 13 months. See [Restructuring](#) below for information on restructuring-related activities and estimated costs.

The cumulative charges that we expect to incur in connection with the restructuring are subject to a number of assumptions, and actual results may differ significantly. We may also incur other charges not currently contemplated due to events that may occur as a result of, or associated with, the restructuring.

**Results of Operations***Year Ended November 30, 2010 Compared to Year Ended November 30, 2009*

	For the Years Ended November 30,		Increase/(Decrease)	
	2010	2009		
	(in thousands, except per share data)			
Operating revenues	\$ 662,901	\$ 442,948	\$ 219,953	49.7%
Operating expenses:				
Cost of services	198,626	118,665	79,961	67.4%
Selling, general and administrative	190,244	135,780	54,464	40.1%
Restructuring	8,896		8,896	n/a
Amortization of intangible assets	41,599	25,554	16,045	62.8%
Depreciation and amortization of property, equipment and leasehold improvements	17,413	11,957	5,456	45.6%
Total operating expenses	456,778	291,956	164,822	56.5%
Operating income	206,123	150,992	55,131	36.5%
Other expense, net	52,632	19,271	33,361	173.1%
Provision for income taxes	61,321	49,920	11,401	22.8%
Net income	\$ 92,170	\$ 81,801	\$ 10,369	12.7%
Earnings per basic common share	\$ 0.82	\$ 0.80	\$ 0.02	2.5%
Earnings per diluted common share	\$ 0.81	\$ 0.80	\$ 0.01	1.3%
Operating margin	31.1%	34.1%		

**Table of Contents****Operating Revenues**

	For the Years Ended November 30,		Increase/(Decrease)	
	2010	2009		
	(in thousands)			
<b>Index and ESG:</b>				
Subscriptions	\$ 224,600	\$ 188,531	\$ 36,069	19.1%
Asset based fees	105,799	71,966	33,833	47.0%
<b>Total index and ESG</b>	<b>330,399</b>	<b>260,497</b>	<b>69,902</b>	<b>26.8%</b>
Risk management analytics	134,521	37,656	96,865	257.2%
Portfolio management analytics	123,159	129,270	(6,111)	(4.7%)
Energy & commodity analytics	16,228	15,525	703	4.5%
Governance	58,594		58,594	n/a
<b>Total operating revenues</b>	<b>\$ 662,901</b>	<b>\$ 442,948</b>	<b>\$ 219,953</b>	<b>49.7%</b>

Total operating revenues for the year ended November 30, 2010 increased \$220.0 million, or 49.7%, to \$662.9 million compared to \$442.9 million for the year ended November 30, 2009. Approximately \$156.7 million of the growth was comprised of revenues contributed by the acquisitions made during the year ended November 30, 2010. The remaining \$63.2 million of growth was comprised of increases in asset based fees and subscription revenues of \$33.8 million and \$29.4 million, respectively. Subscription revenues consist of our revenues related to index and ESG subscriptions, risk management analytics, portfolio management analytics, energy and commodity analytics and governance products. Our revenues are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Had the U.S. dollar not strengthened relative to exchange rates at the beginning of the year, our revenues for the year ended November 30, 2010 would have been higher by \$8.6 million.

Our index and ESG products primarily consist of equity index subscriptions, equity index asset based fees products and ESG products. Revenues related to index and ESG products increased \$69.9 million, or 26.8%, to \$330.4 million for the year ended November 30, 2010 compared to \$260.5 million in the same period in 2009.

Revenues from the index and ESG subscriptions sub-category were up \$36.1 million, or 19.1%, to \$224.6 million for the year ended November 30, 2010 compared to \$188.5 million in the same period in 2009. Approximately \$9.3 million of the growth was comprised of revenues contributed by the acquisitions made during the year ended November 30, 2010. The remaining \$26.8 million was attributable to growth primarily in our core benchmark indices.

Revenues attributable to the index asset based fees products sub-category increased \$33.8 million, or 47.0%, to \$105.8 million for the year ended November 30, 2010 compared to \$72.0 million in the same period in 2009. The growth was primarily attributable to the growth in the average value of assets in ETFs linked to MSCI equity indices. The average value of assets in ETFs linked to MSCI equity indices in the aggregate increased 58.7% to \$261.1 billion for the year ended November 30, 2010 compared to \$164.6 billion for the year ended November 30, 2009. As of November 30, 2010, the value of assets in ETFs linked to MSCI equity indices was \$311.0 billion, representing an increase of 32.8% from \$234.2 billion as of November 30, 2009.

The three MSCI indices with the largest amount of ETF assets linked to them as of November 30, 2010 were the MSCI Emerging Markets, EAFE and U.S. Broad Market Indices with \$102.7 billion, \$39.4 billion and \$15.6 billion in assets, respectively.

To conform to industry standards, we have changed our ETF assets under management calculation methodology from ETF price multiplied by the number of shares outstanding to ETF net asset value multiplied by the number of shares outstanding. The cash inflow/outflow figures are based on the change in the shares

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outstanding between the periods. The numbers in the tables are presented on this basis beginning with the February 2010 quarter. Periods prior to the February 2010 quarter have not been restated and are therefore not comparable. The following table sets forth the value of assets in ETFs linked to MSCI indices and the sequential change of such assets as of the periods indicated:

	Quarter Ended							
	2010			2009				
	November 30,	August 31,	May 31,	February 28,	November 30,	August 31,	May 31,	February 28,
	(amounts in billions)							
AUM in ETFs linked to MSCI Indices	\$ 311.0	\$ 258.7	\$ 238.1	\$ 233.5	\$ 234.2	\$ 199.2	\$ 175.9	\$ 107.8
Sequential Change in Value								
Market Appreciation/(Depreciation)	\$ 28.2	\$ 6.8	\$ (4.4)	\$ (8.6)	\$ 18.0	\$ 20.1	\$ 42.2	\$ (13.6)
Cash Inflow/(Outflow)	24.1	13.8	9.0	8.3	17.0	3.2	25.9	2.4
Total Change	\$ 52.3	\$ 20.6	\$ 4.6	\$ (0.3)	\$ 35.0	\$ 23.3	\$ 68.1	\$ (11.2)

Source: Bloomberg and MSCI

The following table sets forth the average value of assets in ETFs linked to MSCI indices for the quarters ended in the months indicated:

	Quarterly Average							
	2010			2009				
	November 30,	August 31,	May 31,	February 28,	November 30,	August 31,	May 31,	February 28,
	(amounts in billions)							
AUM in ETFs linked to MSCI Indices	\$ 300.7	\$ 252.0	\$ 252.3	\$ 239.3	\$ 216.8	\$ 180.3	\$ 134.7	\$ 126.4

Source: Bloomberg and MSCI

The historical values of the assets in ETFs linked to our indices 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 Indices](http://ir.msci.com) on our website at <http://ir.msci.com>. Information contained on our website is not incorporated by reference into this Annual Report on Form 10-K or any other report filed with the SEC.

Revenues related to risk management analytics products increased \$96.9 million, or 257.2%, to \$134.5 million for the year ended November 30, 2010 compared to \$37.7 million in the same period in 2009. Approximately \$88.9 million of the growth was comprised of revenues contributed by the acquisitions made during the year ended November 30, 2010. The remaining \$8.0 million of organic growth primarily reflects an increase of \$8.4 million, or 28.9%, to \$37.3 million in BarraOne and an increase of \$0.6 million, or 26.5%, to \$2.7 million in our performance attribution analytics product, partially offset by a decrease of \$0.9 million, or 14.2%, to \$5.7 million in TotalRisk as we continue to decommission and transition customers to BarraOne.

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 \$6.1 million, or 4.7%, to \$123.2 million for the year ended November 30, 2010 compared to \$129.3 million in the same period in 2009. Within the portfolio management analytics products, equity portfolio analytics tools decreased \$5.3 million to \$117.9 and fixed income analytics tools decreased \$0.8 million to \$5.3 million.

Our energy and commodity analytics products consist 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 from energy and commodity analytics products increased \$0.7 million, or 4.5%, to \$16.2 million for the year ended November 30, 2010 compared to \$15.5 million in the same period in 2009.



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Our governance products consist of institutional governance including proxy research, recommendation and voting services, corporate governance including advisory and compensation services and Financial Research and Analysis ( FRA ) services including forensic accounting research and services to aid institutional investors in the recovery of funds from securities litigation. For the year ended November 30, 2010, our governance products contributed \$58.6 million to our revenues. The governance product line was acquired with our purchase of RiskMetrics on June 1, 2010 and had no effect on our results of operations prior to that date.

**Operating Expenses**

Operating expenses increased \$164.8 million, or 56.5%, to \$456.8 million for the year ended November 30, 2010 compared to \$292.0 million in the same period in 2009. Approximately \$134.7 million of the increase was comprised of expenses contributed by the acquisitions made during the year ended November 30, 2010. The remaining \$30.1 million increase primarily reflects \$21.2 million in transaction costs associated with the acquisition of RiskMetrics, higher compensation and non-compensation costs, expenses we incurred in the year ended November 30, 2010 to restructure our operations after our acquisition of RiskMetrics and higher depreciation expense partially offset by reduced amortization of our intangible assets associated with the Barra acquisition. Our operating expenses are impacted by changes in exchange rates primarily as they relate to the U.S. dollar. Using exchange rates for the same period of the prior year, our operating expense in the year ended November 30, 2010 would have been higher by \$5.9 million had the U.S. dollar not strengthened relative to the prior year.

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

	<b>Years Ended November 30,</b>		<b>Increase/(Decrease)</b>	
	<b>2010</b>	<b>2009</b>		
	<b>(in thousands)</b>			
<b>Cost of services:</b>				
Compensation and benefits	\$ 147,124	\$ 87,672	\$ 59,452	67.8%
Non-compensation expenses	51,502	30,993	20,509	66.2%
<b>Total cost of services</b>	<b>198,626</b>	<b>118,665</b>	<b>79,961</b>	<b>67.4%</b>
<b>Selling, general and administrative:</b>				
Compensation and benefits	109,871	92,798	17,073	18.4%
Non-compensation expenses	80,373	42,982	37,391	87.0%
<b>Total selling, general and administrative</b>	<b>190,244</b>	<b>135,780</b>	<b>54,464</b>	<b>40.1%</b>
Restructuring	8,896		8,896	n/a
Amortization of intangible assets	41,599	25,554	16,045	62.8%
Depreciation of property, equipment and leasehold improvements	17,413	11,957	5,456	45.6%
<b>Total operating expenses</b>	<b>\$ 456,778</b>	<b>\$ 291,956</b>		