MSCI Inc.
Form 10-Q
August 03, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-33812

MSCI INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	13-4038723
(State of Incorporation)	(I.R.S. Employer Identification Number)
7 World Trade Center	
250 Greenwich Street, 49th Floor	
New York, New York	10007

(Address of Principal Executive Offices) (Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 27, 2018, there were 88,832,899 shares of the registrant's common stock, par value $0.01, outstanding.

MSCI INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2018

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AVAILABLE INFORMATION

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

MSCI Inc.'s website is www.msci.com. You can access MSCI Inc.'s Investor Relations homepage at http://ir.msci.com. MSCI Inc. makes available free of charge, on or through its Investor Relations homepage, its proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. MSCI Inc. also makes available, through its Investor Relations homepage, via a link to the SEC's website, statements of beneficial ownership of MSCI Inc.'s equity securities filed by its directors, officers, 5% or greater shareholders and others under Section 16 of the Exchange Act.

You can access information about MSCI Inc.'s corporate governance at http://ir.msci.com/corporate-governance.cfm, including copies of the following:

- Charters for MSCI Inc.'s Audit Committee, Compensation and Talent Management Committee, Nominating and Corporate Governance Committee and Strategy and Finance Committee;
- Corporate Governance Policies;
- Procedures for Submission of Ethical or Accounting Related Complaints; and
- Code of Ethics and Business Conduct.

MSCI Inc.'s Code of Ethics and Business Conduct applies to all directors, officers and employees, including its Chief Executive Officer and its Chief Financial Officer. MSCI Inc. will post any amendments to the Code of Ethics and Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange LLC on its website. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, MSCI Inc., 7 World Trade Center, 250 Greenwich Street, 49th Floor, New York, NY 10007; (212) 804-3986. The information on MSCI Inc.'s website is not incorporated by reference into this report or any other report filed or furnished by us with the SEC.

FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to future events or to future financial performance and involve known and unknown risks, uncertainties and other factors that may cause MSCI Inc.'s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as "may," "could," "expect," "intend," "plan," "seek," "anticipate," "belie "estimate," "predict," "potential" or "continue," or the negative of these terms or other comparable terminology. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond MSCI Inc.'s control and that could materially affect MSCI Inc.'s actual results, levels of activity, performance or achievements.

Other factors that could materially affect actual results, levels of activity, performance or achievements can be found in MSCI Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on February 26, 2018 and in quarterly reports on Form 10-Q and current reports on Form 8-K filed or furnished with the SEC. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what MSCI Inc. projected. Any forward-looking statement in this report reflects MSCI Inc.'s current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to MSCI Inc.'s operations, results of operations, growth strategy and liquidity. MSCI Inc. assumes no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise, except as required by law.

WEBSITE AND SOCIAL MEDIA DISCLOSURE

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

PART I

Item 1. Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except per share and share data)

	As of June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,367,596	$ 889,502
Accounts receivable (net of allowances of $1,731 and $1,700 at June 30, 2018 and December 31, 2017, respectively)	394,886	327,597
Prepaid income taxes	23,636	15,103
Prepaid and other assets	33,373	34,927
Total current assets	1,819,491	1,267,129
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $182,978 and $171,280 at June 30, 2018 and December 31, 2017, respectively)	81,000	94,437
Goodwill	1,556,353	1,560,621
Intangible assets (net of accumulated amortization of $524,355 and $507,612 at June 30, 2018 and December 31, 2017, respectively)	298,966	321,836
Deferred tax assets	11,666	12,013
Other non-current assets	18,327	19,632
Total assets	$ 3,785,803	$ 3,275,668
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,237	$ 1,612
Income taxes payable	21,693	14,828
Accrued compensation and related benefits	77,681	131,156
Other accrued liabilities	101,842	85,710
Deferred revenue	483,229	374,365
Total current liabilities	685,682	607,671
Long-term debt	2,573,730	2,078,093
Deferred taxes	73,549	78,027

Other non-current liabilities	106,420	110,865
Total liabilities	3,439,381	2,874,656
Commitments and Contingencies (see Note 7 and Note 8)		
Shareholders' equity:		
Preferred stock (par value $0.01, 100,000,000 share authorized; no shares issued)	—	—
Common stock (par value $0.01; 750,000,000 common shares authorized; 129,978,881 and 129,543,856 common shares issued and 88,832,899 and 90,104,885 common shares outstanding at June 30, 2018 and December 31, 2017, respectively)	1,300	1,295
Treasury shares, at cost (41,145,982 and 39,438,971 common shares held at June 30, 2018 and December 31, 2017, respectively)	(2,569,528)	(2,321,989)
Additional paid in capital	1,285,375	1,264,849
Retained earnings	1,684,158	1,505,204
Accumulated other comprehensive loss	(54,883)	(48,347)
Total shareholders' equity	346,422	401,012
Total liabilities and shareholders' equity	$3,785,803	$3,275,668

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(unaudited)			
Operating revenues	$363,046	$316,089	$714,362	$617,296
Operating expenses:				
Cost of revenues	71,368	68,538	142,672	136,001
Selling and marketing	47,416	41,550	93,825	84,522
Research and development	19,801	18,196	40,508	37,166
General and administrative	24,036	21,424	50,223	42,405
Amortization of intangible assets	19,537	11,122	30,875	22,373
Depreciation and amortization of property, equipment and leasehold improvements	7,377	9,159	15,582	17,997
Total operating expenses	189,535	169,989	373,685	340,464
Operating income	173,511	146,100	340,677	276,832
Interest income	(4,281)	(1,310)	(7,051)	(2,242)
Interest expense	31,761	29,027	61,321	58,051
Other expense (income)	(10,292)	872	(9,354)	1,887
Other expense (income), net	17,188	28,589	44,916	57,696
Income before provision for income taxes	156,323	117,511	295,761	219,136
Provision for income taxes	39,494	36,245	63,840	64,919
Net income	$116,829	$81,266	$231,921	$154,217
Earnings per basic common share	$1.31	$0.90	$2.59	$1.70
Earnings per diluted common share	$1.28	$0.89	$2.52	$1.68
Weighted average shares outstanding used in computing earnings per share				
Basic	89,112	90,404	89,591	90,555
Diluted	91,586	91,708	92,084	91,665
Dividend declared per common share	$0.38	$0.28	$0.76	$0.56

See Notes to Unaudited Condensed Consolidated Financial Statements

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MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(unaudited)			
Net income	$116,829	$81,266	$231,921	$154,217
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(12,484)	4,963	(8,522)	7,904
Income tax effect	—	—	—	—
Foreign currency translation adjustments, net	(12,484)	4,963	(8,522)	7,904
Pension and other post-retirement adjustments	194	(175)	94	(274)
Income tax effect	(72)	(297)	(45)	(260)
Pension and other post-retirement adjustments, net	122	(472)	49	(534)
Net investment hedge adjustments	1,814	—	1,937	—
Income tax effect	—	—	—	—
Net investment hedge adjustments, net	1,814	—	1,937	—
Other comprehensive (loss) income, net of tax	(10,548)	4,491	(6,536)	7,370
Comprehensive income	$106,281	$85,757	$225,385	$161,587

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended June 30,	
	2018	2017
	(unaudited)	
Cash flows from operating activities		
Net income	$231,921	$154,217
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	30,875	22,373
Stock-based compensation expense	18,072	18,737
Depreciation and amortization of property, equipment and leasehold improvements	15,582	17,997
Amortization of debt origination fees	1,744	1,698
Deferred taxes	(4,280)	(7,080)
Gain on disposition of subsidiary, net of costs	(12,045)	—
Other non-cash adjustments	196	(464)
Changes in assets and liabilities:		
Accounts receivable	(71,551)	(66,661)
Prepaid income taxes	(8,450)	(4,157)
Prepaid and other assets	3,186	2,918
Accounts payable	(365)	(247)
Accrued compensation and related benefits	(52,093)	(48,366)
Income taxes payable	2,550	—
Other accrued liabilities	17,743	(1,862)
Deferred revenue	126,167	63,618
Other	(3,490)	6,511
Net cash provided by operating activities	295,762	159,232
Cash flows from investing activities		
Capital expenditures	(4,479)	(11,051)
Capitalized software development costs	(8,598)	(5,613)
Proceeds from the sale of capital equipment	10	—
Dispositions	21,000	—
Proceeds from sale of investments	—	771
Net cash provided by (used in) investing activities	7,933	(15,893)
Cash flows from financing activities		
Proceeds from exercise of stock options	119	1,273
Repurchase of treasury shares	(246,700)	(140,977)
Payment of dividends	(68,799)	(50,920)
Proceeds from borrowings	500,000	—
Payment of debt issuance costs	(6,262)	—
Net cash provided by (used in) financing activities	178,358	(190,624)
Effect of exchange rate changes	(3,959)	6,032

Net increase (decrease) in cash	478,094	(41,253)
Cash and cash equivalent, beginning of period	889,502	791,834
Cash and cash equivalent, end of period	$1,367,596	$750,581
Supplemental disclosure of cash flow information:		
Cash paid for interest	$56,372	$56,157
Cash paid for income taxes	$73,495	$71,246
Supplemental disclosure of non-cash investing activities		
Property, equipment and leasehold improvements accrued, but not yet paid	$2,979	$3,765
Supplemental disclosure of non-cash financing activities		
Cash dividends declared, but not yet paid	$708	$535

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. INTRODUCTION AND BASIS OF PRESENTATION

MSCI Inc., together with its wholly-owned subsidiaries (the "Company" or "MSCI"), provides mission-critical investment decision support tools, including indexes; portfolio construction and risk management products and services; Environmental, Social and Governance ("ESG") research and ratings; and real estate research, reporting and benchmarking offerings. MSCI's research-derived intellectual property includes methodologies, models, derived data and algorithms, as well as applications and services, which help its clients manage their investment processes and address their investment, risk and regulatory challenges.

Basis of Presentation and Use of Estimates

These unaudited condensed consolidated financial statements include the accounts of MSCI Inc. and its subsidiaries and include all adjustments of a normal, recurring nature necessary to state fairly the financial condition as of June 30, 2018 and December 31, 2017, the results of operations and comprehensive income for the three and six months ended June 30, 2018 and 2017 and cash flows for the six months ended June 30, 2018 and 2017. The unaudited condensed consolidated statement of financial condition and related financial statement information as of December 31, 2017 have been derived from the 2017 audited consolidated financial statements but do not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in MSCI's Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for interim periods are not necessarily indicative of results for the entire year.

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

Certain prior period amounts have been reclassified to conform to the current period presentation.

Concentrations

For the six months ended June 30, 2018 and 2017, BlackRock, Inc. accounted for 12.6% and 10.7% of the Company's consolidated operating revenues, respectively. For the six months ended June 30, 2018 and 2017, BlackRock, Inc. accounted for 21.3% and 19.0% of the Index segment operating revenues, respectively. No single customer represented 10.0% or more of revenues within the Analytics and All Other segments for the six months ended June 30, 2018 and 2017.

2. RECENT ACCOUNTING STANDARDS UPDATES

In May 2014, the FASB issued Accounting Standards Update 2014-09, “Revenue from Contracts with Customers (Topic 606),” or ASU 2014-09. The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities had the option of adopting ASU 2014-09 retrospectively to each prior period presented, or retrospectively with a cumulative-effect adjustment recognized as of the date of initial application (the “Modified Retrospective Approach”).

In March 2016, the FASB issued Accounting Standards Update 2016-08, “Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net).” In April 2016, the FASB issued Accounting Standards Update 2016-10, “Identifying Performance Obligations and Licensing.” In May 2016, the FASB issued Accounting Standards Update 2016-12, “Narrow-Scope Improvements and Practical Expedients.” In December 2016, the FASB issued Accounting Standards Update No. 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.” These updates provide supplemental adoption guidance and clarification to ASU 2014-09 and must be adopted concurrently. The Company adopted the new revenue standard as of January 1, 2018 using the Modified Retrospective Approach. See Note 3, “Revenue Recognition” of the Notes to the Unaudited Condensed Consolidated Financial Statements included herein for further information regarding revenue recognition.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases (Topic 842),” or ASU 2016-02. The FASB issued ASU 2016-02 in order to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. To meet that objective, the FASB amended the FASB Accounting Standards Codification and created Topic 842, Leases. ASU 2016-02 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2018, with early adoption permitted. ASU 2016-02 requires reporting organizations to take a modified retrospective transition approach (as opposed to a full retrospective transition approach). The Company has reached a decision as to what system it will use to manage the accounting for leases, determined the contracts that would be considered as leases under the new guidance and is currently in the process of implementing the system and establishing the appropriate controls and procedures. The Company is continuing to evaluate the potential impact that ASU 2016-02 will have on its condensed consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” or ASU 2016-13. The amendments in ASU 2016-13 introduce an approach based on expected losses to estimate credit losses on certain types of financial instruments, modify the impairment model for available-for-sale debt securities and provide for a simplified accounting model for purchased financial assets with credit deterioration since their origination. ASU 2016-13 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2019, with early adoption permitted beginning after December 15, 2018. The adoption of ASU 2016-13 is not expected to have a material effect on the Company’s condensed consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” or ASU 2017-01. The amendments in ASU 2017-01 provide a screen to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. Under ASU 2017-01, an entity first determines whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set is not a business. If it’s not met, the entity then evaluates whether the set meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. ASU 2017-01 also narrows the definition of outputs by more closely aligning it with how outputs are described in Topic 606. The adoption of ASU 2017-01 did not have a material effect on the Company’s condensed consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” or ASU 2017-04. The amendments in ASU 2017-04 simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities. Instead, under the amendments in ASU 2017-04, an entity performs its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value, but not more than the total amount of goodwill allocated to the reporting unit. ASU 2017-04 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2019, with early adoption permitted. The adoption of ASU 2017-04 is not expected to have a material effect on the Company’s condensed consolidated financial statements.

In February 2017, the FASB issued Accounting Standards Update No. 2017-07, “Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” or ASU 2017-07. The FASB issued ASU 2017-07 in order to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. ASU 2017-07 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017, with early adoption permitted. Entities should apply these amendments retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. As a result of the adoption of ASU 2017-07, the Company has restated the Condensed Consolidated Statement of Income for the three months ended June 30, 2017 and the six months ended June 30, 2017 by reclassifying $0.1 million and $0.3 million, respectively, of non-service related pension costs from "Operating Expenses" to "Other expense (income)."

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, "Compensation—Stock Compensation (Topic 718), Scope of Modification Accounting," or ASU 2017-09. The FASB issued ASU 2017-09 in order to reduce the diversity in practice, as well as the cost and complexity when applying the guidance in Topic 718, "Compensation—Stock Compensation," to a change to the terms or conditions of a share-based payment award. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718, "Compensation—Stock Compensation." ASU 2017-09 provides that an entity shall account for the effects of a modification of the terms or conditions of an equity award as an exchange of the original award for a new award, unless the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used), the vesting conditions and the classification of the modified award are the same as the original award immediately before the award is modified. ASU 2017-09 requires reporting organizations to apply the amendments prospectively to an award modified on or after the adoption date. The adoption of ASU 2017-09 did not have a material effect on the Company's condensed consolidated financial statements.

In August 2017, the FASB issued Accounting Standards Update ("ASU") No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," or ASU 2017-12. The FASB issued ASU 2017-12 in order to expand and refine hedge accounting for both financial and non-financial risk components and align the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements. ASU 2017-12 also includes certain targeted improvements to simplify the application of current guidance related to the assessment of hedge accounting. ASU 2017-12 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2018, with early adoption permitted. The adoption of ASU 2017-12 is not expected to have a material effect on the Company's condensed consolidated financial statements.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation, the Tax Cuts and Jobs Act ("Tax Reform"). Given the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act," ("SAB 118"), which allows registrants to record provisional amounts during a one year "measurement period" similar to that used when accounting for business combinations. However, the measurement period is deemed to have ended earlier when the registrant has obtained, prepared, and analyzed the information necessary to finalize its accounting. During the measurement period, registrants are required to record in their financial statements their reasonable estimates of the impact of Tax Reform that can be determined at the time they issue their financial statements, and provisional amounts can be recognized and adjusted as information becomes available, prepared, or analyzed. SAB 118 summarizes a three-step process to be applied at each reporting period to account for and qualitatively disclose: (1) the impact of Tax Reform for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the impact of Tax Reform where accounting is not complete, but that a reasonable estimate has been determined; and (3) a reasonable estimate cannot yet be made and therefore taxes are reflected in accordance with the law in effect prior to the enactment of Tax Reform. The Company adopted SAB 118 in the year ended December 31, 2017 and has made the relevant disclosures herein. See Note 9, "Income Taxes," for additional information.

In June 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," or ASU 2018-07. The FASB issued ASU 2018-07 in order to align the accounting for share-based payment awards issued to non-employees with the accounting for share-based payment awards issued to employees. ASU 2018-07 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2018, with early adoption permitted. The adoption of ASU 2018-07 is not expected to have a material effect on the Company's condensed consolidated financial statements.

3. REVENUE RECOGNITION

MSCI adopted the new revenue standard set forth under Accounting Standards Codification Topic 606 "Revenue from Contracts with Customers," or ASC 606, as of January 1, 2018 using the Modified Retrospective Approach and an adjustment was recorded within the Unaudited Condensed Consolidated Statement of Financial Condition as of January 1, 2018. The adoption resulted in more revenue being recognized upfront or earlier in the life of new client contracts for certain of the Company's products and services, including fees related to the licensing of certain desktop applications, implementation services as they relate to the Company's hosted applications and set-up fees as they relate to the Company's custom indexes. The new revenue standard also has the impact of ratable revenue recognition as it relates to multi-year deals. The adoption of the standard also resulted in higher accounts receivable and deferred revenue balances. Under the old revenue standard, MSCI generally recorded the value of an invoice to accounts receivable and deferred revenue once the service period began. Under the new revenue standard, MSCI records accounts receivable and a corresponding offset to deferred revenue when an invoice is issued for a contract that is non-cancellable by the client and non-refundable because MSCI has an unconditional right to the consideration.

Products and Services

MSCI generally licenses annual, recurring subscriptions for the majority of its Index, Analytics and ESG products and services for a fee due in advance of the service period. MSCI's contracts are typically non-cancellable by the client and non-refundable for the term of the agreement. Fees may vary based on a number of factors including by product or service, number of users or volume of services. MSCI's client contracts do not have a financing component and the consideration received is typically not variable except as noted below.

MSCI also charges clients to use its indexes as the basis for index-linked investment products, such as ETFs, passively managed funds and separate accounts. These clients commonly pay MSCI a license fee, typically in arrears, primarily based on the assets under management ("AUM") in their investment products. These fees are variable and fall within the sales-based and royalty-based exception.

Certain exchanges use MSCI's indexes as the basis for futures and options contracts and pay MSCI a license fee, typically in arrears, primarily based on the volume of trades or number of instruments. These fees are variable and fall within the sales-based and royalty-based exception.

Clients of MSCI's Real Estate products subscribe to periodic benchmark reports, digests, market information and other publications. Fees are primarily paid in arrears after the product is delivered, with the exception of the Market Information product which is generally paid in advance.

MSCI also realizes one-time fees commonly related to customized reports, historical data sets, certain derivative financial products and certain implementation and consulting services, as well as from particular products and services that are purchased on a non-renewal basis.

Accounting policy

The following describes MSCI's primary types of revenues and the applicable revenue recognition policies. The Company's revenues are primarily derived from the licensing of products and services and revenue is recognized when control of the promised goods or services is transferred to MSCI's customers, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Revenue is recognized when the parties to the contract have legally enforceable obligations and are committed to performing their respective obligations, the Company can identify each party's rights regarding the goods or services to be provided, the Company can identify the payment terms for the goods or services to be provided, the contract has commercial substance and it is probable that the Company will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be provided to the customer. Revenue is recognized exclusive of any applicable sales or other indirect tax withholdings.

For products within MSCI's Index segment, with respect to index data subscriptions, MSCI's performance obligation to deliver the data is satisfied over time and, accordingly, revenue is recognized ratably over the term of the agreement. With respect to licenses to create index-linked investment products, MSCI's performance obligation allows customers to use the Company's intellectual property (i.e., the indexes) as the basis of the funds or other investment products the customers create over the term of the agreement. The fees earned for these rights are typically variable, in which case they are accrued under the sales and usage-based royalty exception pursuant to the level of performance achieved, which is measured based on AUM, volume of trades or other factors. The level of performance achieved is based on information obtained from independent third-party sources or best estimates from the most recently reported information from the client. Set-up fees associated with the creation of MSCI's custom indexes are satisfied and revenue recognized at the point in time at which the setup is complete.

For products within MSCI's Analytics segment, MSCI's performance obligations include providing access to its proprietary models or hosted applications and, in some cases, delivery of managed services, which are all satisfied over time, and accordingly, revenue is recognized ratably over the term of the agreement. For implementation services, MSCI meets its performance obligation once the service is complete and is available for the client to use and revenue is recognized at the point in time in which the completion has occurred. With respect to software licenses for the Company's energy and commodity analytics products, MSCI's performance obligation is partially satisfied and revenue recognized at the point in time when the software's code key is delivered to the customer, which based upon a fair value assessment, represents approximately 82.0% of the contract value. MSCI's remaining performance obligations are the post contractual support services and revenue is recognized evenly over the course of the license term, which based on a fair value assessment, represents approximately 18.0% of the value of the software. As of April 9, 2018, MSCI divested Financial Engineering Associates, Inc. ("FEA") and the related energy and commodity analytics product line. See Note 11, "Dispositions," for further details.

For products within the All Other segment, MSCI's performance obligations under the Company's ESG products are satisfied over time for the majority of the data subscriptions as MSCI provides and updates the data to the customer throughout the term of the agreement and revenue is recognized ratably over the term of the agreement. For custom ESG research data, the performance obligation is complete, and revenue recognized, at the point in time that the data is updated and available to the customer. With respect to the Company's Real Estate products, MSCI primarily satisfies its performance obligations, and revenue is recognized, at the point in time when the Company delivers reports or publications or events are completed. For certain sponsorships, the performance obligation is satisfied, and revenue is recognized, over the term of the agreements. For Market Information products, publications are delivered throughout the year, and the revenue is recognized over time.

The Company allocates the transaction price to each performance obligation based on the best estimate of the relative standalone selling price of each distinct good or service in the contract. The transaction price in the contract is allocated at contract inception to the distinct good or service underlying each performance obligation in proportion to the standalone selling prices. This standalone selling price may be the contract price, but is more often than not the best estimate of the price the Company would receive for selling the good or service to other similar customers. Discounts applied to the contract will be allocated based on the same proportion of standalone selling prices.

For services where the transaction price is variable based upon AUM, volume of trades or number of investments linked to MSCI's indexes, the transaction price is based upon pricing models and is not allocated at the inception of the contract but rather falls within the sales and usage based royalty exception under which the price and associated revenue are based upon actual known performance or best estimates of actual performance during the performance period.

The majority of MSCI's contracts have a duration of one year or less and, accordingly, revenue associated with these performance obligations will be recognized within 12 months. For those contracts where fees are based on AUM or trading volumes of financial products linked to the Company's indexes, including ETFs and futures and options contracts, revenue associated with MSCI's performance obligations is recognized over the course of the year.

Determining when control has transferred can sometimes require management judgement (e.g., implementation services), which could affect the timing of revenue recognition. The Company has determined that the above methods provide a faithful depiction of the transfer of control of goods or services to the customer.

MSCI has elected the Modified Retrospective Approach and as such applied the new revenue standard only to contracts that were not completed at the January 1, 2018 adoption date and did not adjust prior reporting periods.

The cumulative impact of adoption on the Company's Unaudited Condensed Consolidated Statement of Financial Condition was as follows (in thousands):

Selected line items	As reported at December 31, 2017	Adjustments due to Adoption of ASC 606	Adjusted as of December 31, 2017
Statement of Financial Condition			
Accounts receivable	$327,597	$ 145,803	$473,400
Income taxes payable	$14,828	$ 4,314	$19,142
Other accrued liabilities	$85,710	$ 5,128	$90,838
Deferred revenue	$374,365	$ 120,226	$494,591
Retained earnings	$1,505,204	$ 16,135	$1,521,339

Included in the above adjustments is an increase of approximately $135.5 million primarily to accounts receivable and deferred revenue with no impact to retained earnings. In accordance with the new revenue standard, the Company now records an accounts receivable and an associated contract liability, reflected as "Deferred revenue" on MSCI's Unaudited Condensed Consolidated Statement of Financial Condition, when it bills the customer in advance of the start date of the subscription period because the Company has determined it has an unconditional right to receive cash since the contracts are non-cancellable by the client and non-refundable. Under the old revenue standard, these balances would not have been recorded as accounts receivable and deferred revenue as the contract service start date was subsequent to December 31, 2017.

The impact of adopting the new revenue standard on the Company's Unaudited Condensed Consolidated Statement of Income through the date of June 30, 2018 is as follows (in thousands):

	For the Three Months ended June 30, 2018		
Selected line items	As reported	Impact of Change	Without Adoption of ASC 606
Statement of Income			

Operating revenues	$363,046	$(2,164)	$360,882
Operating income	$173,511	$(2,164)	$171,347
Income before provision for income taxes	$156,323	$(2,164)	$154,159
Provision for income taxes	$39,494	$433	$39,927
Net income	$116,829	$(1,731)	$115,098
Earnings per basic common share	$1.31	$(0.02)	$1.29
Earnings per diluted common share	$1.28	$(0.02)	$1.26

	For the Six Months ended June 30, 2018		
Selected line items	As reported	Impact of Change	Without Adoption of ASC 606
Statement of Income			
Operating revenues	$714,362	$(4,450)	$709,912
Operating income	$340,677	$(4,450)	$336,227
Income before provision for income taxes	$295,761	$(4,450)	$291,311
Provision for income taxes	$63,840	$890	$64,730
Net income	$231,921	$(3,560)	$228,361