

MSCI Inc.  
Form 10-K  
March 01, 2013  
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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 December 31, 2012

Commission file number 001-33812

**MSCI INC.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of

13-4038723  
(I.R.S. Employer

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Incorporation or Organization)

Identification Number)

7 World Trade Center

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

New York, New York 10007

(Address of Principal Executive Offices, zip code)

(212) 804-3900

(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  (Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 June 30, 2012) was \$4,067,628,516. 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.

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As of February 22, 2013, there were 120,229,566 shares of the Registrant's \$0.01 par value Common Stock outstanding.

Documents incorporated by reference: Portions of the Registrant's proxy statement for its annual meeting of stockholders, to be held on May 1, 2013, are incorporated herein by reference into Part III of this Form 10-K.

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**FORM 10-K**

**FOR THE YEAR ENDED DECEMBER 31, 2012**

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*Except as the context otherwise indicates, the terms "MSCI," "the Company," "we," "our" and "us" refer to MSCI Inc. together with its subsidiaries.*

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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), real estate, hedge funds and private wealth; financial intermediaries, such as banks, broker-dealers, exchanges, custodians and investment consultants; and corporate clients. As of December 31, 2012, we had approximately 7,500 clients across 83 countries. We had offices in 33 cities in 22 countries to help serve our diverse client base, with 54.5% of our revenue from clients in the Americas, 32.4% in Europe, the Middle East and Africa (EMEA) and 13.1% in Asia and Australia, based on revenues for the year ended December 31, 2012. See Clients below for an explanation of how we calculate our number of clients.

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, real estate indices and benchmarks, 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, regulatory and client reporting, index-linked investment product creation, asset allocation, assessment of social responsibility, environmental stewardship and the effects of climate change on investments, investment manager selection and investment research.

Our Governance business is a leading provider of corporate governance products and services 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 equity 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. It also provides class action monitoring and claims filing services to aid institutional investors in the recovery of funds from securities class action settlements. 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.



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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. For the year ended December 31, 2012, approximately \$784.3 million, or 82.5%, of our revenues was attributable to annual, recurring subscriptions. An additional \$140.9 million of our revenues came from clients who use our indices as the basis for index-linked investment products such as ETFs. We also derived revenues from certain institutional clients that used 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 generated a limited amount of our revenues from certain exchanges that used our indices as the basis for futures and options contracts and paid us a license fee for the use of our intellectual property based on their volume of trades. We also received revenues from one-time fees related to implementation, historical or customized reports, advisory and consulting services, overages relating to proxy research and voting services, fees relating to recovery of securities class action settlements and from certain products and services that are designed for one-time usage.

### **Company History and Acquisitions**

We were a pioneer in developing the market for global equity index products and began licensing 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 and Capital Group International held approximately 81.0 million and 2.9 million shares of our class B common stock, respectively. Morgan Stanley and Capital Group International converted and sold their remaining shares of our class B common stock in subsequent registered secondary equity offerings from May 2008 through May 2009. 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. At MSCI's annual shareholders meeting held on May 2, 2012, the shareholders approved amendments to the MSCI Amended and Restated Certificate of Incorporation to (i) eliminate our authorized class B common stock, (ii) increase the total number of authorized shares of class A common stock by the aggregate number of shares of class B common stock being eliminated, (iii) rename the Company's class A common stock as common stock and (iv) make certain other conforming changes.

In June 2010, we acquired RiskMetrics, a leading provider of, among other things, risk management and governance products and services, in a cash-and-stock transaction valued at \$1,572.4 million. In addition to its risk management products and services, RiskMetrics owned Institutional Shareholder Services Inc. ( ISS ), a pioneer in the development of policy-based proxy voting recommendations. ISS expanded our product and service offerings to include a fully-outsourced proxy research, voting and vote reporting service, a class action monitoring and claims filing service and corporate governance products and services. RiskMetrics acquired the Center for Financial Research and Analysis ( CFRA ), Innovest Strategic Value Advisors, Inc. ( Innovest ) and KLD Research and Analytics, Inc. ( KLD ) in August 2007, March 2009 and October 2009, respectively. The acquisitions of these companies has permitted 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.

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.

In November 2012, we acquired real estate performance measurement group IPD Group Limited ( IPD ). Headquartered in London, England with 9 offices around the world, IPD is a leading provider of real estate performance analysis for funds, investors, managers, lenders and occupiers and offers a wide range of services that include research, reporting, benchmarking and indices. The acquisition of IPD expands MSCI's multi-asset class offering by facilitating the integration of private real estate assets into our models, as well as adding a family of real estate indices to MSCI's family of equity indices. IPD is dedicated to the objective measurement of the commercial real estate market. Revenues attributable to IPD's product offerings will be included in our existing index and ESG products category.

In January 2013, we acquired Investor Force Holdings, Inc. ( InvestorForce ), a leading provider of performance reporting solutions to the institutional investment community in the U.S., providing investment consultants with an integrated





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solution for daily monitoring, analysis and reporting on institutional assets. Revenues attributable to InvestorForce's product offerings will be included in our existing risk management analytics products category.

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 and governance 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.

Our revenues and the number of our employees have grown significantly, both organically and through acquisitions, such as those described above. 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, Cayman Islands, China, France, Germany, Hungary, India, Italy, Japan, Mexico, the Netherlands, the Philippines, Portugal, Singapore, South Africa, South Korea, Sweden, 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, fixed income portfolio analytics and various real estate products. Our products are generally comprised of proprietary index data, proprietary risk and analytics data and ESG ratings, analysis and research 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 equity 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, credit products and private investments, such as private equity and private real estate. 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 and MSCI ESG. Our private real estate benchmarks and indices are typically branded IPD. Our portfolio risk, performance and credit analytics are typically branded Barra and RiskMetrics. In addition to MSCI ESG indices, we offer other environmental, social and governance products that are branded MSCI ESG. Our valuation models and risk management software for the energy and commodities markets are typically branded FEA.

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

Our MSCI-branded global equity indices are designed to measure returns available to investors across a wide variety of equity markets (*e.g.*, Europe, Japan or emerging markets), sizes (*e.g.*, small capitalization or large capitalization), styles (*e.g.*, growth or value), industries (*e.g.*, banks or media), strategies (*e.g.*, risk premia) and themes (*e.g.*, economic exposure). Our IPD benchmarks are designed to measure the performance and risk indicators of our clients against their peers. Our MSCI-branded ESG indices are designed to help clients incorporate environmental, social and governance factors into their investment processes. As of December 31, 2012, we calculated over 160,000 indices daily.

In addition to delivering our products directly to our clients, as of December 31, 2012, there were more than 65 third-party financial information and analytics software providers that 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 equity index products include:



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*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 December 31, 2012, the MSCI Global Equity Indices provided exhaustive equity market coverage for over 75 countries in our developed, emerging and frontier market categories, as well as various regional and composite indices built from the component country indices, including the 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, 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. Various pension plans continue to announce their adoption of one of our broadest equity indices, MSCI ACWI IMI, as the policy benchmark for their equity portfolios. We also continue to enhance and expand successful product offerings as evidenced by the launch of tradable indices (*e.g.*, MSCI China A 50 Index and MSCI Frontier Markets 100 Index) to be used as the basis for financial products such as ETFs.

*MSCI Risk Premia Indices.* The MSCI Risk Premia Indices seek to address an emerging trend among institutional investors whose asset allocation processes are gradually shifting from asset classes to risk groupings such as growth, income, inflation, volatility and liquidity. The MSCI Risk Premia Indices capture the many equity return components that were once considered added value, or alpha, but that can be attributed to sources of systematic return such as value, size, volatility, or momentum. Today, MSCI offers a wide array of such risk premia or alternative beta indices, including the MSCI Minimum Volatility, Risk Weighted, Value Weighted Indices and the recently introduced MSCI Quality Indices.

*MSCI Economic Exposure Products and Indices.* MSCI recently launched economic exposure data modules to provide clients with a systematic framework for measuring global sources of revenue for each security across a portfolio or equity opportunity set. The economic exposure of companies can serve as a complementary or alternative definition of the country factor and can bring a new dimension to enhance and support the construction, evaluation and risk management of global equity portfolios. Also, the MSCI Economic Exposure Indices, which reflect the performance of companies with significant economic exposure to specific regions or countries, may be relevant benchmarks for investors that face direct investment restrictions in certain markets or wish to increase their indirect allocations to targeted markets.

*MSCI Custom Indices.* In recent years we have significantly expanded our capabilities for calculating custom indices. We currently calculate approximately 5,900 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; they can be used for back-testing strategies or developing specialized investment products, minimizing portfolio tracking error and constructing index-linked products.

*MSCI ESG Indices.* The MSCI ESG Indices allow clients to 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 Best-in-Class Indices that integrate sustainability analysis into the investment process, Socially Responsible Indices that take into account certain values, norms or ethical standards, Environmental Indices that focus on alternative energy or clean technology and Custom Indices based on unique client ESG requirements.

*Global Industry Classification Standard (GICS®).* GICS was developed and is maintained jointly by MSCI and Standard & Poor's Financial Services, LLC, a subsidiary of The McGraw-Hill Companies, Inc. (Standard & Poor's). This classification system was designed to respond to our clients' needs for a comprehensive, consistent and accurate framework for classifying companies into industries. GICS is 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 Standard & Poor's. GICS Direct is a database of approximately 43,000 active companies and approximately 50,000 securities classified by sector, industry group, industry and sub-industry in accordance with proprietary GICS methodology.



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Our primary ESG and IPD products are:

*MSCI ESG Research Products.* 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.

MSCI ESG Research products include 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. The tools also include the ability to monitor a company's adherence to internationally recognized norms and principles.

MSCI ESG Research products also provide 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 corporation's major social and environmental impacts with its core business operations, thereby identifying potential risks and opportunities for the company and its investors.

*IPD Products.* The IPD Portfolio Analysis Service ( PAS ) analyzes the strengths and weaknesses of a real estate portfolio's performance relative to its benchmark. We also offer income, management, fund level and cost benchmarking services. IPD market publications provide key real estate market analysis on countries, regions and sectors.

### ***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 ( VaR ) 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 assess correlations across a group of selected assets or portfolios.

We offer the following products in this area:

*BarraOne.* BarraOne, powered by the Barra Integrated Model ( BIM ), provides clients with global, multi-asset class risk analysis using Barra's fundamental factor methodology. 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.

*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 for 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.

*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

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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, DataMetrics can provide clients with customized data processing services.

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*WealthBench.* WealthBench is an investment planning platform for private banks, financial advisors, brokerages and trust companies. WealthBench assists users in delivering 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, facilitate risk-based pricing and measure credit risk concentrations. The application is designed to consolidate and compare risks and opportunities across multiple credit exposures including bonds, credit derivatives and traditional lending.

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

Our Barra-branded equity 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 developed, emerging and frontier equity markets. 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.

Our global equity models include the following:

*Barra Global Equity Model ( GEM3 ).* GEM3 is a multi-factor risk model designed for use in global equity portfolio management and construction. It uses a set of factors that 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 many asset classes, including equity and fixed income securities and currencies. 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 a set of factors to explain sources of risk and return of portfolios in that country. Examples include the Barra US Equity Model ( USE4 ) which models risk for U.S. equity assets and portfolios 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.

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 ), which have incorporated our equity risk data and analytics into their offerings.

Our primary portfolio analytics products are:

*Barra Aegis.* Barra Aegis 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

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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.



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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's tools also help clients identify returns attributable to stock selection skills. Additionally, using Barra Aegis's 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 hosted interactive user interface allows users to analyze risk and return, conduct pre-trade what-if analysis across a number of scenarios and construct portfolios using Barra Optimizer. 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.

### ***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 products and services and financial research and analysis services to institutional investors and corporations around the world. We categorize our Governance business 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 2012, Proxy Research and Voting, GPD and SCAS accounted for approximately 67.0% 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 related to their portfolio holdings, execute their votes and monitor and track their votes for reporting purposes.

Research coverage is currently provided on approximately 5,900 U.S.-based companies and over 35,000 non-U.S. companies. ISS's research and recommendations are based on benchmark, specialized and client-specific custom policies. ISS's 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. By 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

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responsible guidelines and ISS's Taft-Hartley 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 frequently provide

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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. Additionally, ISS's M&A Edge research service 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 analyzes key aspects of a transaction, including strategic rationale, corporate governance and shareholder rights issues.

ISS's proxy voting services include notifying clients of upcoming shareholder meetings, receiving proxy ballots from third-party proxy distributors, generating consolidated proxy ballots and vote instructions across its clients' portfolios, executing 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 securities class action lawsuits. We provide an extensive securities litigation database, including historical and current case information, and provide fully-outsourced notification, tracking and claims filing services to our institutional clients. Our relationships with claims administrators and law firms around the world enable us to inform clients of new developments in global markets and streamline the filing process.

SCAS offers more detailed portfolio specific views of cases and settlements with an online database 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 through our RecoverMax platform 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-related risk identification, capital structure, voting trends and corporate governance research. ISS Corporate Services tools, data and advisory services help clients to design, manage and measure their corporate governance programs. During fiscal year 2012, revenues related to our ISS Corporate Services products and services represented approximately 25.1% of our Governance business total revenues.

Our primary ISS Corporate Services products and services include:

*Compensation Data and Analytics.* 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 and equity plans. Our ExecComp Analytics product provides historical data, benchmarking and analytics on executive compensation and pay for performance. Compass is a web-based tool enabling clients to model the cost of equity compensation plans and determine optimal equity plan design. Our flagship product is the ExecComp Suite, which includes our ExecComp Analytics product and ongoing benchmarking of equity plan value transfer, burn rates, and dilution. It also provides access to experienced and dedicated compensation plan analysts and support in modeling the cost of equity compensation plans and determining optimal compensation plan design.

*Governance Suite.* The Governance Suite provides a high-quality online discussion forum to facilitate constructive dialogue on corporate governance issues among 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.

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*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 access ISS research reports and other corporate-governance related information. Through an alerts service, users of Proxy Research and Publications also receive the latest proxy research reports released for their company or

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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 and mergers and acquisitions initiatives. 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 allow investors to add specialized, qualitative analysis to more traditional research used in the investment decision-making process. During fiscal year 2012, FR&A accounted for approximately 7.9% of revenues attributable to our Governance business. All of FR&A's products and services are marketed under the CFRA brand.

*CFRA Forensic Accounting Research.* Through a rigorous and proprietary research process, our global team of analysts provides in-depth research on over 520 companies worldwide while our quantitative tools assess the reported financial results of over 14,500 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 within FR&A, is a leading forensic accounting risk research report offering for investors, providing early warning signals for companies with aggressive accounting practices or with reported results that may indicate operational or financial distress. The reports consist of in-depth company research, educational information and industry research, access to our proprietary earnings quality database and access to our research analysts. In addition, CFRA's Legal Edge product is focused on identifying and analyzing hidden legal and regulatory risks within companies. 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 5.5% and 7.7%, respectively, for the year ended December 31, 2012 compared to the year ended December 31, 2011, and by 35.9% and 56.2%, respectively, for the year ended December 31, 2011 compared to the year ended November 30, 2010. The growth from 2010 to 2011 was driven largely by the RiskMetrics and Measurisk acquisitions. Excluding the impact of the RiskMetrics and Measurisk acquisitions, our operating revenues and operating income increased by 13.4% and 26.7%, respectively, for the year ended December 31, 2011 compared to the year ended November 30, 2010.

We believe we are well-positioned for 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 and governance process. 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 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:

*Expand client base in current client types.* We seek to add new clients by leveraging our brand strength, our products, our broad access to the global investment community, our global sales force and our strong knowledge of the investment and governance processes. 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 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 opportunities to cross-sell our other investment decision support tools as we have expanded our suite of index, ESG, risk, portfolio management analytics, governance and research products. For example, we will continue to seek opportunities to sell risk and portfolio management analytics products to our existing equity index-only clients. We believe that the growing regulatory and compliance needs of our clients provides us with additional opportunities to license our risk analytics products. In addition, we will continue to focus on adding new users, new locations and new modules for current products with existing clients.

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*Increase licensing of indices for ETFs and other exchange traded investment products.* We believe that there is potential for continued growth and expansion in the ETF market in the future, and we will continue

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to pursue opportunities to increase licensing of our indices for index-linked investment products to capitalize on their growth in number and variety. The table below illustrates the growth trend with respect to the number of primary exchange listings of ETFs linked to MSCI equity indices.

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

| Region   | As of                |                      |                      |
|----------|----------------------|----------------------|----------------------|
|          | December 31,<br>2012 | December 31,<br>2011 | November 30,<br>2010 |
| Americas | 186                  | 150                  | 130                  |
| EMEA     | 365                  | 348                  | 253                  |
| Asia     | 30                   | 26                   | 20                   |
| Total    | 581                  | 524                  | 403                  |

Historical values of the assets in ETFs linked to our indices are set forth in a table under the section Management's Discussion and Analysis Results of Operations Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011 Operating Revenues below.

*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 believe that the integration of product platforms, development of new models, expansion of the global coverage of current models, enhanced client customization capabilities, increased data collection and the introduction of new governance products will increase the competitiveness of our Company. For example, the addition of IPD's database of real estate information has the potential to enhance MSCI's risk and performance management analytics products. We also maintain an active dialogue with our clients in order to understand their needs and anticipate market developments.

*Expand our capacity to design and produce new products.* We intend to increase our spending on product development teams, 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.

*Growth through acquisitions.* We intend to continue to seek to acquire products, technologies and companies, such as IPD and InvestorForce, that will enhance, complement or expand our product offerings and client base, as well as increase our ability to provide investment decision support tools to equity, fixed income and multi-asset class investment institutions, and the financial intermediaries that service such institutions.

**Competitive Advantages**

We believe our competitive advantages include the following:

*Strong client relationships and deep understanding of their needs.* Our consultative approach to product development, dedication to client support and our 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, global sales, data

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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,



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our clients are requested by their customers to report using our tools or data. Additionally, our tools can help clients comply with local regulations or client reporting requirements. Consequently, we believe that certain of our clients may experience business disruption and additional costs if they choose to cease using or replace our products.

*Strong brand recognition.* Our Global Equity Indices and ESG products and services are marketed under the MSCI and MSCI ESG brands; our portfolio risk and performance analytics covering global equity and fixed income are marketed under the Barra brand; our multi-asset class, market and credit risk analytics are marketed under the RiskMetrics and Barra brands, respectively; our energy and commodity asset valuation analytics are marketed under the FEA brand; our private real estate benchmarks are marketed under the IPD 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 and for corporate clients for help with governance practices.

*Global products and operations.* Our products cover most major investment markets throughout the world. For example, our MSCI Global Equity Indices provide exhaustive equity market coverage for over 75 countries in our developed, emerging and frontier market categories; and we produced equity risk data for single country models, regional equity models and an integrated multi-asset class risk model covering equity markets and fixed income markets. As of December 31, 2012, our clients were located in 83 countries and many of them have a presence in multiple locations around the world. As of December 31, 2012, our employees were located in 22 countries in order to maintain close contact with our clients and the international markets we follow and to maintain an appropriate cost structure. 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.

*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 believe this open architecture approach benefits us and our clients.

*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 capacity that they would otherwise not be able to economically access through internal development.

*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. Our employees' experience and knowledge gives us access to, and allows us to add value at, the highest levels of our clients organizations.

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*Extensive historical databases.* We have accumulated extensive databases of historical global market data, proprietary equity index data, private real estate benchmark data, 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, nearly 40 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.

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### **Clients**

For the year ended December 31, 2012, we served approximately 7,500 clients across 83 countries worldwide with 54.5% of revenue from our client base in the Americas, 32.4% in EMEA and 13.1% 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, real estate, 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 Aggregate Retention Rates were 89.7% and 89.8% for the years ended December 31, 2012 and December 31, 2011, respectively. Our Core Retention Rates were 90.4% and 90.2% for the years ended December 31, 2012 and 2011, respectively. For a description of the calculation of our Aggregate 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 25.0%, 25.8% and 27.4% of our total revenues for the years ended December 31, 2012 and 2011, and November 30, 2010, respectively.

In the years ended December 31, 2012 and 2011, and November 30, 2010, our largest client organization by revenue, BlackRock, Inc. and its affiliates (BlackRock), accounted for 7.6%, 8.1% and 9.9% of our operating revenues, respectively. For the years ended December 31, 2012 and 2011, and November 30, 2010, approximately 81.7%, 83.9% and 82.9% of our revenues from BlackRock were attributable to fees based on the assets of ETFs linked to MSCI equity indices, including its iShares ETF business.

### **Marketing**

We market our products to investment institutions, financial service providers, financial advisors and corporations worldwide. See Clients above. Our research and product management teams seek to understand our clients' investment and governance processes and their needs and to design tools that help clients effectively and efficiently address them. Because of the sophisticated nature of our products, our main means of marketing is through face-to-face meetings, hosted events, targeted campaigns 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 events, 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. For example, we hosted approximately 260 seminars, webinars, conferences and workshops in various locations across the globe in fiscal 2012. 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 and governance experts 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 approximately 80,000 recipients. 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 December 31, 2012, our client coverage offices included nearly 240 sales people and over 250 client support people worldwide. Of these, over 100 were located in our New York offices and over 70 were located in our London office. In the last few years we have expanded our sales efforts to grow our revenues and our client service efforts to ensure client satisfaction and develop client loyalty. In the past few years, we have expanded our geographic presence by opening client coverage offices in Budapest, Dubai, Mumbai, Seoul, Shanghai, Monterrey, Mexico, Boston and Chicago. In fiscal year 2012, we also increased the number of client coverage and sales people in Monterrey, Mumbai and Shanghai. We have also created more specialized sales and client support teams to increase our impact in each client segment, namely hedge funds, asset owners and broker dealers. Our sales and client support staff are based in 27 offices around the world enabling us to provide valuable face-to-face client service and focus efforts on developing new clients in more locations.

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The sophisticated nature of our products and their uses demands a sales and client support staff with strong academic and financial backgrounds. Most new sales require several face-to-face meetings with the prospective client and the sales process for large and complex sales is likely to involve a team from sales, client support, product management and research. For Barra and RiskMetrics-branded products, sales and client support personnel are available to onboard new clients and new users, which includes, providing intensive on-site training in the use of the models, data and software applications underlying each product. Client support also provides ongoing support, which may include on-site visits, telephone and e-mail support 24 hours, five days a week and routine client support needed in connection with the use of the product or how it can help investors improve their process, all of which are included in the recurring subscription fee. 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.

### **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, economists, statisticians, financial engineers and investment industry experts. 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, asset allocation 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 fiscal year 2012, our performance and risk researchers participated in a dozen industry events and conferences, and their papers have been published in leading academic and industry journals. In fiscal year 2012, we hosted the MSCI Client Summit, an annual investment and risk management conference, which took place in New York and London, where our researchers presented their current work, research papers and projects to senior professionals from client organizations. Our researchers also participate in such discussions at a large 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.

Within the governance research department, ISS's policy board works to ensure ISS's 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 industry constituents, institutional investors are invited to share their perspectives 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.

*Data Operations and Technology.* Our data operations and technology team consists of 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 200 third party sources in fiscal year 2012. We apply our models and methodologies to this market data to produce our proprietary risk and equity index data. Our data operations and technology team oversees this complex process. Our experienced information technology staff builds proprietary software and databases that house all of the data we license or produce in order for our data operations 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. We have data operations and technology offices in North America, Europe and Asia.

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*Software Engineering.* Certain of our proprietary risk data are made available to clients through our proprietary software applications, such as Barra Aegis, BarraOne, RiskManager, HedgePlatform, WealthBench, Credit Manager, ESG Manager and Proxy Exchange. Our software engineering team consists of individuals 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 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 subsidiary of The London Stock Exchange), Russell Investment Group (a unit of Northwestern Mutual Life Insurance Group) and Standard & Poor's. Additionally, we compete with equity index providers whose primary strength is in a local market or region. These include S&P Dow Jones Indices LLC (a joint venture company owned 24.4% by CME Group through its affiliates, 2.6% indirectly by Dow Jones & Company, Inc. and 73.0% by The McGraw-Hill Companies, Inc.), Russell Investment Group and Standard & Poor's in the U.S.; S&P/TSX index published by S&P Dow Jones Indices LLC in Canada, the CAC index published by NYSE Euronext, the DAX and STOXX Ltd. in Europe; the Bovespa Index in Brazil; the Korea Stock Exchange Kospi Index in Korea; China Securities Index Co., Ltd. in China; the Hang Seng Index in Hong Kong; a strategic partnership between CME Group and Singapore Exchange Limited in Singapore; and Nikkei Inc., Nomura Securities, Ltd., Russell Investment Group, 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.

The principal competitors for our portfolio analytics products are Applied Portfolio Technologies (a unit of SunGard), Axioma, Inc., Bloomberg Finance L.P., Capital IQ's ClariFI, (a Standard & Poor's business), FactSet, Northfield Information Services, Inc. and Wilshire Analytics.

Our risk management analytics products compete with firms such as Algorithmics (a unit of IBM), Barclays Capital, BlackRock Solutions (a unit of BlackRock), FactSet, Imagine Software, KMV (a unit of Moody's Corporation) 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, Equilar, Inc. and Glass, Lewis & Co. 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 December 31, 2012, our number of employees increased by 330 to 2,759 from 2,429 on December 31, 2011. As of December 31, 2012, approximately 40.6% of our employees were located in emerging market centers.

### **Government Regulation**

ISS is a registered investment adviser 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 adviser with the Australian Financial Services Authority and must comply with its applicable requirements. MSCI is registered with the State Council Information Office of the Ministry of Commerce and the State Administration for Industry and Commerce in China as a foreign institution supplying financial information services in China.

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### **Available Information**

Our corporate headquarters are located at 7 World Trade Center, 250 Greenwich Street, New York, New York, 10007, 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). The contents of our website are not a part of or incorporated by reference in this Annual Report on Form 10-K.

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). We also make available free of charge, on or through this website, these reports, proxy statements and other information 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.

### **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 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. Throughout our businesses, we utilize certain data provided by third party data sources in a variety of ways, including large volumes of data from certain stock exchanges around the world. As of December 31, 2012, there were over 200 such data suppliers. 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.

Many of our 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. 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. 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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***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 revenue streams are concentrated in some of our largest clients, including BlackRock, and in our largest market, the United States. Our clients, including our largest 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 decrease our fees correspondingly or otherwise lead to a reduction of our fees in certain cases. See Our revenues and earnings attributable to asset-based fees may be affected by changes in the capital markets, particularly the equity capital markets, or other factors that are tied to the calculation of our fees for certain index-linked investment products below. Competition is intense and increasing rapidly among our clients that provide exchange traded funds, among other products. The fees ETF providers charge their clients are one of the competitive differentiators for these exchange traded fund managers. For example, on October 15, 2012, BlackRock announced that its iShares ETF business launched a new series of funds based on certain MSCI investable market indices pursuant to a license with fee levels that are lower than those the Company currently receives with respect to existing iShares ETFs based on MSCI's standard indices. 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. For example, on October 2, 2012, we announced that Vanguard had informed the Company of its decision to no longer use MSCI's indices as the basis for certain of its index funds, including both ETF and other share classes, beginning in 2013, representing a loss of run rate of approximately \$24.8 million at December 31, 2012. The ability of our licensees to cease using our indices is generally true not just with respect to an index's use as the basis of an ETF but also with respect to its use as the basis of other financial products, including mutual funds and institutional funds. Finally, to the extent that an asset manager finds it beneficial to offer clients ETFs and institutional funds based on the same indices, a shift away from use of an index as the basis of one type of product may lead to a corresponding shift away from the same index as the basis of the other type of product.

***Our revenues and earnings attributable to asset-based fees may be affected by changes in the capital markets, particularly the equity capital markets, or other factors that are tied to the calculation of our fees for certain index-linked investment products. A decrease in our fees for these products could have a material adverse effect on our business, financial condition or results of operations.***

Clients that use our indices as the basis for certain index-linked investment products, such as ETFs and mutual funds, commonly pay us a fee based on the investment product's assets. The value of an investment product's assets can increase or decrease along with market performance and inflows and outflows, which could impact our revenues. In addition, in many cases our fees can be affected by an increase or decrease in a product provider's total expense ratio (TER). In those cases, a reduction in the TER may negatively impact our revenues. Asset-based fees make up a significant portion of our revenues. They accounted for approximately 14.8%, and 15.6% of revenues for the fiscal years ended December 31, 2012 and 2011, respectively. These asset-based fees accounted for 43.3% and 44.7% of the revenues from our ten largest clients for the fiscal years ended December 31, 2012 and 2011, respectively. Volatile capital markets, such as those experienced recently, 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 December 31, 2012, the month-end value of assets in ETFs linked to MSCI equity indices was \$402.3 billion, which was 33.4% higher than the value of such assets as of December 31, 2011, and 10.6% higher than the value of such assets at September 30, 2012.

***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 December 31, 2012 and 2011, revenues from our ten largest clients accounted for 25.0% and 25.8% 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 December 31, 2012, our largest client organization by revenue, BlackRock, accounted for 7.6% our total revenues. For the fiscal years ended December 31, 2012 and 2011, approximately 81.7% and 83.9%, respectively, of the revenue from BlackRock came from fees based on the assets in BlackRock's exchange traded funds based on MSCI indices. See 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 above.

***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.***



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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. For example, in August 2011, BlackRock announced that it was seeking regulatory clearance to create indices for use as the basis of exchange traded funds that it would manage. See [Table of Contents](#). 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 [above](#).

***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, such as the Internet, software applications and dedicated transmission lines. We rely on a complex system of internal processes and software controls along with policies, procedures and training 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, policies or procedures, or if an employee purposely circumvents or violates our internal controls, policies or procedures, then unauthorized access to, or disclosure or misappropriation of, client data could occur. Such unauthorized access, disclosure or misappropriation could damage our reputation and/or result in claims against us by our clients or regulators and have a material adverse effect on our business, financial condition or results of operations. For example, on September 14, 2012, we received a Wells Notice from the staff of the SEC in connection with allegations that an ISS employee provided confidential information about how clients voted their proxies to proxy solicitors in return for cash and other gifts. If a failure of our internal controls, policies or procedures results in a security or privacy breach, we could also incur increased operating expenses to remediate the problems caused by the breach and prevent future breaches, which could have a material adverse effect on our 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 permitted our clients to list exchange traded funds or other financial products based on our indices only if we provided a representation to the exchange that we had 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.

***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 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. As we have experienced, even if we attempt to protect our intellectual property rights through litigation, it may require considerable cost,



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time and resources to do so, and there is no guarantee that we will 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 21 U.S. and foreign patents. We currently have four 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 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 obligations with our employees. However, if an employee breaches his or her non-disclosure obligation and reveals a trade secret or other confidential information, we could lose the trade secret or confidentiality 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 confidential or proprietary information. We have investigated suspicions that former employees have used or disclosed our confidential or proprietary information, but we cannot be certain that we are aware or in the future will be aware of every instance in which this sort of behavior may occur. Additionally, the enforceability of our license agreements of non-disclosure obligations 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 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. 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 has been recent third-party litigation 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 was affirmed on appeal by the Illinois Appellate Court in May 2012. The Illinois Supreme Court refused to hear the ISE's appeal of the Illinois Appellate Court's decision. 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



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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 or regulators or other governmental bodies 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. See Changes in government regulations could materially adversely affect our business, financial condition or results of operations below. 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. Such claims would likely be costly to defend, could require us to pay damages or limit our future use of integral technologies, which could have a material adverse effect on our business, financial conditions or results of operations.***

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, are making 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.

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, to stop selling or using the affected products or applications or 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. From time to time we receive notices calling upon us 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, our use of certain third party software and data has been challenged in the past and there can be no assurance that such third parties may not challenge our use in the future, resulting in increased software or data acquisition

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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 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. Failure to do so could limit our ability to maintain or grow current revenues, which could have a material adverse effect on our business, financial condition or results of operations.***

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, including through integration, 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 which 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.

Integrating existing products and platforms and 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. There may also be consolidation among our competitors in the form of joint ventures or other business arrangements, which could allow for better capitalized competitors.

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



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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. Profit margin considerations, including those arising from financial and budgetary pressures affecting our clients resulting from current economic conditions, 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 Our clients that pay us a fee based on 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 below. See Part I. Item 1. Business Our Competition above.

***Our business is dependent on the financial viability of our clients. If our clients consolidate or are negatively impacted by adverse conditions in the financial markets and are forced to shut-down, consolidate, limit or reduce spending, 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 60.7% and 60.5% of our revenues as of December 31, 2012 and 2011, respectively. Ongoing economic weakness and volatility led to the closure or consolidation of a number of our clients, including asset manager, broker-dealer and hedge fund clients. This impacted our financial results, including our Run Rates and Aggregate and Core Retention Rates, in 2012 and 2011. Ongoing economic weakness and volatility continues to cause uncertainty and pressure on our clients spending, resulting in longer selling and renewing cycles, increased sales expenses and potentially increased cancellations.

If such trends continue, we may not be able to generate or accurately plan for 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. Although many of the effects of the Dodd-Frank Act will be largely unknown until the regulations have been finalized and implemented, complying with its requirements 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 consolidate or 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.

***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.

***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.

***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. While





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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.

***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 [To remain competitive and generate customer demand, we must successfully develop new products and effectively manage transitions](#) 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.

***If we are unable to manage our operating costs as anticipated or our operating costs are higher than expected, our operating results may fluctuate significantly.***

We may experience higher than expected operating costs, including increased personnel costs, occupancy costs, selling and marketing costs, investments in geographic expansion, communication costs, travel costs, software development costs, professional fees and other costs. Additionally, we may not fully realize our strategic initiatives to manage our cost structure. If operating costs exceed our expectations and cannot be adjusted accordingly, our profitability may be reduced and our results of operations and financial position may be adversely affected.

***Our financial condition and results of operations may be negatively impacted by global factors that are beyond our control, including macroeconomic, political and market conditions, the availability of short-term and long-term funding and capital, the level and volatility of interest rates, currency exchange rates, inflation and ratings downgrades.***

Near-term predictions for the growth of the global economy remain weak. Concerns over the European debt crisis, the potential collapse of the Euro, ratings downgrades, the ability of the U.S. Government to manage the U.S. deficit and prolonged high unemployment have contributed to increased volatility and diminished expectations for the global economy and markets going forward. While we do not concentrate a significant amount of business in any one Eurozone country, we did derive 31.6% of our 2012 revenue from Europe. The general financial instability in any Eurozone country could have a contagion effect on the region and contribute to the general instability and uncertainty in the European Union. Unfavorable changes in global economic conditions may negatively impact the demand for our products and services and may also impair the ability of our customers to pay for products and services or cause them to go out of business entirely, resulting in increased reserves for doubtful accounts and write-offs of accounts receivable. Cash flows may also be impacted resulting in restricted access to capital markets, changes in currency exchange rates and delayed or underpayment by our customers. Adverse changes in the economy could affect earnings negatively and could have a material adverse effect on our results of operations and financial condition.

***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

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

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

An element of our growth strategy is growth through acquisitions. Any acquisition 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, including where, as in the case of the IPD acquisition, the acquired company operates in many countries and in markets with which we have limited experience;

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 Item 1. Business Company History and Acquisitions.

***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).

Revenues from index-linked investment products represented approximately 14.8% and 15.6% of operating revenues for the years ended December 31, 2012 and 2011, 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

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against the U.S. dollar will decrease the fees payable to us under such licenses. In addition, declines in such currencies against the U.S. dollar could impact the attractiveness of such investment products resulting in net fund outflows, which would further reduce the fees payable under such licenses.

We generally invoice our clients in U.S. dollars; however, we invoice a portion of our clients in Euros, British pounds sterling, Japanese yen and a limited number of other non-U.S. dollar currencies. For the years ended December 31, 2012 and 2011, approximately 12.6% and 13.4%, respectively, of our operating revenues were invoiced in currencies other than U.S. dollars. For the year ended December 31, 2012, 58.3% of our foreign currency revenues were in Euros, 21.8% were in Japanese yen and 12.1% were in British pounds sterling. For the year ended December 31, 2011, 60.6% of our foreign currency revenues were in Euros, 21.9% were in Japanese yen and 9.9% were in British pounds sterling.

We are exposed to additional foreign currency risk in certain of our operating costs. Approximately 34.5% and 34.1% of our operating expenses for the years ended December 31, 2012 and 2011, respectively, were denominated in foreign currencies, the significant majority of which were denominated in British pounds sterling, Swiss francs, Euros, Hong Kong dollars, Hungarian forints, Indian rupees, and Mexican pesos. 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 are remeasured into their local functional currency, a gain or loss results from the change in value of the functional currency. We manage foreign currency exchange rate risk, in part, through the use of derivative financial instruments comprised principally of forward contracts on foreign currency which are not designated as hedging instruments for accounting purposes. The objective of the derivative instruments is to minimize the income statement impact associated with intercompany loans that are denominated in certain foreign currencies. As a result of these positions, we recognized foreign currency exchange losses of \$2.6 million and foreign currency exchange gains of \$1.1 million for the years ended December 31, 2012 and 2011, respectively. Although we believe that our guidelines and policies are reasonable and prudent, any hedging instruments that we may enter into in the future may not be successful, resulting in an adverse impact on our results of operations.

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 ( DOL ) issued a proposed regulation that would expand the definition of fiduciary under the Employee Retirement Income Security Act of 1974, as amended ( ERISA ). As proposed, the definition of fiduciary would include, among others, an investment adviser that provides advice and recommendations to employee benefit plans regarding exercise of rights appurtenant to shares of stock (e.g., proxy voting). If this regulation were adopted as proposed, ISS could be deemed to be a fiduciary for purposes of ERISA. As such, it would be subject to ERISA's prohibited transaction (e.g., conflict) provisions, which could have an impact on the manner in which ISS and its affiliates conduct business. On September 19, 2011, the DOL announced that it had withdrawn this proposal and would re-propose the regulation sometime in early 2012, a target date that was not met. It is now expected that the fiduciary rule will be reopened in the first half of 2013.

*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 concept release focused 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. In its Fiscal Year 2012 Agency Final Report, the SEC indicated that it plans to develop recommendations in 2013 for an interpretive release addressing issues raised in the proxy plumbing concept release regarding proxy advisory firms.

*Potential European Regulation of the Proxy Advisory Industry.* Following a consultation conducted by the European Securities and Markets Authority ( ESMA ) with respect to the proxy advisory industry in Europe, ESMA has decided to encourage the proxy advisory industry to self-regulate by developing its own Code of Conduct. ESMA is recommending the development of a Code of Conduct that focuses on identifying, disclosing and managing conflicts of interest and that fosters transparency. ESMA will review the development of the Code of Conduct within two years of December 18, 2012 and may reconsider its position if no substantial progress has been made by that time. ESMA's recommendation is expected to be considered by the European Commission which will then decide whether or not to take further action.

At this point we are unable to determine whether the SEC or the European Commission will pursue rulemaking or legislation on these matters and, if so, the extent to which any rule or legislation might impact our businesses, including the process by which we provide proxy research and voting services to clients, the manner in which ISS operates as a proxy advisory firm, the business model that provides for both voting services to investor clients and governance advice to corporate clients, or otherwise. However, as with any regulatory change or the introduction of new legislation, 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 or legislation that stems from the SEC's concept release, the adoption of the Code of Conduct encouraged by ESMA or action by the European Commission.

*Potential and Proposed Regulation Affecting Benchmarks.* On October 20, 2011, the European Commission issued proposals for MiFID/MiFIR 2 (COM (2011) 0652 and COM (2011) 0656), which among other things would mandate that where the value of a financial instrument is calculated by reference to a benchmark, a person with proprietary rights to the benchmark would be required to ensure that clearing entities and trading venues would be entitled to licenses to the benchmark as well as to relevant price and data feeds and information regarding the composition, methodology and pricing of the benchmark. Access to such information would have to be granted by the benchmark owner within three months of the request on a reasonable commercial basis, which in any event



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would be at a price no higher than the lowest price at which access to the benchmark is granted to another clearing entity, trading venue or related person for clearing and trading purposes. At this point, we do not know whether the European Commission will adopt this or a similar proposal, or if it does so, when such a regulation would affect our index licensing business.

On December 18, 2012, ESMA published guidelines on ETFs and other Undertakings for Collective Investment in Transferable Securities ( UCITS ) issues (ESMA/2012/832EN). These guidelines limit the types of indices that can be used as the basis of UCITS funds and would require, among other things, index constituents, together with their respective weightings, to be made easily accessible free of charge, such as via the internet, to investors and prospective investors on a delayed basis. The guidelines became effective as of February 17, 2013 with respect to newly launched UCITS funds. They become effective for all UCITS funds by February 17, 2014. We have made available a client communication with respect to our policies as they relate to the guidelines. Although the full effects of the guidelines will be largely unknown until we have more clarification from ESMA and/or individual regulators, complying with any related requirements could have a negative impact on our business and results of operations, including a negative impact on our licensing of index data and/or our indices as the basis of ETFs and UCITS. See 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 third-party litigation may adversely affect our ability to protect our intellectual property rights above. Additionally, other jurisdictions outside of Europe could adopt similar concepts or regulations.

On September 5, 2012, the European Commission published a consultation paper on the potential regulation of indices, including regulation regarding how benchmarks are calculated, the governance and transparency of benchmarks, the use of benchmarks, the public provision of benchmarks, and transition issues. On February 8, 2013, the European Commission published the summary of results of the consultation paper. Although the effects of any such legislation will be largely unknown unless and until the European Commission adopts any such legislation in response to this consultation paper, complying with such legislation could have a material adverse effect on our index business.

On January 11, 2013, ESMA issued a Consultation Paper on Principles for Benchmarks-Setting Processes in the EU (ESMA/2013/12) and on January 14, 2013 the International Organization of Securities Commissions issued a Financial Benchmarks Consultation Report. MSCI has responded to both consultations and will await the results of those consultations. The effects of these consultations are unknown, but complying with any principles or guidelines resulting from these consultations that lead to a material change in on our business practices or diminish intellectual property rights could have a material adverse effect on our index business.

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

Our Performance and Risk products support the investment processes of our clients, which, in the aggregate, manage trillions of dollars of assets. Our Governance products and services support the proxy voting processes of clients. 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 or the failure to provide the services provided in client contracts. However, these provisions have certain exceptions and could result in the provision of credits, contractual penalties, or 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.

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

On May 4, 2012, we amended and restated our existing senior secured credit facilities consisting of a senior secured Term Loan B Facility and Revolving Credit Facility, which were originally entered into on June 1, 2010 as amended by Amendment No. 1 dated as of February 4, 2011 and Amendment No. 2 dated as of March 14, 2011 (the credit facility as so amended and restated, the Amended and Restated Credit Facility ). The Amended and Restated Credit Facility provides for the incurrence of a new senior secured 5-year Term Loan A Facility in an aggregate amount of \$880.0 million and a new \$100.0 million senior secured revolving facility ( New Revolving Credit Facility ). The proceeds of the Amended and Restated Credit Facility, together with cash on hand, were used to prepay the remaining outstanding principal of the existing Term Loan B Facility. The Term Loan A Facility and New Revolving Credit Facility mature on May 4, 2017.



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As of December 31, 2012, we had \$858.0 million of indebtedness under the Amended and Restated Credit Facility, as amended, (\$44.0 million in current maturities and \$814.0 million in long term debt), \$183.3 million of cash and cash equivalents and \$70.9 million in short-term investments.

The Amended and Restated 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 Amended and Restated Credit Facility contains restrictive covenants that limit our ability and our existing and 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 Amended and Restated 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 until the termination of the Amended and Restated Credit Facility: (1) the maximum total leverage ratio (as defined in the Amended and Restated Credit Facility) measured quarterly on a rolling four-quarter basis shall not exceed 3.25:1.00 and (2) the minimum interest coverage ratio (as defined in the Amended and Restated Credit Facility) measured quarterly on a rolling four-quarter basis shall be at least 5.00:1.00.

In addition, our Amended and Restated Credit Facility contains the following affirmative covenants, among others: periodic delivery of financial statements, budgets and officers' 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.

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.

Furthermore, we cannot assure you that we will maintain financing activities and cash flows sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. If we cannot refinance or otherwise pay our obligations as they mature and fund our liquidity needs, our business, financial condition, results of operations, cash flows, liquidity, ability to obtain financing and ability to compete in our industry could be materially adversely affected.

***Increased costs of financing, a reduction in the availability of financing and fluctuations in interest rates could adversely affect our liquidity, operating expenses and results.***

Adverse conditions in the domestic and global financial markets may increase our costs of financing and adversely affect our ability to refinance debt maturities, raise capital or fund other types of obligations. Any downgrades to our credit rating may likewise increase the cost and reduce the availability of financing.

Further, our indebtedness bears interest at fluctuating interest rates, primarily based on the London interbank offered rate for deposits of U.S. dollars (LIBOR). LIBOR tends to fluctuate based on general economic conditions, general interest rates, Federal Reserve rates and the supply of and demand for credit in the London interbank market. We are not required to enter into interest rate swaps to hedge our debt under the Amended and Restated Credit Facility and we have not hedged our interest rate exposure and, accordingly, our interest expense for any particular period may fluctuate based on LIBOR and other variable interest rates. To the extent these interest rates increase, our interest expense will increase, in which event we may have difficulties making interest payments and funding our other fixed costs, and our available cash flow for general corporate requirements may be adversely affected. See also the discussion of interest rate risk in Part I, Item 3, Quantitative and Qualitative Disclosures About Market Risk.

If we do enter into interest rate swap agreements, 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



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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 interest rate hedging activities may not effectively manage our interest rate sensitivity or have the desired beneficial impact on our financial condition or results of operations.

***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, the final tranche of which vested in November 2011 and are therefore no longer effective as a retention tool. If the equity incentive compensation 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 its components, including our data centers, 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, natural disasters, power loss or computer viruses could cause our systems to operate slowly or interrupt their availability for periods of time. We have experienced and may experience again in the future denial-of-service attacks. While we have been able to defend our systems against such attacks in the past, there is no assurance that we will be able to do so successfully in the future. Our ability to effectively use the Internet may also 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 reputation and our ability to distribute our products effectively and to serve our clients, including those clients for whom we provide managed services, may be materially and adversely affected. For example, during fiscal 2012 we migrated certain of our applications and infrastructure to new data centers. As a result of this migration, we experienced some unanticipated interruption and delay with respect to the performance and delivery of certain of our products. While such issues have not resulted in a material adverse effect on our business or results of operations, there is no assurance that they or future migrations will not have such effect in the future. As a result of such issues, we could be required to provide service credits, and experience cancellations and reduced demand for our products and services, resulting in decreased revenues. We may also experience increased cancellations and operating expenses to defend against and protect ourselves from such disruptions and attacks, which may have a material adverse effect on our 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 and certain of its affiliates 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 the Governance business 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

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other market participants could raise questions about our ability to provide unbiased services, which could harm our reputation.

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 potential for a perceived 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 Governance business team providing research to our institutional clients may treat that corporation more favorably due to its use of services provided by ISS Corporate 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 perceived 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 or results of operations.

***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.

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 unanticipated costs in connection with 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 South America. Since 2007, we have opened offices in Budapest, Dubai, Monterrey, Seoul 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. 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.

Additionally, the laws and regulations in many countries applicable to our business 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 offices 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.

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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. For example, the continued success of IPD's products is dependent on understanding local real estate markets and maintaining relationships with local real estate industry bodies in the jurisdictions in which IPD operates. 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 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. From time to time, we also implement changes to our global corporate structure. Changes in domestic and international tax laws could negatively impact our overall effective tax rate. Such changes include, but are not limited to, proposed legislation to reform U.S. taxation of international business activities.

Although we believe that our tax provisions 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's clients operate may adversely impact our financial results.***

ISS's 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's 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 acquisitions, 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 \$2,424.5 million recorded on our balance sheet as of December 31, 2012. 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 management's 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. See Note 9, Goodwill and Intangible Assets, of the Notes to the Consolidated Financial Statements, included herein.

***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.



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*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 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 Common Stock**

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

The trading market for our 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 common stock may be volatile, which could result in substantial losses.*

For example, some of the factors that may cause the market price of our 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;

loss of key clients (See 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 above);

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;

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;

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 in one or more significant regions around the world; and

changes in regulatory developments in the U.S., foreign countries or both and changes in 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 common stock could decline for reasons unrelated to our business, financial condition or



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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 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 common stock. This would include sales of our common stock underlying restricted shares of common stock and options to purchase shares of common stock granted in connection with our IPO and pursuant to our equity incentive compensation plan.

As of December 31, 2012, 120,114,586 shares of our 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 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 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 December 31, 2012, we had issued 4,869,843 and 110,018 shares of 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 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 December 31, 2012, we had issued 2,620,951 shares of 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. As of December 31, 2012, we had issued 1,341,704 shares of common stock under this Plan, which terminated on June 30, 2012.

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.

### ***Provisions in our Third Amended and Restated Certificate of Incorporation and Amended and Restated 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 common stock.***

Provisions of our Third Amended and Restated Certificate of Incorporation and Amended and Restated 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 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.

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Generally, the amendment of our Third 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

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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 common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that a premium would be paid for your 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 common stock.*

We do not currently intend to pay any cash dividends on our common stock. We currently intend to invest our future earnings, if any, to fund our growth, including growth through acquisitions, to repay our debt and to repurchase shares pursuant to our Board authorized share repurchase program. 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.

**Item 1B. Unresolved Staff Comments**

Nothing required to be disclosed.

**Item 2. Properties**

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 December 31, 2012, our principal offices consisted of the following leased properties:

| Location              | Square Feet | Number of Offices | Expiration Date                         |
|-----------------------|-------------|-------------------|-----------------------------------------|
| New York, New York    | 125,811     | 1                 | February 28, 2033                       |
| Chicago, Illinois     | 62,840      | 2                 | March 31, 2017 and January 31, 2021     |
| Rockville, Maryland   | 51,090      | 1                 | December 31, 2023                       |
| Mumbai, India         | 46,795      | 1                 | December 7, 2017                        |
| London, England       | 42,091      | 2                 | December 24, 2013 and February 28, 2022 |
| Berkeley, California  | 34,178      | 1                 | February 29, 2020                       |
| Manila, Philippines   | 29,960      | 1                 | March 31, 2014                          |
| Monterrey, Mexico     | 28,933      | 1                 | March 31, 2020 and December 31, 2020    |
| Budapest, Hungary     | 25,467      | 1                 | February 28, 2014                       |
| Norman, Oklahoma      | 23,664      | 1                 | May 31, 2014                            |
| Boston, Massachusetts | 13,506      | 1                 | November 30, 2021                       |
| Geneva, Switzerland   | 11,883      | 1                 | March 31, 2019                          |

As of December 31, 2012, we also leased and occupied sales and client support offices in the following locations: Hong Kong, China; Beijing, China; Paris, France; San Francisco, California; Tokyo, Japan; Ann Arbor, Michigan; Toronto, Canada; Shanghai, China; Almere, Netherlands; Wiesbaden, Germany; Sydney, Australia; Johannesburg, South Africa; Frankfurt, Germany; Singapore; Milan, Italy; Stockholm, Sweden; Sao Paulo, Brazil; Cape Town (Newlands), South Africa; Seoul, South Korea; Dubai, United Arab Emirates; and Brussels, Belgium.

The majority of our properties are used in support of both our Performance and Risk and our Governance operating segments. 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 in the ordinary course of business. While the amounts claimed could be substantial, the ultimate liability cannot now be determined because of the considerable uncertainties that

exist. Therefore, it is possible that MSCI's business, operating results, financial condition or cash flows in a particular period could be materially affected by certain contingencies. However, based on facts currently available, management believes that the disposition of matters that are currently pending or asserted will

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not, individually or in the aggregate, have a material effect on MSCI's business, operating results, financial condition or cash flows.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

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

Our common stock has traded on the New York Stock Exchange since November 15, 2007 and trades under the symbol MSCI. Prior to that time, there was no public market for our common stock. As of February 22, 2012, there were approximately 175 shareholders of record of our common stock. The following table sets forth the high and low closing sales prices per share of our common stock from January 1, 2011 through December 31, 2012.

| Years Ended ,            | High     | Low      |
|--------------------------|----------|----------|
| <b>December 31, 2012</b> |          |          |
| First Quarter            | \$ 37.81 | \$ 31.89 |
| Second Quarter           | 37.74    | 31.60    |
| Third Quarter            | 36.73    | 32.23    |
| Fourth Quarter           | 35.82    | 25.59    |
| <b>December 31, 2011</b> |          |          |
| First Quarter            | \$ 39.72 | \$ 33.91 |
| Second Quarter           | 38.22    | 33.86    |
| Third Quarter            | 38.89    | 29.19    |
| Fourth Quarter           | 34.97    | 27.94    |

On February 22, 2013, the closing price of our common stock on the New York Stock Exchange was \$33.15.

**Dividend Policy**

We currently do not intend to pay any dividends as we intend to retain all available funds for use in the operation and expansion of our business, including growth through acquisitions, the repayment of our debt and the repurchases of our common stock. 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 Amended and Restated 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 our common stock is Computershare.

**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 common stock. 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

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MSCI Amended and Restated 2007 Equity Incentive Compensation Plan (as further amended, the MSCI EICP ). The MSCI EICP 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 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 which terminated on June 30, 2012.

The following table sets forth certain information with respect to our equity compensation plans at December 31, 2012:

|                                                                         | Number of<br>Securities to be<br>Issued Upon<br>Vesting of<br>Restricted Stock<br>Units and Exercise<br>of Outstanding<br>Options<br>a | Weighted<br>Average<br>Unit Award<br>Value<br>of Restricted Stock<br>Units and<br>Weighted-Average<br>Exercise Price<br>of<br>Outstanding<br>Options<br>b | Number of<br>Securities<br>Remaining<br>Available for<br>Future Issuance<br>under Equity<br>Compensation<br>Plans (excluding<br>securities reflected<br>in column (a))<br>c |
|-------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Equity Compensation Plans Approved by Security Holders</i>           |                                                                                                                                        |                                                                                                                                                           |                                                                                                                                                                             |
| MSCI Independent Directors Equity Compensation Plan <sup>(1)</sup>      | 18,603                                                                                                                                 | \$ 35.20                                                                                                                                                  | 371,379                                                                                                                                                                     |
| MSCI Amended and Restated 2007 Equity Incentive Compensation Plan       | 2,552,745                                                                                                                              | \$ 26.78                                                                                                                                                  | 6,702,396                                                                                                                                                                   |
| RiskMetrics Group, Inc. 2000 Stock Option Plan                          | 72,271                                                                                                                                 | \$ 3.26                                                                                                                                                   |                                                                                                                                                                             |
| RiskMetrics Group, Inc. 2004 Stock Option Plan                          | 448,329                                                                                                                                | \$ 13.95                                                                                                                                                  |                                                                                                                                                                             |
| Institutional Shareholder Services Holdings, Inc. Equity Incentive Plan | 3,270                                                                                                                                  | \$ 3.21                                                                                                                                                   |                                                                                                                                                                             |
| RiskMetrics Group, Inc. 2007 Omnibus Incentive Compensation Plan        | 964,824                                                                                                                                | \$ 23.47                                                                                                                                                  |                                                                                                                                                                             |
| Total                                                                   | 4,060,042                                                                                                                              | \$ 24.18                                                                                                                                                  | 7,073,775                                                                                                                                                                   |

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

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

As part of this authorization, the Company entered into an accelerated share repurchase ( ASR ) agreement on December 13, 2012 to initiate share repurchases aggregating \$100.0 million. The ASR agreement was structured as a capped ASR agreement in which the Company paid \$100.0

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million and received approximately 2.2 million shares representing the minimum number of shares of common stock to be repurchased based on a calculation using a specific capped price per share. This price is capped such that only under limited circumstances will the Company be required to deliver shares or, at its election, pay cash at settlement. Additionally, depending on the average share price through the July 2013 completion date, the Company may receive additional shares under the ASR agreement.



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The authorized repurchase program, except for the ASR agreement, may be modified, suspended, terminated, or extended by the Company in its discretion at any time without prior notice.

The following table provides information with respect to purchases made by or on behalf of the Company of its common stock during the quarter ended December 31, 2012. There were no other share repurchases during the quarter outside the repurchases noted below.

## Issuer Purchases of Equity Securities

| Period                                        | Total<br>Number of<br>Shares<br>Purchased <sup>(1)</sup> | Average<br>Price<br>Paid<br>Per<br>Share <sup>(2)</sup> | Total<br>Number of<br>Shares<br>Purchased<br>As Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Approximate<br>Dollar Value<br>of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|-----------------------------------------------|----------------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| Month #1 (October 1, 2012-October 31, 2012)   | 2,049                                                    | \$ 28.87                                                | N/A                                                                                                      | N/A                                                                                                              |
| Month #2 (November 1, 2012-November 30, 2012) | 8,242                                                    | \$ 26.86                                                | N/A                                                                                                      | N/A                                                                                                              |
| Month #3 (December 1, 2012-December 31, 2012) | 2,317,339                                                | N/A                                                     | 2,226,028                                                                                                | \$ 200,000,000                                                                                                   |
| Total                                         | 2,327,630                                                | N/A                                                     | 2,226,028                                                                                                | \$ 200,000,000                                                                                                   |

<sup>(1)</sup> Includes (i) shares withheld to satisfy tax withholding obligations on behalf of employees that occur upon vesting and delivery of outstanding shares underlying restricted stock units, (ii) shares repurchased from employees in certain foreign jurisdictions in connection with the vesting of those restricted stock units and (iii) shares repurchased pursuant to the 2012 Share Repurchase Program. The value of the shares purchased was determined using the fair market value of the Company's common shares on the date of purchase.

<sup>(2)</sup> Average price paid per share information not available for the ASR transaction.

**Recent Sales of Unregistered Securities.**

None.

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

None.

**Table of Contents****FIVE-YEAR STOCK PERFORMANCE GRAPH**

The following graph compares the cumulative total shareholders' return on our common stock, the Standard & Poor's 500 Stock Index and the NYSE Composite Index since November 30, 2007 assuming an investment of \$100 at the closing price on November 30, 2007. In calculating total annual shareholders' return, reinvestment of dividends, if any, is assumed. The indices are included for comparative purposes only. They do not necessarily reflect management's opinion that such indices are an appropriate measure of the relative performance of the 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.

**Total Investment Value**

|                      | <b>For the Years Ended</b>   |                              |                              |                              |                              |
|----------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                      | <b>December 31,<br/>2012</b> | <b>December 31,<br/>2011</b> | <b>November 30,<br/>2010</b> | <b>November 30,<br/>2009</b> | <b>November 30,<br/>2008</b> |
| MSCI Inc.            | \$ 112                       | \$ 119                       | \$ 123                       | \$ 110                       | \$ 56                        |
| S&P 500              | \$ 96                        | \$ 85                        | \$ 80                        | \$ 74                        | \$ 61                        |
| NYSE Composite Index | \$ 86                        | \$ 76                        | \$ 75                        | \$ 72                        | \$ 57                        |

**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 Statement of Income data for the years ended December 31, 2012 and 2011, and November 30, 2010 and for the one month ended December 31, 2010 and the selected Consolidated Financial Condition data as of December 31, 2012 and 2011 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 December 31, 2012 and 2011, and November 30, 2010 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, 2009 and 2008 and the selected Consolidated Statement of Financial Condition data as of December 31, 2010 and November 30, 2009, and 2008 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 prior to our separation from Morgan Stanley on May 22, 2009.

|                                                                             | As of or for the                                           |                      |                                                    |                      |                      | One Month<br>Ended<br>December 31,<br>2010 |
|-----------------------------------------------------------------------------|------------------------------------------------------------|----------------------|----------------------------------------------------|----------------------|----------------------|--------------------------------------------|
|                                                                             | December 31,<br>2012 <sup>(1)</sup>                        | December 31,<br>2011 | Years Ended<br>November 30,<br>2010 <sup>(2)</sup> | November 30,<br>2009 | November 30,<br>2008 |                                            |
|                                                                             | (in thousands, except operating margin and per share data) |                      |                                                    |                      |                      |                                            |
| Operating revenues                                                          | \$ 950,141                                                 | \$ 900,941           | \$ 662,901                                         | \$ 442,948           | \$ 430,961           | \$ 72,524                                  |
| Total operating expenses                                                    | 603,205                                                    | 578,943              | 456,778                                            | 291,956              | 295,171              | 45,855                                     |
| Operating income                                                            | 346,936                                                    | 321,998              | 206,123                                            | 150,992              | 135,790              | 26,669                                     |
| Other expense (income), net                                                 | 57,527                                                     | 58,585               | 52,632                                             | 19,271               | 26,147               | 6,113                                      |
| Provision for income taxes                                                  | 105,171                                                    | 89,959               | 61,321                                             | 49,920               | 41,375               | 6,732                                      |
| Net income                                                                  | \$ 184,238                                                 | \$ 173,454           | \$ 92,170                                          | \$ 81,801            | \$ 68,268            | \$ 13,824                                  |
| Operating margin                                                            | 36.5%                                                      | 35.7 %               | 31.1%                                              | 34.1%                | 31.5%                | 36.8%                                      |
| Earnings per basic common share                                             | \$ 1.50                                                    | \$ 1.43              | \$ 0.82                                            | \$ 0.80              | \$ 0.66              | \$ 0.11                                    |
| Earnings per diluted common share                                           | \$ 1.48                                                    | \$ 1.41              | \$ 0.81                                            | \$ 0.80              | \$ 0.66              | \$ 0.11                                    |
| Weighted average shares outstanding<br>used in computing earnings per share |                                                            |                      |                                                    |                      |                      |                                            |
| Basic                                                                       | 122,023                                                    | 120,717              | 112,074                                            | 100,607              | 100,037              | 119,943                                    |
| Diluted                                                                     | 123,204                                                    | 122,276              | 113,357                                            | 100,860              | 100,281              | 121,803                                    |
| Cash and cash equivalents                                                   | \$ 183,309                                                 | \$ 252,211           | \$ 226,575                                         | \$ 176,024           | \$ 268,077           | \$ 269,423                                 |

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|                                                                 |              |              |              |              |              |              |
|-----------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Short-term investments                                          | \$ 70,898    | \$ 140,490   | \$ 73,891    | \$ 295,304   | \$           | \$ 72,817    |
| Trade receivables (net of allowances)                           | \$ 153,557   | \$ 180,566   | \$ 147,662   | \$ 77,180    | \$ 85,723    | \$ 137,988   |
| Goodwill and intangible assets, net of accumulated amortization | \$ 2,424,484 | \$ 2,353,466 | \$ 2,422,921 | \$ 561,812   | \$ 587,530   | \$ 2,417,357 |
| Total assets                                                    | \$ 3,019,639 | \$ 3,092,996 | \$ 3,023,166 | \$ 1,200,269 | \$ 1,015,048 | \$ 3,057,481 |
| Deferred revenue                                                | \$ 308,022   | \$ 289,217   | \$ 271,300   | \$ 152,944   | \$ 144,711   | \$ 268,807   |
| Current maturities of long-term debt                            | \$ 43,093    | \$ 10,339    | \$ 54,916    | \$ 42,088    | \$ 22,086    | \$ 54,932    |
| Long-term debt, net of current maturities                       | \$ 811,623   | \$ 1,066,548 | \$ 1,207,881 | \$ 337,622   | \$ 379,709   | \$ 1,207,966 |
| Total shareholders equity                                       | \$ 1,425,231 | \$ 1,305,432 | \$ 1,080,117 | \$ 507,056   | \$ 286,382   | \$ 1,102,170 |

(1) Includes the results of IPD as of the November 30, 2012 acquisition date.

(2) Includes the results of RiskMetrics and Measurisk as of the June 1, 2010 and July 30, 2010 acquisition dates, respectively.

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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 Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Such risk and uncertainties include, but are not limited to, those identified below and those discussed in Item 1A. Risk Factors, within this Annual Report on Form 10-K.*

#### **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), real estate, hedge funds and private wealth; financial intermediaries such as banks, broker-dealers, exchanges, custodians and investment consultants; and corporate clients. As of December 31, 2012, we had offices in 33 cities in 22 countries to help serve our diverse client base, with 54.5% of our revenue from clients in the Americas, 32.4% in Europe, the Middle East and Africa (EMEA) and 13.1% in Asia and Australia based on revenues for the year ended December 31, 2012.

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, our recurring subscriptions are increasingly related to our managed services offering whereby we oversee the production of risk and performance reports on behalf of our clients. Fees attributable to annual, recurring subscriptions are recorded as deferred revenues on our Consolidated Statement of Financial Condition and are recognized on our Consolidated Statement of Income as the service is rendered. Additionally, a portion of our revenues come from clients who use our indices as the basis for index-linked investment products such as ETFs or as the basis for passively managed funds and separate accounts. These clients commonly pay us a license fee for the use of our intellectual property based on the investment product's assets. We generate a limited amount of our revenues from certain exchanges that use our 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 proxy research and voting services, fees relating to recovery of securities class action settlements and from certain products and services that are designed for one-time usage.

In evaluating our financial performance, we focus on revenue growth for the company in total and by product category as well as operating profit growth and the level of profitability as measured by our operating margin. In addition, we focus on operating metrics, including run rates and retention rates to manage the business. Our business is not highly capital intensive and, as such, we expect to continue to convert a high percentage of our operating profits into excess cash in the future. Our revenue growth strategy includes: (a) expanding and deepening our relationships with investment institutions worldwide; (b) developing new and enhancing existing product offerings, including combining existing product features or data derived from our products to create new products; and (c) actively seeking to acquire products, technologies and companies that will enhance, complement or expand our client base and our product offerings.

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

#### Operating Segments

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Following our acquisition of RiskMetrics on June 1, 2010, we began operating as two segments: the Performance and Risk business and the Governance business. See Note 14, Segment Information, of the Notes to the Consolidated Financial Statements 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, real estate indices and benchmarks, 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, regulatory and client reporting, index-linked investment product creation, asset allocation, assessment of social responsibility, 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 and MSCI ESG brands, our market and credit risk analytics marketed under the RiskMetrics and Barra brands, our portfolio risk and performance analytics marketed under the Barra brand, our valuation models and risk management software for the energy and commodities markets marketed under the FEA brand and our real estate indices and analytics marketed under the IPD brand.

Our Governance business is a leading provider of corporate governance products and services 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 equity 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. It also provides class action monitoring and claims filing services to aid institutional investors in the recovery of funds from securities class action settlements. Within a firewall designed to separate it from the rest of the Governance business, ISS Corporate Services 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, our outsourced proxy voting and reporting services and our executive compensation analytics tools marketed under the ISS brand and our forensic accounting risk research, legal/regulatory risk assessment and due diligence products marketed under the CFRA brand.

Revenues and expenses directly associated with each respective segment are included in determining its operating results. Other expenses that are not directly attributable to a particular segment are allocated based upon allocation methodologies, including time estimates, headcount, net revenues and other relevant usage measures.

### **Key Financial Metrics and Drivers**

#### ***Revenues***

Our revenues are 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 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 (which in some cases may be based on a product providers total expense ratio) times the average daily assets in the investment product for the most recent period.



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### *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 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 selling 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 and Barra Portfolio Manager; 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.

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 hosted interactive user interface allows users to analyze risk and return, conduct pre-trade what-if analyses for a number of scenarios and construct portfolios using the Barra Optimizer. The platform supports optional data management services that allow users to outsource the loading and reconciliation of their portfolio and other proprietary data.

Our Barra 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 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.

### *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



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accounting research as well as class action monitoring and claims filing services to aid institutional investors in the recovery of funds from securities class action settlements. The products were all acquired as part of the RiskMetrics acquisition. The substantial majority of the revenues are annual, subscription based revenues. The

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largest portion of our non-recurring revenues is 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 and commodity analytics products. The Governance business is comprised of the governance products.

See Item 1. Business, Business Segments, Products and Services, for additional details of the products and services that we offer.

### ***Operating Metrics***

#### ***Run Rate***

At the end of any period, we generally have subscription and investment product license agreements in place for a large portion of our total revenues for the following 12 months. We measure the fees related to these agreements and refer to this as our Run Rate. The Run Rate at a particular point in time represents the forward-looking revenues for the next 12 months from all subscriptions and investment product licenses we currently provide to our clients under renewable contracts 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 determined that such notice evidences the client's final decision to terminate or not renew the applicable subscription or agreement, even though such notice is not effective until a later date.

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

revenues associated with new subscriptions and non-recurring sales;

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

fluctuations in asset-based fees, which may result from changes in certain investment products' total expense ratios, market movements or from investment inflows into and outflows from investment products linked to our 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 sets forth our Run Rates and the percentage growth over the periods indicated:

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|                                               | December 31,<br>2012 | December 31,<br>2011<br>(in thousands) | December 31,<br>2010 | Comparison of                      |                                 |
|-----------------------------------------------|----------------------|----------------------------------------|----------------------|------------------------------------|---------------------------------|
|                                               |                      |                                        |                      | December 31,<br>2012<br>to<br>2011 | December 31,<br>2011 to<br>2010 |
| <b>Run Rates</b>                              |                      |                                        |                      |                                    |                                 |
| Index and ESG products:                       |                      |                                        |                      |                                    |                                 |
| Subscriptions <sup>(1)</sup>                  | \$ 338,006           | \$ 269,780                             | \$ 236,157           | 25.3%                              | 14.2%                           |
| Asset-based fees <sup>(2)</sup>               | 127,072              | 119,706                                | 117,866              | 6.2%                               | 1.6%                            |
| Index and ESG products totals                 | 465,078              | 389,486                                | 354,023              | 19.4%                              | 10.0%                           |
| Risk management analytics <sup>(3)</sup>      | 262,108              | 250,967                                | 233,504              | 4.4%                               | 7.5%                            |
| Portfolio management analytics <sup>(3)</sup> | 109,836              | 118,354                                | 115,158              | (7.2%)                             | 2.8%                            |
| Energy and commodity analytics                | 13,128               | 14,928                                 | 15,288               | (12.1%)                            | (2.4%)                          |
| Governance                                    | 117,261              | 108,251                                | 105,036              | 8.3%                               | 3.1%                            |
| <b>Total Run Rate</b>                         | <b>\$ 967,411</b>    | <b>\$ 881,986</b>                      | <b>\$ 823,009</b>    | <b>9.7%</b>                        | <b>7.2%</b>                     |
| <b>Subscription total</b>                     | <b>\$ 840,339</b>    | <b>\$ 762,280</b>                      | <b>\$ 705,143</b>    | <b>10.2%</b>                       | <b>8.1%</b>                     |
| <b>Asset-based fees total</b>                 | <b>127,072</b>       | <b>119,706</b>                         | <b>117,866</b>       | <b>6.2%</b>                        | <b>1.6%</b>                     |
| <b>Total Run Rate</b>                         | <b>\$ 967,411</b>    | <b>\$ 881,986</b>                      | <b>\$ 823,009</b>    | <b>9.7%</b>                        | <b>7.2%</b>                     |

<sup>(1)</sup> Included in the above table is approximately \$39.5 million of Run Rate as of December 31, 2012 that was associated with the IPD Group Limited acquisition. The run rate for IPD Group Limited was approximated using the trailing twelve months of revenue primarily adjusted for estimates for non-recurring sales, new sales, and cancellations.

<sup>(2)</sup> On October 2, 2012, The Vanguard Group, Inc. ( Vanguard ) announced its decision to change the target benchmarks of 22 of its ETFs from MSCI's equity indices. As a result of this announcement, we excluded the \$138.5 billion of assets in the 22 Vanguard ETFs linked to MSCI equity indices as of December 31, 2012 for purposes of calculating the index and ESG asset-based fee run rate, which resulted in a decrease of \$24.8 million. The average value of assets in the 22 Vanguard ETFs linked to MSCI equity indices was \$122.1 billion for the year ended December 31, 2012 compared to the total average value of assets in ETFs linked to MSCI equity indices of \$349.1 billion.

<sup>(3)</sup> Run rate related to risk management analytics was positively impacted and run rate related to portfolio management analytics products was negatively impacted by \$3.0 million of product swaps between the two products.

Changes in Run Rate between periods may be attributable to, among other things, 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, fluctuations in foreign exchange rates and the impact of acquisitions and dispositions.

*Net New Recurring Subscription Sales*

The following table sets forth our net new recurring subscription sales (as if we had completed the RiskMetrics acquisition as of January 1, 2010):

|                                  | December 31,<br>2012 | For the Years Ended                    |                      |
|----------------------------------|----------------------|----------------------------------------|----------------------|
|                                  |                      | December 31,<br>2011<br>(in thousands) | December 31,<br>2010 |
| New recurring subscription sales | \$ 118,865           | \$ 132,015                             | \$ 129,792           |
| Subscription cancellations       | (78,586)             | (71,976)                               | (87,428)             |

|                                      |           |           |           |
|--------------------------------------|-----------|-----------|-----------|
| Net new recurring subscription sales | \$ 40,279 | \$ 60,039 | \$ 42,364 |
|--------------------------------------|-----------|-----------|-----------|

*Retention Rates*

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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.

The following table sets forth our Aggregate Retention Rates by product category for the periods indicated for the years ended December 31, 2012, 2011 and 2010 as if we had completed the RiskMetrics acquisition as of January 1, 2010:

|                         | Index<br>and<br>ESG | Risk<br>Management<br>Analytics | Portfolio<br>Management<br>Analytics | Energy<br>and<br>Commodity<br>Analytics | Governance | Total |
|-------------------------|---------------------|---------------------------------|--------------------------------------|-----------------------------------------|------------|-------|
| <b>2012</b>             |                     |                                 |                                      |                                         |            |       |
| Qtr Ended March 31,     | 94.5%               | 93.9%                           | 91.9%                                | 90.2%                                   | 88.7%      | 93.0% |
| Qtr Ended June 30,      | 94.9%               | 90.0%                           | 84.2%                                | 85.5%                                   | 92.1%      | 91.0% |
| Qtr Ended September 30, | 94.0%               | 88.5%                           | 84.9%                                | 76.6%                                   | 91.1%      | 90.0% |
| Qtr Ended December 31,  | 90.4%               | 84.4%                           | 78.0%                                | 60.4%                                   | 83.6%      | 84.9% |
| Year Ended December 31, | 93.4%               | 89.0%                           | 84.7%                                | 78.1%                                   | 88.9%      | 89.7% |
| <b>2011</b>             |                     |                                 |                                      |                                         |            |       |
| Qtr Ended March 31,     | 95.0%               | 94.2%                           | 88.6%                                | 76.9%                                   | 85.0%      | 91.8% |
| Qtr Ended June 30,      | 92.8%               | 92.2%                           | 91.4%                                | 88.8%                                   | 90.4%      | 91.9% |
| Qtr Ended September 30, | 95.2%               | 92.1%                           | 86.6%                                | 89.3%                                   | 86.2%      | 91.3% |
| Qtr Ended December 31,  | 89.3%               | 80.8%                           | 87.2%                                | 75.0%                                   | 80.6%      | 84.5% |
| Year Ended December 31, | 93.1%               | 89.5%                           | 88.4%                                | 82.5%                                   | 85.6%      | 89.8% |
| <b>2010</b>             |                     |                                 |                                      |                                         |            |       |
| Qtr Ended March 31,     | 94.4%               | 83.4%                           | 88.9%                                | 80.7%                                   | 84.8%      | 88.1% |
| Qtr Ended June 30,      | 90.2%               | 92.0%                           | 84.5%                                | 86.8%                                   | 85.6%      | 88.8% |
| Qtr Ended September 30, | 92.4%               | 87.7%                           | 82.2%                                | 90.3%                                   | 87.1%      | 88.1% |
| Qtr Ended December 31,  | 89.8%               | 85.6%                           | 63.1%                                | 81.7%                                   | 80.1%      | 81.8% |
| Year Ended December 31, | 91.7%               | 87.5%                           | 79.7%                                | 84.9%                                   | 84.4%      | 86.8% |

The following table sets forth our Core Retention Rates by product category for the periods indicated for the years ended December 31, 2012, 2011 and 2010 as if we had completed the RiskMetrics acquisition as of January 1, 2010:

|                         | Index<br>and<br>ESG | Risk<br>Management<br>Analytics | Portfolio<br>Management<br>Analytics | Energy<br>and<br>Commodity<br>Analytics | Governance | Total |
|-------------------------|---------------------|---------------------------------|--------------------------------------|-----------------------------------------|------------|-------|
| <b>2012</b>             |                     |                                 |                                      |                                         |            |       |
| Qtr Ended March 31,     | 94.6%               | 94.0%                           | 92.2%                                | 90.7%                                   | 88.7%      | 93.1% |
| Qtr Ended June 30,      | 95.0%               | 92.0%                           | 87.0%                                | 85.5%                                   | 92.2%      | 92.2% |
| Qtr Ended September 30, | 94.0%               | 89.3%                           | 86.5%                                | 77.1%                                   | 91.2%      | 90.6% |
| Qtr Ended December 31,  | 90.5%               | 84.4%                           | 83.6%                                | 60.4%                                   | 83.8%      | 85.9% |
| Year Ended December 31, | 93.5%               | 89.8%                           | 87.3%                                | 78.4%                                   | 89.0%      | 90.4% |
| <b>2011</b>             |                     |                                 |                                      |                                         |            |       |
| Qtr Ended March 31,     | 95.2%               | 94.2%                           | 89.9%                                | 76.9%                                   | 85.0%      | 92.1% |

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|                         |       |       |       |       |       |       |
|-------------------------|-------|-------|-------|-------|-------|-------|
| Qtr Ended June 30,      | 92.8% | 92.7% | 93.2% | 88.8% | 90.4% | 92.4% |
| Qtr Ended September 30, | 95.2% | 92.1% | 88.3% | 91.3% | 86.3% | 91.6% |
| Qtr Ended December 31,  | 89.3% | 81.0% | 88.3% | 75.0% | 80.6% | 84.8% |
| Year Ended December 31, | 93.1% | 90.0% | 89.9% | 83.0% | 85.6% | 90.2% |

**2010**

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|                         |       |       |       |       |       |       |
|-------------------------|-------|-------|-------|-------|-------|-------|
| Qtr Ended March 31,     | 95.1% | 85.2% | 90.9% | 80.7% | 84.8% | 89.2% |
| Qtr Ended June 30,      | 90.7% | 92.5% | 86.7% | 86.8% | 85.6% | 89.5% |
| Qtr Ended September 30, | 92.6% | 90.0% | 86.0% | 90.3% | 87.1% | 89.6% |
| Qtr Ended December 31,  | 90.1% | 85.6% | 64.1% | 81.2% | 80.1% | 82.0% |
| Year Ended December 31, | 92.1% | 88.6% | 81.9% | 84.7% | 84.4% | 87.7% |

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 2012, we recorded cancellations of \$28.7 million. To derive the Aggregate Retention Rate for the fourth quarter, we annualized the actual cancellations during the quarter of \$28.7 million to derive \$114.9 million of annualized cancellations. This \$114.9 million was then divided by the \$762.3 million subscription Run Rate at the beginning of the year to derive a cancellation rate of 15.1%. The 15.1% was then subtracted from 100.0% to derive an Aggregate Retention Rate of 84.9% 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 2012 we had product swaps of \$1.8 million which was subtracted from the \$28.7 million of actual cancels to derive core cancels of \$26.9 million. This \$26.9 million was annualized to derive \$107.5 million of annualized cancellations which was then divided by the \$762.3 million subscription Run Rate at the beginning of the year to derive a cancellation rate of 14.1%. The 14.1% was then subtracted from 100.0% to derive the Core Retention Rate of 85.9% for the fourth quarter.

For the year ended December 31, 2012, 36.6% 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 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 December 31, 2012, we had 2,759 employees throughout the world, of which approximately 40.6% 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.

**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. 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

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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.

### ***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 Group, Inc. ( RiskMetrics ). The plan was substantially completed by December 31, 2011. Restructuring included 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 definite-lived intangible assets arising from the acquisition of Barra, Inc. ( Barra ) in June 2004, RiskMetrics in June 2010, Measurisk, LLC ( Measurisk ) in July 2010 and IPD Group Limited ( IPD ) in November 2012. Our intangible assets consist of customer relationships, trademarks and trade names, technology and software, proprietary processes and data and non-competition agreements. We amortize definite-lived intangible assets over their estimated useful lives. Definite-lived intangible assets are tested for impairment 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. We have no indefinite-lived intangibles. The intangible assets have remaining useful lives ranging from one to 21 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 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, share-based compensation, research and development, income taxes, deferred revenue, goodwill, intangible assets, short-term investments, hedging instruments, fair value of financial assets and liabilities, allowance for doubtful accounts and accrued compensation. If different assumptions or conditions were to be utilized, the results could be materially different from our reported results.

### ***Revenue Recognition***

In general, we apply SEC Staff Accounting Bulletin No. 104 ( SAB 104 ), *Revenue Recognition*, in determining revenue recognition. Accordingly, we recognize revenue when all the following criteria are met:

We have persuasive evidence of a legally binding arrangement,

Delivery has occurred,

Client fee is deemed fixed or determinable, and

Collection is probable.

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When a sales arrangement requires the delivery of more than one product and service, revenue is recognized pursuant to the requirements of ASC Subtopic 605-25, *Revenue Arrangements with Multiple Deliverables*. Under the provisions of ASC Subtopic 605-25, elements within a multi-deliverable arrangement should be considered separate units of accounting if all of the following criteria are met:

The delivered items have value to the client on a standalone basis. The items have value on a standalone basis if they can be sold separately by any vendor or the client could resell the delivered items on a standalone basis; and

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

We provide services to our clients under various software and non-software related arrangements. We have signed contracts with substantially all clients that set forth the fees to be paid for our products and services. Further, we regularly assess the receivable balances for each client for collectability. Our application service license arrangements generally do not include acceptance provisions, which generally allow a client to test the solution for a defined period of time before committing to the license. If a license agreement includes an acceptance provision, we do not recognize 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.

Our subscription agreements for non-software-related application services 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 when and if available, for the term of the agreement, which is typically one year. These arrangements do not provide the client with the right to take possession of the application at any time. For sales arrangements with multiple deliverables, which may include application service subscription and professional services associated with implementation and other services, we evaluate each deliverable in these multiple-element arrangements to determine whether it represents a separate unit of accounting and allocate revenue accordingly.

In most cases, we recognize revenues from subscription arrangements ratably over the term of the license agreement pursuant to contract terms. The contracts state the terms under which these fees are to be calculated. The fees are recognized as we supply the product and service to the client over the license period and are generally billed in advance prior to the license start date. For products and services whose fees are based on estimated assets under management linked to our indices, or contract values related to futures and options, we recognize revenues based on estimates from independent third-party sources or the most recently reported information from the client.

Our software-related arrangements do not require significant modification or customization of any underlying software applications being licensed. Accordingly, we recognize software revenues pursuant to the requirements of ASC Subtopic 985-605, *Software-Revenue Recognition*. Our subscription agreements for software products include provisions that, among other things, would allow clients to receive unspecified, when and if available, future software upgrades for no additional fee as well as the right to use the software products with maintenance and technical support for the term of the agreement, which is typically one year. Software agreements may include other consulting and professional services. In accordance with ASC Subtopic 985-605, we do not have vendor specific objective evidence for these elements and therefore recognize software related revenue ratably over the term of the license agreement.

### ***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 ( RSUs ) is measured as the closing price on the date prior to grant. Restricted stock units subject to performance conditions ( PSUs ) are based on performance measures that impact the amount of shares that each recipient will receive upon vesting. PSUs are granted at fair market value, which is measured as the closing price on the date prior to grant.

The fair value of MSCI standard stock options is determined using the Black-Scholes valuation model 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. The fair value of MSCI stock options that contain stock price contingencies is determined using a Monte Carlo simulation model, which creates a normal distribution of future stock prices, which is then used to value the awards based on their individual terms.



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Based on interpretive guidance related to Stock Compensation, the Company's policy is to accrue the estimated cost of share-based awards that were granted to retirement-eligible employees over the course of the prior year in which they were earned rather than expensing the awards on the date of grant. A portion of the restricted stock units granted to employees are subject to certain performance conditions. The Company bases initial accruals of compensation cost on the estimated number of instruments for which the requisite service is expected to be rendered. If the estimated number of instruments changes from previous estimates, the cumulative effect on current and prior periods of a change is recognized in compensation cost in the period of the change.

### ***Research and Development Costs***

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. The majority of our research and development costs are incurred in developing, reviewing and enhancing the methodologies and data models offered within our product portfolio. ASC Subtopic 985-730 specifies that costs incurred in researching and developing a computer software product, as defined within ASC Subtopic 985-20, *Software-Costs of Software to be Sold, Leased or Marketed*, 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 are included in cost of services in the Consolidated Statements of Income and were approximately \$95.5 million, \$90.3 million and \$73.2 million for the years ended December 31, 2012 and 2011, and 2010, respectively. Research and development costs for the one month ended December 31, 2010 were \$7.2 million.

### ***Income Taxes***

Prior to May 2, 2008, MSCI was a member of the Morgan Stanley consolidated group and our taxable income had been 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. Since May 3, 2008, we have been filing our U.S. consolidated federal income tax return as a taxable group separate from Morgan Stanley. Since May 23, 2009, we have been filing all of our state and local income tax returns as a taxpayer separate from Morgan Stanley. Our foreign income tax returns have been and continue to be filed on a separate company basis. Our federal, state and local and foreign income tax liability has been computed and presented as if MSCI was a separate taxpaying entity in the periods presented. Federal income taxes incurred prior to May 2, 2008 and state income taxes incurred prior to May 22, 2009 are remitted to Morgan Stanley pursuant to a tax sharing agreement between the companies.

Income tax expense is provided for using the asset and liability method, under which deferred tax assets and deferred tax liabilities are determined based on the temporary differences between the financial statement and income tax bases of assets and liabilities using currently enacted tax rates.

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 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 cash and result in an increase in the effective tax rate in the period in which such resolution occurs.

### ***Deferred Revenue***

Deferred revenues represent amounts billed to customers for products and services in advance of delivery. Our clients generally pay subscription fees annually or quarterly in advance. Deferred revenue is amortized ratably over the service period as revenue recognition criteria are met. Where the service period has not begun and the client has not paid or the contract has not been renewed, deferred revenues and accounts receivable are not recognized.

### ***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. Our goodwill primarily relates to the acquisitions of Barra,



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RiskMetrics, Measurisk and IPD. Our goodwill is subject to an impairment test each year, or more often if conditions indicate impairment may have occurred, pursuant to ASC Topic 350, *Intangibles Goodwill and Other*.

We test goodwill for impairment on an annual basis and on an interim basis when certain events and circumstances exist. The testing for impairment is performed at the reporting unit level, which is deemed to be at the level of its business segments. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective book value. If the estimated fair value exceeds the book value, goodwill at the reporting unit level 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 impairment. Additionally, if the book value of a reporting unit is zero or a negative value and it is determined that it is more likely than not that the goodwill is impaired, further analysis is required. As the estimated fair value of its reporting units exceeded their respective book value on the testing dates, no impairment of goodwill was recorded during the years ended December 31, 2012, December 31, 2011 and November 30, 2010 or during the one month ended December 31, 2010.

***Allowance for Doubtful Accounts***

An allowance for doubtful accounts is recorded when it is probable and estimable that a receivable will not be collected. Changes in the allowance for doubtful accounts from November 30, 2009 to December 31, 2012 were as follows:

| <b>(in thousands)</b>                  | <b>Amount</b> |
|----------------------------------------|---------------|
| Balance as of November 30, 2009        | \$ 847        |
| Addition to provision                  | 931           |
| Amounts written off, net of recoveries | (765)         |
| <br>                                   |               |
| Balance as of November 30, 2010        | \$ 1,013      |
| Reduction to provision                 | (133)         |
| Amounts written off, net of recoveries | (3)           |
| <br>                                   |               |
| Balance as of December 31, 2010        | 877           |
| Addition to provision                  | 545           |
| Amounts written off, net of recoveries | (565)         |
| <br>                                   |               |
| Balance as of December 31, 2011        | \$ 857        |
| Addition to provision                  | 403           |
| Amounts written off, net of recoveries | (296)         |
| <br>                                   |               |
| Balance as of December 31, 2012        | \$ 964        |

***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 December 31, 2012 was \$106.1 million.

**Factors Affecting the Comparability of Results*****Acquisition of IPD***



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On November 30, 2012, we acquired IPD to expand the Company's multi-asset class offering by integrating private real estate assets into its models, as well as adding a family of real estate benchmarks to the Company's family of equity indices. See Note 10, Goodwill and Intangible Assets of the Notes to the Consolidated Financial Statements for further information.

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The results of IPD were included in our results of operations from its acquisition date of November 30, 2012. The IPD acquisition has not had a significant impact on our results of operations.

### *Acquisition of Measurisk*

On July 30, 2010, we acquired Measurisk to expand our product offerings to hedge fund investors. The results of Measurisk were not included in our results of operations until its acquisition date of July 30, 2010. The Measurisk acquisition has not had a significant impact on our results of operations.

### *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 was comprised of (i) a \$1,275.0 million six-year term loan facility ( 2010 Term Loan ) and (ii) a \$100.0 million five-year revolving credit facility. We assigned a significant value to the intangible assets of RiskMetrics as part of the acquisition, which increased the amortization expense we recognized for the year ended December 31, 2011 as compared to the year ended November 30, 2010. See Note 10, Goodwill and Intangible Assets of the Notes to the Consolidated Financial Statements for further information.

The results of RiskMetrics were not included in our results of operations until its acquisition date of June 1, 2010. The RiskMetrics acquisition had a significant impact on our results of operations and affected the comparability of our results for the year ended December 31, 2011 as compared to the year ended November 30, 2010.

### *Restructuring*

We initiated restructuring activities during the third quarter of 2010 and the plan was substantially completed by December 31, 2011. See Restructuring below and Note 3, Restructuring, of the Notes to the Consolidated Financial Statements for further information about MSCI's restructuring-related activities and estimated costs.

### *Term Loan Repricing*

On June 1, 2010, we entered into a senior secured credit agreement with Morgan Stanley Senior Funding, Inc., as administrative agent, Morgan Stanley & Co. Incorporated, as collateral agent, and the other lenders party thereto, which was comprised of (i) a \$1,275.0 million six-year term loan facility (the 2010 Term Loan ) and (ii) a \$100.0 million five-year revolving credit facility (the 2010 Revolving Credit Facility and together with the 2010 Term Loan, the 2010 Credit Facility ). On March 14, 2011, we completed the repricing of the 2010 Credit Facility. The repricing provided for the incurrence of a new senior secured loan (the 2011 Term Loan ) in an aggregate principal amount of \$1,125.0 million. The proceeds of the 2011 Term Loan, together with \$87.6 million of cash on hand, were used to repay the remaining \$1,212.6 million outstanding balance of the 2010 Term Loan in full. The 2011 Term Loan would have matured in March 2017. The repricing decreased the interest rate applicable to the 2011 Term Loan from the London Interbank Offered Rate ( LIBOR ) plus 3.25% (with a leverage-based stepdown) to LIBOR plus 2.75% (with a leverage-based stepdown) and reduced the LIBOR floor applicable to the 2011 Term Loan from 1.50% to 1.00%. We incurred \$6.1 million in fees associated with the repricing, which are reflected in other expense (income) on the Company's Consolidated Statement of Income for the year ended December 31, 2011.

On May 4, 2012, we amended and restated our 2010 Credit Facility (the credit agreement as so amended and restated, the Amended and Restated Credit Facility ). The Amended and Restated Credit Facility provides for the incurrence of a new senior secured five-year Term Loan A Facility (the 2012 Term Loan ) in an aggregate amount of \$880.0 million and a \$100.0 million senior secured revolving facility (the 2012 Revolving Credit Facility ). The proceeds of the Amended and Restated Credit Facility, together with cash on hand, were used to repay the remaining outstanding principal of the then-existing 2011 Term Loan. The 2012 Term Loan and the 2012 Revolving Credit Facility mature on May 4, 2017. In connection with the repayment of the 2011 Term Loan, we terminated our then-existing interest rate swaps and have not entered into new interest rate swaps to hedge our debt as such swaps are not required under the Amended and Restated Credit Facility. At December 31, 2012, the 2012 Term Loan bears interest of LIBOR plus 2.25%, or 2.46%. We incurred \$20.6 million in expense related to the accelerated amortization of existing fees or the immediate recognition of new fees associated with this transaction in Interest expense on the Company's Consolidated Statement of Income for the year ended December 31, 2012.

### Change in Fiscal Year End



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In Results of Operations below, we compare the year ended December 31, 2012 with the previously reported year ended December 31, 2011, and year ended December 31, 2011 with the previously reported year ended November 30, 2010. Financial information for the year ended December 31, 2010 has not been included in this Annual Report on Form 10-K for the following reasons: (i) the year ended November 30, 2010 provides a meaningful comparison for the year ended December 31, 2011; (ii) there are no significant factors, seasonal or other, that would materially impact the comparability of information if the results for the year ended December 31, 2010 were presented in lieu of results for the year ended November 30, 2010; and (iii) it was not practicable or cost justified to prepare this information.

**Results of Operations*****Year Ended December 31, 2012 Compared to Year Ended December 31, 2011***

|                                                                                 | For the Years Ended                      |                      | Increase/(Decrease) |          |
|---------------------------------------------------------------------------------|------------------------------------------|----------------------|---------------------|----------|
|                                                                                 | December 31,<br>2012                     | December 31,<br>2011 |                     |          |
|                                                                                 | (in thousands, except<br>per share data) |                      |                     |          |
| Operating revenues                                                              | \$ 950,141                               | \$ 900,941           | \$ 49,200           | 5.5%     |
| Operating expenses:                                                             |                                          |                      |                     |          |
| Cost of services                                                                | 288,075                                  | 277,147              | 10,928              | 3.9%     |
| Selling, general and administrative                                             | 233,183                                  | 212,972              | 20,211              | 9.5%     |
| Restructuring                                                                   | (51)                                     | 3,594                | (3,645)             | (101.4%) |
| Amortization of intangible assets                                               | 63,298                                   | 65,805               | (2,507)             | (3.8%)   |
| Depreciation and amortization of property, equipment and leasehold improvements | 18,700                                   | 19,425               | (725)               | (3.7%)   |
| Total operating expenses                                                        | 603,205                                  | 578,943              | 24,262              | 4.2%     |
| Operating income                                                                | 346,936                                  | 321,998              | 24,938              | 7.7%     |
| Other expense, net                                                              | 57,527                                   | 58,585               | (1,058)             | (1.8%)   |
| Provision for income taxes                                                      | 105,171                                  | 89,959               | 15,212              | 16.9%    |
| Net income                                                                      | \$ 184,238                               | \$ 173,454           | \$ 10,784           | 6.2%     |
| Earnings per basic common share                                                 | \$ 1.50                                  | \$ 1.43              | \$ 0.07             | 4.9%     |
| Earnings per diluted common share                                               | \$ 1.48                                  | \$ 1.41              | \$ 0.07             | 5.0%     |
| Operating margin                                                                | 36.5%                                    | 35.7%                |                     |          |

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|                                 | For the Years Ended  |                      | Increase/(Decrease) |             |
|---------------------------------|----------------------|----------------------|---------------------|-------------|
|                                 | December 31,<br>2012 | December 31,<br>2011 |                     |             |
|                                 | (in thousands)       |                      |                     |             |
| <b>Index and ESG:</b>           |                      |                      |                     |             |
| Subscriptions                   | \$ 300,630           | \$ 264,390           | \$ 36,240           | 13.7%       |
| Asset-based fees                | 140,883              | 140,243              | 640                 | 0.5%        |
| <br>                            |                      |                      |                     |             |
| Total index and ESG             | 441,513              | 404,633              | 36,880              | 9.1%        |
| Risk management analytics       | 260,276              | 243,570              | 16,706              | 6.9%        |
| Portfolio management analytics  | 116,133              | 118,889              | (2,756)             | (2.3%)      |
| Energy and commodity analytics  | 9,068                | 14,263               | (5,195)             | (36.4%)     |
| Governance                      | 123,151              | 119,586              | 3,565               | 3.0%        |
| <br>                            |                      |                      |                     |             |
| <b>Total operating revenues</b> | <b>\$ 950,141</b>    | <b>\$ 900,941</b>    | <b>\$ 49,200</b>    | <b>5.5%</b> |
| <br>                            |                      |                      |                     |             |
| Recurring subscriptions         | 784,331              | 732,473              | 51,858              | 7.1%        |
| Asset-based fees                | 140,883              | 135,981              | 4,902               | 3.6%        |
| Non-recurring revenue           | 24,927               | 32,487               | (7,560)             | (23.3%)     |
| <br>                            |                      |                      |                     |             |
| <b>Total operating revenues</b> | <b>\$ 950,141</b>    | <b>\$ 900,941</b>    | <b>\$ 49,200</b>    | <b>5.5%</b> |

**Operating Revenues**

Total operating revenues for the year ended December 31, 2012 increased \$49.2 million, or 5.5%, to \$950.1 million compared to \$900.9 million for the year ended December 31, 2011. The growth was comprised of increases in index and ESG subscription revenues, risk management analytics and governance, partially offset by decreases in energy and commodity analytics and portfolio management analytics.

During the year ended December 31, 2012, as a result of a one-time non-cash adjustment, we recorded a \$5.2 million cumulative revenue reduction to correct an immaterial error related to revenues previously reported through December 31, 2011. See Note 1, Introduction and Basis of Presentation, of the Notes to the Consolidated Financial Statements for further information. Previously, our policy resulted in the immediate recognition of a substantial portion of the revenue for certain energy and commodity analytics product related contracts, the terms of which were generally one year. However, it was determined that the entire license fee related to these contracts should be recognized ratably over the term of the license. As such, we made the cumulative adjustment effective January 1, 2012 and started recognizing revenue for all contracts still in effect as of this date ratably over the remainder of the term and will recognize revenue ratably over the contract term for any new contracts entered into on January 1, 2012 and thereafter.

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 \$36.9 million, or 9.1%, to \$441.5 million for the year ended December 31, 2012 compared to \$404.6 million for the year ended December 31, 2011.

Subscription revenues from the index and ESG products increased \$36.2 million, or 13.7%, to \$300.6 million for the year ended December 31, 2012 compared to \$264.4 million for the year ended December 31, 2011. The increase was substantially attributable to growth in our core benchmark products.

Asset-based fee revenues attributable to the index and ESG products increased 0.5% to \$140.9 million for the year ended December 31, 2012 compared to \$140.2 million for the year ended December 31, 2011. The average value of assets in ETFs linked to MSCI equity indices in the aggregate increased 4.7% to \$349.1 billion for the year ended December 31, 2012 compared to \$333.5 billion for the year ended December 31, 2011. As of December 31, 2012, the value of assets in ETFs linked to MSCI equity indices was \$402.3 billion, representing an increase of 33.4% from \$301.6 billion as of December 31, 2011. Please see footnote 2 to the run rates table found under Operating Metrics Run Rate for discussion of the impact of the Vanguard announcement on AUM and our forward-looking asset-based fee revenues.



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Of the \$402.3 billion of assets in ETFs linked to MSCI equity indices as of December 31, 2012, 40.6% were linked to emerging market indices, 32.8% were linked to developed markets outside of the U.S., 23.4% were linked to U.S. market indices and 3.2% were linked to other global indices.

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:

|                                    | Period Ended          |                |                       |                |                |                  |                       |                |
|------------------------------------|-----------------------|----------------|-----------------------|----------------|----------------|------------------|-----------------------|----------------|
|                                    | March 31,             | June 30,       | 2011<br>September 30, | December 31,   | March 31,      | June 30,         | 2012<br>September 30, | December 31,   |
|                                    | (amounts in billions) |                |                       |                |                |                  |                       |                |
| AUM in ETFs linked to MSCI Indices | \$ 350.1              | \$ 360.5       | \$ 290.1              | \$ 301.6       | \$ 354.7       | \$ 327.4         | \$ 363.7              | \$ 402.3       |
| Sequential Change in Value         |                       |                |                       |                |                |                  |                       |                |
| Market Appreciation/(Depreciation) | \$ 10.1               | \$ (3.8)       | \$ (70.4)             | \$ 10.5        | \$ 37.9        | \$ (27.6)        | \$ 21.1               | \$ 12.7        |
| Cash Inflow/(Outflow)              | 6.7                   | 14.2           |                       | 1.0            | 15.2           | 0.3              | 15.2                  | 25.9           |
| <b>Total Change</b>                | <b>\$ 16.8</b>        | <b>\$ 10.4</b> | <b>\$ (70.4)</b>      | <b>\$ 11.5</b> | <b>\$ 53.1</b> | <b>\$ (27.3)</b> | <b>\$ 36.3</b>        | <b>\$ 38.6</b> |

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>. This information is updated on the second U.S. business day of each month. Information contained on our website is not incorporated by reference into this Annual Report on Form 10-K or any other report filed with the SEC.

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. Revenues related to risk management analytics products increased \$16.7 million, or 6.9%, to \$260.3 million for the year ended December 31, 2012 compared to \$243.6 million for the year ended December 31, 2011. The growth is primarily driven by increased sales of our BarraOne and RiskManager products.

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 \$2.8 million, or 2.3%, to \$116.1 million for the year ended December 31, 2012 compared to \$118.9 million for the year ended December 31, 2011. Within the portfolio management analytics products, equity portfolio analytics tools decreased \$1.7 million to \$112.6 million and fixed income analytics tools decreased \$1.1 million to \$3.5 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 decreased 36.4% to \$9.1 million for the year ended December 31, 2012 compared to \$14.3 million for the year ended December 31, 2011. Excluding the impact of the revenue adjustment recorded during the year ended December 31, 2012, revenues from our energy and commodity analytics products would have been flat compared to the year ended December 31, 2011.

Our governance products consist of corporate governance products and services, including proxy research, recommendation and voting services for institutional investors as well as governance advisory and compensation data analytics for corporations. They also include equity research based on forensic accounting research as well as class action monitoring and claims filing services to aid institutional investors in the recovery of funds from securities class action settlements. Governance products were up \$3.6 million, or 3.0%, to \$123.2 million for the year ended December 31, 2012 compared to \$119.6 million for the year ended December 31, 2011 driven by higher revenues from our compensation and advisory products and services.

**Table of Contents****Operating Expenses**

Operating expenses increased 4.2% to \$603.2 million for the year ended December 31, 2012 compared to \$578.9 million for the year ended December 31, 2011. The \$24.3 million increase primarily reflects higher compensation costs.

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

|                                                                | Years Ended          |                      | Increase/(Decrease) |          |
|----------------------------------------------------------------|----------------------|----------------------|---------------------|----------|
|                                                                | December 31,<br>2012 | December 31,<br>2011 |                     |          |
|                                                                | (in thousands)       |                      |                     |          |
| <b>Cost of services:</b>                                       |                      |                      |                     |          |
| Compensation and benefits                                      | \$ 216,018           | \$ 202,597           | \$ 13,421           | 6.6%     |
| Non-compensation expenses                                      | 72,057               | 74,550               | (2,493)             | (3.3%)   |
| Total cost of services                                         | 288,075              | 277,147              | 10,928              | 3.9%     |
| <b>Selling, general and administrative:</b>                    |                      |                      |                     |          |
| Compensation and benefits                                      | 157,185              | 143,490              | 13,695              | 9.5%     |
| Non-compensation expenses                                      | 75,998               | 69,482               | 6,516               | 9.4%     |
| Total selling, general and administrative                      | 233,183              | 212,972              | 20,211              | 9.5%     |
| Restructuring                                                  | (51)                 | 3,594                | (3,645)             | (101.4%) |
| Amortization of intangible assets                              | 63,298               | 65,805               | (2,507)             | (3.8%)   |
| Depreciation of property, equipment and leasehold improvements | 18,700               | 19,425               | (725)               | (3.7%)   |
| Total operating expenses                                       | \$ 603,205           | \$ 578,943           | \$ 24,262           | 4.2%     |
| Compensation and benefits                                      | \$ 373,203           | \$ 346,087           | \$ 27,116           | 7.8%     |
| Non-compensation expenses                                      | 148,055              | 144,032              | 4,023               | 2.8%     |
| Restructuring                                                  | (51)                 | 3,594                | (3,645)             | (101.4%) |
| Amortization of intangible assets                              | 63,298               | 65,805               | (2,507)             | (3.8%)   |
| Depreciation of property, equipment and leasehold improvements | 18,700               | 19,425               | (725)               | (3.7%)   |
| Total operating expenses                                       | \$ 603,205           | \$ 578,943           | \$ 24,262           | 4.2%     |

Compensation and benefits expenses represent the majority of our expenses across all of our operating functions and have typically represented approximately 60% of our total operating expenses. These costs generally contribute to the majority of our expense increases from period to period, reflecting increased compensation and benefits expenses for current staff and increased staffing levels. As of December 31, 2012, the number of employees increased by 330 to 2,759 from 2,429 on December 31, 2011, primarily related to the acquisition of IPD. Continued growth of our emerging market centers around the world is an important factor in our ability to manage and control the growth of our compensation and benefit expenses. Approximately 40.6% and 39.2% of our employees were located in emerging market centers as of December 31, 2012 and 2011, respectively.

Compensation and benefits costs for the year ended December 31, 2012, were \$373.2 million, an increase of \$27.1 million, or 7.8%, compared to \$346.1 million for year ended December 31, 2011. The increase in compensation and benefits costs primarily reflects \$22.8 million of increased costs related to current staff and increased staffing levels and \$10.5 million of increased post-retirement and other costs, partially offset by \$6.2 million of decreased stock based compensation costs.

Included in compensation and benefits costs, stock based compensation expense for the year ended December 31, 2012 was \$24.7 million, a decrease of 20.0% compared to \$30.9 million for the year ended December 31, 2011. The decrease was primarily caused by lower expense associated with the amortization of restricted stock units and options awarded to certain of our employees in connection with our initial public offering in November 2007 (the Founders Grant Award ) and a decrease associated with the equity award granted in June 2010 to certain employees in connection with the RiskMetrics acquisition (the Performance Award ). The decrease in the expense related to the Founders Grant



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Award is attributable to the award's final vesting that occurred in November 2011. Approximately \$3.0 million of the stock based compensation expense was related to the Founders Grant Award for the year ended December 31, 2011. For the years ended December 31, 2012 and

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2011, approximately \$1.8 million and \$4.9 million, respectively, of the stock-based compensation expense was associated with the Performance Award.

Non-compensation expenses for the year ended December 31, 2012 were \$148.1 million, an increase of 2.8%, compared to \$144.0 million for the year ended December 31, 2011. The increase was driven primarily by the impact of recording a \$3.8 million lease exit charge associated with vacating our 88 Pine Street office space in New York.

***Cost of Services***

Cost of services includes costs related to our research, data operations and technology, software engineering and product management and proxy research and voting functions. Compensation and benefits generally contribute to a majority of our expense increases from period to period, reflecting increases for existing staff and increased staffing levels. For the year ended December 31, 2012, total cost of services increased 3.9% to \$288.1 million compared to \$277.1 million for the year ended December 31, 2011.

Compensation and benefits expenses for the year ended December 31, 2012 increased \$13.4 million, or 6.6%, to \$216.0 million compared to \$202.6 million for the year ended December 31, 2011. The increase in compensation and benefits costs primarily reflects increased costs related to current staff and increased staffing levels, higher severance costs and increased post-retirement and other costs, partially offset by decreased stock based compensation costs.

Non-compensation expenses for the year ended December 31, 2012 decreased 3.3% to \$72.1 million compared to \$74.5 million for the year ended December 31, 2011. The decrease was largely due to lower travel and entertainment costs, market data costs, recruiting costs and outside professional fees, partially offset by the lease exit charge associated with vacating our 88 Pine Street office space in New York.

***Selling, General and Administrative***

SG&A includes expenses for our sales and marketing staff, and our finance, human resources, legal and compliance, information technology infrastructure and corporate administration personnel. As with cost of services, the largest expense in this category relates to compensation and benefits. Other significant expenses are for occupancy costs, consulting services and information technology costs. SG&A expenses increased \$20.2 million, or 9.5%, to \$233.2 million for the year ended December 31, 2012 compared to \$213.0 million for the year ended December 31, 2011.

Compensation and benefits expenses increased \$13.7 million, or 9.5%, to \$157.2 million for the year ended December 31, 2012 compared to \$143.5 million for the year ended December 31, 2011. The increase in compensation and benefits costs primarily reflects increased costs related to current staff and increased staffing levels and increased post-retirement and other costs, partially offset by decreased stock based compensation costs.

Non-compensation expenses for the year ended December 31, 2012 increased \$6.5 million, or 9.4%, to \$76.0 million compared to \$69.5 million for the year ended December 31, 2011. The increase was primarily the result of higher occupancy costs, including the lease exit charge associated with vacating our 88 Pine Street office space.

Within SG&A, selling expenses increased 6.5% to \$95.5 million and general and administrative expenses increased 11.7% to \$137.7 million for the year ended December 31, 2012.

***Restructuring***

There was less than \$0.1 million of restructuring benefits recognized during the year ended December 31, 2012, relating to adjustments made for costs accrued for the elimination of overlapping positions. Restructuring expense was \$3.6 million for the year ended December 31, 2011. Approximately \$0.7 million of the 2011 expense was associated with the elimination of overlapping positions and \$2.9 million of the expense was associated with eliminating duplicative occupancy costs.

***Amortization of Intangibles***

Amortization of intangibles expense relates to the intangible assets arising from the acquisition of Barra in June 2004, RiskMetrics in June 2010, Measurisk in July 2010 and IPD in November 2012. For the year ended December 31, 2012, amortization of intangibles expense totaled \$63.3 million compared to \$65.8 million for the year ended December 31, 2011. The decrease was the result of a portion of the intangible assets

becoming fully amortized during fiscal year 2012.

**Table of Contents*****Depreciation and amortization of property, equipment and leasehold improvements***

For the years ended December 31, 2012 and 2011, depreciation and amortization of property, equipment and leasehold improvements totaled \$18.7 million and \$19.4 million, respectively. The decrease is primarily related to the impact of eliminating certain assets associated with duplicative occupancy and certain information technology assets becoming fully depreciated, partially offset by the increased depreciation associated with the build-out and occupancy of our new offices in New York and Maryland.

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

Other expense (income), net for the year ended December 31, 2012 was \$57.5 million, a decrease of \$1.1 million compared to \$58.6 million for the year ended December 31, 2011. The decrease is primarily the result of the impact on interest expense of lower average outstanding principal on our debt and lower associated interest rates, partially offset by the accelerated recognition of deferred financing costs as a result of our refinancing activities.

***Income Taxes***

The provision for income tax expense was \$105.2 million and \$90.0 million for the years ended December 31, 2012 and 2011, respectively. These amounts reflect effective tax rates of 36.3% and 34.2% for the years ended December 31, 2012 and 2011, respectively.

The effective tax rate of 36.3% for the year ended December 31, 2012 reflects our operating tax rate and the impact of the settlement of tax issues with Morgan Stanley which increased the rate by 0.5 percentage points, non-deductible transaction costs related to the acquisition of IPD which increased the rate by 0.2 percentage points and other discrete items which increased the rate by 0.2 percentage points.

The effective tax rate of 34.2% for the year ended December 31, 2011 reflected our operating tax rate and the impact of the change in our intention to permanently reinvest the undistributed earnings of three of our foreign operations which decreased the rate by 1.1 percentage points, the benefit of the federal research and development credit which decreased the rate by 0.5 percentage points and other discrete items which decreased the rate by 0.4 percentage points.

On January 2, 2013, the federal research and development credit was reenacted retroactively, the effect of which will be to decrease our effective tax rate for the year ending December 31, 2013.

**Segment Results of Operations**

The table below reflects the results of operations by segment for the years ended December 31, 2012 and 2011:

|                                          | Year Ended December 31, 2012 |            |            | Year Ended December 31, 2011 |            |            |
|------------------------------------------|------------------------------|------------|------------|------------------------------|------------|------------|
|                                          | Performance and Risk         | Governance | Total      | Performance and Risk         | Governance | Total      |
|                                          | (in thousands)               |            |            |                              |            |            |
| <b>Operating revenues</b>                | \$ 826,990                   | \$ 123,151 | \$ 950,141 | \$ 781,355                   | \$ 119,586 | \$ 900,941 |
| Cost of services                         | 228,072                      | 60,003     | 288,075    | 218,048                      | 59,099     | 277,147    |
| Selling, general and administrative      | 199,221                      | 33,962     | 233,183    | 183,294                      | 29,678     | 212,972    |
| Restructuring                            | (32)                         | (19)       | (51)       | 1,951                        | 1,643      | 3,594      |
| Amortization of intangible assets        | 50,017                       | 13,281     | 63,298     | 52,414                       | 13,391     | 65,805     |
| Depreciation expense                     | 15,165                       | 3,535      | 18,700     | 15,144                       | 4,281      | 19,425     |
| <b>Total operating expenses</b>          | 492,443                      | 110,762    | 603,205    | 470,851                      | 108,092    | 578,943    |
| <b>Operating income</b>                  | 334,547                      | 12,389     | 346,936    | 310,504                      | 11,494     | 321,998    |
| <b>Other expense (income), net</b>       |                              |            | 57,527     |                              |            | 58,585     |
| Income before provision for income taxes |                              |            | 289,409    |                              |            | 263,413    |

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|                            |                   |                   |
|----------------------------|-------------------|-------------------|
| Provision for income taxes | 105,171           | 89,959            |
| <b>Net income</b>          | <b>\$ 184,238</b> | <b>\$ 173,454</b> |

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### ***Performance and Risk***

Total operating revenues for the Performance and Risk business increased \$45.6 million, or 5.8%, to \$827.0 million for the year ended December 31, 2012. The increase was primarily driven by higher revenues from our core benchmark indices, growth within our risk management analytics products and revenues from the IPD acquisition made in November 2012, partially offset by lower revenues from portfolio management analytics products and energy and commodity analytics products.

Cost of services for the Performance and Risk business increased \$10.0 million, or 4.6%, to \$228.1 million for the year ended December 31, 2012. Within cost of services, compensation and benefits expenses increased \$11.5 million to \$171.6 million primarily driven by higher costs related to current staff and increased staffing levels, higher severance costs and higher post-retirement and other costs, partially offset by lower stock-based compensation costs. Non-compensation expenses decreased \$1.5 million to \$56.5 million.

SG&A expense for the Performance and Risk business increased \$15.9 million, or 8.7%, to \$199.2 million for the year ended December 31, 2012. Within SG&A, compensation and benefits expenses increased \$10.5 million to \$134.4 million primarily as a result of higher costs related to current staff and increased staffing levels, higher severance costs and higher post-retirement and other costs, partially offset by lower stock-based compensation expense. Non-compensation expenses increased \$5.4 million to \$64.8 million.

Amortization of intangibles expense for the Performance and Risk business totaled \$50.0 million and \$52.4 million for the years ended December 31, 2012 and 2011, respectively. The decrease was the result of a portion of the intangible assets becoming fully amortized during the year ended December 31, 2012.

Depreciation and amortization of property, equipment, and leasehold improvements for the Performance and Risk business totaled \$15.2 million and \$15.1 million for the years ended December 31, 2012 and 2011, respectively. Increased depreciation was primarily associated with the build-out and occupancy of our new corporate headquarters in New York, partially offset by the impact of eliminating certain assets associated with duplicative occupancy and certain information technology assets becoming fully depreciated.

### ***Governance***

Total operating revenues for the Governance business increased \$3.6 million, or 3.0%, to \$123.2 million for the year ended December 31, 2012. The increase was primarily driven by higher revenues from our compensation and advisory products and services.

Cost of services for the Governance business increased \$0.9 million to \$60.0 million for the year ended December 31, 2012. Within cost of services, compensation and benefits expenses increased \$1.9 million to \$44.5 million primarily as a result of higher costs related to current staff and increased staffing levels, higher severance costs and higher post-retirement and other costs, partially offset by lower stock-based compensation expense. Non-compensation expenses decreased \$1.0 million to \$15.5 million.

SG&A expense for the Governance business increased \$4.3 million to \$34.0 million for the year ended December 31, 2012. Within SG&A, compensation and benefits expenses increased \$3.2 million to \$22.8 million primarily as a result of higher costs related to current staff and increased staffing levels, partially offset by lower stock-based compensation expense. Non-compensation expenses increased \$1.1 million to \$11.2 million.

Amortization of intangibles expense for the Governance business totaled \$13.3 million and \$13.4 million for the years ended December 31, 2012 and 2011, respectively. The decrease was the result of a portion of the intangible assets becoming fully amortized during the year ended December 31, 2012.

Depreciation and amortization of property, equipment, and leasehold improvements for the Governance business totaled \$3.5 million and \$4.3 million for the years ended December 31, 2012 and 2011, respectively. The decrease is primarily related to the impact of eliminating duplicative occupancy related assets and certain information technology assets becoming fully depreciated, partially offset by the increased depreciation associated with the buildout and occupancy of our new offices in Rockville, Maryland.

### **Results of Operations**

#### ***Year Ended December 31, 2011 Compared to Year Ended November 30, 2010***



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|                                                                                 | For the Years Ended                      |                      | Increase/(Decrease) |           |
|---------------------------------------------------------------------------------|------------------------------------------|----------------------|---------------------|-----------|
|                                                                                 | December 31,<br>2011                     | November 30,<br>2010 |                     |           |
|                                                                                 | (in thousands, except<br>per share data) |                      |                     |           |
| Operating revenues                                                              | \$ 900,941                               | \$ 662,901           | \$ 238,040          | 35.9%     |
| Operating expenses:                                                             |                                          |                      |                     |           |
| Cost of services                                                                | 277,147                                  | 198,626              | 78,521              | 39.5%     |
| Selling, general and administrative                                             | 212,972                                  | 190,244              | 22,728              | 11.9%     |
| Restructuring                                                                   | 3,594                                    | 8,896                | (5,302)             | (59.6%)   |
| Amortization of intangible assets                                               | 65,805                                   | 41,599               | 24,206              | 58.2%     |
| Depreciation and amortization of property, equipment and leasehold improvements | 19,425                                   | 17,413               | 2,012               | 11.6%     |
| <br>Total operating expenses                                                    | <br>578,943                              | <br>456,778          | <br>122,165         | <br>26.7% |
| <br>Operating income                                                            | <br>321,998                              | <br>206,123          | <br>115,875         | <br>56.2% |
| Other expense, net                                                              | 58,585                                   | 52,632               | 5,953               | 11.3%     |
| Provision for income taxes                                                      | 89,959                                   | 61,321               | 28,638              | 46.7%     |
| <br>Net income                                                                  | <br>\$ 173,454                           | <br>\$ 92,170        | <br>\$ 81,284       | <br>88.2% |
| <br>Earnings per basic common share                                             | <br>\$ 1.43                              | <br>\$ 0.82          | <br>\$ 0.61         | <br>74.4% |
| <br>Earnings per diluted common share                                           | <br>\$ 1.41                              | <br>\$ 0.81          | <br>\$ 0.60         | <br>74.1% |
| <br>Operating margin                                                            | <br>35.7%                                | <br>31.1%            |                     |           |

**Operating Revenues**

|                                | For the Years Ended  |                      | Increase/(Decrease) |           |
|--------------------------------|----------------------|----------------------|---------------------|-----------|
|                                | December 31,<br>2011 | November 30,<br>2010 |                     |           |
|                                | (in thousands)       |                      |                     |           |
| Index and ESG:                 |                      |                      |                     |           |
| Subscriptions                  | \$ 264,390           | \$ 224,600           | \$ 39,790           | 17.7%     |
| Asset-based fees               | 140,243              | 105,799              | 34,444              | 32.6%     |
| <br>Total index and ESG        | <br>404,633          | <br>330,399          | <br>74,234          | <br>22.5% |
| Risk management analytics      | 243,570              | 134,521              | 109,049             | 81.1%     |
| Portfolio management analytics | 118,889              | 123,159              | (4,270)             | (3.5%)    |
| Energy and commodity analytics | 14,263               | 16,228               | (1,965)             | (12.1%)   |
| Governance                     | 119,586              | 58,594               | 60,992              | 104.1%    |
| <br>Total operating revenues   | <br>\$ 900,941       | <br>\$ 662,901       | <br>\$ 238,040      | <br>35.9% |
| <br>Recurring subscriptions    | <br>\$ 732,473       | <br>537,768          | <br>194,705         | <br>36.2% |
| Asset-based fees               | 135,981              | 104,084              | 31,897              | 30.6%     |
| Non-recurring revenue          | 32,487               | 21,049               | 11,438              | 54.3%     |





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|                          |            |         |         |       |
|--------------------------|------------|---------|---------|-------|
| Total operating revenues | \$ 900,941 | 662,901 | 238,040 | 35.9% |
|--------------------------|------------|---------|---------|-------|

Total operating revenues for the year ended December 31, 2011 increased \$238.0 million, or 35.9%, to \$900.9 million compared to \$662.9 million for the year ended November 30, 2010. Approximately \$170.5 million of the year-over-year growth was comprised of revenues contributed by the acquisitions made during the year ended November 30, 2010. The remaining \$67.5 million of growth was comprised of increases in asset-based fees and subscription revenues of \$34.4 million and \$33.1 million, respectively.

Revenues related to index and ESG products increased \$74.2 million, or 22.5%, to \$404.6 million for the year ended December 31, 2011 compared to \$330.4 million for the year ended November 30, 2010.

Subscription revenues from the index and ESG products increased \$39.8 million, or 17.7%, to \$264.4 million for the year ended December 31, 2011 compared to \$224.6 million for the year ended November 30, 2010. Approximately \$8.9 million of the growth was comprised of revenues contributed by the acquisitions made during the year ended November 30, 2010. The remaining \$30.9 million was attributable to growth primarily in our core benchmark indices.

Asset-based fee revenues attributable to the index and ESG products increased \$34.4 million, or 32.6%, to \$140.2 million for the year ended December 31, 2011 compared to \$105.8 million for the year ended November 30, 2010. 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 27.7% to \$333.5 billion for the year ended December 31, 2011 compared to \$261.1 billion for the year ended November 30, 2010. As of December 31, 2011, the value of assets in ETFs linked to MSCI equity indices was \$301.6 billion, representing a decrease of 3.0% from \$311.0 billion as of November 30, 2010.

Of the \$301.6 billion of assets in ETFs linked to MSCI equity indices as of December 31, 2011, 39.0% were linked to emerging market indices, 34.3% were linked to developed markets outside of the U.S., 23.6% were linked to U.S. market indices and 3.1% were linked to other global indices.

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:

|                                    | 2010                 |                         |                        |                        | 2011         |              |              |              |          |
|------------------------------------|----------------------|-------------------------|------------------------|------------------------|--------------|--------------|--------------|--------------|----------|
|                                    | February 28, May 31, | August 31, November 30, | December 31, March 31, | June 30, September 30, | December 31, | December 31, | December 31, | December 31, |          |
| AUM in ETFs linked to MSCI Indices | \$ 233.5             | \$ 238.1                | \$ 258.7               | \$ 311.0               | \$ 333.3     | \$ 350.1     | \$ 360.5     | \$ 290.1     | \$ 301.6 |
| Sequential Change in Value         |                      |                         |                        |                        |              |              |              |              |          |
| Market Appreciation/(Depreciation) | \$ (8.6)             | \$ (4.4)                | \$ 6.8                 | \$ 28.2                | \$ 18.9      | \$ 10.1      | \$ (3.8)     | \$ (70.4)    | \$ 10.5  |
| Cash Inflow/(Outflow)              | 8.3                  | 9.0                     | 13.8                   | 24.1                   | 3.4          | 6.7          | 14.2         |              | 1.0      |
| Total Change                       | \$ (0.3)             | \$ 4.6                  | \$ 20.6                | \$ 52.3                | \$ 22.3      | \$ 16.8      | \$ 10.4      | \$ (70.4)    | \$ 11.5  |

Source: Bloomberg and MSCI

Revenues related to risk management analytics products increased \$109.1 million, or 81.1%, to \$243.6 million for the year ended December 31, 2011 compared to \$134.5 million for the year ended November 30, 2010. Approximately \$100.6 million of the growth was comprised of revenues contributed by the acquisitions made during the year ended November 30, 2010. The remaining \$8.5 million of organic growth primarily reflects an increase of \$13.0 million, or 35.0%, to \$50.3 million in BarraOne, partially offset by a decrease of \$4.5 million, or 82.6%, to \$0.9 million in TotalRisk as we decommissioned the product.



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Revenues related to portfolio management analytics products decreased \$4.3 million, or 3.5%, to \$118.9 million for the year ended December 31, 2011 compared to \$123.2 million for the year ended November 30, 2010. Within the portfolio management analytics products, equity portfolio analytics tools decreased \$3.6 million to \$114.3 million and fixed income analytics tools decreased \$0.7 million to \$4.6 million.

Revenues from energy and commodity analytics products decreased 12.1% to \$14.3 million for the year ended December 31, 2011 compared to \$16.2 million for the year ended November 30, 2010.

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 services, including forensic accounting research and services to aid institutional investors in the recovery of funds from securities litigation. For the year ended December 31, 2011, our governance products contributed \$119.6 million to our revenues compared to \$58.6 million for the year ended November 30, 2010. 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 26.7% to \$578.9 million for the year ended December 31, 2011 compared to \$456.8 million for the year ended November 30, 2010. Approximately \$103.7 million of the year-over-year increase was comprised of expenses contributed by the acquisitions made during the year ended November 30, 2010. The remaining \$18.4 million increase primarily reflects \$44.1 million of higher compensation and non-compensation costs, partially offset by \$21.2 million in transaction costs associated with the acquisition of RiskMetrics recognized during the year ended November 30, 2010 whereas no similar costs were recognized during the year ended December 31, 2011, lower expenses incurred in the year ended December 31, 2011 to restructure our operations after our acquisition of RiskMetrics and lower depreciation expense resulting from assets reaching the end of their depreciable lives.

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

|                                                                | Years Ended          |                      | Increase/(Decrease) |         |
|----------------------------------------------------------------|----------------------|----------------------|---------------------|---------|
|                                                                | December 31,<br>2011 | November 30,<br>2010 |                     |         |
| (in thousands)                                                 |                      |                      |                     |         |
| <b>Cost of services:</b>                                       |                      |                      |                     |         |
| Compensation and benefits                                      | \$ 202,597           | \$ 147,124           | \$ 55,473           | 37.7%   |
| Non-compensation expenses                                      | 74,550               | 51,502               | 23,048              | 44.8%   |
| Total cost of services                                         | 277,147              | 198,626              | 78,521              | 39.5%   |
| <b>Selling, general and administrative:</b>                    |                      |                      |                     |         |
| Compensation and benefits                                      | 143,490              | 109,871              | 33,619              | 30.6%   |
| Non-compensation expenses                                      | 69,482               | 80,373               | (10,891)            | (13.6)% |
| Total selling, general and administrative                      | 212,972              | 190,244              | 22,728              | 11.9%   |
| Restructuring                                                  | 3,594                | 8,896                | (5,302)             | (59.6)% |
| Amortization of intangible assets                              | 65,805               | 41,599               | 24,206              | 58.2%   |
| Depreciation of property, equipment and leasehold improvements | 19,425               | 17,413               | 2,012               | 11.6%   |
| Total operating expenses                                       | \$ 578,943           | \$ 456,778           | \$ 122,165          | 26.7%   |
| <b>Operating expenses by category:</b>                         |                      |                      |                     |         |
| Compensation and benefits                                      | \$ 346,087           | \$ 256,995           | \$ 89,092           | 34.7%   |
| Non-compensation expenses                                      | 144,032              | 131,875              | 12,157              | 9.2%    |
| Restructuring                                                  | 3,594                | 8,896                | (5,302)             | (59.6)% |
| Amortization of intangible assets                              | 65,805               | 41,599               | 24,206              | 58.2%   |
| Depreciation of property, equipment and leasehold improvements | 19,425               | 17,413               | 2,012               | 11.6%   |
| Total operating expenses                                       | \$ 578,943           | \$ 456,778           | \$ 122,165          | 26.7%   |



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As of December 31, 2011, the number of employees increased by 352 to 2,429 from 2,077 on November 30, 2010. During the year ended December 31, 2011, we continued to manage the compensation and benefits expenses through the hiring of staff in emerging market centers. As of December 31, 2011, approximately 39.2% of our employees were located in emerging market centers.

Compensation and benefits costs for the year ended December 31, 2011, were \$346.1 million, an increase of \$89.1 million, or 34.7%, compared to \$257.0 million for year ended November 30, 2010. Approximately \$55.8 million of the increase was comprised of expenses contributed by the acquisitions made during the year ended November 30, 2010. The remaining \$33.3 million primarily reflects \$32.0 million of increased costs related to current staff and increased staffing levels and \$2.4 million of increased stock based compensation costs, partially offset by \$1.1 million of decreased post-retirement and other costs.

Included in compensation and benefits costs, stock based compensation expense for the year ended December 31, 2011 was \$30.9 million, an increase of 7.9% compared to \$28.6 million for the year ended November 30, 2010. The increase was comprised primarily of higher expense associated with the Performance Award granted in June 2010 to certain of our employees, the amortization of awards assumed upon the acquisition of RiskMetrics and amortization of awards granted as a component of the 2010 annual bonus and other miscellaneous grants. Partially offsetting these were lower expenses associated with the Founders Grant Award and the amortization of awards associated with the 2009 and 2008 annual bonus. Approximately \$3.0 million and \$8.2 million of the stock based compensation expense was related to the Founders Grant Award for the years ended December 31, 2011 and November 30, 2010, respectively. The decrease in the expense related to the Founders Grant Award is primarily attributable to the final vesting of the award on November 14, 2011. Approximately \$4.9 million and \$4.2 million of the stock based compensation expense for the years ended December 31, 2011 and November 30, 2010, respectively, was related to the Performance Award granted in June 2010. The expected number of the shares expected to be distributed at vesting of the Performance Award was decreased during the year ended December 31, 2011, which had the effect of decreasing the total expense related to the award recognized during the year.

Non-compensation expenses for the year ended December 31, 2011 were \$144.0 million, an increase of \$12.1 million, or 9.2%, compared to \$131.9 million for the year ended November 30, 2010. Approximately \$22.6 million of the increase was comprised of expenses contributed by the acquisitions made during the year ended November 30, 2010 as well as increased professional, travel and entertainment, information technology and recruiting costs. Partially offsetting this increase were lower other taxes and license fees and the recognition during the year ended November 30, 2010 of \$21.2 million in costs related to the acquisition of RiskMetrics whereas no similar costs were recognized during the year ended December 31, 2011.

***Cost of Services***

For the year ended December 31, 2011, total cost of services increased \$78.5 million to \$277.1 million compared to \$198.6 million for the year ended November 30, 2010. Approximately \$54.3 million of the increase was comprised of expenses contributed by the acquisitions made during the year ended November 30, 2010. The remaining \$24.2 million increase was largely due to an increase in compensation and benefits, information technology, travel and entertainment, recruiting, occupancy and professional costs.

Compensation and benefits expenses for the year ended December 31, 2011 increased \$55.5 million to \$202.6 million compared to \$147.1 million for the year ended November 30, 2010. Approximately \$37.7 million of the increase was the result of the acquisitions made during the year ended November 30, 2010. The remaining \$17.8 million increase was largely due to the cost associated with increased staffing levels and share-based compensation partially offset by lower post-retirement and other costs.

Non-compensation expenses for the year ended December 31, 2011 increased approximately \$23.0 million to \$74.5 million compared to \$51.5 million for the year ended November 30, 2010. Approximately \$16.7 million of the increase was the result of the acquisitions made during the year ended November 30, 2010. The remaining \$6.3 million increase was largely due to increased information technology, travel and entertainment, recruiting, occupancy and professional costs.

***Selling, General and Administrative***

SG&A expenses increased 11.9% to \$213.0 million for the year ended December 31, 2011 compared to \$190.2 million for the year ended November 30, 2010. Approximately \$24.0 million of the increase was the result of the acquisitions made during the year ended November 30, 2010.

Compensation and benefits expenses increased \$33.6 million, or 30.6%, to \$143.5 million for the year ended December 31, 2011 compared to \$109.9 million for the year ended November 30, 2010. Approximately \$18.1 million of the increase



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was the result of the acquisitions made during the year ended November 30, 2010. The remaining \$15.5 million increase was largely due to increased costs associated with current staff and increased staffing levels and share-based compensation.

Non-compensation expenses for the year ended December 31, 2011 decreased approximately \$10.9 million to \$69.5 million compared to \$80.4 million for the year ended November 30, 2010. The decrease was primarily the result of the recognition during the year ended November 30, 2010 of \$21.2 million in costs related to the acquisition of RiskMetrics whereas no similar costs were recognized during the year ended December 31, 2011. Partially offsetting this was \$5.9 million of increased expenses contributed by the acquisitions made during the year ended November 30, 2010 as well as increased professional and travel and entertainment costs.

Within SG&A, selling expenses increased 32.0% to \$89.7 million and general and administrative expenses increased 0.8% to \$123.3 million for the year ended December 31, 2011.

### ***Restructuring***

Costs continued to be incurred under this plan throughout the year ended December 31, 2011, with the plan becoming substantially completed by December 31, 2011. Restructuring expense of \$3.6 million, consisting of approximately \$2.9 million of expense associated with eliminating duplicative occupancy costs and \$0.7 million of expense associated with the elimination of overlapping positions, was recognized during the year ended December 31, 2011. Restructuring expense of \$8.9 million, consisting of approximately \$6.6 million of expense associated with the elimination of overlapping positions, \$1.3 million of expense associated with duplicative occupancy costs and \$1.0 million of expense associated with the discontinuance of the planned integration of a product into RiskMetrics standard product offering suite, was recognized during the year ended November 30, 2010.

### ***Amortization of Intangibles***

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. For the year ended December 31, 2011, amortization of intangibles expense totaled \$65.8 million compared to \$41.6 million for the year ended November 30, 2010. The increase was the result of recognizing a full year's worth of amortization in the year ended December 31, 2011 associated with the intangibles acquired in the acquisitions made during the second half of the year ended November 30, 2010.

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

For the years ended December 31, 2011 and November 30, 2010, depreciation and amortization of property, equipment and leasehold improvements totaled \$19.4 million and \$17.4 million, respectively. The increase was primarily the result of recognizing a full year's worth of depreciation of property, equipment and leasehold improvements in the year ended December 31, 2011 acquired as the result of the acquisitions made during the second half of the year ended November 30, 2010, partially offset by the impact of assets reaching the end of their depreciable lives.

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

Other expense (income), net for the year ended December 31, 2011 was \$58.6 million, an increase of \$6.0 million compared to \$52.6 million for the year ended November 30, 2010. The increase primarily reflects higher interest expense resulting from the senior secured term loan we entered into on June 1, 2010, and subsequently refinanced in March 2011, as part of our acquisition of RiskMetrics.

### ***Income Taxes***

The provision for income tax expense was \$90.0 million for the year ended December 31, 2011, an increase of 46.7% compared to \$61.3 million for the year ended November 30, 2010. Our effective tax rate was 34.2% and 40.0% for the years ended December 31, 2011 and November 30, 2010, respectively.

The effective tax rate of 34.2% for the year ended December 31, 2011 reflected our operating tax rate and the impact of the change in our intention to permanently reinvest the undistributed earnings of three of our foreign operations which decreased the rate by 1.1 percentage points, the benefit of the federal research and development credit which decreased the rate by 0.5 percentage points and other discrete items which decreased the rate by 0.4 percentage points.



**Segment Results of Operations**

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The table below reflects the results of operations by segment for the years ended December 31, 2011 and November 30, 2010:

|                                          | Year Ended December 31, 2011 |            |            | Year Ended November 30, 2010 |            |            |
|------------------------------------------|------------------------------|------------|------------|------------------------------|------------|------------|
|                                          | Performance and Risk         | Governance | Total      | Performance and Risk         | Governance | Total      |
|                                          | (in thousands)               |            |            |                              |            |            |
| <b>Operating revenues</b>                | \$ 781,355                   | \$ 119,586 | \$ 900,941 | \$ 604,307                   | \$ 58,594  | \$ 662,901 |
| Cost of services                         | 218,048                      | 59,099     | 277,147    | 165,623                      | 33,003     | 198,626    |
| Selling, general and administrative      | 183,294                      | 29,678     | 212,972    | 180,614                      | 9,630      | 190,244    |
| Restructuring                            | 1,951                        | 1,643      | 3,594      | 6,673                        | 2,223      | 8,896      |
| Amortization of intangible assets        | 52,414                       | 13,391     | 65,805     | 34,899                       | 6,700      | 41,599     |
| Depreciation expense                     | 15,144                       | 4,281      | 19,425     | 16,129                       | 1,284      | 17,413     |
| <b>Total operating expenses</b>          | 470,851                      | 108,092    | 578,943    | 403,938                      | 52,840     | 456,778    |
| <b>Operating income</b>                  | 310,504                      | 11,494     | 321,998    | 200,369                      | 5,754      | 206,123    |
| <b>Other expense (income), net</b>       |                              |            | 58,585     |                              |            | 52,632     |
| Income before provision for income taxes |                              |            | 263,413    |                              |            | 153,491    |
| Provision for income taxes               |                              |            | 89,959     |                              |            | 61,321     |
| <b>Net income</b>                        |                              |            | \$ 173,454 |                              |            | \$ 92,170  |

Our operating segments were established as a result of the acquisitions we made during the second half of the year ended November 30, 2010. The explanation of segment results excluding the impact of the acquisitions made would be substantially the same as the whole company results discussed in Results of Operations above.

**Results of Operations****One Month Transition Period Ended December 31, 2010 Compared to One Month Ended December 31, 2009**

|                                                                                 | For the One Month Ended |           | Increase/(Decrease) |        |
|---------------------------------------------------------------------------------|-------------------------|-----------|---------------------|--------|
|                                                                                 | 2010                    | 2009      |                     |        |
|                                                                                 | (in thousands)          |           |                     |        |
| Operating revenues                                                              | \$ 72,524               | \$ 40,487 | \$ 32,037           | 79.1%  |
| Operating expenses:                                                             |                         |           |                     |        |
| Cost of services                                                                | 20,986                  | 10,491    | 10,495              | 100.0% |
| Selling, general and administrative                                             | 17,481                  | 10,919    | 6,562               | 60.1%  |
| Restructuring                                                                   | 26                      |           | 26                  | n/a    |
| Amortization of intangible assets                                               | 5,564                   | 1,426     | 4,138               | 290.2% |
| Depreciation and amortization of property, equipment and leasehold improvements | 1,798                   | 1,111     | 687                 | 61.8%  |
| Total operating expenses                                                        | 45,855                  | 23,947    | 21,908              | 91.5%  |
| Operating income                                                                | 26,669                  | 16,540    | 10,129              | 61.2%  |
| Other expense, net                                                              | 6,113                   | 1,630     | 4,483               | 275.0% |
| Provision for income taxes                                                      | 6,732                   | 5,651     | 1,081               | 19.1%  |

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|                                 |           |          |          |       |
|---------------------------------|-----------|----------|----------|-------|
| Net income                      | \$ 13,824 | \$ 9,259 | \$ 4,565 | 49.3% |
| Earnings per basic common share | \$ 0.11   | \$ 0.09  | \$ 0.02  | 22.2% |

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|                                   |         |         |         |       |
|-----------------------------------|---------|---------|---------|-------|
| Earnings per diluted common share | \$ 0.11 | \$ 0.09 | \$ 0.02 | 22.2% |
| Operating margin                  | 36.8%   | 40.9%   |         |       |

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. As a result, the primary reason for the changes between the one month ended December 31, 2010 and the one month ended December 31, 2009 was the impact of the acquisition.

**Liquidity and Capital Resources**

We require capital to fund ongoing operations, internal growth initiatives and acquisitions. Our primary sources of liquidity are cash flows generated from our operations, proceeds from the maturity and sale of our short-term investments, existing cash and cash equivalents and credit capacity under our credit facilities. We intend to use these sources of liquidity to service our existing and future debt obligations and fund our working capital requirements, capital expenditures, investments, acquisitions and repurchases of our common stock. In connection with our business strategy, we regularly evaluate acquisition opportunities. We believe our liquidity, along with other financing alternatives, will provide the necessary capital to fund these transactions and achieve our planned growth.

On June 1, 2010, we entered into a senior secured credit agreement with Morgan Stanley Senior Funding, Inc., as administrative agent, Morgan Stanley & Co. Incorporated, as collateral agent, and the other lenders party thereto, which was comprised of (i) the \$1,275.0 million 2010 Term Loan and (ii) the \$100.0 million 2010 Revolving Credit Facility. We were required to repay 1.00% of the principal of the 2010 Term Loan per year in quarterly installments. The 2010 Credit Facility also contained a number of mandatory prepayment requirements, including a requirement to repay a specified amount of the 2010 Term Loan annually from a portion of our excess cash flows (as defined in the 2010 Credit Facility, which varied based on our leverage ratio). Any remaining principal of the 2010 Term Loan was to be payable on the final maturity date of the facility. In February 2011, we made a prepayment of \$56.0 million on the 2010 Term Loan from our excess cash flows.

On March 14, 2011, we completed the repricing of the then-existing senior secured term loan facility under the 2010 Credit Facility pursuant to Amendment No. 2 to the 2010 Credit Facility ( Amendment No. 2 ). Amendment No. 2 provided for the incurrence of the 2011 Term Loan in an aggregate principal amount of \$1,125.0 million. The proceeds of the 2011 Term Loan, together with \$87.6 million of cash on hand, were used to repay the remaining \$1,212.6 million outstanding balance of the 2010 Term Loan in full.

The 2011 Term Loan was to mature in March 2017. The 2010 Revolving Credit Facility was to mature in June 2015 and was available to fund our working capital requirements and for other general corporate purposes. Amendment No. 2 decreased the interest rate applicable to the 2011 Term Loan from LIBOR plus 3.25% (with a leverage-based stepdown) to LIBOR plus 2.75% (with a leverage-based stepdown) and reduced the LIBOR floor applicable to the 2011 Term Loan from 1.50% to 1.00%. Amendment No. 2 contained a number of mandatory prepayment requirements, including a requirement to repay a specified amount of the 2011 Term Loan annually from a portion of our excess cash flows (as defined in the 2010 Credit Facility, as amended, which varied based on our leverage ratio).

On December 31, 2011, we made a \$35.0 million prepayment on the 2011 Term Loan.

On May 4, 2012, we amended and restated our existing senior credit facilities by entering into the Amended and Restated Credit Facility, which consists of the 2012 Term Loan in an aggregate amount of \$880.0 million and the \$100.0 million 2012 Revolving Credit Facility. The proceeds of the Amended and Restated Credit Facility, together with cash on hand, were used to repay the remaining outstanding principal of the then-existing 2011 Term Loan. The 2012 Term Loan and the 2012 Revolving Credit Facility mature on May 4, 2017. We are required to repay 5.00% of the 2012 Term Loan in quarterly payments over the first two years, 10.00% of the 2012 Term Loan in quarterly payments over the next two years, and 70.00% of the 2012 Term Loan in quarterly payments over the final year. In connection with the repayment of the 2011 Term Loan, we terminated our then-existing interest rate swaps and are not required to enter into new interest rate swaps to hedge our debt under the Amended and Restated Credit Facility.

The effective rate on our debt was 2.46% at December 31, 2012.

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The obligations under the Amended and Restated Credit Facility are guaranteed by each of our direct and indirect wholly-owned domestic subsidiaries, subject to limited exceptions. The obligations under the Amended and Restated Credit Facility are secured by a lien on substantially all of the equity interests of our present and future domestic subsidiaries, up to 65% of the equity interests of our first-tier foreign subsidiaries, and substantially all of our and our domestic subsidiaries' present and future property and assets, subject to certain exceptions.

The Amended and Restated Credit Facility contains affirmative and restrictive covenants that, among other things, limit our ability and our existing or future subsidiaries' abilities to:

incur liens and further negative pledges;

incur additional indebtedness or prepay, redeem or repurchase indebtedness;

make loans or hold investments;

merge, dissolve, liquidate, consolidate with or into another person;

enter into acquisition transactions;

make capital expenditures;

issue disqualified capital stock;

sell, transfer or dispose of assets;

pay dividends or make other distributions in respect of our capital stock or engage in stock repurchases, redemptions and other restricted payments;

create new subsidiaries;

permit certain restrictions affecting our subsidiaries;

change the nature of our business, accounting policies or fiscal periods;

enter into any transactions with affiliates other than on an arm's length basis; and

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

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The Amended and Restated Credit Facility also contains customary events of default, including those relating to non-payment, breach of representations, warranties or covenants, cross-default and cross-acceleration, bankruptcy and insolvency events, invalidity or impairment of loan documentation or collateral, change of control and customary ERISA defaults. None of the restrictions above are expected to impact our ability to effectively operate the business.

The Amended and Restated Credit Facility also requires us and our subsidiaries to achieve financial and operating results sufficient to maintain compliance with the following financial ratios on a consolidated basis through the termination of the Amended and Restated Credit Facility: (1) the maximum Consolidated Leverage Ratio (as defined in the Amended and Restated Credit Facility) measured quarterly on a rolling four-quarter basis shall not exceed 3.25:1.00 and (2) the minimum Consolidated Interest Coverage Ratio (as defined in the Amended and Restated Credit Facility) measured quarterly on a rolling four-quarter basis shall be at least 5.00:1.00. As of December 31, 2012, our Consolidated Leverage Ratio (as defined in the Amended and Restated Credit Facility) was 1.81:1.00 and our Consolidated Interest Coverage Ratio (as defined in the Amended and Restated Credit Facility) was 12.90:1.00.

Cash flows

|                                                                                  | December 31,<br>2012 | As of<br>December 31,<br>2011 |
|----------------------------------------------------------------------------------|----------------------|-------------------------------|
|                                                                                  | (in thousands)       |                               |
| Cash and cash equivalents                                                        | \$ 183,309           | \$ 252,211                    |
| <i>Cash (used in) provided by operating, investing, and financing activities</i> |                      |                               |

|                                                       | December 31,<br>2012 | For the Years Ended<br>December 31,<br>2011 | November 30,<br>2010 | For the One<br>Month<br>Ended<br>December 31,<br>2010 |
|-------------------------------------------------------|----------------------|---------------------------------------------|----------------------|-------------------------------------------------------|
|                                                       | (in thousands)       |                                             |                      |                                                       |
| Net cash provided by operating activities             | \$ 347,075           | \$ 254,997                                  | \$ 183,354           | \$ 43,229                                             |
| Net cash used in investing activities                 | \$ (94,361)          | \$ (90,611)                                 | \$ (892,277)         | \$ (711)                                              |
| Net cash (used in) provided by financing activities   | \$ (322,976)         | \$ (177,994)                                | \$ 758,058           | \$ (1,399)                                            |
| Effect of exchange rates on cash and cash equivalents | \$ 1,360             | \$ (3,604)                                  | \$ 1,416             | \$ 1,729                                              |

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|                                                      |             |             |           |           |
|------------------------------------------------------|-------------|-------------|-----------|-----------|
| Net (decrease) increase in cash and cash equivalents | \$ (68,902) | \$ (17,212) | \$ 50,551 | \$ 42,848 |
|------------------------------------------------------|-------------|-------------|-----------|-----------|

*Cash and cash equivalents*

Cash and cash equivalents were \$183.3 million and \$252.2 million as of December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, \$83.5 million and \$130.1 million, respectively, of the cash and cash equivalents were held by foreign subsidiaries, which could be subject to U.S. federal income taxation on repatriation to the U.S. and some of which could be subject to local country taxes if repatriated to the U.S. In addition, repatriation of some foreign cash is further restricted by local laws.

Short-term investments were \$70.9 million and \$140.5 million as of December 31, 2012 and 2011, respectively. All of the short-term investments were held by U.S. corporations and were not subject to repatriation considerations at either December 31, 2012 or 2011.

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

*Cash flows from operating activities*

Cash flows from operating activities consist of net income adjusted for certain non-cash items and changes in assets and liabilities. Cash provided by operating activities was \$347.1 million and \$255.0 million for the year ended December 31, 2012 and 2011, respectively. The year over year increase primarily reflects improved billings and collections from customers and the timing of lease payments for our new office space at 7 World Trade Center in New York and in Rockville, Maryland. During the year ended December 31, 2012, we received \$7.9 million in cash from the Landlord as a lease inducement related to the 7 World Trade Center office space.

Our primary uses of cash from operating activities are for the payment of cash compensation expenses, office rent, technology costs, market data costs, interest expenses and income taxes. The payment of cash for compensation and benefits is historically at its highest level in the first quarter when we pay discretionary employee compensation related to the previous fiscal year.

*Cash flows from investing activities*

Cash used in investing activities was \$94.4 million and \$90.6 million for the year ended December 31, 2012 and 2011, respectively. The \$3.8 million increase in cash used in investing activities primarily reflects \$119.6 million of cash, net of cash received, used to acquire IPD and \$21.8 million of increased capital expenditures as we prepared our new corporate headquarters for occupation in the year ended December 31, 2012. Partially offsetting these outflows was \$137.2 million less cash used to purchase investments compared to 2011.

*Cash flows from financing activities*

Cash used in financing activities was \$323.0 million and \$178.0 million for the year ended December 31, 2012 and 2011, respectively. The year over year change primarily reflects \$44.3 million of increased cash payments made to service, amend and refinance our credit facility during the year ended December 31, 2012 compared to 2011. Additionally, in the year ended December 31, 2012, we paid \$100.0 million to enter into an accelerated share repurchase program with no similar program in place in the prior year.

**Contractual Obligations**

Our contractual obligations consist primarily of leases for office space, leases for equipment and other operating leases, obligations to vendors arising out of market data contracts and obligations arising from borrowings under the Amended and Restated Credit Facility, as amended. The following summarizes our contractual obligations:



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| (in thousands)                | Total        | For The Years Ended December 31, |            |            |            |            | Thereafter |
|-------------------------------|--------------|----------------------------------|------------|------------|------------|------------|------------|
|                               |              | 2013                             | 2014       | 2015       | 2016       | 2017       |            |
| Operating leases              | \$ 281,297   | \$ 26,031                        | \$ 24,358  | \$ 19,658  | \$ 19,183  | \$ 17,543  | \$ 174,524 |
| Vendor obligations            | 83,709       | 39,472                           | 17,265     | 12,403     | 7,342      | 7,227      |            |
| Term loans <sup>(1)</sup>     | 932,979      | 64,701                           | 85,551     | 105,589    | 366,612    | 310,526    |            |
| Total contractual obligations | \$ 1,297,985 | \$ 130,204                       | \$ 127,174 | \$ 137,650 | \$ 393,137 | \$ 335,296 | \$ 174,524 |

<sup>(1)</sup> Includes term loan principal plus expected interest payments based on the 2.46% interest rate at December 31, 2012.

**Off-Balance Sheet Arrangements**

At December 31, 2012 and 2011, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

**Recent Accounting Pronouncements**

In May 2011, the FASB issued Accounting Standards Update ( ASU ) No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, or ASU 2011-04. ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and International Financial Reporting Standards ( IFRS ). ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, or ASU 2013-02. The amendments in this update require an entity to provide information about the amounts reclassified from accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the income statement or in the notes, significant amounts reclassified from accumulated other comprehensive income by the respective net income line item. This new guidance is to be applied prospectively for interim and annual periods beginning after December 15, 2012. We do not expect the adoption of ASU 2013-02 to have a material impact on our consolidated financial statements.

**Item 7A. Qualitative and Quantitative Disclosures About Market Risk****Foreign Currency Risk**

We are subject to foreign currency exchange fluctuation risk. Exchange rate movements can impact the U.S. dollar reported value of our revenues, expenses, assets and liabilities denominated in non-U.S. dollar currencies or where the currency of such items is different than the functional currency of the entity where these items were recorded.

A significant 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).

Revenues from index-linked investment products represented approximately 14.8% and 15.6% of operating revenues for the years ended December 31, 2012 and 2011, 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



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invested in securities denominated in currencies other than the U.S. dollar. Accordingly, declines in such other currencies against the U.S. dollar will decrease the fees payable to us under such licenses. In addition, declines in such currencies against the U.S. dollar could impact the attractiveness of such investment products resulting in net fund outflows, which would further reduce the fees payable under such licenses.

We generally invoice our clients in U.S. dollars; however, we invoice a portion of our clients in Euros, British pounds sterling, Japanese yen and a limited number of other non-U.S. dollar currencies. For the years ended December 31, 2012 and 2011, approximately 12.6% and 13.4%, respectively, of our operating revenues were invoiced in currencies other than U.S. dollars. For the year ended December 31, 2012, 58.3% of our foreign currency revenues were in Euros, 21.8% were in Japanese yen and 12.1% were in British pounds sterling. For the year ended December 31, 2011, 60.6% of our foreign currency revenues were in Euros, 21.9% were in Japanese yen and 9.9% were in British pounds sterling.

We are exposed to additional foreign currency risk in certain of our operating costs. Approximately 34.5% and 34.1% of our operating expenses for the years ended December 31, 2012 and 2011, respectively, were denominated in foreign currencies, the significant majority of which were denominated in British pounds sterling, Swiss francs, Euros, Hong Kong dollars, Hungarian forints, Indian rupees, and Mexican pesos. 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 are remeasured into their local functional currency, a gain or loss results from the change in value of the functional currency. We manage foreign currency exchange rate risk, in part, through the use of derivative financial instruments comprised principally of forward contracts on foreign currency which are not designated as hedging instruments for accounting purposes. The objective of the derivative instruments is to minimize the income statement impact associated with intercompany loans that are denominated in certain foreign currencies. As a result of these positions, we recognized foreign currency exchange losses of \$2.6 million and foreign currency exchange gains of \$1.1 million for the years ended December 31, 2012 and 2011, respectively, and foreign currency exchange losses of \$3.0 million for the year ended November 30, 2010.

### ***Interest Rate Sensitivity***

We had unrestricted cash and cash equivalents totaling \$183.3 million and \$252.2 million at December 31, 2012 and 2011, respectively. These amounts were held primarily in checking and money market accounts in the countries where we maintain banking relationships. The unrestricted cash and cash equivalents are held for working capital purposes. At December 31, 2012 and 2011, we had invested \$70.9 million and \$140.5 million, respectively, in debt securities with maturity dates ranging from 91 to 360 days from the date of purchase. We do not enter into investments for trading or speculative purposes. We believe we do not have any material exposure to changes in fair value as a result of changes in interest rates related to these positions. Declines in interest rates, however, will reduce future interest income.

Borrowings under the 2012 Term Loan bear interest at a rate equal to the sum of LIBOR and a margin of 2.25%, which margin will be subject to adjustment based on our leverage ratio. As of December 31, 2012, the 2012 Term Loan bears interest at 2.46%. Assuming an average of \$836.0 million of variable rate debt outstanding, a hypothetical 100 basis point increase in LIBOR for a one year period would result in approximately \$8.4 million of additional interest rate expense.

### ***Item 8. Financial Statements and Supplementary Data***

The information required by this Item is set forth beginning on page F-1 of this Annual Report on Form 10-K.

### ***Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

### ***Item 9A. Controls and Procedures***

#### **(a). Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported

within the time periods specified in the SEC's rules and forms, and that such

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information is accumulated and communicated to management, including our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ) as appropriate, to allow timely decisions regarding required disclosure.

Management of the Company, with the participation of its CEO and CFO, evaluated the effectiveness of the Company's disclosure controls and procedures. Based on their evaluation, as of the end of the period covered by this Annual Report on Form 10-K, the Company's CEO and CFO have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective.

### **(b). Management's Annual Report On Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ( GAAP ) and includes those policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets,

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company, and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time. Our system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012 based on the criteria described in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this assessment, management, including the Company's CEO and CFO, concluded that our internal control over financial reporting was effective as of December 31, 2012.

Our independent registered public accounting firm has audited and issued a report on the effectiveness of our internal control over financial reporting as of December 31, 2012, which appears below.

### **(c). Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **(d). Report of Independent Registered Accounting Firm**

To the Board of Directors and Shareholders of MSCI Inc.

We have audited the internal control over financial reporting of MSCI Inc. and subsidiaries (the Company ) as of December 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway

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Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about

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whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of the Company as of December 31, 2012 and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year ended December 31, 2012 our report dated March 1, 2013 expressed an unqualified opinion on those financial statements and includes an explanatory paragraphs concerning the Company changing its fiscal year end from November 30 to December 31 in 2011.

/s/ DELOITTE & TOUCHE LLP

New York, New York

March 1, 2012

***Item 9B. Other Information***

None.

PART III

***Item 10. Directors, Executive Officers and Corporate Governance***

We incorporate by reference the information responsive to this Item appearing in our Proxy Statement, which will be filed no later than 120 days after December 31, 2012.

Information regarding our Code of Ethics and Business Conduct and Corporate Governance Policy are incorporated herein by reference from our Proxy Statement, which will be filed no later than 120 days after December 31, 2012. Any amendments to, or waivers from, a provision of our Codes of Ethics that apply to our principal executive officer, principal financial officer, controller, or persons performing similar functions and that relates to any element of the Code of Ethics





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enumerated in paragraph (b) of Item 406 of Regulation S-K shall be disclosed by posting such information on our website at [www.msci.com](http://www.msci.com). The information on our website is not and should not be considered a part of this Annual Report on Form 10-K.

***Item 11. Executive Compensation***

We incorporate by reference the information responsive to this Item appearing in our Proxy Statement, which will be filed no later than 120 days after December 31, 2012.

***Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

We incorporate by reference the information responsive to this Item appearing in our Proxy Statement, which will be filed no later than 120 days after December 31, 2012. The information provided under Item 5. Market for Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases of Equity Securities of this Annual Report on Form 10-K is incorporated by reference herein.

***Item 13. Certain Relationships and Related Transactions, and Director Independence***

We incorporate by reference the information responsive to this Item appearing in our Proxy Statement, which will be filed no later than 120 days after December 31, 2012.

***Item 14. Principal Accounting Fees and Services***

We incorporate by reference the information responsive to this Item appearing in our Proxy Statement, which will be filed no later than 120 days after December 31, 2012.

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**PART IV**

***Item 15. Exhibits and Financial Statement Schedules***

***(a)(1) Financial Statements***

The financial statements begin on page F-1 of this Annual Report on Form 10-K.

***(a)(2) Financial Statement Schedules***

No financial statement schedules are provided because the information called for is not applicable or not required or is included in the consolidated financial statements or the notes thereto beginning on page F-1 of this Annual Report on Form 10-K.

***(a)(3) Exhibits***

The information required by this Item is set forth on the exhibit index that begins on page EX-1 of this Annual Report on Form 10-K.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

MSCI INC.

By: / s / HENRY A. FERNANDEZ

Name: Henry A. Fernandez

Title: Chairman, Chief Executive Officer and  
President

Date: March 1, 2013

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Robert Qutub, Gary Retelny and Frederick W. Bogdan, and each or any one of them, his or her true and lawful attorneys-in-fact and agents, with full powers of substitution and resubstitution, for him or her and in his or her name, place and stead, in the capacities indicated below, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming his or her signatures as they may be signed by his or her said attorneys-in-fact and agents, or their substitute or substitutes, to any and all amendments to this Annual Report on Form 10-K.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <b>Signature</b>                                        | <b>Title</b>                                                                                                 | <b>Date</b>   |
|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|---------------|
| / s / HENRY A. FERNANDEZ<br><b>Henry A. Fernandez</b>   | Chairman, Chief Executive Officer, and President (principal executive officer)                               | March 1, 2013 |
| / s / ROBERT QUTUB<br><b>Robert Qutub</b>               | Chief Financial Officer (principal financial officer, principal accounting officer and authorized signatory) | March 1, 2013 |
| / s / BENJAMIN F. DUPONT<br><b>Benjamin F. duPont</b>   | Director                                                                                                     | March 1, 2013 |
| / s / ALICE W. HANDY<br><b>Alice W. Handy</b>           | Director                                                                                                     | March 1, 2013 |
| / s / CATHERINE R. KINNEY<br><b>Catherine R. Kinney</b> | Director                                                                                                     | March 1, 2013 |
| / s / LINDA H. RIEFLER<br><b>Linda H. Riefler</b>       | Director                                                                                                     | March 1, 2013 |

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/ s / GEORGE W. SIGULER

Director

March 1, 2013

**George W. Siguler**

/ s / PATRICK TIERNEY

Director

March 1, 2013

**Patrick Tierney**

/ s / RODOLPHE M. VALLEE

Director

March 1, 2013

**Rodolphe M. Vallee**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of MSCI Inc:

We have audited the accompanying consolidated statements of financial condition of MSCI Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years ended December 31, 2012 and 2011, the one month ended December 31, 2010 and fiscal year ended November 30, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of MSCI Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years ended December 31, 2012 and 2011, the one month ended December 31, 2010 and the fiscal year ended November 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ *DELOITTE & TOUCHE LLP*

New York, New York

March 1, 2013

**Table of Contents****MSCI INC.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | As of                                              |                      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|----------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | December 31,<br>2012                               | December 31,<br>2011 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | (in thousands, except per share<br>and share data) |                      |
| <b>ASSETS</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                    |                      |
| <b>Current assets:</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                    |                      |
| Cash and cash equivalents                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | \$ 183,309                                         | \$ 252,211           |
| Short-term investments                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 70,898                                             | 140,490              |
| Trade receivables (net of allowances of \$964 and \$857 as of December 31, 2012 and 2011, respectively)                                                                                                                                                                                                                                                                                                                                                                                                                 | 153,557                                            | 180,566              |
| Deferred taxes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 49,552                                             | 40,952               |
| Prepaid income taxes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 32,431                                             | 38,022               |
| Prepaid and other assets                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 25,088                                             | 25,702               |
| <b>Total current assets</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>514,835</b>                                     | <b>677,943</b>       |
| Property, equipment and leasehold improvements (net of accumulated depreciation of \$59,078 and \$60,088 at December 31, 2012 and 2011, respectively)                                                                                                                                                                                                                                                                                                                                                                   | 67,419                                             | 37,623               |
| Goodwill                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 1,783,410                                          | 1,708,585            |
| Intangible assets (net of accumulated amortization of \$316,099 and \$255,579 at December 31, 2012 and 2011, respectively)                                                                                                                                                                                                                                                                                                                                                                                              | 641,074                                            | 644,881              |
| Other non-current assets                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 12,901                                             | 23,964               |
| <b>Total assets</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <b>\$ 3,019,639</b>                                | <b>\$ 3,092,996</b>  |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                    |                      |
| <b>Current liabilities:</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                    |                      |
| Accounts payable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | \$ 2,985                                           | \$ 239               |
| Accrued compensation and related benefits                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 113,359                                            | 107,506              |
| Other accrued liabilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 42,486                                             | 45,504               |
| Current maturities of long term debt                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 43,093                                             | 10,339               |
| Deferred revenue                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 308,022                                            | 289,217              |
| <b>Total current liabilities</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>509,945</b>                                     | <b>452,805</b>       |
| Long term debt, net of current maturities                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 811,623                                            | 1,066,548            |
| Deferred taxes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 234,245                                            | 240,456              |
| Other non-current liabilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 38,595                                             | 27,755               |
| <b>Total liabilities</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <b>1,594,408</b>                                   | <b>1,787,564</b>     |
| <b>Commitments and Contingencies (see Note 7)</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                    |                      |
| <b>Shareholders equity:</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                    |                      |
| Preferred stock (par value \$0.01; 100,000,000 shares authorized; no shares issued)                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                    |                      |
| Common stock (par value \$0.01; 750,000,000 common shares authorized at December 31, 2012 and 500,000,000 class A shares and 250,000,000 class B shares authorized at December 31, 2011; 124,033,980 common shares issued at December 31, 2012 and 122,713,226 class A shares issued at December 31, 2011; and 120,114,586 common shares outstanding at December 31, 2012 and 121,212,191 class A shares outstanding at December 31, 2011, respectively; no class B shares issued and outstanding at December 31, 2011) | 1,240                                              | 1,227                |
| Treasury shares, at cost (3,919,394 and 1,501,035 shares at December 31, 2012 and 2011, respectively)                                                                                                                                                                                                                                                                                                                                                                                                                   | (120,926)                                          | (49,827)             |

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|                                                  |                     |                     |
|--------------------------------------------------|---------------------|---------------------|
| Additional paid in capital                       | 1,000,014           | 995,665             |
| Retained earnings                                | 547,699             | 363,461             |
| Accumulated other comprehensive loss             | (2,796)             | (5,094)             |
| <b>Total shareholders equity</b>                 | <b>1,425,231</b>    | <b>1,305,432</b>    |
| <b>Total liabilities and shareholders equity</b> | <b>\$ 3,019,639</b> | <b>\$ 3,092,996</b> |

See Notes to Consolidated Financial Statements.

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

|                                                                                 | For the Years Ended                   |                      |                      | One Month<br>Ended   |
|---------------------------------------------------------------------------------|---------------------------------------|----------------------|----------------------|----------------------|
|                                                                                 | December 31,<br>2012                  | December 31,<br>2011 | November 30,<br>2010 | December 31,<br>2010 |
|                                                                                 | (in thousands, except per share data) |                      |                      |                      |
| <b>Operating revenues</b>                                                       | \$ 950,141                            | \$ 900,941           | \$ 662,901           | \$ 72,524            |
| Cost of services                                                                | 288,075                               | 277,147              | 198,626              | 20,986               |
| Selling, general and administrative                                             | 233,183                               | 212,972              | 190,244              | 17,481               |
| Restructuring                                                                   | (51)                                  | 3,594                | 8,896                | 26                   |
| Amortization of intangible assets                                               | 63,298                                | 65,805               | 41,599               | 5,564                |
| Depreciation and amortization of property, equipment and leasehold improvements | 18,700                                | 19,425               | 17,413               | 1,798                |
| <b>Total operating expenses</b>                                                 | 603,205                               | 578,943              | 456,778              | 45,855               |
| <b>Operating income</b>                                                         | 346,936                               | 321,998              | 206,123              | 26,669               |
| Interest income                                                                 | (954)                                 | (848)                | (993)                | (68)                 |
| Interest expense                                                                | 56,428                                | 55,819               | 51,337               | 6,054                |
| Other expense                                                                   | 2,053                                 | 3,614                | 2,288                | 127                  |
| <b>Other expense (income), net</b>                                              | 57,527                                | 58,585               | 52,632               | 6,113                |
| Income before provision for income taxes                                        | 289,409                               | 263,413              | 153,491              | 20,556               |
| Provision for income taxes                                                      | 105,171                               | 89,959               | 61,321               | 6,732                |
| <b>Net income</b>                                                               | \$ 184,238                            | \$ 173,454           | \$ 92,170            | \$ 13,824            |
| Earnings per basic common share                                                 | \$ 1.50                               | \$ 1.43              | \$ 0.82              | \$ 0.11              |
| Earnings per diluted common share                                               | \$ 1.48                               | \$ 1.41              | \$ 0.81              | \$ 0.11              |
| Weighted average shares outstanding used in computing earnings per share:       |                                       |                      |                      |                      |
| Basic                                                                           | 122,023                               | 120,717              | 112,074              | 119,943              |
| Diluted                                                                         | 123,204                               | 122,276              | 113,357              | 121,803              |

See Notes to Consolidated Financial Statements.



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

|                                                         | December 31,<br>2012 | For the Years Ended<br>December 31,<br>2011 | November 30,<br>2010 | One Month<br>Ended<br>December 31,<br>2010 |
|---------------------------------------------------------|----------------------|---------------------------------------------|----------------------|--------------------------------------------|
|                                                         | (in thousands)       |                                             |                      |                                            |
| Net income                                              | \$ 184,238           | \$ 173,454                                  | \$ 92,170            | \$ 13,824                                  |
| Other comprehensive (loss) income:                      |                      |                                             |                      |                                            |
| Foreign currency translation adjustments                | 3,867                | (4,363)                                     | 4,195                | 855                                        |
| Income tax effect                                       | (1,520)              | 1,711                                       | (1,640)              | (334)                                      |
|                                                         | 2,347                | (2,652)                                     | 2,555                | 521                                        |
| Unrealized (loss) gain on cash flow hedges              | 1,742                | (2,445)                                     | 3,607                | 1,111                                      |
| Income tax effect                                       | (691)                | 957                                         | (1,408)              | (434)                                      |
|                                                         | 1,051                | (1,488)                                     | 2,199                | 677                                        |
| Unrealized (loss) gain on available-for-sale securities |                      | (11)                                        | 5                    | 11                                         |
| Income tax effect                                       |                      | 4                                           | (2)                  | (4)                                        |
|                                                         |                      | (7)                                         | 3                    | 7                                          |
| Periodic pension adjustment                             | (1,434)              | (145)                                       | 1,228                | (88)                                       |
| Income tax effect                                       | 334                  | 41                                          | (361)                | 6                                          |
|                                                         | (1,100)              | (104)                                       | 867                  | (82)                                       |
| Other comprehensive (loss) income, net of tax           | 2,298                | (4,251)                                     | 5,624                | 1,123                                      |
| Comprehensive income                                    | \$ 186,536           | \$ 169,203                                  | \$ 97,794            | \$ 14,947                                  |

See Notes to Consolidated Financial Statements.

**Table of Contents****MSCI INC.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

|                                                                                 | Common<br>Stock | Treasury<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings<br>(in thousands) | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total        |
|---------------------------------------------------------------------------------|-----------------|-------------------|----------------------------------|----------------------------------------|-----------------------------------------------------------|--------------|
| Balance at November 30, 2009                                                    | \$ 1,054        | \$ (19,168)       | \$ 448,747                       | \$ 84,013                              | \$ (7,590)                                                | \$ 507,056   |
| Net income                                                                      |                 |                   |                                  | 92,170                                 |                                                           | 92,170       |
| Foreign currency translation adjustment                                         |                 |                   |                                  |                                        | 2,555                                                     | 2,555        |
| Net changes in unrealized losses on cash flow hedges                            |                 |                   |                                  |                                        | 2,199                                                     | 2,199        |
| Unrealized gain on available-for-sale securities                                |                 |                   |                                  |                                        | 3                                                         | 3            |
| Periodic pension adjustment                                                     |                 |                   |                                  |                                        | 867                                                       | 867          |
| Common stock issued                                                             | 10              |                   |                                  |                                        |                                                           | 10           |
| Common stock issued to acquire RiskMetrics Group, Inc.                          | 126             |                   | 371,689                          |                                        |                                                           | 371,815      |
| Compensation payable in common stock and options                                |                 |                   | 31,741                           |                                        |                                                           | 31,741       |
| Compensation payable in common stock assumed to acquire RiskMetrics Group, Inc. |                 |                   | 53,879                           |                                        |                                                           | 53,879       |
| Common stock repurchased and held in treasury                                   |                 | (14,151)          |                                  |                                        |                                                           | (14,151)     |
| Exercise of stock options                                                       | 15              |                   | 23,421                           |                                        |                                                           | 23,436       |
| Excess tax benefits from employee stock incentive plans                         |                 |                   | 8,537                            |                                        |                                                           | 8,537        |
| Balance at November 30, 2010                                                    | \$ 1,205        | \$ (33,319)       | \$ 938,014                       | \$ 176,183                             | \$ (1,966)                                                | \$ 1,080,117 |
| Net income                                                                      |                 |                   |                                  | 13,824                                 |                                                           | 13,824       |
| Foreign currency translation adjustment                                         |                 |                   |                                  |                                        | 521                                                       | 521          |
| Net changes in unrealized losses on cash flow hedges                            |                 |                   |                                  |                                        | 677                                                       | 677          |
| Unrealized gain on available-for-sale securities                                |                 |                   |                                  |                                        | 7                                                         | 7            |
| Periodic pension adjustment                                                     |                 |                   |                                  |                                        | (82)                                                      | (82)         |
| Common stock issued                                                             | 1               |                   |                                  |                                        |                                                           | 1            |
| Compensation payable in common stock and options                                |                 |                   | 8,504                            |                                        |                                                           | 8,504        |
| Common stock repurchased and held in treasury                                   |                 | (1,882)           |                                  |                                        |                                                           | (1,882)      |
| Exercise of stock options                                                       | 1               |                   | 185                              |                                        |                                                           | 186          |
| Excess tax benefits from employee stock incentive plans                         |                 |                   | 297                              |                                        |                                                           | 297          |
| Balance at December 31, 2010                                                    | \$ 1,207        | \$ (35,201)       | \$ 947,000                       | \$ 190,007                             | \$ (843)                                                  | \$ 1,102,170 |
| Net income                                                                      |                 |                   |                                  | 173,454                                |                                                           | 173,454      |
| Foreign currency translation adjustment                                         |                 |                   |                                  |                                        | (2,652)                                                   | (2,652)      |
| Net changes in unrealized losses on cash flow hedges                            |                 |                   |                                  |                                        | (1,488)                                                   | (1,488)      |
| Unrealized gain on available-for-sale securities                                |                 |                   |                                  |                                        | (7)                                                       | (7)          |
| Periodic pension adjustment                                                     |                 |                   |                                  |                                        | (104)                                                     | (104)        |
| Common stock issued                                                             | 10              |                   |                                  |                                        |                                                           | 10           |
| Compensation payable in common stock and options                                |                 |                   | 24,981                           |                                        |                                                           | 24,981       |
| Common stock repurchased and held in treasury                                   |                 | (14,626)          |                                  |                                        |                                                           | (14,626)     |
| Exercise of stock options                                                       | 10              |                   | 16,421                           |                                        |                                                           | 16,431       |
| Excess tax benefits from employee stock incentive plans                         |                 |                   | 7,263                            |                                        |                                                           | 7,263        |

**Table of Contents****MSCI INC.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

|                                                         |          |              |              |            |            |              |
|---------------------------------------------------------|----------|--------------|--------------|------------|------------|--------------|
| Balance at December 31, 2011                            | \$ 1,227 | \$ (49,827)  | \$ 995,665   | \$ 363,461 | \$ (5,094) | \$ 1,305,432 |
| Net income                                              |          |              |              | 184,238    |            | 184,238      |
| Foreign currency translation adjustment                 |          |              |              |            | 2,347      | 2,347        |
| Fair value calculation of interest rate swap            |          |              |              |            | 1,051      | 1,051        |
| Periodic pension adjustment                             |          |              |              |            | (1,100)    | (1,100)      |
| Common stock issued                                     | 4        |              |              |            |            | 4            |
| Compensation payable in common stock and options        |          |              | 24,997       |            |            | 24,997       |
| Common stock repurchased and held in treasury           |          | (70,989)     | (35,000)     |            |            | (105,989)    |
| Common stock issued to directors and held in treasury   |          | (110)        |              |            |            | (110)        |
| Exercise of stock options                               | 9        |              | 13,304       |            |            | 13,313       |
| Excess tax benefits from employee stock incentive plans |          |              | 1,048        |            |            | 1,048        |
| Balance at December 31, 2012                            | \$ 1,240 | \$ (120,926) | \$ 1,000,014 | \$ 547,699 | \$ (2,796) | \$ 1,425,231 |

**See Notes to Consolidated Financial Statements.**

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**Table of Contents****MSCI INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

|                                                                                    | December 31,<br>2012 | For the Years Ended<br>December 31,<br>2011<br>(in thousands) | November 30,<br>2010 | One Month<br>Ended<br>December 31,<br>2010 |
|------------------------------------------------------------------------------------|----------------------|---------------------------------------------------------------|----------------------|--------------------------------------------|
| <b>Cash flows from operating activities</b>                                        |                      |                                                               |                      |                                            |
| Net income                                                                         | \$ 184,238           | \$ 173,454                                                    | \$ 92,170            | \$ 13,824                                  |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                      |                                                               |                      |                                            |
| Amortization of intangible assets                                                  | 63,298               | 65,805                                                        | 41,599               | 5,564                                      |
| Share-based compensation                                                           | 25,323               | 31,723                                                        | 32,285               | 2,843                                      |
| Depreciation of property, equipment and leasehold improvements                     | 18,700               | 19,425                                                        | 17,413               | 1,798                                      |
| Amortization of debt origination fees                                              | 18,065               | 5,776                                                         | 8,090                | 548                                        |
| Deferred taxes                                                                     | (30,195)             | 5,625                                                         | 926                  | 2,852                                      |
| Amortization of discount on long-term debt                                         | 5,305                | 1,051                                                         | 1,337                | 101                                        |
| Excess tax benefits from share-based compensation                                  | (1,048)              | (7,263)                                                       | (8,537)              | (297)                                      |
| Other non-cash adjustments                                                         | (49)                 | 1,542                                                         | 3,246                | (5)                                        |
| Changes in assets and liabilities, net of assets acquired and liabilities assumed: |                      |                                                               |                      |                                            |
| Trade receivables                                                                  | 35,473               | (42,284)                                                      | (35,851)             | 10,026                                     |
| Prepaid income taxes                                                               | 7,278                | (10,743)                                                      | 17,241               | 2,263                                      |
| Prepaid and other assets                                                           | (1,395)              | (8,525)                                                       | 3,308                | 1,015                                      |
| Accounts payable                                                                   | 1,979                | 57                                                            | (2,653)              | (1,950)                                    |
| Deferred revenue                                                                   | 18,345               | 19,379                                                        | 3,980                | (3,321)                                    |
| Accrued compensation and related benefits                                          | (834)                | 6,406                                                         | 15,574               | 2,103                                      |
| Other accrued liabilities                                                          | (8,233)              | (3,400)                                                       | (6,523)              | 6,897                                      |
| Other                                                                              | 10,825               | (3,031)                                                       | (251)                | (1,032)                                    |
| <b>Net cash provided by operating activities</b>                                   | <b>347,075</b>       | <b>254,997</b>                                                | <b>183,354</b>       | <b>43,229</b>                              |
| <b>Cash flows from investing activities</b>                                        |                      |                                                               |                      |                                            |
| Acquisitions, net of cash acquired                                                 | (119,554)            |                                                               | (1,101,243)          |                                            |
| Proceeds from redemption of short-term investments                                 | 207,032              | 150,292                                                       | 416,550              | 1,100                                      |
| Purchase of investments                                                            | (137,306)            | (217,792)                                                     | (194,416)            |                                            |
| Capital expenditures                                                               | (44,884)             | (23,111)                                                      | (13,190)             | (1,811)                                    |
| Proceeds from the sale of property, equipment and leasehold improvements           | 351                  |                                                               | 22                   |                                            |
| <b>Net cash used in investing activities</b>                                       | <b>(94,361)</b>      | <b>(90,611)</b>                                               | <b>(892,277)</b>     | <b>(711)</b>                               |
| <b>Cash flows from financing activities:</b>                                       |                      |                                                               |                      |                                            |
| Proceeds from borrowing, net of discount                                           | 876,087              | 1,125,000                                                     | 1,268,625            |                                            |
| Repayment of long term debt                                                        | (1,103,563)          | (1,312,062)                                                   | (386,875)            |                                            |
| Repayment of RiskMetrics Group, Inc. debt acquired                                 |                      |                                                               | (107,485)            |                                            |
| Payment of issuance costs in connection with long term debt                        | (3,870)              |                                                               | (34,029)             |                                            |
| Repurchase of treasury shares                                                      | (105,989)            | (14,626)                                                      | (14,151)             | (1,882)                                    |
| Proceeds from the exercise of stock options                                        | 13,311               | 16,431                                                        | 23,436               | 186                                        |
| Excess tax benefits from share-based compensation                                  | 1,048                | 7,263                                                         | 8,537                | 297                                        |

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|                                                                                                                           |            |            |            |            |
|---------------------------------------------------------------------------------------------------------------------------|------------|------------|------------|------------|
| <b>Net cash (used in) provided by financing activities</b>                                                                | (322,976)  | (177,994)  | 758,058    | (1,399)    |
| <b>Effect of exchange rates changes on cash and cash equivalents</b>                                                      | 1,360      | (3,604)    | 1,416      | 1,729      |
| <b>Net (decrease) increase in cash</b>                                                                                    | (68,902)   | (17,212)   | 50,551     | 42,848     |
| <b>Cash and cash equivalents, beginning of period</b>                                                                     | 252,211    | 269,423    | 176,024    | 226,575    |
| <b>Cash and cash equivalents, end of period</b>                                                                           | \$ 183,309 | \$ 252,211 | \$ 226,575 | \$ 269,423 |
| Supplemental disclosure of cash flow information                                                                          |            |            |            |            |
| Cash paid for interest                                                                                                    | \$ 36,744  | \$ 52,713  | \$ 40,100  | \$ 7       |
| Cash paid for income taxes                                                                                                | \$ 134,439 | \$ 93,728  | \$ 46,190  | \$ 941     |
| Supplemental disclosure of non-cash investing activities:                                                                 |            |            |            |            |
| Property, equipment and leasehold improvements in other accrued liabilities                                               | \$ 3,575   | \$ 1,781   | \$ 821     | \$ 1,577   |
| Acquisition of RiskMetrics Group, Inc., class A common stock issued                                                       | \$         | \$         | \$ 371,815 | \$         |
| Fair value of stock options and restricted stock awards assumed in connection with acquisition of RiskMetrics Group, Inc. | \$         | \$         | \$ 53,879  | \$         |

See Notes to Consolidated Financial Statements.

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**Table of Contents****MSCI INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. INTRODUCTION AND BASIS OF PRESENTATION****Organization**

MSCI Inc. together with its wholly-owned subsidiaries (the Company or MSCI) is a global provider of investment decision support tools, including indices, portfolio risk and performance analytics and corporate governance products and services. The Company's flagship products are its global equity indices and environmental, social and governance (ESG) products marketed under the MSCI and MSCI ESG brands, its portfolio risk and performance analytics covering global equity and fixed income markets marketed under the Barra brand, its market and credit risk analytics marketed under the RiskMetrics and Barra brands, its governance research and outsourced proxy voting and reporting services, and executive compensation analytics tools marketed under the ISS brand, its valuation models and risk management software for the energy and commodities markets marketed under the FEA brand, its private real estate benchmarks under the IPD brand and its forensic accounting risk research, legal and regulatory risk assessment and due diligence products marketed under the CFRA brand.

MSCI operates as two segments, the Performance and Risk business and the Governance business. The Performance and Risk business is a global provider of investment decision support tools, including equity indices, real estate indices and benchmarks, portfolio risk and performance analytics, credit analytics and ESG products. The Governance business is a provider of corporate governance and specialized financial research and analysis services to institutional shareholders and corporations around the world. (See Note 15, Segment Information, for further information about MSCI's acquisitions and operating segments.)

*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 is reporting a December 2010 fiscal month transition period, which is separately reported in this Annual Report on Form 10-K for the calendar year ended December 31, 2012.

Financial information for the year ended December 31, 2010 has not been included in this Form 10-K for the following reasons: (i) the year ended November 30, 2010 provides a meaningful comparison for year ended December 31, 2011; (ii) there are no significant factors, seasonal or other, that would impact the comparability of information if the results for the year ended December 31, 2010 were presented in lieu of results for the year ended November 30, 2010; and (iii) it was not practicable or cost justified to prepare this information.

*Adjustment to Revenues*

During the year ended December 31, 2012, as a result of a one-time adjustment, the Company recorded a \$5.2 million cumulative revenue reduction to correct an error related to revenues previously reported through December 31, 2011. The effect of recording this adjustment in the first quarter resulted in a one-time decrease to the energy and commodity analytics products revenues in the Company's Consolidated Statement of Income and an increase in deferred revenues in the Company's Consolidated Statement of Financial Condition. It was determined that under Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Subtopic 985-605, *Software Revenue Recognition*, the Company incorrectly established vendor specific objective evidence (VSOE) for certain energy and commodity analytics products and as a result should not have been recognizing a substantial portion of the revenue immediately upon delivery or renewal of a time based subscription license, the terms of which are generally one year. Rather, the entire license fee should be recognized ratably over the term of the license. As such, the Company made the cumulative adjustment effective January 1, 2012 and started recognizing revenue related to all contracts still in effect as of this date ratably over the remainder of the term. The Company began recognizing revenue ratably over the contract term for any new contracts entered into on or after January 1, 2012. Based upon an evaluation of all relevant factors, management believes the correcting adjustment did not have a material impact on the Company's previously reported results and, accordingly, has determined that restatement of previously issued financial statements is not necessary.

**Basis of Presentation**

The consolidated financial statements include the accounts of MSCI Inc. and its wholly-owned subsidiaries. The Company's policy is to consolidate all entities in which it owns more than 50% of the outstanding voting stock unless it does not control the entity. It is also the Company's policy to consolidate any variable interest entity for which the Company is the primary beneficiary, as required by the ASC Subtopic



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810-10, *Consolidations*. For investments in any entities in which the Company owns 20% or less of the outstanding voting stock and significant influence does not exist, such investments are carried at cost.

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**MSCI INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Significant Accounting Policies**

***Basis of Financial Statements and Use of Estimates***

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

Inter-company balances and transactions are eliminated in consolidation.

***Revenue Recognition***

In general, the Company applies SEC Staff Accounting Bulletin No. 104 ( SAB 104 ), *Revenue Recognition*, in determining revenue recognition. Accordingly, the Company recognizes revenue when all the following criteria are met:

The Company has persuasive evidence of a legally binding arrangement,

Delivery has occurred,

Client fee is deemed fixed or determinable, and

Collection is probable.

When a sales arrangement requires the delivery of more than one product and service, revenue is recognized pursuant to the requirements of ASC Subtopic 605-25, *Revenue Arrangements with Multiple Deliverables*. Under the provisions of ASC Subtopic 605-25, elements within a multi-deliverable arrangement should be considered separate units of accounting if all of the following criteria are met:

The delivered items have value to the client on a standalone basis. The items have value on a standalone basis if they can be sold separately by any vendor or the client could resell the delivered items on a standalone basis; and

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

The Company provides products and services to its clients under various software and non-software related arrangements. The Company has signed contracts with substantially all clients that set forth the fees to be paid for its products and services. Further, the Company regularly assesses the receivable balances for each client for collectability. The Company's application service license arrangements generally do not include acceptance provisions, which generally allow a client to test the solution for a defined period of time before committing to the license. If

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a license agreement includes an acceptance provision, the Company does not recognize 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.

The Company's subscription agreements for non-software-related application services 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 when and if available, for the term of the agreement, which is typically one year. These arrangements do not provide the client with the right to take possession of the application at any time. For sales arrangements with multiple deliverables, which may include application service subscription and professional services associated with implementation and other services, the Company evaluates each deliverable in these multiple-element arrangements to determine whether it represents a separate unit of accounting and allocates revenue accordingly.

In most cases, the Company recognizes revenues from subscription arrangements ratably over the term of the license agreement pursuant to contract terms. The contracts state the terms under which these fees are to be calculated. The fees are

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**Table of Contents****MSCI INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

recognized as the Company supplies the product and service to the client over the license period and are generally billed in advance prior to the license start date. For products and services whose fees are based on estimated assets under management linked to the Company's indices, or contract values related to futures and options, the Company recognizes revenues based on estimates from independent third-party sources or the most recently reported information from the client.

The Company's software-related arrangements do not require significant modification or customization of any underlying software applications being licensed. Accordingly, the Company recognizes software revenues pursuant to the requirements of ASC Subtopic 985-605,

*Software-Revenue Recognition.* The Company's subscription agreements for software products include provisions that, among other things, would allow clients to receive unspecified, when and if available, future software upgrades for no additional fee as well as the right to use the software products with maintenance and technical support for the term of the agreement, which is typically one year. Software agreements may include other consulting and professional services. In accordance with ASC Subtopic 985-605, the Company does not have VSOE for these elements and therefore recognizes software related revenue ratably over the term of the license agreement.

***Share-Based Compensation***

Certain of the Company's employees have received share-based compensation under certain compensation programs. The Company's 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 (RSUs) is measured as the closing price on the date prior to grant. Restricted stock units subject to performance conditions (PSUs) are based on performance measures that impact the amount of shares that each recipient will receive upon vesting. PSUs are granted at fair market value, which is measured as the closing price on the date prior to grant.

The fair value of MSCI standard stock options is determined using the Black-Scholes valuation model 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. The fair value of MSCI stock options that contain stock price contingencies is determined using a Monte Carlo simulation model, which creates a normal distribution of future stock prices, which is then used to value the awards based on their individual terms.

Based on interpretive guidance related to Stock Compensation, the Company's policy is to accrue the estimated cost of share-based awards that were granted to retirement-eligible employees over the course of the prior year in which they were earned rather than expensing the awards on the date of grant. A portion of the restricted stock units granted to employees are subject to certain performance conditions. The Company bases initial accruals of compensation cost on the estimated number of instruments for which the requisite service is expected to be rendered. If the estimated number of instruments changes from previous estimates, the cumulative effect on current and prior periods of a change is recognized in compensation cost in the period of the change.

***Research and Development***

The Company accounts 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. The majority of the Company's research and development costs are incurred in developing, reviewing and enhancing the methodologies and data models offered within its product portfolio. ASC Subtopic 985-730 specifies that costs incurred in researching and developing a computer software product, as defined within ASC Subtopic 985-20,

*Software-Costs of Software to be Sold, Leased or Marketed*, 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, the Company has expensed all research and development costs when incurred.

***Income Taxes***

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Prior to May 2, 2008, the Company was a member of the Morgan Stanley consolidated group and the Company's taxable income had been included in the consolidated U.S. federal income tax return of Morgan Stanley as well as in returns filed by

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Morgan Stanley with certain state and local taxing jurisdictions. Since May 3, 2008, the Company has been filing its U.S. consolidated federal income tax return as a taxable group separate from Morgan Stanley. Since May 23, 2009, the Company has been filing all of its state and local income tax returns as a taxpayer separate from Morgan Stanley. The Company's foreign income tax returns have been and continue to be filed on a separate company basis. The Company's federal, state and local and foreign income tax liability has been computed and presented as if it were a separate taxpaying entity in the periods presented. Federal income taxes incurred prior to May 2, 2008 and state income taxes incurred prior to May 22, 2009 are remitted to Morgan Stanley pursuant to a tax sharing agreement between the companies.

Income tax expense is provided for using the asset and liability method, under which deferred tax assets and deferred tax liabilities are determined based on the temporary differences between the financial statement and income tax bases of assets and liabilities using currently enacted tax rates.

The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions in which it is required to file income tax returns. The Company recorded additional tax expense related to open tax years, which the Company's management believes 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. The Company's management believes the resolution of tax matters will not have a material effect on the Company's consolidated financial condition. However, to the extent the Company is required to pay amounts in excess of its reserves, a resolution could have a material impact on its Consolidated Statement of Income for a particular future period. In addition, an unfavorable tax settlement could require use of cash and result in an increase in the effective tax rate in the period in which such resolution occurs.

***Deferred Revenue***

Deferred revenues represent amounts billed to customers for products and services in advance of delivery. The Company's clients generally pay subscription fees annually or quarterly in advance. Deferred revenue is amortized ratably over the service period as revenue recognition criteria are met. Where the service period has not begun and the client has not paid or the contract has not been renewed, deferred revenues and accounts receivable are not recognized.

***Goodwill***

Goodwill is recorded as part of the Company's acquisitions of businesses when the purchase price exceeds the fair value of the net tangible and separately identifiable intangible assets acquired. The Company's goodwill relates to the acquisitions of Barra, Inc. ( Barra ), RiskMetrics Group, Inc. ( RiskMetrics ), Measurisk, LLC ( Measurisk ) and IPD Group Limited ( IPD ). The Company's 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,

***Intangibles Goodwill and Other.***

The Company tests goodwill for impairment on an annual basis and on an interim basis when certain events and circumstances exist. The testing for impairment is performed at the reporting unit level, which is deemed to be at the level of its business segments. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective book value. If the estimated fair value exceeds the book value, goodwill at the reporting unit level 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 impairment. Additionally, if the book value of a reporting unit is zero or a negative value and it is determined that it is more likely than not that the goodwill is impaired, further analysis is required. As the estimated fair value of its reporting units exceeded their respective book value on the testing dates, no impairment of goodwill was recorded during the years ended December 31, 2012 and 2011, November 30, 2010 or during the one month ended December 31, 2010.

***Intangible Assets***

Intangible assets consist of those definite-lived intangibles from the acquisitions of Barra in June 2004, RiskMetrics in June 2010, Measurisk in July 2010 and IPD in November 2012. The Company amortizes definite-lived intangible assets over their estimated useful lives. Definite-lived intangible assets are tested for impairment 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 remaining useful lives ranging from one to 21 years.

*Foreign Currency Translation*

Assets and liabilities of operations having non-U.S. dollar functional currencies are translated at year-end exchange rates, and income statement accounts are translated at weighted average exchange rates for the year. Gains or losses resulting from translating foreign currency financial statements, net of related tax effects, are reflected in accumulated other comprehensive

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**MSCI INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

loss, a separate component of shareholders' equity. Gains or losses resulting from foreign currency transactions incurred in currencies other than the local functional currency are included in other expense (income) on the Consolidated Statements of Income.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of demand deposits and money market and debt security investments of 90 days or less from the date of purchase.

***Short-term Investments***

Short-term investments may include U.S. Treasury securities, state and municipal securities and highly rated corporate debt securities with maturity dates ranging from 91 to 360 days from the date of purchase.

The Company classifies its short-term investments as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of shareholders' equity. Realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities are included as a component of interest income. Interest on securities classified as available-for-sale is included as a component of interest income.

***Derivative Instruments***

The Company applies ASC Subtopic 815-10, *Derivatives and Hedging*, which establishes accounting and reporting standards for derivative instruments and hedging activities. The Company may use interest rate swaps and forward contracts on foreign currency to manage risks generally associated with interest rate and foreign exchange rate fluctuations, respectively. The Company's derivative financial instruments are used as risk management tools and not for speculative or trading purposes.

For derivative instruments that are designated and qualify as hedging instruments for accounting purposes, the Company documents and links the relationships between the hedging instruments and hedged items. The Company also assesses and documents at the hedge's inception whether the derivatives used in hedging transactions were effective in offsetting changes in fair values associated with the hedged items. ASC Subtopic 815-10 provides that, for derivative instruments that qualify for hedge accounting being used to hedge cash flows, changes in the fair value are recognized in accumulated other comprehensive loss, a separate component of shareholders' equity, until the hedged item is recognized in earnings. In addition, the ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

The Company manages foreign currency exchange rate risk through the use of derivative financial instruments comprised principally of forward contracts on foreign currency which are not designated as hedging instruments for accounting purposes. The objective of the derivative instruments is to minimize the income statement impact associated with intercompany loans that are denominated in certain foreign currencies. Derivative instruments that do not qualify for hedge accounting are carried at fair value on the Consolidated Statements of Financial Condition with gains and losses recorded in the Consolidated Statements of Income.

***Fair Value of Financial Assets and Liabilities***

The Company's financial assets and liabilities include cash and cash equivalents, short-term investments, trade receivables, foreign exchange contracts and interest rate swaps.

The Company applies the fair value hierarchy of ASC Subtopic 820-10, *Fair Value Measurement*, to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. A financial asset's or financial liability's level in the fair value hierarchy is based on the lowest level of any input that is significant to its fair value measurement. The three levels of the fair value hierarchy are:



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- Level 1 Valuations based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Valuations based on one or more quoted prices in markets that are not considered to be active or for which all significant inputs are observable, either directly or indirectly; and
- Level 3 Valuations based on one or more inputs that are both significant to fair value measurement and unobservable.

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**Table of Contents****MSCI INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The fair value of certain Level 2 financial liabilities may include valuation adjustments for our counterparties and our credit quality.

***Property, Equipment and Leasehold Improvements***

Property, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation of furniture and fixtures and computer and communications equipment are amortized using the straight-line method over the estimated useful life of the asset. Estimates of useful lives are as follows: furniture & fixtures five years; computer and related equipment three to five years. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or, where applicable, the remaining term of the lease.

***Treasury Stock***

The Company holds repurchased shares of common stock as treasury stock. The Company accounts for treasury stock under the cost method and includes treasury stock as a component of shareholders' equity.

In accordance with ASC Subtopic 505-10, *Equity*, the Company accounts for the capped accelerated share repurchase (ASR) agreement into which it entered in December 2012 as two separate transactions: (a) as shares of common stock acquired in a treasury stock transaction recorded on the December 14, 2012 acquisition date and (b) as a forward contract indexed to the Company's own common stock. As such, the Company accounts for the shares that it received under the capped ASR agreement during the period as a repurchase of its common stock for the purpose of calculating earnings per common share. The Company has determined that the forward contract indexed to the Company's common stock meets all the applicable criteria for equity classification in accordance with ASC Subtopic 815-10 and, therefore, the capped ASR agreement is not accounted for as a derivative instrument.

***Allowance for Doubtful Accounts***

The Company licenses its products and services to investment managers mainly in the United States, Europe and Asia (primarily Hong Kong and Japan). The Company evaluates the credit of its customers and does not require collateral. The Company maintains an allowance on customer accounts where estimated losses may result from the inability of its customers to make required payments.

An allowance for doubtful accounts is recorded when it is probable and estimable that a receivable will not be collected. Changes in the allowance for doubtful accounts from November 30, 2009 to December 31, 2012 were as follows:

| (in thousands)                         | Amount   |
|----------------------------------------|----------|
| Balance as of November 30, 2009        | \$ 847   |
| Addition to provision                  | 931      |
| Amounts written off, net of recoveries | (765)    |
| Balance as of November 30, 2010        | \$ 1,013 |
| Reduction to provision                 | (133)    |
| Amounts written off, net of recoveries | (3)      |
| Balance as of December 31, 2010        | 877      |
| Addition to provision                  | 545      |
| Amounts written off, net of recoveries | (565)    |

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|                                        |        |
|----------------------------------------|--------|
| Balance as of December 31, 2011        | \$ 857 |
| Addition to provision                  | 403    |
| Amounts written off, net of recoveries | (296)  |
| <br>                                   |        |
| Balance as of December 31, 2012        | \$ 964 |

*Accrued Compensation*

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The Company makes significant estimates in determining its accrued non-stock based compensation and benefits expenses. A significant portion of the Company's employee incentive compensation programs are discretionary. Each year end the Company determines the amount of discretionary cash bonus pools. The Company also reviews compensation and benefits expenses throughout the year to determine how overall performance compares to management's expectations. These and other factors, including historical performance, are taken into account in reviewing accrued discretionary cash compensation estimates quarterly and adjusting accrual rates as appropriate.

***Concentrations***

Financial instruments that may potentially subject the Company to concentrations of credit risk consist principally of cash deposits and short-term investments. At December 31, 2012 and 2011, cash and cash equivalent amounts were \$183.3 million and \$252.2 million, respectively. At December 31, 2012 and 2011, the Company had invested \$70.9 million and \$140.5 million, respectively, in U.S. Treasury Securities with maturity dates ranging from 91 to 360 days from the date of purchase. The Company receives interest at prevailing money market fund rates on its cash deposits.

For the years ended December 31, 2012, December 31, 2011 and November 30, 2010 and for the one month ended December 31, 2010, no single customer accounted for 10.0% or more of the Company's operating revenues.

**2. RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, or ASU 2011-04. ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, or ASU 2013-02. The amendments in this update require an entity to provide information about the amounts reclassified from accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the income statement or in the notes, significant amounts reclassified from accumulated other comprehensive income by the respective net income line item. This new guidance is to be applied prospectively for interim and annual periods beginning after December 15, 2012. The Company does not expect the adoption of ASU 2013-02 to have a material impact on its consolidated financial statements.

**3. RESTRUCTURING**

During the fiscal 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 (the Restructuring Plan) in order to eliminate overlapping positions, eliminate duplicative occupancy costs and terminate overlapping vendor contracts.

The Company recorded less than \$0.1 million of restructuring benefits during the year ended December 31, 2012, relating to adjustments made for costs previously accrued for the elimination of overlapping positions.

The Company recorded \$3.6 million of restructuring expenses in connection with the Restructuring Plan during the year ended December 31, 2011. Of this amount, \$2.0 million was related to costs associated with the exit of certain leases, \$0.9 million was related to the write-off of assets associated with the exit of certain leases, \$0.6 million was related to severance and less than \$0.1 million was related to the accelerated vesting of share-based compensation awards triggered by the elimination of overlapping positions.

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During the year ended November 30, 2010, the Company recorded \$8.9 million of restructuring expenses in connection with the Restructuring Plan, of which approximately \$3.6 million was related to severance and \$3.0 million was related to the accelerated vesting of share-based compensation awards triggered by the elimination of overlapping positions, \$0.9 million was related to costs associated with discontinuance of the planned integration of a product into RiskMetrics standard product offering suite and \$1.4 million was related to costs associated with the exit of certain leases.

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The Company recorded less than \$0.1 million of restructuring expenses in connection with the Restructuring Plan during the one month ended December 31, 2010.

The accelerated vesting of share-based compensation awards is not accounted for as a restructuring liability under the line item "other accrued liabilities" but is instead recorded under the line item "Additional paid in capital" in the Company's Consolidated Statement of Financial Condition. Any changes to the estimates in connection with executing the Restructuring Plan will be reflected in the Company's future results of operations.

During the year ended December 31, 2011, approximately \$2.0 million of the restructuring expenses were recorded under the Company's Performance and Risk operating segment and \$1.6 million were recorded under the Company's Governance operating segment. During the year ended November 30, 2010, approximately \$6.7 million of the restructuring expenses were recorded under the Company's Performance and Risk operating segment and \$2.2 million were recorded under the Company's Governance operating segment.

The table below summarizes the accrual and charges incurred with respect to the Company's Restructuring Plan that are included in the line items "other accrued liabilities" in the Company's Consolidated Statement of Financial Condition as of December 31, 2012:

| (in thousands)                            | MSCI Restructuring Plan |                   |        |
|-------------------------------------------|-------------------------|-------------------|--------|
|                                           | Severance               | Lease termination | Total  |
| <b>Accrued Balance, December 31, 2011</b> | \$ 72                   | \$ 667            | \$ 739 |
| Restructuring costs                       | (51)                    |                   | (51)   |
| Cash payments                             | (21)                    | (503)             | (524)  |
| <b>Accrued Balance, December 31, 2012</b> | \$                      | \$ 164            | \$ 164 |

**4. EARNINGS PER COMMON SHARE**

Basic earnings per share (EPS) is computed by dividing income available to MSCI common shareholders by the weighted average number of common shares outstanding during the period. Common shares outstanding include common stock and vested restricted stock unit awards where recipients have satisfied either the explicit vesting terms or retirement-eligible requirements. Diluted EPS reflects the assumed conversion of all dilutive securities. There were 6,714, 19,754 and 209,931, stock options excluded from the calculation of diluted EPS for the years ended December 31, 2012, December 31, 2011 and November 30, 2010, respectively, and 6,534 for the one month ended December 31, 2010, because of their anti-dilutive effect.

The Company computes EPS using the two-class method and determines whether instruments granted in share-based payment transactions are participating securities. The following table presents the computation of basic and diluted EPS:

| (in thousands, except per share data)                                           | December    | For the Years Ended     |                         | One Month                        |
|---------------------------------------------------------------------------------|-------------|-------------------------|-------------------------|----------------------------------|
|                                                                                 | 31,<br>2012 | December<br>31,<br>2011 | November<br>30,<br>2010 | Ended<br>December<br>31,<br>2010 |
| Net income                                                                      | \$ 184,238  | \$ 173,454              | \$ 92,170               | \$ 13,824                        |
| Less: Allocations of earnings to unvested restricted stock units <sup>(1)</sup> | (1,547)     | (627)                   | (742)                   | (145)                            |

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|                                                 |            |            |           |           |
|-------------------------------------------------|------------|------------|-----------|-----------|
| Earnings available to MSCI common shareholders  | \$ 182,691 | \$ 172,827 | \$ 91,428 | \$ 13,679 |
| Basic weighted average common stock outstanding | 122,023    | 120,717    | 112,074   | 119,943   |

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|                                                    |                |                |                |                |
|----------------------------------------------------|----------------|----------------|----------------|----------------|
| Basic weighted average common stock outstanding    | 122,023        | 120,717        | 112,074        | 119,943        |
| Effect of dilutive securities:                     |                |                |                |                |
| Stock options                                      | 1,181          | 1,559          | 1,283          | 1,860          |
| Diluted weighted average common shares outstanding | 123,204        | 122,276        | 113,357        | 121,803        |
| <b>Earnings per basic common share</b>             | <b>\$ 1.50</b> | <b>\$ 1.43</b> | <b>\$ 0.82</b> | <b>\$ 0.11</b> |
| <b>Earnings per diluted common share</b>           | <b>\$ 1.48</b> | <b>\$ 1.41</b> | <b>\$ 0.81</b> | <b>\$ 0.11</b> |

<sup>(1)</sup> The restricted stock units participate in all of the earnings of the Company in the computation of basic EPS and, therefore, the restricted stock units are not included as incremental shares in the diluted EPS computation.

**5. SHORT-TERM INVESTMENTS**

The fair value and gross unrealized gains and losses of securities available-for-sale as of the dates indicated were as follows:

| (in thousands)                            | Amortized<br>Cost plus<br>Accrued<br>Interest | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>Fair<br>value |
|-------------------------------------------|-----------------------------------------------|------------------------------|-------------------------------|----------------------------|
| <b>December 31, 2012</b>                  |                                               |                              |                               |                            |
| <b>Debt securities available-for-sale</b> |                                               |                              |                               |                            |
| U.S. Treasury securities                  | \$ 70,893                                     | \$ 5                         | \$                            | \$ 70,898                  |
| <b>December 31, 2011</b>                  |                                               |                              |                               |                            |
| <b>Debt securities available-for-sale</b> |                                               |                              |                               |                            |
| U.S. Treasury securities                  | \$ 135,485                                    | \$ 9                         | \$ (2)                        | \$ 135,492                 |
| Tradable certificates of deposit          | 5,001                                         |                              | (3)                           | 4,998                      |
| Total                                     | \$ 140,486                                    | \$ 9                         | \$ (5)                        | \$ 140,490                 |

*Unrealized Losses on Investments*

The Company had no investments with continuous unrealized losses for 12 months or greater at December 31, 2012 and 2011 or for less than 12 months at December 31, 2012. Investments with continuous unrealized losses for less than 12 months and their related fair values at December 31, 2011 were as follows:



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## MSCI INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| (in thousands)                   | As of<br>December 31, 2011 |                               |
|----------------------------------|----------------------------|-------------------------------|
|                                  | Total<br>Fair Value        | Total<br>Unrealized<br>Losses |
| U.S. Treasury securities         | \$ 50,056                  | \$ (2)                        |
| Tradable certificates of deposit | 2,695                      | (3)                           |
| <b>Total</b>                     | <b>\$ 52,751</b>           | <b>\$ (5)</b>                 |

*Evaluating Investments for Other-than-Temporary Impairments*

If the fair values of the Company's debt security investments are less than the amortized costs at the balance sheet date, the Company assesses whether the impairments are other than temporary. As the Company currently invests only in U.S. Treasury securities, state and municipal securities and highly rated corporate debt securities with a short duration (one year or less), it would take a significant decline in fair value and U.S. economic conditions for the Company to determine that these investments are other than temporarily impaired.

Additionally, management assesses whether it intends to sell or would more-likely-than-not be required to sell an investment before the expected recovery of the cost basis. Management has asserted that it believes it is more-likely-than-not that it will not be required to sell an investment before recovery of the cost basis.

As of December 31, 2012 and 2011, no other-than-temporary impairment had been recorded on any of the Company's investments.

**6. COMMITMENTS AND CONTINGENCIES**

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

**Leases.** The Company leases facilities under non-cancelable operating lease agreements. The terms of certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on the straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Rent expense for the years ended December 31, 2012, December 31, 2011 and November 30, 2010 was \$24.7 million, \$18.5 million, and \$15.4 million, respectively. Rent expense for the one month ended December 31, 2010 was \$1.7 million.

During the year ended December 31, 2012, the Company leased office space in New York, New York at three locations. The lease at One Chase Manhattan Plaza ended in August 2012 and the lease at 88 Pine Street ends in December 2014. On September 16, 2011, the Company entered into a new lease agreement with 7 World Trade Center, LLC, pursuant to which the Company is renting approximately 126,000 square feet of office space for its new corporate headquarters at 7 World Trade Center, New York, New York (the "Lease"). The Lease commenced on February 1, 2012 (the "Commencement Date") and the Company began occupying its new corporate headquarters in the 7 World Trade Center offices on July 23, 2012. As a result of vacating the 88 Pine Street offices, the Company recognized a charge of \$3.8 million during the year ended December 31, 2012, representing the fair value of the remaining lease charges not expected to be recoverable.

The Lease is initially scheduled to expire on February 28, 2033, subject to the Company's option to renew the Lease for an additional ten years after the initial expiration date. The Company also has the option to terminate the Lease early on February 1, 2028, subject to compliance with the terms and conditions of the Lease, including the payment of a termination fee. The aggregate rent over the life of the Lease is approximately \$170.1 million plus certain customary expenses. The Company expects to recognize annual rent expense of \$7.7 million related to the 7 World Trade Center offices over the life of the Lease. From February 1, 2013 (the "Rent Commencement Date") through and including January 31, 2018, the day preceding the fifth anniversary of the Rent Commencement Date, the annual rent paid will be approximately \$7.3 million.



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Thereafter, the annual rent to be paid increases 10% on each of the fifth, tenth and fifteenth anniversaries of the Rent Commencement Date.

Future minimum commitments for the Company's operating leases in place as of December 31, 2012 are as follows:

| <b>Years Ending December 31,</b> | <b>Amount<br/>(in thousands)</b> |
|----------------------------------|----------------------------------|
| 2013                             | \$ 26,031                        |
| 2014                             | 24,358                           |
| 2015                             | 19,658                           |
| 2016                             | 19,183                           |
| 2017                             | 17,543                           |
| Thereafter                       | 174,524                          |
| <b>Total</b>                     | <b>\$ 281,297</b>                |

**Share repurchase.** On December 13, 2012, the Board of Directors approved a stock repurchase program authorizing the purchase of up to \$300.0 million worth of shares of MSCI's common stock beginning immediately and continuing through the year ended December 31, 2014 (the 2012 Repurchase Program). As part of this authorization, on December 13, 2012, the Company entered into an ASR agreement with a financial institution to initiate share repurchases, aggregating \$100.0 million. The ASR agreement was structured as a capped ASR in which the Company paid \$100.0 million and received approximately 2.2 million shares representing the minimum number of common shares to be repurchased based on a calculation using a specific capped price per share. This price is capped such that only under limited circumstances, the Company may be required to deliver shares or, at its election, pay cash at settlement. Additionally, depending on the average share price through the July 2013 completion date, the Company may receive additional shares under the ASR agreement.

The \$100.0 million payment was initially split and recorded as a \$65.0 million increase to Treasury stock and a \$35.0 million decrease to Additional paid in capital on the Company's Consolidated Statement of Financial Condition to reflect the initial estimate of the value of shares received. The authorized repurchase program, except for the ASR, may be modified, suspended, terminated, or extended by the Company at any time without prior notice. The additional \$200.0 million balance of the authorization under the 2012 Repurchase Program will be available for utilization through December 14, 2014 at the Company's discretion.

**Long-term debt.** On June 1, 2010, the Company entered into a senior secured credit agreement with Morgan Stanley Senior Funding, Inc., as administrative agent, Morgan Stanley & Co. Incorporated, as collateral agent, and the other lenders party thereto, which was comprised of (i) a \$1,275.0 million six-year term loan facility (the 2010 Term Loan) and (ii) a \$100.0 million five-year revolving credit facility (the 2010 Revolving Credit Facility) and together with the 2010 Term Loan, the 2010 Credit Facility). For unused credit under the 2010 Revolving Credit Facility, the Company paid an annual 0.75% non-usage fee. The Company was required to repay 1.00% of the principal of the 2010 Term Loan per year in quarterly installments. The 2010 Credit Facility also contained a number of mandatory prepayment requirements, including a requirement to repay a specified amount of the 2010 Term Loan annually from a portion of the Company's excess cash flows (as defined in the 2010 Credit Facility, which varied based on the Company's leverage ratio). Any remaining principal of the 2010 Term Loan was to be payable on the final maturity date of the facility. In February 2011, the Company made a prepayment of \$56.0 million on the 2010 Term Loan from its excess cash flows.

On March 14, 2011, the Company completed the repricing of the 2010 Credit Facility pursuant to Amendment No. 2 to the 2010 Credit Facility (Amendment No. 2). Amendment No. 2 provided for the incurrence of a new senior secured loan (the 2011 Term Loan) in an aggregate principal amount of \$1,125.0 million. The proceeds of the 2011 Term Loan, together with \$87.6 million of cash on hand, were used to repay the remaining \$1,212.6 million outstanding balance of the 2010 Term Loan in full. The 2011 Term Loan was to mature in March 2017. Amendment No. 2 decreased the interest rate applicable to the 2011 Term Loan from the London Interbank Offered Rate (LIBOR) plus 3.25% (with a leverage-based stepdown) to LIBOR plus 2.75% (with a leverage-based stepdown) and reduced the LIBOR floor applicable to the 2011 Term Loan from



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1.50% to 1.00%. The Company incurred \$6.1 million in fees associated with the repricing which are reflected in Other expense (income) on the Company's Consolidated Statement of Income for the year ended December 31, 2011.

On December 30, 2011, the Company made a \$35.0 million prepayment on the 2011 Term Loan.

On May 4, 2012, the Company amended and restated its 2010 Credit Facility (the credit agreement as so amended and restated, the Amended and Restated Credit Facility). The Amended and Restated Credit Facility provides for the incurrence of a new senior secured five-year Term Loan A Facility in an aggregate amount of \$880.0 million (the 2012 Term Loan) and a \$100.0 million senior secured revolving facility (the 2012 Revolving Credit Facility). The proceeds of the Amended and Restated Credit Facility, together with cash on hand, were used to repay the remaining outstanding principal of the then-existing 2011 Term Loan. The 2012 Term Loan and the 2012 Revolving Credit Facility mature on May 4, 2017. The Company is required to repay 5.00% of the 2012 Term Loan in quarterly payments over the first two years, 10.00% of the 2012 Term Loan in quarterly payments over the next two years, and 70.00% of the 2012 Term Loan in quarterly payments over the final year.

The 2011 Term Loan bore interest equal to the greater of LIBOR or 1.00% plus 2.50%. As of December 31, 2012, the 2012 Term Loan bears interest of LIBOR plus 2.25%, or 2.46%.

In connection with entering into the Amended and Restated Credit Facility, the Company paid \$5.7 million in fees, \$3.9 million of which are being deferred. These financing fees, together with \$8.6 million of existing fees related to prior credit facilities which continue to be deferred, will be amortized over the life of the Amended and Restated Credit Facility. At December 31, 2012, \$10.6 million of the deferred financing fees remain unamortized, \$2.8 million of which is included in Prepaid and other assets and \$7.8 million of which is included in Other non-current assets on the Company's Consolidated Statement of Financial Condition.

Current maturities of long-term debt at December 31, 2012 was \$43.1 million, net of a \$0.9 million discount. Long-term debt, net of current maturities at December 31, 2012 was \$811.6 million, net of a \$2.4 million discount.

Current maturities of long-term debt at December 31, 2011 was \$10.3 million, net of a \$0.9 million discount. Long-term debt, net of current maturities at December 31, 2011 was \$1,066.6 million, net of a \$3.8 million discount.

The Company amortized \$18.1 million and \$5.8 million of deferred financing fees in interest expense during the year ended December 31, 2012 and 2011, respectively. Approximately \$5.3 million and \$1.1 million of debt discount was amortized in interest expense during the years ended December 31, 2012 and 2011, respectively.

At December 31, 2012 and 2011, the fair market value of the Company's debt obligations were \$862.3 million and \$1,089.7 million, respectively. The fair market value is determined in accordance with accounting standards related to the determination of fair value as discussed in Note 7, Fair Value Measures, and represents Level 2 valuations. We utilize the market approach and obtain security pricing from a vendor who uses broker quotes and third-party pricing services to determine fair values.

The aggregate amount of all long-term debt principal to be repaid for the years following December 31, 2012, is as follows:

| For the Years Ending December 31, | Amount<br>(in thousands) |
|-----------------------------------|--------------------------|
| 2013                              | \$ 44,000                |
| 2014                              | 66,000                   |
| 2015                              | 88,000                   |
| 2016                              | 352,000                  |
| 2017                              | 308,000                  |

|       |            |
|-------|------------|
| Total | \$ 858,000 |
|-------|------------|

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

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As of December 31, 2012, the Company's Retained Earnings of \$547.7 million were restricted as to the payments of dividends. As outlined in the Amended and Restated Credit Facility, the Company cannot pay or declare any dividends except out of amounts available for restricted payments. As of December 31, 2012, the amount available for restricted payments was \$168.5 million, reflecting the Company's cumulative retained cash flows (CRCF), as defined in the Amended and Restated Credit Facility, through December 31, 2011 and adjusted for any restricted payments made during the year ended December 31, 2012. The amounts available for restricted payments will be adjusted during the quarter ending March 31, 2013 to reflect the Company's CRCF through the year ended December 31, 2012. To the extent the CRCF is utilized for other actions restricted under the Amended and Restated Credit Facility, including stock repurchases and acquisitions, the amount available for restricted payments will be reduced.

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

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

**Cash Flow Hedges of Interest Rate Risk.** As a result of the repayment of the 2011 Term Loan on May 4, 2012 and the 2010 Term Loan on March 14, 2011, the Company discontinued prospective hedge accounting on its then-existing interest rate swaps as they no longer met hedge accounting requirements. The Company has not entered into new interest rate swaps to hedge its debt and it is not required to do so under the Amended and Restated Credit Facility. The Company will continue to report the net loss related to the discontinued cash flow hedges in Accumulated Other Comprehensive Income and is expected to reclassify this amount into earnings during the contractual term of the swap agreements. During the next 12 months, the Company estimates that an additional \$1.4 million will be reclassified as an increase to interest expense.

**Non-designated Hedges of Foreign Exchange Risk.** Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to foreign exchange rate movements but do not meet the strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of December 31, 2012, the Company had the three outstanding foreign currency forwards that were not designated as hedges in qualifying hedging relationships:

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

| (in thousands)                                 | Consolidated Statements of<br>Financial Condition Location | As of<br>December 31, 2012 | As of<br>December 31, 2011 |
|------------------------------------------------|------------------------------------------------------------|----------------------------|----------------------------|
| Derivatives designated as hedging instruments: |                                                            |                            |                            |
| Liability derivatives:                         |                                                            |                            |                            |
| Interest rate swaps                            | Other accrued liabilities                                  | \$                         | \$ (2,387)                 |
| Foreign exchange contracts                     | Other accrued liabilities                                  | (203)                      | \$                         |
| Asset derivatives:                             |                                                            |                            |                            |
| Foreign exchange contracts                     | Prepaid and other assets                                   | \$ 3                       | \$                         |





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

| Derivatives in<br>Cash Flow<br>Hedging<br>Relationships<br>(in<br>thousands) | Amount of Gain or (Loss)<br>Recognized in Accumulated<br>Other Comprehensive<br>Income on Derivative<br>(Effective Portion) for the<br>Years Ended |                      |                      | Location<br>of Gain or<br>(Loss)<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income<br>into<br>Income<br>(Effective<br>Portion) | Amount of Gain or<br>(Loss) Reclassified<br>from Accumulated Other<br>Comprehensive Income<br>into Income (Effective<br>Portion) for the<br>Years Ended |                      |                      | Location<br>of<br>Gain or<br>(Loss)<br>Recognized<br>in Income<br>on<br>Derivative<br>(Ineffective<br>Portion<br>and<br>Amount<br>Excluded<br>from<br>December<br>31,<br>2012 | Amount of Gain<br>or (Loss) Recognized<br>in Income on Derivative<br>(Ineffective Portion<br>and Amount Excluded<br>from Effectiveness<br>Testing) for the<br>Years Ended |                         |                         |
|------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
|                                                                              | December<br>31,<br>2012                                                                                                                            | December<br>31, 2011 | November<br>30, 2010 |                                                                                                                                                         | December<br>31,<br>2012                                                                                                                                 | December<br>31, 2011 | November<br>30, 2010 |                                                                                                                                                                               | Effectiveness<br>Testing)                                                                                                                                                 | December<br>31,<br>2012 | December<br>31,<br>2011 |
| Interest Rate Swaps                                                          | \$ (695)                                                                                                                                           | \$ (4,506)           | \$ (2,628)           | Interest expense                                                                                                                                        | 2,437                                                                                                                                                   | \$ (2,062)           | \$ (3,072)           | Interest expense                                                                                                                                                              | \$                                                                                                                                                                        | \$ 35                   | \$ (3,088)              |

| Derivatives<br>in Cash Flow<br>Hedging<br>Relationships<br>(in thousands) | Amount of Gain or<br>(Loss)<br>Recognized<br>in<br>Accumulated<br>Other<br>Comprehensive<br>Income on<br>Derivative<br>(Effective<br>Portion)<br>for the One<br>Month<br>Ended<br>December 31,<br>2010 | Location of<br>Gain or (Loss)<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income into<br>Income<br>(Effective<br>Portion) | Amount of<br>Gain or<br>(Loss)<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income<br>into<br>Income<br>(Effective<br>Portion)<br>for<br>One Month<br>Ended<br>December 31,<br>2010 | Location of<br>Gain or<br>(Loss)<br>Recognized<br>in Income<br>on<br>Derivative<br>(Ineffective<br>Portion and<br>Amount<br>Excluded<br>from<br>Effectiveness<br>Testing) | Amount<br>of<br>Gain or<br>(Loss)<br>Recognized<br>in<br>Income<br>on<br>Derivative<br>(Ineffective<br>Portion and<br>Amount<br>Excluded<br>from<br>Effectiveness<br>Testing) |
|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                           |                                                                                                                                                                                                        |                                                                                                                                                   |                                                                                                                                                                                                            |                                                                                                                                                                           |                                                                                                                                                                               |
| Interest rate swaps                                                       | \$ 968                                                                                                                                                                                                 | Interest expense                                                                                                                                  | \$ (143)                                                                                                                                                                                                   | Interest expense                                                                                                                                                          | \$                                                                                                                                                                            |

**Derivatives Not Designated as Hedging Instruments**

Location of  
Gain or (Loss)  
Recognized in  
Amount of Gain or (Loss)  
Recognized in Income on  
Derivative for the Years

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| (in thousands)             | Income on<br>Derivative | Ended December 31, |      |      |
|----------------------------|-------------------------|--------------------|------|------|
|                            |                         | 2012               | 2011 | 2010 |
| Foreign exchange contracts | Other expense           | (\$ 200)           | \$   | \$   |

**7. FAIR VALUE MEASURES**

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2012:

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## MSCI INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| Description                         | Balance<br>as of<br>December 31,<br>2012 | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------------------------------|------------------------------------------|----------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                     |                                          |                                                                                        |                                                           |                                                    |
| <b>Assets:</b>                      |                                          |                                                                                        |                                                           |                                                    |
| Cash equivalents                    | \$                                       | \$                                                                                     | \$                                                        | \$                                                 |
| <b>Short-term investments:</b>      |                                          |                                                                                        |                                                           |                                                    |
| U.S. Treasury securities            | 70,898                                   |                                                                                        | 70,898                                                    |                                                    |
| <b>Total short-term investments</b> | <b>70,898</b>                            |                                                                                        | <b>70,898</b>                                             |                                                    |
| Foreign exchange contracts          | 3                                        |                                                                                        | 3                                                         |                                                    |
| <b>Total financial assets</b>       | <b>\$ 70,901</b>                         | <b>\$</b>                                                                              | <b>\$ 70,901</b>                                          | <b>\$</b>                                          |
| <b>Liabilities:</b>                 |                                          |                                                                                        |                                                           |                                                    |
| Foreign exchange contracts          | \$ 203                                   | \$                                                                                     | \$ 203                                                    | \$                                                 |

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

| Description                         | Balance<br>as of<br>December 31,<br>2011 | Quoted Prices in<br>Active Markets for<br>Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------------------------------|------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|
|                                     |                                          |                                                                            |                                                     |                                                    |
| <b>Assets:</b>                      |                                          |                                                                            |                                                     |                                                    |
| Cash equivalents                    | \$ 27,000                                | \$                                                                         | \$ 27,000                                           | \$                                                 |
| <b>Short-term investments:</b>      |                                          |                                                                            |                                                     |                                                    |
| U.S. Treasury securities            | 135,492                                  |                                                                            | 135,492                                             |                                                    |
| Tradable certificates of deposit    | 4,998                                    |                                                                            | 4,998                                               |                                                    |
| <b>Total short-term investments</b> | <b>140,490</b>                           |                                                                            | <b>140,490</b>                                      |                                                    |
| <b>Total financial assets</b>       | <b>\$ 167,490</b>                        | <b>\$</b>                                                                  | <b>\$ 167,490</b>                                   | <b>\$</b>                                          |

**Liabilities:**

|                     |          |    |          |    |
|---------------------|----------|----|----------|----|
| Interest rate swaps | \$ 2,387 | \$ | \$ 2,387 | \$ |
|---------------------|----------|----|----------|----|

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

The Company's cash equivalents consist of U.S. Treasury securities, tradable certificates of deposit, commercial paper and state and municipal securities with maturities of 90 days or less from the date of purchase. The Company's short-term investments consist of U.S. Treasury securities, tradable certificates of deposit, commercial paper and state and municipal securities and are classified within Level 2, as there is not an active market for these securities, but the market pricing data used to calculate the value of the instruments are derived from similar securities traded in active markets.

The Company's interest rate swaps were classified within Level 2, as they were valued using pricing models that took into account the contract terms as well as multiple observable inputs where applicable, such as equity prices, interest rate yield curves, option volatility and currency rates.

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

The Company's debt obligations were classified within Level 2, as they were valued utilizing the market approach by obtaining security pricing from a vendor who uses broker quotes and third-party pricing services to determine fair values.

**8. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Property, equipment and leasehold improvements at December 31, 2012 and 2011 consisted of the following:

|                                                            | December 31,<br>2012 | As of<br>December 31,<br>2011 |
|------------------------------------------------------------|----------------------|-------------------------------|
|                                                            | (in thousands)       |                               |
| Computer & related equipment                               | \$ 67,529            | \$ 70,170                     |
| Furniture & fixtures <sup>(1)</sup>                        | 7,847                | 4,868                         |
| Leasehold improvements <sup>(1)</sup>                      | 48,405               | 22,219                        |
| Work-in-process                                            | 2,716                | 454                           |
| <b>Subtotal</b>                                            | <b>126,497</b>       | <b>97,711</b>                 |
| Accumulated depreciation and amortization                  | (59,078)             | (60,088)                      |
| <b>Property, equipment and leasehold improvements, net</b> | <b>\$ 67,419</b>     | <b>\$ 37,623</b>              |

<sup>(1)</sup> The increase in furniture & fixtures and leasehold improvements as of December 31, 2012 compared to December 31, 2011 primarily relates to the Company's new office spaces in New York, New York and Rockville, Maryland, both of which the Company began occupying during the year ended December 31, 2012.

Depreciation and amortization expense of property, equipment and leasehold improvements was \$18.7 million, \$19.4 million and \$17.4 million for the years ended December 31, 2012, December 31, 2011 and November 30, 2010, respectively. Depreciation and amortization expense of property, equipment and leasehold improvements was \$1.8 million for the one month ended December 31, 2010.

**9. GOODWILL AND INTANGIBLE ASSETS****Goodwill.**

The Company carries goodwill as a result of its acquisitions of Barra, RiskMetrics, Measurisk and IPD, as reflected in the table below:

| (in thousands)                | Performance<br>and Risk | Governance | Total        |
|-------------------------------|-------------------------|------------|--------------|
| Goodwill at December 31, 2011 | \$ 1,477,468            | \$ 231,117 | \$ 1,708,585 |

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|                                         |              |            |              |
|-----------------------------------------|--------------|------------|--------------|
| Goodwill from acquisition of IPD        | 73,773       |            | 73,773       |
| Foreign exchange translation adjustment | 1,052        |            | 1,052        |
| Goodwill at December 31, 2012           | \$ 1,552,293 | \$ 231,117 | \$ 1,783,410 |

*Intangible Assets.*

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Amortization expense related to intangible assets for the years ended December 31, 2012, December 31, 2011 and November 30, 2010, was \$63.3 million, \$65.8 million and \$41.6 million, respectively. Amortization expense related to intangible assets for the one month ended December 31, 2010 was \$5.6 million.

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

| (in thousands)                          | December 31,<br>2012 | As of<br>December 31,<br>2011 |
|-----------------------------------------|----------------------|-------------------------------|
| <b>Gross Intangible Assets:</b>         |                      |                               |
| Customer relationships                  | \$ 474,236           | \$ 459,010                    |
| Trademarks/trade names                  | 256,582              | 243,440                       |
| Technology/software                     | 193,192              | 191,430                       |
| Proprietary process                     | 3,800                | 3,800                         |
| Proprietary data                        | 28,527               |                               |
| Non-compete agreements                  |                      | 2,780                         |
| Subtotal                                | 956,337              | 900,460                       |
| Foreign exchange translation adjustment | 836                  |                               |
| Total intangible assets                 | \$ 957,173           | \$ 900,460                    |
| <b>Accumulated Amortization:</b>        |                      |                               |
| Customer relationships                  | \$ (92,631)          | \$ (61,003)                   |
| Trademarks/trade names                  | (62,270)             | (49,336)                      |
| Technology/software                     | (159,375)            | (141,457)                     |
| Proprietary process                     | (1,636)              | (1,003)                       |
| Proprietary data                        | (184)                |                               |
| Non-compete agreements                  |                      | (2,780)                       |
| Subtotal                                | (316,096)            | (255,579)                     |
| Foreign exchange translation adjustment | (3)                  |                               |
| Total intangible assets                 | \$ (316,099)         | \$ (255,579)                  |
| <b>Net Intangible Assets:</b>           |                      |                               |
| Customer relationships                  | \$ 381,605           | \$ 398,007                    |
| Trademarks/trade names                  | 194,312              | 194,104                       |
| Technology/software                     | 33,817               | 49,973                        |
| Proprietary process                     | 2,164                | 2,797                         |
| Proprietary data                        | 28,343               |                               |
| Non-compete agreements                  |                      |                               |
| Subtotal                                | 640,241              | 644,881                       |
| Foreign exchange translation adjustment | 833                  |                               |

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Total intangible assets \$ 641,074 \$ 644,881

Estimated amortization expense for succeeding years is presented below:

| <b><u>For the Years Ending December 31,</u></b> | <b>Amortization<br/>Expense<br/>(in thousands)</b> |
|-------------------------------------------------|----------------------------------------------------|
| 2013                                            | 57,293                                             |
| 2014                                            | 57,062                                             |
| 2015                                            | 56,985                                             |
| 2016                                            | 54,847                                             |
| 2017                                            | 48,734                                             |

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|              |                   |
|--------------|-------------------|
| Thereafter   | 366,153           |
| <b>Total</b> | <b>\$ 641,074</b> |

**10. EMPLOYEE BENEFITS**

The Company sponsors a 401(k) plan for eligible U.S. employees and defined contribution and defined benefit pension plans that cover substantially all of its non-U.S. employees. For the years ended December 31, 2012, December 31, 2011 and November 30, 2010, costs relating to 401(k), pension and post-retirement benefit expenses were \$19.0 million, \$15.9 million and \$8.8 million, respectively, and \$0.8 million for the one month ended December 31, 2010. Amounts included in cost of services were \$12.0 million, \$9.8 million and \$5.2 million for the years ended December 31, 2012, December 31, 2011 and November 30, 2010, respectively, and \$0.5 million for the one month ended December 31, 2010. Amounts included in selling, general and administrative expense related to these pension and post-retirement expenses for the years ended December 31, 2012, December 31, 2011 and November 30, 2010 were \$7.0 million, \$6.1 million and \$3.6 million, respectively, and \$0.3 million for the one month ended December 31, 2010.

*401(k) and Other Defined Contribution Plans.* Eligible employees may participate in the MSCI 401(k) plan (or any other regional defined contribution plan sponsored by MSCI) immediately upon hire. Eligible employees receive 401(k) and other defined contribution plan matching contributions and, in the case of the MSCI 401(k) plan, an additional Company contribution of 3% of the employees' cash compensation, which is subject to vesting and certain other limitations. The Company's expenses associated with the 401(k) plan and other defined contribution plans for the years ended December 31, 2012, December 31, 2011 and November 30, 2010 were \$15.9 million, \$14.0 million and \$6.8 million, respectively, and \$0.7 million for the one month ended December 31, 2010.

*Net Periodic Benefit Expense.* Net periodic benefit expense incurred by the Company related to defined benefit pension plans was \$3.1 million, \$1.9 million and \$2.0 million for the years ended December 31, 2012, December 31, 2011 and November 30, 2010, respectively, and \$0.1 million for the one month ended December 31, 2010.

The Company uses a measurement date of December 31 to calculate obligations under its pension and postretirement plans. As of December 31, 2012, the Company carried a \$7.6 million net liability on its books related to its future pension obligations. The fair value of the defined benefit plan assets were \$13.4 million at December 31, 2012.

**11. SHARE-BASED COMPENSATION**

On November 6, 2007, the Company's Board of Directors approved the award of founders grants to its employees in the form of restricted stock units and/or options ( Founders Grant Award ). The restricted stock units and options vested over a four-year period beginning from the November 14, 2007 grant date through November 14, 2011.

On December 16, 2008, the Company, as a component of the 2008 annual bonus, awarded certain of its employees with a grant in the form of restricted stock units ( 2008 Bonus Award ). The aggregate value of the grants was approximately \$9.5 million of restricted stock units. The restricted stock units vested one-third per year over a three-year period. The final tranche of the 2008 Bonus Award vested on January 9, 2012.

On December 16, 2009, the Company, as a component of the 2009 annual bonus, awarded certain of its employees with a grant in the form of restricted stock units ( 2009 Bonus Award ). The aggregate value of the grants was approximately \$13.2 million of restricted stock units. The restricted stock units vest over a three-year period, with one-third vesting on December 20, 2010, December 19, 2011 and December 17, 2012, respectively. Approximately \$5.1 million of this grant was awarded to retirement-eligible employees under the award terms. The Company accrued the estimated cost of the 2009 Bonus Award granted to retirement-eligible employees over the 2009 fiscal year. The final tranche of the 2009 Bonus Award vested on December 17, 2012.

On June 1, 2010, the Company reserved approximately 4.2 million shares of common stock for outstanding vested and unvested stock options and 0.1 million shares of common stock for outstanding unvested restricted stock awards assumed as part of the acquisition of RiskMetrics. Over

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an approximate three-and-a-half-year period from the date assumed, \$16.7 million is expected to be expensed for unvested stock options and \$1.3 million for unvested restricted stock awards.

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On June 1, 2010, the Company awarded certain of its employees with a grant in the form of restricted stock units ( Performance Award ). The Performance Award will performance-vest based upon the Company achieving specific performance targets over a measurement period ended on December 31, 2012 and time-vest over a 31-month period, with one-half time-vested on December 1, 2011 and one-half time-vested on December 31, 2012. The aggregate value of the grants was approximately \$15.9 million.

On December 10, 2010, the Compensation Committee of the Board of Directors of the Company approved the grant of a special one-time price and time vested stock option award to the Company's Chief Executive Officer ( 2010 CEO Award ). The award was valued at approximately \$3.6 million using a Monte Carlo simulation based on the closing price of the Company's common stock at the close of business on December 13, 2010. The 2010 CEO Award time-vests over a five-year period, with approximately 25% of the award vesting on each of the second, third, fourth and fifth anniversaries of the grant and is subject to certain market performance.

On December 14, 2010, the Company, as a component of the 2010 annual bonus, awarded a portion of its employees with a grant in the form of restricted stock units ( 2010 Bonus Award ). The aggregate value of the grants was approximately \$18.9 million. Approximately \$6.2 million was awarded to retirement-eligible employees under the award terms. A portion of the 2010 Bonus Award consisted of restricted stock units vesting over a three-year period, with one-third vesting on each anniversary of the grant in 2011, 2012 and 2013, respectively. A smaller portion of the 2010 Bonus Award consisted of restricted stock units subject to achieving both specific performance targets over a measurement period ending on December 31, 2012 and a time-vesting period, with one-half time vesting on December 31, 2012 and December 31, 2013, respectively.

On February 2, 2012, the Company, as a component of the 2011 annual bonus, awarded a portion of its employees with a grant in the form of restricted stock units ( 2011 Bonus Award ). The aggregate value of the grants was approximately \$21.2 million. Approximately \$6.7 million of the aggregate value of the grants was awarded to retirement-eligible employees under the award terms which had been expensed in the year ended December 31, 2011. A portion of the 2011 Bonus Award consisted of restricted stock units vesting over a three-year period, with one-third vesting on each anniversary of the grant in 2013, 2014 and 2015, respectively. A smaller portion of the 2011 Bonus Award consisted of restricted stock units subject to achieving both specific performance targets over a measurement period ending on December 31, 2013 and a time-vesting period, with one-half time vesting on December 31, 2013 and December 31, 2014, respectively.

In January 2013, the Company, as a component of the 2012 annual bonus, awarded a portion of its employees with a grant in the form of restricted stock units ( 2012 Bonus Award ). The total number of units granted was 636,588. The aggregate value of the grants was approximately \$21.7 million. Approximately \$6.2 million was awarded to retirement eligible employees under the award terms which had been expensed in the year ended December 31, 2012.

During the year ended December 31, 2012, the Company awarded 4,544 shares in MSCI common stock and 18,603 restricted stock units to directors who were not employees of the Company during the period. During the year ended December 31, 2011, the Company awarded 7,840 shares in MSCI common stock and 21,259 restricted stock units to directors who were not employees of the Company during the period.

For the Performance Award and the 2010 CEO Award, all or a portion of the award may be cancelled in certain limited situations, including termination for cause, if employment is terminated before the end of the relevant restriction period. For the remainder of the awards granted by the Company, all or a portion of the award may be cancelled if employment is terminated for certain reasons before the end of the relevant restriction period for non-retirement-eligible employees.

In connection with awards under its equity-based compensation and benefit plans, the Company is authorized to use newly issued shares for certain shares of common stock held in treasury.

The components of share-based compensation expense related to the awards to Company employees and directors who are not employees of the Company of restricted stock units and restricted stock awards (representing shares of common stock) and options to purchase shares of common stock, as applicable, are presented below:

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| (in thousands) | December 31,<br>2012 | For the Years Ended<br>December 31,<br>2011 | November 30,<br>2010 | One Month<br>Ended<br>December 31,<br>2010 |
|----------------|----------------------|---------------------------------------------|----------------------|--------------------------------------------|
| Deferred stock | \$ 23,198            | \$ 27,067                                   | \$ 24,632            | \$ 2,080                                   |
| Stock options  | 2,398                | 4,682                                       | 7,653                | 752                                        |
| <b>Total</b>   | <b>\$ 25,596</b>     | <b>\$ 31,749</b>                            | <b>\$ 32,285</b>     | <b>\$ 2,832</b>                            |

The amount of this expense included in cost of services for the years ended December 31, 2012, December 31, 2011 and November 30, 2010 was \$9.6 million, \$12.4 million and \$12.0 million, respectively, and \$1.4 million for the one month ended December 31, 2010. The amount of this expense included in selling, general and administrative expense for the years ended December 31, 2012, December 31, 2011 and November 30, 2010 was \$16.0 million, \$19.3 million and \$17.3 million, respectively, and \$1.4 million for the one month ended December 31, 2010. The amount of this expense included in restructuring expense was less than \$0.1 million for the year ended December 31, 2011 and was \$3.0 million for the year ended November 30, 2010.

The tax benefits for share-based compensation expense related to deferred stock and stock options granted to Company employees and to directors who are not employees of the Company were \$1.0 million, \$7.3 million and \$8.5 million for the year ended December 31, 2012, December 31, 2011 and November 30, 2010, respectively. The tax benefits for share-based compensation expense related to deferred stock and stock options granted to Company employees and to directors who are not employees of the Company were \$0.3 million for the one month ended December 31, 2010.

As of December 31, 2012, approximately \$11.0 million of compensation cost related to MSCI unvested share-based awards granted to the Company's employees and to directors who are not employees of the Company had not yet been recognized. The unrecognized compensation cost relating to unvested stock-based awards expected to vest will be recognized primarily over the next one to three years.

In connection with awards under its equity-based compensation and benefit plans, the Company is authorized to issue shares of common stock. As of December 31, 2012, approximately 7.1 million shares of common stock were available for future grant under these plans.

*Deferred Stock Awards.* Certain Company employees have been granted deferred stock awards pursuant to its share-based compensation plan. The plan provides for the deferral of a portion of certain employees' discretionary compensation with awards made in the form of RSUs, PSUs and restricted stock awards (together, the Deferred Stock Awards). Recipients of deferred stock generally have rights to receive dividend equivalents that are not subject to vesting. The Company reports the target number of PSUs granted unless it has determined, based on the actual achievement of performance measures, that an employee will receive a different amount of shares underlying the PSUs, in which case the Company reports the amount of shares employees are likely to receive.

The following table sets forth activity concerning the Company's vested and unvested deferred stock awards applicable to its employees (share data in thousands):

|                                                                | Number of<br>Shares<br>(in thousands) | Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value |
|----------------------------------------------------------------|---------------------------------------|-------------------------------------------------------|
| <b>For the Year Ended December 31, 2012</b>                    |                                       |                                                       |
| Vested and unvested deferred stock awards at December 31, 2011 | 1,246                                 | \$ 30.42                                              |
| Granted                                                        | 708                                   | \$ 33.63                                              |

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|                                                                               |       |          |
|-------------------------------------------------------------------------------|-------|----------|
| Conversion to common stock                                                    | (481) | \$ 28.72 |
| Canceled                                                                      | (33)  | \$ 34.90 |
|                                                                               |       |          |
| Vested and unvested deferred stock awards at December 31, 2012 <sup>(1)</sup> | 1,440 | \$ 32.47 |

<sup>(1)</sup> As of December 31, 2012, approximately 1,419 restricted stock units and restricted stock awards, with a weighted average price of \$32.44, were vested or expected to vest.

The total fair value of Deferred Stock Awards held by the Company's employees converted to MSCI common stock during the years ended December 31, 2012, December 31, 2011 and November 30, 2010 was \$15.3 million, \$35.2 million and \$34.3 million, respectively, and \$4.7 million for the one month ended December 31, 2010.

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The following table sets forth activity concerning the Company's unvested deferred stock awards related to its employees (share data in thousands):

|                                                                    | Number of<br>Shares<br>(in thousands) | Weighted<br>Average<br>Grant<br>Date<br>Fair<br>Value |
|--------------------------------------------------------------------|---------------------------------------|-------------------------------------------------------|
| <b>For the Year Ended December 31, 2012</b>                        |                                       |                                                       |
| Unvested deferred stock awards at December 31, 2011 <sup>(1)</sup> | 949                                   | \$ 30.90                                              |
| Granted                                                            | 508                                   | \$ 33.66                                              |
| Vested                                                             | (288)                                 | \$ 30.33                                              |
| Canceled                                                           | (33)                                  | \$ 34.90                                              |
| <br>                                                               |                                       |                                                       |
| Unvested deferred stock awards at December 31, 2012                | 1,136                                 | \$ 32.16                                              |
| <br>                                                               |                                       |                                                       |
| Unvested deferred stock awards expected to vest                    | 1,114                                 | \$ 32.12                                              |

<sup>(1)</sup> Unvested deferred stock awards represent awards where recipients have yet to satisfy either the explicit vesting terms or retirement-eligibility requirements.

*Stock Option Awards.* On December 10, 2010, the Compensation Committee of the Board of Directors of the Company approved the grant of the 2010 CEO Award. The award was valued using a Monte Carlo simulation based on the closing price of the Company's common stock at the close of business on December 13, 2010. No MSCI stock options were issued during the years ended December 31, 2012 and 2011. The weighted average fair value of MSCI stock options issued by the Company in the one month ended December 31, 2010 was \$17.08, utilizing the following assumptions:

|                                                 | Assumptions |
|-------------------------------------------------|-------------|
| Weighted-average fair value of grants per share | \$ 17.08    |
| Risk free interest rate                         | 3.26%       |
| Expected stock price volatility                 | 36.31%      |
| Expected dividend yield                         |             |

The expected stock price volatility assumption was determined using the historical volatility of the Company and its peers. Because the Company did not have sufficient share price history to calculate the historical volatility of MSCI common stock, the Company believes that the combination of its own and its peers' historical volatility is the most reliable data for the purposes of estimating the expected volatility.

The following table sets forth activity concerning MSCI stock options granted to the Company's employees for the years ended December 31, 2012 and 2011 (option data and dollar values in thousands, except exercise price):

| For the Year Ended December 31, 2012 | Number of<br>Options | Weighted<br>Average | Weighted<br>Average | Aggregated<br>Intrinsic |
|--------------------------------------|----------------------|---------------------|---------------------|-------------------------|
|--------------------------------------|----------------------|---------------------|---------------------|-------------------------|

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|                                          | (in thousands) | Exercise Price | Remaining Life (Years) | Value (in thousands) |
|------------------------------------------|----------------|----------------|------------------------|----------------------|
| Options outstanding at December 31, 2011 | 3,525          | \$ 18.76       | 5.82                   | N/A                  |
| Granted or assumed                       |                | \$             | N/A                    | N/A                  |
| Forfeited                                | (75)           | \$ 19.51       | N/A                    | N/A                  |
| Conversion to common stock               | (843)          | \$ 16.01       | N/A                    | N/A                  |
| Options outstanding at December 31, 2012 | 2,607          | \$ 19.62       | 4.80                   | \$ 30,823            |
| Options exercisable at December 31, 2012 | 2,311          | \$ 17.92       | 4.43                   | \$ 30,212            |
| Options vested or expected to vest       | 2,603          | \$ 19.62       | 4.80                   | \$ 30,801            |

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The following table presents information relating to the Company's outstanding stock options as of December 31, 2012 (number of options outstanding and aggregate intrinsic value data in thousands):

| At December 31, 2012            | Number<br>Outstanding<br>(in thousands) | Options Outstanding                      |                                      | Aggregate<br>Intrinsic<br>Value<br>(in thousands) |
|---------------------------------|-----------------------------------------|------------------------------------------|--------------------------------------|---------------------------------------------------|
|                                 |                                         | Weighted<br>Average<br>Exercise<br>Price | Average<br>Remaining<br>Life (Years) |                                                   |
| <b>Range of Exercise Prices</b> |                                         |                                          |                                      |                                                   |
| \$ 2.76 to \$16.48              | 545                                     | \$ 10.96                                 | 3.33                                 | \$ 10,916                                         |
| \$18.00                         | 1,047                                   | \$ 18.00                                 | 4.78                                 | \$ 13,603                                         |
| \$20.45 to \$25.64              | 807                                     | \$ 23.18                                 | 5.00                                 | \$ 6,303                                          |
| \$36.70                         | 208                                     | \$ 36.70                                 | 7.95                                 | \$                                                |
| <b>Total</b>                    | <b>2,607</b>                            |                                          |                                      | <b>\$ 30,822</b>                                  |

The following table presents information relating to the Company's exercisable stock options as of December 31, 2012 (number of options outstanding and aggregate intrinsic value data in thousands):

| At December 31, 2012            | Number<br>Outstanding<br>(in thousands) | Options Exercisable                      |                                      | Aggregate<br>Intrinsic<br>Value<br>(in thousands) |
|---------------------------------|-----------------------------------------|------------------------------------------|--------------------------------------|---------------------------------------------------|
|                                 |                                         | Weighted<br>Average<br>Exercise<br>Price | Average<br>Remaining<br>Life (Years) |                                                   |
| <b>Range of Exercise Prices</b> |                                         |                                          |                                      |                                                   |
| \$ 2.76 to \$16.48              | 535                                     | \$ 10.88                                 | 3.28                                 | \$ 10,764                                         |
| \$18.00                         | 1,047                                   | \$ 18.00                                 | 4.78                                 | \$ 13,603                                         |
| \$20.45 to \$25.64              | 729                                     | \$ 22.97                                 | 4.77                                 | \$ 5,845                                          |
| \$36.70                         |                                         | \$ 36.70                                 | 7.95                                 | \$                                                |
| <b>Total</b>                    | <b>2,311</b>                            |                                          |                                      | <b>\$ 30,212</b>                                  |

The intrinsic value of the stock options exercised by the Company's employees during the years ended December 31, 2012, December 31, 2011 and November 30, 2010 was \$60.1 million, \$19.4 and \$17.4 million, respectively, and \$0.1 million for the one month ended December 31, 2010.

**12. INCOME TAXES**

The provision for income taxes (benefits) consisted of (in thousands):

|              | For the Years Ended |              | For the One  |
|--------------|---------------------|--------------|--------------|
| December 31, | December 31,        | November 30, | Month        |
| 2012         | 2011                | 2010         | Ended        |
|              |                     |              | December 31, |
|              |                     |              | 2010         |
|              |                     |              |              |



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|                      |           |           |           |          |
|----------------------|-----------|-----------|-----------|----------|
| Current              |           |           |           |          |
| U.S. federal         | \$ 94,022 | \$ 53,041 | \$ 36,386 | \$ 1,487 |
| U.S. state and local | 19,067    | 12,573    | 9,452     | 931      |
| Non U.S.             | 22,277    | 18,720    | 14,557    | 1,462    |
|                      | 135,366   | 84,334    | 60,395    | 3,880    |

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|                            |            |           |           |          |
|----------------------------|------------|-----------|-----------|----------|
| Deferred                   |            |           |           |          |
| U.S. federal               | (24,733)   | 12,412    | 4,091     | 2,864    |
| U.S. state and local       | (5,225)    | (2,643)   | (1,954)   | 235      |
| Non U.S.                   | (237)      | (4,144)   | (1,211)   | (247)    |
|                            | (30,195)   | 5,625     | 926       | 2,852    |
| Provision for income taxes | \$ 105,171 | \$ 89,959 | \$ 61,321 | \$ 6,732 |

The following table reconciles the provision to the U.S. federal statutory income tax rate:

|                                                                            | December 31,<br>2012 | For the Years Ended<br>December 31,<br>2011 | November 30,<br>2010 | For the<br>One<br>Month<br>Ended<br>December 31,<br>2010 |
|----------------------------------------------------------------------------|----------------------|---------------------------------------------|----------------------|----------------------------------------------------------|
| U.S. federal statutory income tax rate                                     | 35.00%               | 35.00%                                      | 35.00%               | 35.00%                                                   |
| U.S. state and local income taxes, net of U.S. federal income tax benefits | 2.10%                | 2.45%                                       | 3.13%                | 3.63%                                                    |
| Change in tax rates applicable to non-U.S. earnings                        | (1.90%)              | (3.33%)                                     | 0.33%                | (1.05%)                                                  |
| Domestic tax credits                                                       | %                    | (0.95%)                                     | %                    | (4.55%)                                                  |
| Other                                                                      | 1.14%                | 0.98 %                                      | 1.49%                | (0.28%)                                                  |
| Effective income tax rate                                                  | 36.34%               | 34.15%                                      | 39.95%               | 32.75 %                                                  |

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2012 and December 31, 2011, were as follows (in thousands):

|                                                     | December 31,<br>2012 | As of<br>December 31,<br>2011 |
|-----------------------------------------------------|----------------------|-------------------------------|
| Deferred tax assets:                                |                      |                               |
| Employee compensation and benefit plans             | \$ 33,183            | \$ 26,895                     |
| Deferred rent                                       | 8,592                |                               |
| Property, equipment and leasehold improvements, net |                      | 2,044                         |
| State taxes                                         | 1,716                | 2,192                         |
| Interest rate swap                                  | 523                  | 1,215                         |
| Foreign currency translation                        | 144                  | 1,663                         |
| Pension                                             | 505                  | 171                           |
| Unearned revenue                                    | 908                  | 1,445                         |

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|                           |             |               |               |
|---------------------------|-------------|---------------|---------------|
| NOL carryforward          | current     | 741           | 466           |
| NOL carryforward          | non-current | 3,849         | 3,198         |
| Other                     |             | 3,239         | 5,969         |
| <b>Subtotal</b>           |             | <b>53,400</b> | <b>45,258</b> |
| Less: valuation allowance |             | (209)         | (779)         |

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|                                                     |              |              |
|-----------------------------------------------------|--------------|--------------|
| Total deferred tax assets                           | \$ 53,191    | \$ 44,479    |
| Deferred tax liabilities:                           |              |              |
| Intangible assets                                   | \$ (236,838) | \$ (242,500) |
| Property, equipment and leasehold improvements, net | (1,046)      |              |
| Other                                               |              | (1,483)      |
| Total deferred tax liabilities                      | \$ (237,884) | \$ (243,983) |
| Net deferred tax liabilities                        | \$ (184,693) | \$ (199,504) |
| Net current deferred tax asset                      | \$ 49,552    | \$ 40,952    |
| Net non-current deferred tax liabilities            | (234,245)    | (240,456)    |
| Net deferred tax liabilities                        | \$ (184,693) | \$ (199,504) |

The following table presents the components of income before provision for income taxes generated by domestic or foreign operations for the periods indicated (in thousands):

|                                                | December 31,<br>2012 | For the Years Ended<br>December 31,<br>2011 | November 30,<br>2010 | For the One<br>Month<br>Ended<br>December 31,<br>2010 |
|------------------------------------------------|----------------------|---------------------------------------------|----------------------|-------------------------------------------------------|
| Domestic                                       | \$ 237,816           | \$ 220,302                                  | \$ 130,899           | \$ 17,311                                             |
| Foreign <sup>(1)</sup>                         | 51,593               | 43,111                                      | 22,592               | 3,245                                                 |
| Total income before provision for income taxes | \$ 289,409           | \$ 263,413                                  | \$ 153,491           | \$ 20,556                                             |

<sup>(1)</sup> Foreign income before provision for income taxes is defined as income generated from operations located outside the U.S. Cumulative earnings attributable to foreign subsidiaries were approximately \$164.9 million, \$121.1 million and \$48.6 million for the years ended December 31, 2012 and 2011, and November 30, 2010, respectively, and \$49.9 million for the one month ended December 31, 2010. No provisions for income tax that could occur upon repatriation have been recorded on these earnings which are permanently invested abroad. It is not practicable to determine the amount of income taxes payable in the event all such foreign earnings are repatriated.

The Company changed its intention to permanently reinvest the undistributed earnings of MSCI Ltd. (except for the entities directly held by MSCI Ltd.), RiskMetrics (UK) Ltd., and RiskMetrics (Singapore) Pte Ltd. during the year ended December 31, 2011. With this change, the Company intends to permanently reinvest the undistributed earnings of all foreign operations indefinitely except for any entities that are branches of U.S. companies or check-the-box entities that have elected to be treated as disregarded entities for U.S. tax purposes and are held directly by a U.S. company or MSCI Ltd. As a result of this change, the Company no longer accrues for the U.S. taxes that would be recognized upon repatriation of these earnings.

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The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions in which it files income tax returns. The Company has established unrecognized tax benefits that the Company believes are adequate in relation to the potential for additional assessments. Once established, the Company adjusts unrecognized tax benefits only when more information is available or when an event occurs necessitating a change. As part of the Company's periodic review of unrecognized tax benefits and based on new information regarding the status of federal and state examinations, the Company's unrecognized tax benefits were remeasured. It is reasonably possible that significant changes in the balance of

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unrecognized tax benefits may occur within the next 12 months. At this time, however, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and the impact on the effective tax rate over the next 12 months.

The Company believes the resolution of tax matters will not have a material effect on the Consolidated Statement of Financial Condition of the Company, although a resolution could have a material impact on the Company's Consolidated Statement of Income for a particular future period and on the Company's effective tax rate for any period in which such resolution occurs.

The following table presents a reconciliation of the beginning and ending amount of the gross unrecognized tax benefits, excluding interest and penalties, for the years ended December 31, 2012 and 2011, November 30, 2010 and for the one month ended December 31, 2010:

|                                                                               | Year Ended<br>December 31,<br>2012 | Year Ended<br>December 31,<br>2011 | Year Ended<br>November 30,<br>2010 | One Month<br>Ended<br>December 31,<br>2010 |
|-------------------------------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------|--------------------------------------------|
| <b>Gross unrecognized tax benefits<br/>(in thousands)</b>                     |                                    |                                    |                                    |                                            |
| Beginning balance                                                             | \$ 13,168                          | \$ 13,392                          | \$ 10,974                          | \$ 13,089                                  |
| Increases based on tax positions related to the current period                |                                    |                                    | 1,516                              | 154                                        |
| Increases based on tax positions related to prior periods <sup>(1)</sup>      | 349                                | 1,061                              | 3,773                              | 160                                        |
| Decreases based on tax positions related to prior periods                     | (427)                              | (1,132)                            | (317)                              | (11)                                       |
| Increases/(Decreases) related to settlements with taxing authorities          | (6,263)                            | (153)                              | (887)                              |                                            |
| Increases/(Decreases) related to a lapse of applicable statute of limitations |                                    |                                    | (1,970)                            |                                            |
| <b>Ending balance</b>                                                         | <b>\$ 6,827</b>                    | <b>\$ 13,168</b>                   | <b>\$ 13,089</b>                   | <b>\$ 13,392</b>                           |

<sup>(1)</sup> Includes \$3.8 million assumed upon the acquisition of RiskMetrics on June 1, 2010.

The total amount of unrecognized tax benefits was approximately \$6.5 million, net of federal benefit of state issues, competent authority and foreign tax credit offsets, as of December 31, 2012, which, if recognized, would favorably affect the effective tax rate in future periods. The Company recognizes the accrual of interest and penalties related to unrecognized tax benefits in the Provision for Income Taxes in the Consolidated Statements of Income. For the year ended December 31, 2012, the Company recognized \$1.0 million of interest in the Consolidated Statement of Income. No penalties were recognized in the Consolidated Statement of Income for the year ended December 31, 2012.

The Company is under examination by the Internal Revenue Service and other tax authorities in certain countries, such as the United Kingdom, and states in which the Company has significant business operations, such as New York. The tax years currently under examination vary by jurisdiction. During 2010, Morgan Stanley reached a settlement with New York State and New York City tax authorities on issues relating to tax years 2002 through 2006. During the quarter ended December 31, 2012, it was determined that MSCI's share of the assessed tax and interest was \$12.0 million, which the Company paid in accordance with the tax sharing agreement between it and Morgan Stanley, dated as of November 20, 2007. The Company had recorded a reserve of \$8.4 million to indemnify Morgan Stanley through December 31, 2011. As a result of the additional assessment, the Company recognized an additional \$1.7 million of tax expense, which represents the additional assessment, net of federal tax benefit, in its Consolidated Statement of Income during the year ended December 31, 2012. This reflects the final settlement of the tax issues with Morgan Stanley relating to tax years 2002 through 2006.

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The Company may have future settlements with Morgan Stanley related to the ultimate disposition of their New York State and New York City examination relating to the tax years 2007 through 2008 and their IRS examination relating to the tax years 2006 through 2008. The Company does not believe it has any material exposure for the New York State and New York City examination as the tax returns for those years were filed in a method consistent with the findings of the aforementioned settlement for the tax years 2002 through 2006. Additionally, the Company believes it has adequate reserves for any tax issues that may arise out of the IRS examination relating to the tax years 2006 through 2008 and therefore does not believe any related settlement with Morgan Stanley will have a material impact.

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The following table summarizes the major taxing jurisdictions in which the Company and its affiliates operate and the open tax years for each major jurisdiction:

| <b>Tax Jurisdiction</b> | <b>Tax Years</b> |
|-------------------------|------------------|
| United States           | 2005-2011        |
| California              | 2009-2011        |
| New York State          | 2007-2010        |
| New York City           | 2007-2010        |
| Hong Kong               | 2006-2011        |
| United Kingdom          | 2010-2011        |
| Canada                  | 2006-2011        |
| Japan                   | 2009-2011        |
| India                   | 2008-2011        |

**13. ACQUISITIONS*****Acquisition of IPD***

On November 30, 2012, MSCI Limited, an indirect wholly owned subsidiary of the Company, paid cash of \$124.8 million to acquire real estate performance measurement group IPD. The acquisition of IPD expands the Company's multi-asset class offering by facilitating the integration of private real estate assets into its models, as well as adding a family of real estate indices to the Company's family of equity indices. IPD is dedicated to the objective measurement of the commercial real estate market. Headquartered in London, with offices around the world, IPD is a leading provider of real estate performance analysis for funds, investors, managers, lenders and occupiers and offers a wide range of services that include research, reporting, benchmarking and indices. The Company incurred approximately \$3.0 million in costs associated with the transaction that are reflected in its consolidated financial statements. The acquisition of IPD was not deemed to be an individually significant acquisition. For the year ended December 31, 2012, IPD contributed approximately \$3.6 million of revenues and \$0.9 million of loss to MSCI's results of operation.

The acquisition method of accounting is based on ASC Subtopic 805-10, *Business Combinations*, and uses the fair value concepts defined in ASC Subtopic 820-10, *Fair Value Measurements and Disclosures*, which the Company has adopted as required. The total purchase price for IPD was allocated to the net tangible and intangible assets based upon their fair values as of November 30, 2012. The excess of the purchase price over the fair values of the net tangible assets and intangible assets was recorded as goodwill. The allocation of the purchase price was based upon a valuation and is subject to change within the measurement period. MSCI expects to continue to obtain information to assist it in determining the fair value of the net assets acquired at the acquisition date during the measurement period. The preliminary purchase price allocations for the IPD acquisition were \$58.7 million for identifiable intangible assets, \$18.9 million for assets other than identifiable intangible assets, \$26.6 million for other liabilities and \$73.8 million for goodwill.

***Acquisition of RiskMetrics***

On June 1, 2010, MSCI acquired RiskMetrics. Under the terms of the Agreement and Plan of Merger dated as of February 28, 2010 by and among MSCI, Crossway Inc. (Merger Sub), a wholly owned subsidiary of MSCI, and RiskMetrics, Merger Sub merged with and into RiskMetrics, with RiskMetrics continuing as the surviving corporation and a wholly owned subsidiary of MSCI. MSCI and RiskMetrics began joint operations immediately after the merger became effective. MSCI acquired RiskMetrics to, among other things, offer clients a more expansive portfolio of investment decision support tools that will enable clients to understand risk across their entire investment processes as well as reduce the concentration of the Company's client base beyond asset owners, asset managers and broker dealers by including a greater number of hedge fund, mutual fund and bank clients.

The unaudited pro forma financial information in the table below summarizes the combined results of operations for MSCI and RiskMetrics as though the companies were combined as of December 1, 2008. The pro forma financial information presented also includes the business



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combination accounting effects resulting from the acquisition including the amortization charges from acquired intangible assets, adjustments to interest income for lower average cash balances, interest expense for borrowings and the amortization of deferred financing fees, debt discounts and prepaid agency fees and the related tax effects as though the aforementioned companies were combined as of December 1, 2008. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions and any borrowings undertaken to finance the RiskMetrics acquisition had taken place at December 1, 2008.

The unaudited pro forma financial information for the year ended November 30, 2010 combined the historical results of MSCI for the year ended November 30, 2010, the historical results of RiskMetrics for the three month-period ended March 31, 2010 and the historical results of RiskMetrics for the three month-period ended December 31, 2009 (due to differences in reporting periods). The unaudited pro forma financial information and the effects of the pro forma adjustments listed above were as follows for the year ended November 30, 2010:

| (in thousands, except per share amount)                                         | Year Ended<br>November 30,<br>2010<br>(unaudited) |
|---------------------------------------------------------------------------------|---------------------------------------------------|
| <b>Operating revenues</b>                                                       | \$ 816,419                                        |
| Cost of services                                                                | 272,939                                           |
| Selling, general and administrative                                             | 199,290                                           |
| Restructuring                                                                   | 8,896                                             |
| Amortization of intangible assets                                               | 64,477                                            |
| Depreciation and amortization of property, equipment and leasehold improvements | 21,660                                            |
| <b>Total operating expenses</b>                                                 | <b>567,262</b>                                    |
| <b>Operating income</b>                                                         | <b>249,157</b>                                    |
| <b>Other expense (income), net</b>                                              | <b>71,430</b>                                     |
| Income before provision for income taxes                                        | 177,727                                           |
| Provision for income taxes                                                      | 66,896                                            |
| <b>Net income</b>                                                               | <b>\$ 110,831</b>                                 |
| <b>Earnings per diluted common share</b>                                        | <b>\$ 0.91</b>                                    |

### 14. SEGMENT INFORMATION

ASC Subtopic 280-10, *Segment Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. MSCI's Chief Executive Officer, who is considered to be its chief operating decision maker, or CODM, reviews financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance. MSCI operates as two segments, the Performance and Risk business and the Governance business. These designations have been made as the discrete operating results of these segments are reviewed by the Company's CODM for purposes of making operating decisions and assessing financial performance.

The Performance and Risk business is a leading global provider of investment decision support tools, including equity indices, real estate indices and benchmarks, portfolio risk and performance analytics, credit analytics and ESG products. The business provides clients with a broad suite of products and services to assist them with managing equity, fixed income and multi-asset class portfolios. The products are used in many areas of the investment process, including portfolio construction and rebalancing, performance benchmarking and attribution, risk management and analysis, regulatory and client reporting index-linked investment product creation, asset allocation, assessment of

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social responsibility, environmental stewardship and the effects of climate change on investments, investment manager selection and investment research.

The Governance business is a leading provider of corporate governance products and specialized financial research and analysis services, and governance-related data solutions 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 their voting decisions and identify issuer-specific risk. It offers both global equity 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. It also provides class action monitoring and claims filing services to aid institutional investors in the recovery of funds from securities class actions. Within a firewall, a separate 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.

Revenues and expenses directly associated with each respective segment are included in determining its operating results. Other expenses that are not directly attributable to a particular segment are allocated based upon allocation methodologies, including time estimates, headcount, net revenues and other relevant usage measures.

The CODM does not review any information regarding total assets on an operating segment basis. Operating segments do not record intersegment revenue, and, accordingly, there is none to be reported. The accounting policies for segment reporting are the same as for MSCI as a whole.

The following table presents MSCI's operating segments' results for the years ended December 31, 2012, December 31, 2011 and November 30, 2010 and for the one month ended December 31, 2010:

| (in thousands)                                                                                                                       | December 31,<br>2012 | Years Ended<br>December 31,<br>2011 | November 30,<br>2010 | One Month<br>Ended<br>December 31,<br>2010 |
|--------------------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------------------------|----------------------|--------------------------------------------|
| <b>Operating revenues</b>                                                                                                            |                      |                                     |                      |                                            |
| Performance and Risk                                                                                                                 | \$ 826,990           | \$ 781,355                          | \$ 604,307           | \$ 61,841                                  |
| Governance                                                                                                                           | 123,151              | 119,586                             | 58,594               | 10,683                                     |
| Consolidated                                                                                                                         | \$ 950,141           | \$ 900,941                          | \$ 662,901           | \$ 72,524                                  |
| <b>Amortization of intangible assets and depreciation and<br/>amortization of property, equipment and leasehold<br/>improvements</b> |                      |                                     |                      |                                            |
| Performance and Risk                                                                                                                 | \$ 65,182            | \$ 67,558                           | \$ 51,028            | \$ 6,038                                   |
| Governance                                                                                                                           | 16,816               | 17,672                              | 7,984                | 1,324                                      |
| Consolidated                                                                                                                         | \$ 81,998            | \$ 85,230                           | \$ 59,012            | \$ 7,362                                   |
| <b>Operating income</b>                                                                                                              |                      |                                     |                      |                                            |
| Performance and Risk                                                                                                                 | \$ 334,547           | \$ 310,504                          | \$ 200,369           | \$ 24,601                                  |
| Governance                                                                                                                           | 12,389               | 11,494                              | 5,754                | 2,068                                      |
| Consolidated                                                                                                                         | \$ 346,936           | \$ 321,998                          | \$ 206,123           | \$ 26,669                                  |

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Revenue by geography is based on the shipping address of the customer. The following table sets forth revenue for the periods indicated by geographic area:

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| (in thousands)                                      | December 31,<br>2012 | For the Years Ended<br>December 31,<br>2011 | November 30,<br>2010 | One Month<br>Ended<br>December 31,<br>2010 |
|-----------------------------------------------------|----------------------|---------------------------------------------|----------------------|--------------------------------------------|
| <b>Americas:</b>                                    |                      |                                             |                      |                                            |
| United States                                       | \$ 485,603           | \$ 457,591                                  | \$ 329,773           | \$ 37,882                                  |
| Other                                               | 31,929               | 32,188                                      | 23,546               | 2,583                                      |
| <b>Total Americas</b>                               | <b>517,532</b>       | <b>489,779</b>                              | <b>353,319</b>       | <b>40,465</b>                              |
| <b>Europe, the Middle East and Africa ( EMEA ):</b> |                      |                                             |                      |                                            |
| United Kingdom                                      | 118,827              | 106,648                                     | 86,136               | 8,950                                      |
| Other                                               | 189,465              | 180,600                                     | 128,934              | 13,917                                     |
| <b>Total EMEA</b>                                   | <b>308,292</b>       | <b>287,248</b>                              | <b>215,070</b>       | <b>22,867</b>                              |
| <b>Asia &amp; Australia:</b>                        |                      |                                             |                      |                                            |
| Japan                                               | 57,419               | 58,023                                      | 46,872               | 4,358                                      |
| Other                                               | 66,898               | 65,891                                      | 47,640               | 4,834                                      |
| <b>Total Asia &amp; Australia</b>                   | <b>124,317</b>       | <b>123,914</b>                              | <b>94,512</b>        | <b>9,192</b>                               |
| <b>Total</b>                                        | <b>\$ 950,141</b>    | <b>\$ 900,941</b>                           | <b>\$ 662,901</b>    | <b>\$ 72,524</b>                           |

Long-lived assets consist of property, equipment, leasehold improvements, goodwill and intangible assets, net of accumulated depreciation and amortization. The following table sets forth long-lived assets on the dates indicated by geographic area:

| (in thousands)        | December 31,<br>2012 | As of<br>December 31,<br>2011 |
|-----------------------|----------------------|-------------------------------|
| <b>Americas:</b>      |                      |                               |
| United States         | \$ 2,334,877         | \$ 2,369,997                  |
| Other                 | 4,608                | 5,145                         |
| <b>Total Americas</b> | <b>2,339,485</b>     | <b>2,375,142</b>              |
| <b>EMEA:</b>          |                      |                               |
| United Kingdom        | 139,714              | 5,107                         |
| Other                 | 8,749                | 5,617                         |
| <b>Total EMEA</b>     | <b>148,463</b>       | <b>10,724</b>                 |



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|                        |              |              |
|------------------------|--------------|--------------|
| Japan                  | 297          | 364          |
| Other                  | 3,658        | 4,859        |
| Total Asia & Australia | 3,955        | 5,223        |
| Total                  | \$ 2,491,903 | \$ 2,391,089 |

**15. QUARTERLY RESULTS OF OPERATIONS (unaudited):**

|                                                                                 | 2012                                  |                   |                  |                   | 2011             |                   |                  |                   |
|---------------------------------------------------------------------------------|---------------------------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|
|                                                                                 | First<br>Quarter                      | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|                                                                                 | (in thousands, except per share data) |                   |                  |                   |                  |                   |                  |                   |
| Operating revenues                                                              | \$ 229,052                            | \$ 238,565        | \$ 235,444       | \$ 247,080        | \$ 223,298       | \$ 226,483        | \$ 225,026       | \$ 226,134        |
| Cost of services                                                                | 72,291                                | 73,243            | 68,350           | 74,191            | 70,218           | 68,840            | 68,968           | 69,121            |
| Selling, general and administrative                                             | 55,436                                | 57,602            | 62,973           | 57,172            | 51,418           | 53,321            | 53,724           | 54,509            |
| Restructuring                                                                   | (29)                                  | (22)              |                  |                   | 4,431            | 40                | (1,002)          | 125               |
| Amortization of intangible assets                                               | 15,959                                | 15,959            | 15,959           | 15,421            | 16,692           | 16,423            | 16,422           | 16,268            |
| Depreciation and amortization of property, equipment and leasehold improvements | 4,416                                 | 4,662             | 4,633            | 4,989             | 5,110            | 5,168             | 4,669            | 4,478             |
| Total operating expenses                                                        | 148,073                               | 151,444           | 151,915          | 151,773           | 147,869          | 143,792           | 142,781          | 144,501           |
| Operating income                                                                | 80,979                                | 87,121            | 83,529           | 95,307            | 75,429           | 82,691            | 82,245           | 81,633            |
| Interest income                                                                 | (223)                                 | (237)             | (252)            | (242)             | (143)            | (186)             | (184)            | (335)             |
| Interest expense <sup>(1)</sup>                                                 | 12,355                                | 29,581            | 7,314            | 7,178             | 16,587           | 12,852            | 13,113           | 13,267            |
| Other expense (income)                                                          | 608                                   | 516               | 873              | 56                | 5,641            | 383               | (983)            | (1,427)           |
| Other expense (income), net                                                     | 12,740                                | 29,860            | 7,935            | 6,992             | 22,085           | 13,049            | 11,946           | 11,505            |
| Income before provision for income taxes                                        | 68,239                                | 57,261            | 75,594           | 88,315            | 53,344           | 69,642            | 70,299           | 70,128            |
| Provision for income taxes                                                      | 24,273                                | 19,715            | 27,320           | 33,863            | 19,823           | 23,982            | 20,512           | 25,642            |
| Net income                                                                      | \$ 43,966                             | \$ 37,546         | \$ 48,274        | \$ 54,452         | \$ 33,521        | \$ 45,660         | \$ 49,787        | \$ 44,486         |
| Earnings per basic common share                                                 | \$ 0.36                               | \$ 0.31           | \$ 0.39          | \$ 0.44           | \$ 0.28          | \$ 0.38           | \$ 0.41          | \$ 0.37           |
| Earnings per diluted common share                                               | \$ 0.35                               | \$ 0.30           | \$ 0.39          | \$ 0.44           | \$ 0.27          | \$ 0.37           | \$ 0.40          | \$ 0.36           |

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Weighted average shares outstanding  
used in computing per share data

|       |         |         |         |         |         |         |         |         |
|-------|---------|---------|---------|---------|---------|---------|---------|---------|
| Basic | 121,754 | 122,030 | 122,261 | 122,082 | 120,282 | 120,592 | 120,831 | 121,146 |
|-------|---------|---------|---------|---------|---------|---------|---------|---------|

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**Table of Contents****MSCI INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

|         |         |         |         |         |         |         |         |         |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Diluted | 123,113 | 123,295 | 123,450 | 122,995 | 122,013 | 122,235 | 122,303 | 122,536 |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|

- (1) Increased Interest expense during the second quarter of 2012 was primarily the result of the accelerated recognition of deferred financing costs associated with the refinancing of the Company's debt that occurred during the quarter.

**16. SUBSEQUENT EVENTS**

On January 29, 2013, MSCI completed the acquisition of Investor Force Holdings, Inc. ( InvestorForce ) by paying \$23.5 million in cash, subject to a working capital adjustment that is to be finalized within 60 days of closing. InvestorForce is a leading provider of performance reporting solutions to the institutional investment community in the United States, providing investment consultants with an integrated solution for daily monitoring, analysis and reporting on institutional assets. The acquisition of InvestorForce will enhance MSCI's position as a leader in performance analysis and risk transparency and furthers its goal of providing investment decision support tools to institutional investors across all client segments and asset classes. The acquisition of InvestorForce is not expected to have a material impact on MSCI's results of operations in the year ending December 31, 2013.



**Table of Contents****EXHIBIT INDEX**

| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                | <b>Form</b> | <b>File No.</b> | <b>Exhibit No.</b> | <b>Filing Date</b> |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|--------------------|--------------------|
| 3.1                   | Third Amended and Restated Certificate of Incorporation                                                                                                                           | 10-Q        | 001-33812       | 3.1                | 5/4/2012           |
| 3.2                   | Amended and Restated By-laws                                                                                                                                                      | 10-Q        | 001-33812       | 3.2                | 5/4/2012           |
| 4.1                   | Form of Senior Debt Indenture                                                                                                                                                     | S-3         | 333-181533      | 4.1                | 5/18/2012          |
| 4.2                   | Form of Subordinated Debt Indenture                                                                                                                                               | S-3         | 333-181533      | 4.2                | 5/18/2012          |
| 4.3                   | Form of Common Stock Certificate                                                                                                                                                  | 10-Q        | 001-33812       | 4.1                | 5/4/2012           |
| 10.1                  | Index License Agreement for Funds, dated as of March 18, 2000, between Morgan Stanley Capital International and Barclays Global Investors, N.A.                                   | 10-K        | 001-33812       | 10.1               | 2/29/2012          |
| 10.2                  | Amendment to Index License Agreement for Funds between Morgan Stanley Capital International and Barclays Global Investors, N.A.                                                   | 10-K        | 001-33812       | 10.2               | 2/29/2012          |
| 10.3                  | Letter Agreement to Amend MSCI-BGI Fund Index License Agreement, dated as of June 21, 2001, between Morgan Stanley Capital International Inc. and Barclays Global Investors, N.A. | 10-K        | 001-33812       | 10.3               | 1/31/2011          |
| 10.4                  | Addendum to the Index License Agreement for Funds, dated as of September 18, 2002, between Morgan Stanley Capital International Inc. and Barclays Global Investors, N.A.          | S-1/A       | 333-144975      | 10.4               | 9/26/2007          |
| 10.5                  | Amendment to the Index License Agreement for Funds, dated as of December 3, 2004, between Morgan Stanley Capital International Inc. and Barclays Global Investors, N.A.           | S-1/A       | 333-144975      | 10.5               | 10/26/2007         |
| 10.6                  | Amendment to the Index License Agreement for Funds, dated as of May 1, 2005, between Morgan Stanley Capital International Inc. and Barclays Global Investors, N.A.                | S-1/A       | 333-144975      | 10.6               | 9/26/2007          |
| 10.7                  | Amendment to the Index License Agreement for Funds, dated as of July 1, 2006, between Morgan Stanley Capital International Inc. and Barclays Global Investors, N.A.               | S-1/A       | 333-144975      | 10.7               | 10/26/2007         |
| 10.8                  | Amendment to Index License Agreement for Funds, dated as of June 5, 2007, between Morgan Stanley Capital International Inc. and Barclays Global Investors, N.A.                   | 10-K        | 001-33812       | 10.8               | 1/31/2011          |
| 10.9                  | Amendment to Index License Agreement for Funds, dated as of November 7, 2008, between MSCI Inc. and Barclays Global Investors, N.A.                                               | 10-K        | 001-33812       | 10.9               | 2/29/2012          |
| 10.10                 | Amendment to Index License Agreement for Funds, dated as of December 9, 2008, between MSCI Inc. and Barclays Global Investors, N.A.                                               | 10-Q        | 001-33812       | 10.2               | 7/2/2010           |
| 10.11                 | Amendment to Index License Agreement for Funds, dated as of April 1, 2009, between MSCI Inc. and Barclays Global Investors, N.A.                                                  | 10-K        | 001-33812       | 10.11              | 1/29/2010          |
| 10.12                 | Amendment to Index License Agreement for Funds, dated as of May 21, 2009, between MSCI Inc. and Barclays Global Investors, N.A.                                                   | 10-Q        | 001-33812       | 10.3               | 7/2/2010           |

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| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>Form</b> | <b>File No.</b> | <b>Exhibit No.</b> | <b>Filing Date</b> |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|--------------------|--------------------|
| 10.13                 | Amendment to Index License Agreement for Funds, dated as of September 30, 2009, between MSCI Inc. and Barclays Global Investors, N.A.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 10-Q        | 001-33812       | 10.4               | 7/2/2010           |
| 10.14                 | Amendment to Index License Agreement for Funds, dated as of October 6, 2009, between MSCI Inc. and Barclays Global Investors, N.A.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 10-K        | 001-33812       | 10.14              | 1/29/2010          |
| 10.15                 | Amendment to the Index License Agreement for Funds, dated as of October 4, 2011, by and between MSCI Inc. and BlackRock Institutional Trust Company, N.A. (formerly, Barclays Global Investors, N.A.). Replaces in its entirety the Amendment to Index License Agreement for Funds, dated as of October 27, 2009, between MSCI Inc. and Barclays Global Investors, N.A. filed as Exhibit 10.15 to Form 10-K (001-33812) filed with the SEC on February 29, 2012.                                                                                                                                                                                                                                                                                   |             |                 | Filed Herewith     |                    |
| 10.16                 | Trademark License Agreement, dated as of March 18, 2002, between Morgan Stanley Dean Witter & Co. and Morgan Stanley Capital International Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | S-1         | 333-144975      | 10.9               | 9/26/2007          |
| 10.17                 | Amendment No. 1 to Trademark License Agreement, dated July 21, 2008, between Morgan Stanley and MSCI Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 10-Q        | 001-33812       | 10.6               | 10/6/2008          |
| 10.18                 | Intellectual Property Agreement, dated as of November 20, 2007, between Morgan Stanley and MSCI Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 10-K        | 001-33812       | 10.10              | 2/28/2008          |
| 10.19                 | Amendment No. 1 to Intellectual Property Agreement, dated as of July 21, 2008, between Morgan Stanley and MSCI Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 10-Q        | 001-33812       | 10.4               | 10/6/2008          |
| 10.20                 | Services Agreement, dated as of November 20, 2007, between Morgan Stanley and MSCI Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 10-K        | 001-33812       | 10.11              | 2/28/2008          |
| 10.21                 | Amendment No. 1 to Services Agreement, dated as of July 21, 2008, between Morgan Stanley and MSCI Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 10-Q        | 001-33812       | 10.5               | 10/6/2008          |
| 10.22                 | Letter Agreement to Services Agreement, dated as of May 22, 2009, between Morgan Stanley and MSCI Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 8-K         | 001-33812       | 10.3               | 5/22/2009          |
| 10.23                 | Tax Sharing Agreement, dated as of November 20, 2007, between Morgan Stanley and MSCI Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 10-K        | 001-33812       | 10.12              | 2/28/2008          |
| 10.24                 | Shareholder Agreement, dated as of November 20, 2007, between Morgan Stanley and MSCI Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 10-K        | 001-33812       | 10.13              | 2/28/2008          |
| 10.25                 | Amended and Restated Shareholder Agreement, dated as of July 21, 2008, between Morgan Stanley and MSCI Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 10-Q        | 001-33812       | 10.3               | 10/6/2008          |
| 10.26                 | Credit Agreement, dated as of June 1, 2010 among MSCI Inc., as the Borrower, Morgan Stanley Senior Funding, Inc., as Administrative Agent, Morgan Stanley & Co. Incorporated, as Collateral Agent, Morgan Stanley Senior Funding, Inc., as Swing Line Lender and L/C Issuer and the other lenders party thereto, as amended by Amendments No. 1 and 2 thereto, dated as of February 4, 2011 and March 14, 2011, respectively, each among MSCI Inc., as the Borrower, Morgan Stanley Senior Funding, Inc., as Administrative Agent, Morgan Stanley & Co. Incorporated, as Collateral Agent, Morgan Stanley Senior Funding, Inc., as Swing Line Lender and L/C Issuer and the other lenders party thereto, as amended and restated by Exhibit 10.64. | 8-K         | 001-33812       | 2.2                | 6/7/2010           |
|                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 8-K         | 001-33812       | 2.1                | 3/18/2011          |
|                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 8-K         | 001-33812       | 2.2                | 3/18/2011          |

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| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                            | <b>Form</b> | <b>File No.</b> | <b>Exhibit No.</b> | <b>Filing Date</b> |
|-----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|--------------------|--------------------|
| 10.27                 | Asset Purchase Agreement, dated July 22, 2008, between MSCI Inc. and Morgan Stanley                                                                                           | 10-Q        | 001-33812       | 10.7               | 10/6/2008          |
| 10.28                 | Separation Agreement, dated as of May 22, 2009, between Morgan Stanley and MSCI Inc.                                                                                          | 8-K         | 001-33812       | 10.1               | 5/22/2009          |
| 10.29                 | Employee Matters Agreement, dated as of May 22, 2009, between Morgan Stanley and MSCI Inc.                                                                                    | 8-K         | 001-33812       | 10.2               | 5/22/2009          |
| 10.30*                | MSCI Inc. Amended and Restated 2007 Equity Incentive Compensation Plan                                                                                                        |             |                 | Filed Herewith     |                    |
| 10.31*                | MSCI Independent Directors Equity Compensation Plan as amended and restated on January 12, 2011                                                                               | 10-K        | 001-33812       | 10.39              | 1/31/2011          |
| 10.32*                | MSCI Inc. Performance Formula and Incentive Plan                                                                                                                              | Proxy       | 001-33812       | Annex C            | 2/28/2008          |
| 10.33*                | MSCI Equity Incentive Compensation Plan 2007 Founders Grant Award Certificate for Stock Options                                                                               | 10-K        | 001-33812       | 10.19              | 2/28/2008          |
| 10.34*                | Form of Award Agreement for Restricted Stock Units for Directors under the MSCI Inc. Independent Directors Equity Compensation Plan                                           |             |                 | Filed Herewith     |                    |
| 10.35*                | RiskMetrics Group, Inc. 2000 Stock Option Plan                                                                                                                                | S-8         | 333-165888      | 99.1               | 6/3/2010           |
| 10.36*                | RiskMetrics Group, Inc. 2004 Stock Option Plan                                                                                                                                | S-8         | 333-165888      | 99.2               | 6/3/2010           |
| 10.37*                | Institutional Shareholder Services Holdings, Inc. Equity Incentive Plan                                                                                                       | S-8         | 333-165888      | 99.3               | 6/3/2010           |
| 10.38*                | RiskMetrics Group, Inc. 2007 Omnibus Incentive Compensation Plan                                                                                                              |             |                 | Filed Herewith     |                    |
| 10.39*                | Form of Performance Award Agreement for Restricted Stock Units for Named Executive Officers under the MSCI Inc. 2007 Amended and Restated Equity Incentive Compensation Plan  | 10-K        | 001-33812       | 10.44              | 1/31/2011          |
| 10.40*                | Form of Performance Award Agreement for Restricted Stock Units for Employees under the MSCI Inc. 2007 Amended and Restated Equity Incentive Compensation Plan                 | 10-K        | 001-33812       | 10.45              | 1/31/2011          |
| 10.41*                | Form of Award Agreement for Restricted Stock Units for Employees under the MSCI Inc. 2007 Amended and Restated Equity Incentive Compensation Plan                             | 10-K        | 001-33812       | 10.46              | 1/31/2011          |
| 10.42*                | Form of Award Agreement for Restricted Stock Units for Named Executive Officers under the MSCI Inc. 2007 Amended and Restated Equity Incentive Compensation Plan              | 10-K        | 001-33812       | 10.47              | 1/31/2011          |
| 10.43*                | Form of Performance Award Agreement for Performance Stock Units for Employees under the MSCI Inc. 2007 Amended and Restated Equity Incentive Compensation Plan                | 10-K        | 001-33812       | 10.50              | 1/31/2011          |
| 10.44*                | Form of Performance Award Agreement for Performance Stock Units for Named Executive Officers under the MSCI Inc. 2007 Amended and Restated Equity Incentive Compensation Plan | 10-K        | 001-33812       | 10.51              | 1/31/2011          |
| 10.45*                | Award Agreement for 2010 Price Vested Stock Option Award for the Chief Executive Officer under the MSCI Inc. 2007 Amended and Restated Equity Incentive Compensation Plan     | 10-K        | 001-33812       | 10.54              | 1/31/2011          |

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| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                                                       | <b>Form</b> | <b>File No.</b> | <b>Exhibit No.</b> | <b>Filing Date</b> |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|--------------------|--------------------|
| 10.46*                | Form of Performance Award Agreement for Performance Stock Units for Executive Officers under the MSCI Inc. 2007 Amended and Restated Equity Incentive Compensation Plan                                                                                  |             |                 | Filed Herewith     |                    |
| 10.47*                | Form of Performance Award Agreement for Performance Stock Units for Executive Officers under the MSCI Inc. 2007 Amended and Restated Equity Incentive Compensation Plan                                                                                  |             |                 | Filed Herewith     |                    |
| 10.48                 | Amendment to Index License Agreement for Funds, dated as of December 15, 2009, between MSCI Inc. and Blackrock Institutional Trust Company, N.A.                                                                                                         | 10-K        | 001-33812       | 10.57              | 1/31/2011          |
| 10.49                 | Amendment to Index License Agreement for Funds, dated as of June 13, 2011, between MSCI Inc. and BlackRock Institutional Trust Company, N.A.                                                                                                             | 10-K        | 001-33812       | 10.58              | 2/29/2012          |
| 10.50                 | Amendment to Index License Agreement for Funds, dated as of May 20, 2010                                                                                                                                                                                 | 10-K        | 001-33812       | 10.59              | 1/31/2011          |
| 10.51                 | Schedule No. 11043 to the Master Index License Agreement for Index Based Funds between MSCI Inc. and BlackRock Institutional Trust Company, N.A. (formerly, Barclays Global Investors, N.A.), dated as of September 1, 2010                              | 10-K        | 001-33812       | 10.60              | 1/31/2011          |
| 10.52                 | Amendment to the Index License Agreement for Funds, dated as of November 19, 2010 between MSCI Inc. and Barclays Global Investors, N.A.                                                                                                                  |             |                 | Filed Herewith     |                    |
| 10.53                 | Amendment to the Index License Agreement for Funds, dated as of June 21, 2011, by and between MSCI Inc. and BlackRock Institutional Trust Company, N.A. (formerly known as Barclays Global Investors, N.A.)                                              | 10-K        | 001-33812       | 10.62              | 2/29/2012          |
| 10.54                 | Amendment to the Index License Agreement for Funds, dated as of July 1, 2011, by and between MSCI Inc. (formerly, Morgan Stanley Capital International Inc.) and Blackrock Institutional Trust Company, N.A. (formerly, Barclays Global Investors, N.A.) | 10-K/A      | 001-33812       | 10.63              | 7/20/2012          |
| 10.55                 | Amendment to the Index License Agreement for Funds, dated as of August 23, 2011, by and between MSCI Inc. and Blackrock Institutional Trust Company, N.A. (formerly, Barclays Global Investors, N.A.)                                                    |             |                 | Filed Herewith     |                    |
| 10.56                 | Amendment to the Index License Agreement for Funds, dated as of October 4, 2011, by and between MSCI Inc. and BlackRock Institutional Trust Company, N.A. (formerly known as Barclays Global Investors, N.A.)                                            | 10-K        | 001-33812       | 10.65              | 2/29/2012          |
| 10.57                 | Amendment to the Index License Agreement for Funds, dated as of October 4, 2011, by and between MSCI Inc. and BlackRock Institutional Trust Company, N.A. (formerly, Barclays Global Investors, N.A.)                                                    |             |                 | Filed Herewith     |                    |
| 10.58                 | Amendment to the Index License Agreement for Funds, dated as of December 16, 2011, by and between MSCI Inc. (formerly, Morgan Stanley                                                                                                                    | 10-K        | 001-33812       | 10.67              | 2/29/2012          |

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| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                         | <b>Form</b> | <b>File No.</b> | <b>Exhibit No.</b> | <b>Filing Date</b> |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|--------------------|--------------------|
|                       | Capital International, Inc.) and BlackRock Institutional Trust Company, N.A. (formerly, Barclays Global Investors, N.A.)                                                                                                                                                                   |             |                 |                    |                    |
| 10.59                 | Agreement of Lease dated September 16, 2011, by and between 7 World Trade Center, LLC and MSCI Inc.                                                                                                                                                                                        | 8-K         | 001-33812       | 10.1               | 9/22/2011          |
| 10.60*                | Director Deferral Plan                                                                                                                                                                                                                                                                     | 10-Q        | 001-33812       | 10.1               | 8/5/2011           |
| 10.61*                | Offer Letter, executed May 25, 2012, between MSCI Inc. and Robert Qutub                                                                                                                                                                                                                    | 8-K         | 001-33812       | 10.1               | 5/30/2012          |
| 10.62*                | Change of Employment Status and Release Agreement, executed August 2, 2012, between MSCI Inc. and David M. Obstler                                                                                                                                                                         | 10-Q        | 001-33812       | 10.2               | 8/3/2012           |
| 10.63                 | Datafeed License Agreement dated as of May 31, 2012, by and between Broadridge Investor Communication Solutions, Inc. and Institutional Shareholder Services Inc.                                                                                                                          | 10-Q/A      | 001-33812       | 10.55              | 11/16/2012         |
| 10.64                 | Amended and Restated Credit Agreement dated as of May 4, 2012 among MSCI Inc., as the Borrower, Morgan Stanley Senior Funding, Inc., as Administrative Agent, Swing Line Lender and L/C Issuer, Morgan Stanley & Co. Incorporated, as Collateral Agent and the other lenders party thereto | 10-Q        | 001-33812       | 10.26              | 5/4/2012           |
| 10.65                 | Fixed Dollar Capped Accelerated Share Repurchase Transaction dated as of December 13, 2012, between MSCI Inc. and Morgan Stanley & Co. LLC                                                                                                                                                 |             |                 |                    | Filed Herewith     |
| 10.66                 | Amendment to the Index License Agreement for Funds, dated as of February 16, 2012, by and between MSCI Inc. (formerly, Morgan Stanley Capital International Inc.) and BlackRock Institutional Trust Company, N.A. (formerly, Barclays Global Investors, N.A.)                              |             |                 |                    | Filed Herewith     |
| 10.67                 | Amendment to the Index License Agreement for Funds, dated as of April 9, 2012, by and between MSCI Inc. (formerly, Morgan Stanley Capital International Inc.) and BlackRock Institutional Trust Company, N.A. (formerly, Barclays Global Investors, N.A.)                                  |             |                 |                    | Filed Herewith     |
| 10.68                 | Amendment to the Index License Agreement for Funds, dated as of June 1, 2012, by and between MSCI Inc. (formerly, Morgan Stanley Capital International Inc.) and BlackRock Institutional Trust Company, N.A. (formerly, Barclays Global Investors, N.A.)                                   |             |                 |                    | Filed Herewith     |
| 10.69                 | Amendment to the Index License Agreement for Funds, dated as of August 17, 2012, by and between MSCI Inc. (formerly, Morgan Stanley Capital International Inc.) and BlackRock                                                                                                              |             |                 |                    | Filed Herewith     |

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| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                                                            | <b>Form</b> | <b>File No.</b> | <b>Exhibit No.</b> | <b>Filing Date</b> |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-----------------|--------------------|--------------------|
|                       | Institutional Trust Company, N.A. (formerly, Barclays Global Investors, N.A.)                                                                                                                                                                                 |             |                 |                    |                    |
| 10.70                 | Amendment to the Index License Agreement for Funds, dated as of August 20, 2012, by and between MSCI Inc. (formerly, Morgan Stanley Capital International Inc.) and BlackRock Institutional Trust Company, N.A. (formerly, Barclays Global Investors, N.A.)   |             |                 | Filed Herewith     |                    |
| 10.71                 | Amendment to the Index License Agreement for Funds, dated as of November 6, 2012, by and between MSCI Inc. (formerly, Morgan Stanley Capital International Inc.) and BlackRock Institutional Trust Company, N.A. (formerly, Barclays Global Investors, N.A.)  |             |                 | Filed Herewith     |                    |
| 10.72                 | Amendment to the Index License Agreement for Funds, dated as of November 15, 2012, by and between MSCI Inc. (formerly, Morgan Stanley Capital International Inc.) and BlackRock Institutional Trust Company, N.A. (formerly, Barclays Global Investors, N.A.) |             |                 | Filed Herewith     |                    |
| 21.1                  | Subsidiaries of the Registrant                                                                                                                                                                                                                                |             |                 | Filed Herewith     |                    |
| 23.1                  | Consent of Deloitte & Touche LLP                                                                                                                                                                                                                              |             |                 | Filed Herewith     |                    |
| 24.1                  | Powers of Attorney (included as part of Signature Page)                                                                                                                                                                                                       |             |                 | Filed Herewith     |                    |
| 31.1                  | Rule 13a-14(a) Certification of Chief Executive Officer                                                                                                                                                                                                       |             |                 | Filed Herewith     |                    |
| 31.2                  | Rule 13a-14(a) Certification of Chief Financial Officer                                                                                                                                                                                                       |             |                 | Filed Herewith     |                    |
| 32.1                  | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer                                                                                                                                                                             |             |                 | Furnished Herewith |                    |
| 101.INS               | XBRL Instance Document.                                                                                                                                                                                                                                       |             |                 | Filed Herewith     |                    |
| 101.SCH               | XBRL Taxonomy Extension Schema Document.                                                                                                                                                                                                                      |             |                 | Filed Herewith     |                    |
| 101.CAL               | XBRL Taxonomy Extension Calculation Linkbase Document.                                                                                                                                                                                                        |             |                 | Filed Herewith     |                    |
| 101.LAB               | XBRL Taxonomy Extension Label Linkbase Document.                                                                                                                                                                                                              |             |                 | Filed Herewith     |                    |
| 101.PRE               | XBRL Taxonomy Extension Presentation Linkbase Document.                                                                                                                                                                                                       |             |                 | Filed Herewith     |                    |
| 101.DEF               | XBRL Taxonomy Extension Definition Linkbase Document.                                                                                                                                                                                                         |             |                 | Filed Herewith     |                    |

\* Indicates a management compensation plan, contract or arrangement. Confidential treatment has been granted for a portion of this exhibit. Confidential treatment requested.

EX-6