

MSCI Inc.
Form 10-K
January 29, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended November 30, 2008

Commission file number 001-33812

MSCI INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of

Incorporation or Organization)

13-4038723
(I.R.S. Employer

Identification Number)

Wall Street Plaza, 88 Pine Street,

New York, New York 10005

(Address of Principal Executive Offices, zip code)

(212) 804-3900

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(Registrant's telephone number, including area code)

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

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

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

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

YES NO

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

YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days.

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

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

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

YES NO

The aggregate market value of Common Stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter (based on the closing price of these securities as reported by The New York Stock Exchange on May 30, 2008) was approximately \$1,928,395,309.00. Shares of Common Stock held by executive officers and directors of the registrant are not included in the computation. However, the registrant has made no determination that such individuals are affiliates within the meaning of Rule 405 under the Securities Act of 1933.

As of January 26, 2009, there were 72,354,243 shares of the Registrant's Class A common stock, \$0.01 par value, outstanding and 27,708,653.79 shares of Registrant's Class B common stock, \$0.01 par value, outstanding.

Documents incorporated by reference: Portions of the Registrant's proxy statement for its annual meeting of stockholders, to be held on April 2, 2009, are incorporated herein by reference into Part III of this Form 10-K.

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MSCI INC.

FORM 10-K

FOR THE YEAR ENDED NOVEMBER 30, 2008

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We own or have rights to use trademarks, trade names and service marks that we use in conjunction with the operation of our business, including, but not limited to: @CREDIT, @ENERGY, @INTEREST, ACWI, Aegis, Alphabuilder, Barra, Barra One, BarraOne, Cosmos, EAFE, FEA, GICS, IndexMap, Market Impact Model, MSCI, ProStorage, StructureTool, TotalRisk, VaRdelta and VaRworks. All other trademarks, trade names and service marks included in this Annual Report on Form 10-K are property of their respective owners. For ease of reading, designations of trademarks and registered marks have been omitted from the text of this Annual Report on Form 10-K.

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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 and portfolio risk and performance analytics for use by institutions in managing equity, fixed income and multi-asset class portfolios. Our flagship products are our international equity indices marketed under the MSCI brand and our equity portfolio analytics marketed under the Barra brand. Our products are used in many areas of the investment process, including portfolio construction and optimization, performance benchmarking and attribution, risk management and analysis, index-linked investment product creation, asset allocation, investment manager selection and investment research.

Our clients include asset owners such as pension funds, endowments, foundations, central banks and insurance companies; institutional and retail asset managers, such as managers of pension assets, mutual funds, exchange traded funds (ETFs), hedge funds and private wealth; and financial intermediaries such as broker-dealers, exchanges, custodians and investment consultants. As of November 30, 2008, we had over 3,100 clients across 64 countries. We had 20 offices in 14 countries to help serve our diverse client base, with approximately 52% of our revenue from clients in the Americas, 33% in Europe, the Middle East and Africa (EMEA), 8% in Japan and 7% in Asia-Pacific (not including Japan), based on fiscal year 2008 revenues.

Our principal sales model is to license annual, recurring subscriptions to our products for use at specified locations by a given number of users for an annual fee paid up front. The substantial majority of our revenues come from these annual, recurring subscriptions. Over time, as their needs evolve, our clients often add product modules, users and locations to their subscriptions, which results in an increase in our revenues per client. Additionally, a significant source of our revenues comes from clients who use our indices as the basis for index-linked investment products such as ETFs. These clients commonly pay us a license fee based on the investment product's assets. We also 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 based on their volume of trades.

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History and Development of Our Company

We were a pioneer in developing the market for international equity index products and equity portfolio risk analytics tools. MSCI introduced its first equity index products in 1969 and Barra launched its first equity risk analytics products in 1975. Over the course of more than 30 years, our research 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 index construction methodologies and risk models to meet the growing, complex and diverse needs of our clients' investment processes. Our models and methodologies are the intellectual foundation of our business and include the innovative algorithms, formulas and analytical and quantitative techniques that we use, together with market data, to produce our products. Our long history has allowed us to build extensive databases of proprietary index and risk data, as well as to accumulate valuable historical market data, which we believe would be difficult to replicate and which provide us with a substantial competitive advantage.

MSCI Inc. was formed as a Delaware corporation in 1998. Our two shareholders were Morgan Stanley (Morgan Stanley) and Capital Group International, Inc. (Capital Group International). On December 1, 2004, we acquired Barra, Inc. On November 20, 2007, we completed an initial public offering (IPO) of 16.1 million shares of our class A common stock, 2.1 million of which were purchased pursuant to the underwriters exercise of their over-allotment option.

In connection with the IPO, we reclassified our outstanding common stock into shares of class A common stock and class B common stock and immediately following the IPO, Morgan Stanley held approximately 81.0 million shares of our class B common stock and Capital Group International held approximately 2.9 million shares of our class B common stock. Under the terms of our Amended and Restated Certificate of Incorporation, when shares of class B common stock convert into shares of class A common stock, they do so on a one-to-one basis. On May 2, 2008, Morgan Stanley converted approximately 28.0 million shares of our class B common stock into class A common stock by selling such shares in a registered secondary equity offering. Capital Group International converted approximately 2.9 million shares of our class B common stock, representing all of its equity interest in us, into shares of our class A common stock and transferred them to its affiliate The Capital Group Companies Charitable Foundation (Capital Group Charitable Foundation). Capital Group Charitable Foundation sold all of these shares pursuant to the same registered secondary equity offering. On July 21, 2008, Morgan Stanley converted 23.0 million shares of our class B common stock into shares of class A common stock by selling such shares pursuant to a registered secondary equity offering and converted an additional approximately 2.0 million shares of our class B common stock into shares of our class A common stock by selling such shares on July 23, 2008 pursuant to the underwriters' exercise of their over-allotment option. As of November 30, 2008, Morgan Stanley held 100.0% of the outstanding shares of our class B common stock, which represents approximately 65.7% of the combined voting power of all classes of voting stock and approximately 27.7% of the economic interest.

Our Products and Services

Our primary products consist of equity indices, equity portfolio analytics and multi-asset class portfolio analytics. We also have product offerings in the areas of fixed income portfolio analytics and risk models, and energy and commodity asset valuation analytics. Our products are generally comprised of proprietary index data or proprietary risk data and/or sophisticated software applications. Our index and risk data are created by applying our models and methodologies to market data. For example, we input closing stock prices and other market data into our index methodologies to calculate our index data, and we input fundamental data and other market data into our risk models to produce our risk forecasts for individual securities and portfolios of securities. Our clients can use our data together with our proprietary software applications, third-party applications or their own applications in their investment processes. 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 products are marketed under three leading brands. Our

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index products are typically branded MSCI. Our portfolio analytics products are typically branded Barra. Our energy and commodity analytics products are typically branded FEA.

Equity Index Products

Our MSCI-branded equity index products are designed to measure returns available to investors across a wide variety of markets (*e.g.*, Europe, Japan or emerging markets), size (*e.g.*, small capitalization or large capitalization), style (*e.g.*, growth or value) and industries (*e.g.*, banks or media). As of November 30, 2008, we calculated over 120,000 equity indices daily.

Approximately 2,300 clients worldwide subscribed to our equity index products for use in their investment portfolios and for market performance measurement and analysis in fiscal 2008. In addition to delivering our products directly to our clients, as of November 30, 2008, we also had approximately 60 third-party financial information and analytics software providers who distribute our various equity index products worldwide. The performance of our equity indices is also frequently referenced when selecting investment managers, assigning return benchmarks in mandates, comparing performance and providing market and academic commentary. The performance of certain of our indices is reported on a daily basis in the financial media.

Our primary equity index products are:

MSCI International Equity Indices

The MSCI International Equity Indices are our flagship index products. They are designed to measure returns available to international investors across a variety of public equity markets. As of November 30, 2008, the indices included 70 country indices across developed, emerging and frontier markets, as well as various regional composite indices built from the component country indices, including the well-known MSCI EAFE (Europe, Australasia, and Far East), MSCI World and MSCI Emerging Markets Indices. In addition, the International Equity Indices include industry indices, value and growth style indices and large-, mid-, and small-capitalization size segment indices.

The MSCI International Equity Indices are the most widely used international equity indices in the industry. We continue to enhance and expand this successful product offering. Recent examples include the introduction of the MSCI Frontier Market Indices, the MSCI Asia APEX 50 Index and the MSCI Global Minimum Volatility Indices.

MSCI Domestic Equity Indices

The MSCI Domestic Equity Indices are designed to measure the returns available to domestic investors in the U.S., Japan and China public equity markets. Each of these domestic country index series includes value and growth style indices, and in the case of the U.S. and Japan, large-, mid-, small- and micro-capitalization size segment indices.

Global Industry Classification Standard (GICS)

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

We also offer GICS Direct, a joint product of MSCI and Standard & Poor's. GICS Direct is a database of more than 37,000 active companies and 42,000 securities classified by sector, industry group, industry and sub-industry in accordance with the proprietary GICS methodology.

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Equity Portfolio Analytics Products

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

Asset owners often request Barra risk model measurements for portfolio risk and tracking error when selecting investment managers, prescribing investment restrictions and assigning investment mandates. Our clients can use our equity 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 third-party applications, like FactSet, that have incorporated our equity risk data and analytics into their offerings.

Our primary equity portfolio analytics products are:

The Barra Aegis System

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

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

Equity Models Direct

Our Equity Models Direct product delivers our proprietary risk data to clients for integration into their own software applications. The proprietary risk data in Equity Models Direct is also available via third-party providers. Based on their investment processes, clients select the risk data that best suits their needs. We offer proprietary risk data from the following Barra risk models:

Single Market Equity Risk Models. Our single market equity risk models identify the unique set of factors most able to explain the risk of portfolios in that market. Examples include our USE3 model (i.e., U.S. equity model, version 3) which models risk for U.S. equity assets and portfolios, and our UKE7 model which models risk for United Kingdom equity assets and portfolios. Data from the USE3 equity risk model is our most commonly licensed Barra risk data.

Global Equity Model (GEM2). Our global equity risk model utilizes factors that best explain risks associated with multiple-country equity investing.

Barra Integrated Model (BIM). Our integrated model provides a detailed view of risk across markets, asset classes and currencies. It begins by identifying the factors that affect the returns of equity and fixed income securities and currencies in many countries around the world. These factors are then combined into a single global model that can forecast the risk of a multi-asset class, global portfolio.

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Short-Horizon Equity Models. Our short horizon equity models, designed to forecast risk over a period of one to six months, provide portfolio managers and analysts with more responsive risk forecasts. By using daily data and placing greater emphasis on recent events, the short-horizon models adapt more quickly to changing market conditions and emerging trends.

Multi-Asset Class Portfolio Analytics Products

Our multi-asset class portfolio 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 proprietary fundamental multi-factor risk models, value-at-risk methodologies and asset valuation models. They enable clients to identify, monitor, report and manage potential market risks from equities, fixed income, derivatives contracts and alternative investments, and to analyze portfolios and systematically analyze risk and return across multiple asset classes. Using these tools, clients can identify the drivers of market risk across their investments, produce daily risk reports, run pre-trade analysis and optimizations, evaluate and monitor multiple asset managers and investment teams and access correlations across a group of selected portfolios.

We have two major products in this area, which differ mainly in how they are delivered to clients and in certain functionality:

The BarraOne System. Clients access BarraOne via the Internet, using their desktop browsers. This product includes modules for risk allocation and risk budgeting, performance attribution, and historical as-of analysis of portfolios.

The Barra TotalRisk System. Clients install TotalRisk on their own information technology infrastructure. This product includes simulation modules that enable clients to perform historical and Monte Carlo value-at-risk calculations.

Currently, we are actively seeking to license subscriptions only to BarraOne and related risk data for multiple asset classes. Most of the features and functionality of Barra TotalRisk have been added to BarraOne, and we are decommissioning Barra TotalRisk. We are currently offering our Barra TotalRisk clients the opportunity to transition to BarraOne.

Other Products

Our other products consist of energy and commodity asset valuation analytics for investors, traders and those hedging investments in these asset classes and fixed income portfolio analytics products to facilitate the investment processes of fixed income investors.

Energy and Commodity Asset Valuation Analytics Products

Our energy and commodity valuation products are software applications that offer a variety of quantitative analytics tools for valuing, modeling and hedging physical assets and derivatives across a number of market segments including energy and commodity assets. These 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 @Energy, VaRworks and StructureTool.

The Barra Cosmos System for Fixed Income Portfolio Analytics

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

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Growth Strategy

We have experienced growth in recent years with operating revenues and operating income increasing by 16.5% and 4.5%, respectively, for the year ended November 30, 2008 compared to year ended November 30, 2007, and by 19.1% and 56.5%, respectively, in the fiscal year ended November 30, 2007 compared to the fiscal year ended November 30, 2006.

We believe we are well-positioned for significant growth over time and have a multi-faceted growth strategy that builds on our strong client relationships, products, brands and integral role in the investment process. The number, diversity, size, sophistication and amount of assets held in investment institutions that own, manage and direct financial assets have grown significantly in recent years. These investment institutions increasingly require sophisticated investment management tools such as ours to support their complex and global investment processes. Set forth below are the principal elements of our strategy to grow our company and meet the increasing needs of these institutions for investment decision support tools:

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

Increase product subscriptions and users within our current client base. Many of our clients use only one or a limited number of our products, and we believe there are substantial opportunities to cross sell our other investment decision support tools. This is particularly the case with respect to our various offerings for the equity investment process. In addition, we will continue to focus on adding new users and new locations for current products with existing clients.

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

We also plan to increase licensing of our indices for index-linked investment products to capitalize on their growth in number and variety. The following table demonstrates the success we have experienced as of November 30, 2008 in licensing our equity indices as the basis of ETFs, and we believe there is potential for continued growth and expansion in this market in the future.

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

Region	As of November 30,		
	2008	2007	2006
Americas	76	62	52
EMEA	85	55	38
Asia	6	4	2
Total	167	121	92

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The table below sets forth the assets in ETFs linked to our equity indices:

Assets in ETFs Linked to MSCI Indices

MSCI Equity Index	As of November 30,		
	2008	2007	2006
	(in billions)		
EAFE	\$ 29.6	\$ 51.5	\$ 37.2
Emerging Markets	22.6	36.4	18.3
US Broad Market	8.2	9.5	6.9
Japan	8.0	13.1	15.8
Europe	4.0	5.3	3.2
Brazil	3.9	8.3	3.1
Subtotal	76.3	124.1	84.5
Other Indices	42.7	67.6	38.0
Total	\$ 119.0	\$ 191.7	\$ 122.5

Source: Bloomberg & MSCI.

The value of the assets in ETFs linked to our equity indices as of the last day of the preceding month will be found under the link [AUM in ETFs Linked to MSCI Indices](http://ir.msci.com/) on our website at <http://ir.msci.com/> beginning on February 2, 2009. 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.

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

Expand global presence. We have a strong presence in the U.S., Western Europe and certain parts of Asia. While we have established a presence in selected markets within the Middle East, Asia, Africa, Eastern Europe and Latin America, there is potential for further penetration and growth in these markets. We intend to leverage our strong brands, reputation, products and existing presence to continue to expand in these markets and gain more clients. For example, we have recently opened sales offices in Boston, Chicago, Shanghai, Stamford, Dubai, Mumbai, and made preparations to open an office in Monterrey, Mexico.

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

Create innovative new equity product offerings and enhancements. In order to maintain and enhance our leadership position, we plan to introduce innovative new products and enhancements to existing products. We maintain an active dialogue with our clients in order to understand their needs and anticipate market developments. Recent launches in our index products include the creation of the MSCI Frontier Market Indices, the MSCI Asia APEX 50 Index and the MSCI Global Minimum Volatility Indices. After extensive client consultations, we launched GEM2, an enhanced version of our global equity model

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and Aegis 4.2, the corresponding software application. GEM2 provides improved global portfolio risk forecasts and better explanatory power of common sources of asset returns. Within our multi-asset class portfolio analytics product category, significant product launches include BarraOne 3.2 and Monte Carlo Value at Risk.

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Expand our presence across all asset classes. We believe our well-established reputation and client base in the equity area as well as our experienced research staff provide us with a strong foundation to become a leading provider of tools for investors in multi-asset class portfolios and other asset classes such as fixed income. We are investing in these products, particularly our web-based multi-asset class software application, BarraOne, as well as our US private equity and US real estate models.

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

Growth through acquisitions. We intend to actively seek to acquire products, technologies and companies 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. We believe that the impact of the global financial crisis on companies in, or serving, the financial services industry may increase the number of attractive acquisition opportunities.

Competitive Advantages

We believe our competitive advantages include the following:

Strong brand recognition. Our indices, portfolio analytics and energy and commodity asset valuation analytics, marketed under the MSCI, Barra and FEA brands, respectively, are well-established and recognized throughout the investment community worldwide. We are an industry leader in international equity indices, equity portfolio analytics tools and energy asset valuation analytics products 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 parties for benchmarking, index-linked product creation, portfolio risk management and related tools.

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

Client reliance on our products. Many of our clients have come to rely on our products in their investment management processes, integrating our products into their performance measurement and risk management processes, where they become an integral part of their daily portfolio management functions. In certain cases, our clients are requested by their customers to report using our tools or data. Consequently, we believe that certain of our clients may experience business disruption and additional costs if they chose to cease using or replace our products.

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

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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 available in our portfolio analytics software products and jointly developed and maintains GICS and GICS Direct with us. In order to provide transparency, we document and disclose many details of our models and methodologies to our clients so that they can better understand and utilize the tools we offer. We strongly believe this open architecture approach benefits us and our clients.

Global products and operations. Our products cover most major investment markets throughout the world. For example, as of November 30, 2008, our international equity indices included 70 developed, emerging and frontier market countries; and we produced equity risk data for 41 single country models and a model covering an additional 15 European countries; and an integrated multi-asset class risk model that covered 56 equity markets. As of November 30, 2008, our clients were located in 64 countries and many of them have a presence in multiple locations around the world. As of November 30, 2008, our employees were located in 14 countries in order to maintain close contact with our clients and the international markets we follow. We believe our global presence and focus allow us to serve our clients well and capitalize on a great number of business opportunities in many countries and regions of the world.

Highly skilled employees. Our workforce is highly skilled, technical and, in some instances, specialized. In particular, our research and software application development departments include experts in advanced mathematics, statistics, finance, portfolio investment and software engineering, who combine strong academic credentials with market experience. As of November 30, 2008, over 50 of our employees held doctorate degrees. Employees in our diverse global client coverage group collectively held more than 68 MBAs or other Masters degrees. Our employees' experience and knowledge gives us access to, and allows us to add value at, the highest levels of our clients' organizations.

Extensive historical databases. We have accumulated comprehensive databases of historical global market data and proprietary index and risk data. We believe our substantial and valuable databases of proprietary index and risk data, including over 39 years of certain index data history and over 30 years of certain risk data history, would be difficult and costly for another party to replicate. The information is not available from any single source and would require intensive data checking and quality assurance testing that we have performed over our many years of accumulating this data. Historical data is a critical component of our clients' investment processes, allowing them to research and back-test investment strategies and analyze portfolios over many investment and business cycles and under a variety of historical situations and market environments.

Clients

For the fiscal year ended November 30, 2008, we served over 3,100 clients across 64 countries worldwide with 52% of revenue from our client base in the Americas, 33% in EMEA, 8% in Japan and 7% in Asia-Pacific (not including Japan). Our clients include asset owners such as pension funds, endowments, foundations, central banks and insurance companies; institutional and retail asset managers, such as managers of pension assets, mutual funds, ETFs, hedge funds and private wealth; and financial intermediaries such as broker-dealers, exchanges, custodians and investment consultants. To calculate the number of our clients, we have counted affiliates, cities and certain business units within a single organization (e.g., buy-side and sell-side business units) as separate clients when they separately subscribe to our products. For example, the asset management and broker-dealer arms of a diversified financial services firm are treated as separate clients. We have enjoyed very

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high product subscription Retention Rates. Our Aggregate Retention Rates were 89.9% and 91.9% for the fiscal years ended November 30, 2008 and 2007, respectively. Our Core Retention Rates were 92.1% and 93.4% for the fiscal years ended November 30, 2008 and 2007, 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.

As of November 30, 2008, our equity index products were used by more than 2,300 clients. As of November 30, 2008, our portfolio analytics products were used by over 900 clients worldwide.

Revenues from our ten largest clients contributed a total of 28.6%, 30.8% and 30.5% of revenues for the fiscal years ended November 30, 2008, 2007 and 2006, respectively.

In the fiscal years ended November 30, 2008, 2007, and 2006, our largest client organization by revenue, Barclays, PLC and its affiliates (Barclays), accounted for 11.0%, 12.6%, and 11.2% of our operating revenues, respectively. For the fiscal years ended November 30, 2008, 2007, and 2006, approximately 89.7%, 91.5%, and 90.0% of our revenues from Barclays came from fees based on the assets of ETFs linked to MSCI equity indices. In addition, 2.9 % and 3.4% of our revenues in the year ended November 30, 2008 and 2007, respectively, consisted of revenues from Morgan Stanley, our controlling shareholder.

Marketing

We market our products to investment institutions and service providers worldwide. See Clients above. Our research and product management teams seek to understand our clients' investment process and their needs and design tools that help clients address them. Because of the sophisticated nature of our products, our main means of marketing is through face-to-face meetings and 24-hour client support, as described in Sales and Client Support below. These marketing and support efforts are supplemented by our website, our client seminars, our participation in industry conferences, our ongoing product consultations and research papers, and our public relations efforts.

Members of our research team and other employees regularly speak at industry conferences, as well as at our own seminars. We host over 100 seminars and workshops per year in locations across the globe. These seminars and workshops bring our staff and our clients' investment professionals together, expose those professionals 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 professionals in prominent industry journals and issue press releases on product developments and releases. Our marketing department collaborates with our product specialists to analyze our clients' use of our products and to analyze the competitive landscape for our products.

Sales and Client Support

As of November 30, 2008, we employed over 90 sales people and over 20 client support people worldwide. Of these, over 35 were located in our New York headquarters and over 30 were located in our London office. In the last few years we have expanded our sales effort in two ways. We have opened sales offices in Shanghai, Dubai, Mumbai and Boston, Chicago and Stamford, and made preparations to open an office in Monterrey, Mexico. We have also created more teams dedicated solely to the needs of certain client types such as hedge funds, asset owners and broker dealers. In total, our sales and client support staff was based in 18 offices around the world enabling us to provide valuable face-to-face client service.

Our sales people service established clients and develop new ones. Our client support team provides 24-hour support five days a week to our clients as needed. Client support teams focus on different types of clients. 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. Because of the sophisticated nature of our products

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and their uses, our sales and client support staff have strong academic and financial backgrounds. Our sales people are compensated under a salary and bonus system and do not receive commissions.

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

Product Development and Production

We take a coordinated team approach to product development and production. Our product management, research, data management and production, and software engineering departments are at the center of this process.

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

Research. Our models are developed by a cross-functional research team of mathematicians, statisticians, financial engineers and investment industry experts. As of November 30, 2008, our research department consisted of over 70 employees, including more than 30 who held Ph.Ds. Our 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 indexing, risk forecasting, portfolio optimization 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 research team. In 2008, our researchers participated in over 50 industry events and conferences, and their papers have been frequently published in leading academic and industry journals. We sponsor an annual research conference, which took place in 11 cities around the world in 2008, where our researchers discuss their current work, research papers and projects. Our researchers also participate in such discussions at a number of seminars, workshops and webinars we host throughout the year. Our researchers work on both developing new models and methodologies and enhancing existing ones. For example, in our equity index business we announced the MSCI Global Investable Markets Index Series methodology in 2007, which was an enhancement to our then-current International Index Series methodology. This methodology is based on changes we have observed in global equity markets and investing. We also announced other new equity index methodologies, such as the MSCI Global Islamic Indices. In our equity analytics business, we introduced an enhanced Global Equity Model (GEM2) in September 2008. GEM2 is designed to provide improved portfolio risk forecasts and better explanatory power of the sources of portfolio return. Among other things, GEM2 benefits from the use of weekly data and additional risk factors. We have research offices in the U.S., Europe and Asia.

Data Management and Production. As of November 30, 2008, our data management and production team consisted of more than 250 people in eight countries, and involved a combination of information technology and operations specialists. We licensed a large volume and variety of market data for every

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major market in the world, including fundamental and return data, from more than 125 third party sources in fiscal 2008. We apply this market data to our models and methodologies to produce our proprietary index and risk data. Our data management and production team oversees this complex process. Our experienced information technology staff builds internal systems and proprietary software and databases that house all of the data we license in order for our data management and production 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 management and production offices in the U.S., Europe and Asia.

Software Engineering. Certain of our proprietary risk data are made available to clients through our proprietary software applications, such as Barra Aegis, BarraOne and Barra Cosmos. As of November 30, 2008, our software engineering team consisted of over 75 individuals, including 12 who held Ph.Ds, with significant experience in both the finance and software industries. Our staff has an extensive skill set, including expertise in both the Java-based technologies used in our web-based, on-demand software application tool for multi-asset class risk analysis and reporting and the Microsoft-based technologies used in our desktop equity and fixed income analytics software products. We also have extensive experience with database technologies, computational programming techniques, scalability and performance analysis and tuning and quality assurance. We use a customized software development methodology that leverages best practices from the software industry, including agile programming, test-driven development, parallel tracking, iterative cycles, prototyping and beta releases. We build our software applications by compiling multiple components, which enables us to reuse designs and codes in multiple products. Our software development projects involve extensive collaboration with our product management team and directly with clients. We have software engineering offices in the U.S., Europe and Asia.

Our Competition

Many industry participants compete directly with us offering one or more similar products.

Our principal competitors on a global basis for our international equity index products are Dow Jones & Company, Inc. (Dow Jones), FTSE International, Ltd (a joint venture between The Financial Times and The London Stock Exchange) and Standard & Poor's (a division of The McGraw-Hill Companies, Inc.).

Additionally, we compete with equity index providers whose primary strength is in a local market or region. These include Russell Investment Group (a unit of Northwestern Mutual Life Insurance Group) and Standard & Poor's in the U.S.; STOXX Ltd. (a joint venture of Dow Jones, Deutsche Börse AG and the SWX Group) in Europe; and Nikkei Inc., Russell Investment Group and Nomura Securities, Ltd., and Tokyo Stock Exchange, Inc. in Japan. There are also many smaller companies that create custom indices primarily for use as the basis of ETFs.

The principal competitors for our equity portfolio analytics products are Applied Portfolio Technologies (a unit of Sunguard), Axioma, Inc., FactSet Research Systems, Inc., Northfield Information Services, Inc., and Wilshire Analytics. The primary competitors for our multi-asset class portfolio analytics products are Algorithmics (a member of Fimalac S.A.) and RiskMetrics Group, Inc.

Additionally, many of the larger broker-dealers have developed proprietary analytics tools for their clients. Similarly, many investment institutions, particularly the larger global organizations, have developed their own internal analytics tools.

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

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Employees

As of November 30, 2008, we employed 766 full-time employees and 121 temporary employees worldwide. Of our 121 temporary employees, 82 were consultants who were contracted to work on various projects. Certain services have been provided to us by other Morgan Stanley employees, not included in the numbers above. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Impacting Comparability of Our Financial Results Our Relationship with Morgan Stanley.

Arrangements Between Morgan Stanley and Us

General

At the time of the IPO, we entered into certain agreements with Morgan Stanley to define our ongoing relationship following the offering and to contemplate our obligations in the event of Morgan Stanley's divestiture of its entire interest in us. Following the IPO, we have also entered into certain agreements with Morgan Stanley in the ordinary course of business. Set forth below are descriptions of certain agreements, relationships and transactions we have with Morgan Stanley.

Services Agreement

On July 21, 2008, we entered into an amended services agreement with Morgan Stanley pursuant to which Morgan Stanley agreed to provide, directly or indirectly through its subsidiaries or subcontractors, services in the areas of human resources, information technology, accounting, legal and compliance, tax, office space leasing, corporate services, treasury and other services for so long as Morgan Stanley owns greater than 50% of the total voting power to elect our directors. The services Morgan Stanley will continue to provide upon owning 50% or less of the total voting power to elect our directors are subject to renegotiation in good faith, and will be provided for a period not to exceed 12 months. As long as Morgan Stanley owns more than 50% of the total voting power to elect our directors, payment for these services will be based on an internal cost allocation methodology based on fully loaded cost (*i.e.*, allocated direct costs of providing the services, plus all related overhead and out-of-pocket costs and expenses) and an allocation to us of a portion of compensation related expenses for Morgan Stanley senior executives, in each case, consistent with past practices. Upon the sale or other disposition of any portion of our business, assets or properties, Morgan Stanley's obligation to provide any service in respect of such disposed business, assets or properties will terminate. Similarly, if our business increases significantly or we acquire any business, assets or properties, Morgan Stanley will not have to provide any services in respect of such increase or acquired business, assets or properties.

The services agreement provides that any obligation of Morgan Stanley to provide a service may be terminated (i) by us upon advance notice to Morgan Stanley or (ii) by either party if the other party has breached its obligations under the agreement relating to the service and has not cured the breach within an agreed upon period of time. In addition, at any time following the announcement of a transaction involving a change of control of us, Morgan Stanley may elect to terminate any and all services it provides, provided that no service will be terminated prior to the closing of the change of control transaction unless agreed to by us.

In general, Morgan Stanley is not liable to us in connection with any service provided under the services agreement except in the case of gross negligence or willful misconduct. We also agreed to indemnify Morgan Stanley with respect to liabilities and expenses incurred in connection with any claim, action, proceeding or investigation, whether or not in connection with pending or threatened litigation, arising out of, in connection with or related to services rendered or to be rendered by or on behalf of Morgan Stanley, other than liabilities and expenses resulting from gross negligence or willful misconduct by Morgan Stanley.

For the fiscal year ended November 30, 2008, we paid Morgan Stanley \$32.3 million, which includes \$14.0 million for expenses incurred by Morgan Stanley on our behalf and \$18.3 million for cost allocations related to services provided by Morgan Stanley personnel, in connection with the amended services agreement.

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Tax Sharing Agreement

On November 20, 2007, we entered into a tax sharing agreement with Morgan Stanley setting forth the rights and obligations of Morgan Stanley and us with respect to federal and other income taxes for periods, in which we file returns on a consolidated, combined or unitary basis with Morgan Stanley. Under the terms of the tax sharing agreement, we will be liable for a portion of the consolidated, combined or unitary tax liability, including any liability resulting from adjustments on audit, based on what our liability would have been, as determined by Morgan Stanley, had we and our subsidiaries been a taxable group separate from the Morgan Stanley consolidated group.

Furthermore, under the tax sharing agreement, Morgan Stanley prepared and filed the consolidated federal and applicable consolidated, combined or unitary income tax returns that include taxable periods in which we or a member of our taxable group, on the one hand, and Morgan Stanley or a member of its taxable group, on the other hand, are included. Tax audits and controversies relating to Morgan Stanley or a member of its taxable group, regardless of whether such tax audit or controversy relates to us or a member of our taxable group, will be controlled by Morgan Stanley. However, in certain circumstances we may be entitled to control certain audits or controversies relating to taxes that solely relate to us or a member of our taxable group.

Prior to May 2, 2008, we filed federal income tax returns and certain other income tax returns with Morgan Stanley on a consolidated, combined or unitary basis. After May 2, 2008, we began filing only certain state and local income tax returns with Morgan Stanley on such basis. We expect to continue to file certain state and local income tax returns with Morgan Stanley on a consolidated, combined or unitary basis until Morgan Stanley's voting power to elect our directors falls below 50%. For the fiscal year ended November 30, 2008, Morgan Stanley allocated \$24.0 million to us as our share of tax amounts due pursuant to the tax sharing agreement.

License Agreement

On July 21, 2008, we entered into an amended trademark license agreement with Morgan Stanley which grants us an exclusive royalty-free license to use the Morgan Stanley trademark "Morgan Stanley Capital International" for so long as Morgan Stanley owns greater than 50% of the total voting power to elect our directors. Pursuant to the agreement, we must cease using the trademark "Morgan Stanley Capital International" within 90 days after Morgan Stanley ceases to own greater than 50% of the total voting power to elect our directors. We own the MSCI trademark and plan to continue to use the MSCI brand after Morgan Stanley ceases to own greater than 50% of the total voting power to elect our directors.

Intellectual Property Agreement

On July 21, 2008, we entered into an intellectual property agreement with Morgan Stanley granting both parties a reciprocal, non-exclusive, perpetual, irrevocable, world-wide, royalty-free license to use hardware settings and configurations, generic software libraries and routines and generic document templates owned and not separately commercialized by the granting party, that have been used by the grantee party prior to the date upon which Morgan Stanley ceases to own greater than 50% of the total voting power to elect our directors.

Ongoing Leasehold Arrangements

As of November 30, 2008, we leased an aggregate of approximately 8,800 square feet of office space from Morgan Stanley for our research/operations office in Mumbai, India. The rent and other terms of this lease agreement are consistent with arm's-length commercially reasonable terms for agreements of this type. For the fiscal year ended November 30, 2008, we paid Morgan Stanley \$3.0 million in connection with this and other leases that were terminated during the year.

As of November 30, 2008, our leases in Geneva, Switzerland and Frankfurt, Germany were guaranteed by subsidiaries of Morgan Stanley.

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We assumed Morgan Stanley's guarantee for the Geneva office lease effective December 4, 2008.

Morgan Stanley Agreements with Third Parties

Historically, we have received services provided by third parties pursuant to various agreements that Morgan Stanley has entered into for the benefit of its affiliates. We pay the third parties directly for the services they provide to us or reimburse Morgan Stanley through an allocation for our share of the actual costs incurred under the agreements. If Morgan Stanley ceases to own greater than 50% of the total voting power to elect o