MSCI Inc.
Form 10-Q
May 04, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

OR

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

Commission file number 001-33812

MSCI INC.

(Exact Name of Registrant as Specified in its Charter)

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

(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

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

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

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

As of April 27, 2018, there were 89,024,288 shares of the registrant's common stock, par value $0.01, outstanding.

MSCI INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2018

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AVAILABLE INFORMATION

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

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

Other factors that could materially affect actual results, levels of activity, performance or achievements can be found in MSCI Inc.’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on February 26, 2018 and in quarterly reports on Form 10-Q and current reports on Form 8-K filed or furnished with the SEC. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual

results may vary significantly from what MSCI Inc. projected. Any forward-looking statement in this report reflects MSCI Inc.'s current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to MSCI Inc.'s operations, results of operations, growth strategy and liquidity. MSCI Inc. assumes no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise, except as required by law.

WEBSITE AND SOCIAL MEDIA DISCLOSURE

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

PART I

Item 1. Financial Statements
MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except per share and share data)

	As of March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 849,828	$ 889,502
Accounts receivable (net of allowances of $1,861 and $1,700 at March 31, 2018 and December 31, 2017, respectively)	462,577	327,597
Prepaid income taxes	1,153	15,103
Prepaid and other assets	34,799	34,927
Total current assets	1,348,357	1,267,129
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $177,562 and $171,280 at March 31, 2018 and December 31, 2017, respectively)	86,310	94,437
Goodwill	1,562,660	1,560,621
Intangible assets (net of accumulated amortization of $519,640 and $507,612 at March 31, 2018 and December 31, 2017, respectively)	316,259	321,836
Deferred tax assets	11,876	12,013
Other non-current assets	19,032	19,632
Total assets	$ 3,344,494	$ 3,275,668
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,382	$ 1,612
Income taxes payable	22,144	14,828
Accrued compensation and related benefits	45,951	131,156
Other accrued liabilities	83,106	85,710
Deferred revenue	503,298	374,365
Total current liabilities	655,881	607,671
Long-term debt	2,078,816	2,078,093
Deferred taxes	76,768	78,027

Other non-current liabilities	111,655	110,865
Total liabilities	2,923,120	2,874,656
Commitments and Contingencies (see Note 7 and Note 8)		
Shareholders' equity:		
Preferred stock (par value $0.01, 100,000,000 share authorized; no shares issued)	—	—
Common stock (par value $0.01; 750,000,000 common shares authorized; 129,953,761 and 129,543,856 common shares issued and 89,859,658 and 90,104,885 common shares outstanding at March 31, 2018 and December 31, 2017, respectively)	1,300	1,295
Treasury shares, at cost (40,094,103 and 39,438,971 common shares held at March 31, 2018 and December 31, 2017, respectively)	(2,413,283)	(2,321,989)
Additional paid in capital	1,276,109	1,264,849
Retained earnings	1,601,583	1,505,204
Accumulated other comprehensive loss	(44,335)	(48,347)
Total shareholders' equity	421,374	401,012
Total liabilities and shareholders' equity	$3,344,494	$3,275,668

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Three Months Ended March 31,	
	2018	2017
	(unaudited)	
Operating revenues	$351,316	$301,207
Operating expenses:		
Cost of revenues	71,304	67,463
Selling and marketing	46,409	42,972
Research and development	20,707	18,970
General and administrative	26,187	20,981
Amortization of intangible assets	11,338	11,251
Depreciation and amortization of property, equipment and leasehold improvements	8,205	8,838
Total operating expenses	184,150	170,475
Operating income	167,166	130,732
Interest income	(2,770)	(932)
Interest expense	29,560	29,024
Other expense (income)	938	1,015
Other expense (income), net	27,728	29,107
Income before provision for income taxes	139,438	101,625
Provision for income taxes	24,346	28,674
Net income	$115,092	$72,951
Earnings per basic common share	$1.28	$0.80
Earnings per diluted common share	$1.24	$0.80
Weighted average shares outstanding used in computing earnings per share		
Basic	90,075	90,708
Diluted	92,587	91,624
Dividend declared per common share	$0.38	$0.28

See Notes to Unaudited Condensed Consolidated Financial Statements

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MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended March 31,	
	2018	2017
	(unaudited)	
Net income	$115,092	$72,951
Other comprehensive income (loss):		
Foreign currency translation adjustments	3,962	2,941
Income tax effect	—	—
Foreign currency translation adjustments, net	3,962	2,941
Pension and other post-retirement adjustments	(100)	(99)
Income tax effect	27	37
Pension and other post-retirement adjustments, net	(73)	(62)
Net investment hedge adjustments	123	—
Income tax effect	—	—
Net investment hedge adjustments, net	123	—
Other comprehensive income (loss), net of tax	4,012	2,879
Comprehensive income	$119,104	$75,830

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31,	
	2018	2017
	(unaudited)	
Cash flows from operating activities		
Net income	$115,092	$72,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	11,338	11,251
Stock-based compensation expense	9,053	9,394
Depreciation and amortization of property, equipment and leasehold improvements	8,205	8,838
Amortization of debt origination fees	849	849
Deferred taxes	(1,097)	(2,035)
Other non-cash adjustments	321	25
Changes in assets and liabilities:		
Accounts receivable	(134,801)	(40,582)
Prepaid income taxes	13,626	12,438
Prepaid and other assets	192	629
Accounts payable	(230)	561
Accrued compensation and related benefits	(84,517)	(76,708)
Income taxes payable	3,001	3,755
Other accrued liabilities	(1,516)	(10,280)
Deferred revenue	148,468	43,247
Other	613	2,682
Net cash provided by operating activities	88,597	37,015
Cash flows from investing activities		
Capital expenditures	(1,512)	(7,322)
Capitalized software development costs	(4,360)	(2,307)
Net cash used in investing activities	(5,872)	(9,629)
Cash flows from financing activities		
Proceeds from exercise of stock options	102	625
Repurchase of treasury shares	(91,277)	(100,362)
Payment of dividends	(34,883)	(25,489)
Net cash used in financing activities	(126,058)	(125,226)
Effect of exchange rate changes	3,659	2,978
Net decrease in cash	(39,674)	(94,862)
Cash and cash equivalent, beginning of period	889,502	791,834
Cash and cash equivalent, end of period	$849,828	$696,972

Supplemental disclosure of cash flow information:		
Cash paid for interest	$35,121	$34,916
Cash paid for income taxes	$8,602	$13,294
Supplemental disclosure of non-cash investing activities		
Property, equipment and leasehold improvements accrued, but not yet paid	$3,101	$2,944
Supplemental disclosure of non-cash financing activities		
Cash dividends declared, but not yet paid	$337	$269

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. INTRODUCTION AND BASIS OF PRESENTATION

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

Basis of Presentation and Use of Estimates

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

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

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

Concentrations

For the three months ended March 31, 2018 and 2017, BlackRock, Inc. accounted for 12.9% and 10.3% of the Company's consolidated operating revenues, respectively. For the three months ended March 31, 2018 and 2017, BlackRock, Inc. accounted for 22.1% and 18.6% of the Index segment operating revenues, respectively. No single

customer represented 10.0% or more of revenues within the Analytics and All Other segments for the three months ended March 31, 2018 and 2017.

2. RECENT ACCOUNTING STANDARDS UPDATES

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

In March 2016, the FASB issued Accounting Standards Update 2016-08, “Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net).” In April 2016, the FASB issued Accounting Standards Update 2016-10, “Identifying Performance Obligations and Licensing.” In May 2016, the FASB issued Accounting Standards Update 2016-12, “Narrow-Scope Improvements and Practical Expedients.” In December 2016, the FASB issued Accounting Standards Update No. 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.” These updates provide supplemental adoption guidance and clarification to ASU 2014-09 and must be adopted concurrently. The Company adopted the new revenue standard as of January 1,

2018 using the Modified Retrospective Approach. See Note 3, "Revenue Recognition" of the Notes to the Unaudited Condensed Consolidated Financial Statements included herein for further information regarding revenue recognition.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)," or ASU 2016-02. The FASB issued ASU 2016-02 in order to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. To meet that objective, the FASB amended the FASB Accounting Standards Codification and created Topic 842, Leases. ASU 2016-02 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2018, with early adoption permitted. ASU 2016-02 requires reporting organizations to take a modified retrospective transition approach (as opposed to a full retrospective transition approach). The Company is continuing to evaluate the potential impact that ASU 2016-02 will have on its condensed consolidated financial statements.

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

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," or ASU 2017-01. The amendments in ASU 2017-01 provide a screen to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. Under ASU 2017-01, an entity first determines whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set is not a business. If it's not met, the entity then evaluates whether the set meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. ASU 2017-01 also narrows the definition of outputs by more closely aligning it with how outputs are described in Topic 606. ASU 2017-01 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017, with early adoption permitted. The adoption of ASU 2017-01 did not have a material effect on the Company's condensed consolidated financial statements.

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

In February 2017, the FASB issued Accounting Standards Update No. 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," or ASU 2017-07. The FASB issued ASU 2017-07 in order to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. ASU 2017-07 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017, with early adoption permitted. Entities should apply

these amendments retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. As a result of the adoption of ASU 2017-07, the Company has restated the Condensed Consolidated Statement of Income for the three months ended March 31, 2017 by reclassing $0.1 million of non-service related pension costs out of "Operating Expenses" and into "Other expense (income)".

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, "Compensation—Stock Compensation (Topic 718), Scope of Modification Accounting," or ASU 2017-09. The FASB issued ASU 2017-09 in order to reduce the diversity in practice, as well as the cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718, Compensation—Stock Compensation. ASU 2017-09 provides that an entity shall account for the effects of a modification of the terms or conditions of an equity award as an exchange of the original award for a new award, unless the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used), the vesting conditions and the classification of the modified award are the same as the original award immediately before the award is modified. ASU 2017-09 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017, with early adoption permitted. ASU 2017-09 requires reporting

organizations to apply the amendments prospectively to an award modified on or after the adoption date. The adoption of ASU 2017-09 did not have a material effect on the Company's condensed consolidated financial statements.

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

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

3. REVENUE RECOGNITION

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

Products and Services

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

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

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

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

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

Accounting policy

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

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

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

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

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

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

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

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

MSCI has elected the Modified Retrospective Approach and as such would apply the new revenue standard only to contracts that are not completed at the adoption date and would not have adjusted prior reporting periods.

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

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

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

The impact of adopting the new revenue standard on the Company's Unaudited Condensed Consolidated Statement of Income through the date of March 31, 2018 is as follows (in thousands):

	For the period ended March 31, 2018		
Selected line items	As reported	Impact of Change	Without Adoption of ASC 606
Statement of Income			
Operating revenues	$351,316	$(2,286)	$349,030
Operating income	$167,166	$(2,286)	$164,880
Income before provision for income taxes	$139,438	$(2,286)	$137,152
Provision for income taxes	$24,346	$457	$24,803
Net income	$115,092	$(1,829)	$113,263
Earnings per basic common share	$1.28	$(0.02)	$1.26
Earnings per diluted common share	$1.24	$(0.02)	$1.22

The impact of adopting the new revenue standard on the Company's Unaudited Statement of Financial Condition through the date of March 31, 2018 is as follows (in thousands):

	March 31, 2018		
Selected line items	As reported at March 31, 2018	Impact of Change	Without Adoption of ASC 606
Statement of Financial Condition			
Accounts receivable	$462,577	$(91,945)	$370,632
Income taxes payable	$22,144	$(4,771)	$17,373
Other accrued liabilities	$83,106	$(3,456)	$79,650
Deferred revenue	$503,298	$(65,818)	$437,480
Retained earnings	$1,601,583	$(17,900)	$1,583,683

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The table that follows presents the disaggregated revenues for the periods indicated (in thousands):

	For the Three Months Ended March 31, 2018			
	Segments			
	Index	Analytics	All Other	Total
Product Types				
Recurring subscriptions	$113,205	$118,244	$29,367	$260,815
Asset-based fees	85,483	—	—	85,483
Non-recurring	3,226	744	1,048	5,018
Total	$201,913	$118,987	$30,415	$351,316

MSCI's policy for the majority of its subscription services is to bill in advance of services being provided and before the service period has begun. Under ASC 606, both the cash received and/or the amount billed in advance of the service period or the services being provided is presented as deferred revenue. Contract assets are services provided in advance of the payment due and are typically recorded as unbilled revenue. Since MSCI's contracts are non-refundable and non-cancellable by the client, MSCI has an unconditional right to receive the cash for service and products provided in advance of billing and therefore are classified as "Accounts receivable" on the Company's Unaudited Condensed Consolidated Statement of Financial Condition. This represents a change from past practice as a receivable was not recorded until the subscription period began and, as such, the adoption of ASC 606 resulted in a significant increase to both "Accounts receivable" and "Deferred revenue" with no change to net assets.

	March 31, 2018	
	Accounts receivable	Deferred revenue
Opening (1/1/2018)	$473,400	$494,591
Closing (03/31/2018)	462,577	503,298
Increase/(decrease)	$(10,823)	$8,707

The amount of revenue recognized in the period that was included in the opening current deferred revenue, which reflects the contract liability amounts, was $221.5 million. The difference between the opening and closing balances of the Company's deferred revenue represents the increase in the balance as a result of billings offset by the amortization of deferred revenue to operating revenues. MSCI had an insignificant long-term deferred revenue balance as of March 31, 2018 reflected as a part of "Other non-current liabilities" on its Unaudited Condensed Consolidated Statement of Financial Condition.

For contracts that have a duration of one year or less, the Company has chosen to use the practical expedient available under the new revenue standard and, as such, has not disclosed either the remaining performance obligation as of the end of the reporting period or when the Company expects to recognize the revenue. The remaining performance obligations for contracts that have a duration of greater than one year is $397.4 million, which is expected to be recognized as follows:

- Approximately $218.4 million of the remaining performance obligations over the next 12 month period;

- Approximately $118.7 million of the remaining performance obligations over the second 12 month period;
- Approximately $42.5 million of the remaining performance obligations over the third 12 month period; and
- The remaining $17.8 million recognized in the periods thereafter.

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 an immaterial number of anti-dilutive securities excluded from the calculation of diluted EPS for all periods presented.

The following table presents the computation of basic and diluted EPS:

	Three Months Ended March 31,	
	2018	2017
(in thousands, except per share data)		
Net income	$115,092	$72,951
Basic weighted average common shares outstanding	90,075	90,708
Effect of dilutive securities:		
Stock options and restricted stock units	2,512	916
Diluted weighted average common shares outstanding	92,587	91,624
Earnings per basic common share	$1.28	$0.80
Earnings per diluted common share	$1.24	$0.80

5. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements at March 31, 2018 and December 31, 2017 consisted of the following:

	As of March 31, 2018	December 31, 2017
	(in thousands)	
Computer & related equipment	$200,255	$ 200,592
Furniture & fixtures	10,858	10,591
Leasehold improvements	51,983	51,128
Work-in-process	776	3,406
Subtotal	263,872	265,717
Accumulated depreciation and amortization	(177,562)	(171,280)
Property, equipment and leasehold improvements, net	$86,310	$ 94,437

Depreciation and amortization expense of property, equipment and leasehold improvements was $8.2 million and $8.8 million for the three months ended March 31, 2018 and 2017, respectively.

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table presents goodwill by reportable segment:

(in thousands)	Index	Analytics	All Other [1]	Total
Goodwill at December 31, 2017	$1,205,400	$302,611	$52,610	$1,560,621
Foreign exchange translation adjustment	1,261	—	778	2,039
Goodwill at March 31, 2018	$1,206,661	$302,611	$53,388	$1,562,660

[1]The goodwill in All Other at March 31, 2018, consisted of $31.6 million in the ESG segment and $21.8 million in the Real Estate segment and at December 31, 2017 consisted of $31.6 million in the ESG segment and $21.0 million in the Real Estate segment.

Intangible Assets

Amortization expense related to intangible assets was $11.3 million for both the three months ended March 31, 2018 and 2017. The amortization expense of acquired intangible assets was $9.2 million and $10.5 million for the three months ended March 31, 2018 and 2017, respectively. The amortization expense of internally developed capitalized software was $2.1 million and $0.8 million for the three months ended March 31, 2018 and 2017, respectively.

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

	As of March 31, 2018	December 31, 2017
	(in thousands)	
Gross intangible assets:		
Customer relationships	$361,199	$ 361,199
Trademarks/trade names	223,382	223,382
Technology/software	229,654	225,407
Proprietary data	28,627	28,627
Subtotal	842,862	838,615
Foreign exchange translation adjustment	(6,963)	(9,167)
Total gross intangible assets	$835,899	$ 829,448
Accumulated amortization:		
Customer relationships	$(194,614)	$ (189,100)
Trademarks/trade names	(119,618)	(116,691)
Technology/software	(195,491)	(193,095)
Proprietary data	(10,832)	(10,352)
Subtotal	(520,555)	(509,238)
Foreign exchange translation adjustment	915	1,626
Total accumulated amortization	$(519,640)	$ (507,612)
Net intangible assets:		
Customer relationships	$166,585	$ 172,099
Trademarks/trade names	103,764	106,691
Technology/software	34,163	32,312
Proprietary data	17,795	18,275
Subtotal	322,307	329,377
Foreign exchange translation adjustment	(6,048)	(7,541)
Total net intangible assets	$316,259	$ 321,836

The following table presents the estimated amortization expense for the remainder of the year ending December 31, 2018 and succeeding years:

Years Ending December 31,	Amortization Expense
	(in thousands)
Remainder 2018	$ 35,050
2019	44,829
2020	42,992
2021	39,467
2022	36,496
Thereafter	117,425
Total	$ 316,259

7. COMMITMENTS AND CONTINGENCIES

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

Leases. The Company leases facilities under non-cancelable operating lease agreements. The terms of certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on the straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Rent expense for the three months ended March 31, 2018 and 2017 was $6.3 million and $5.8 million, respectively.

Senior Notes. The Company has issued an aggregate of $2.1 billion in senior unsecured notes (collectively, the "Senior Notes") in the three discrete private offerings described below.

On November 20, 2014, the Company completed its private offering of $800.0 million aggregate principal amount of 5.25% senior unsecured notes due 2024 (the "2024 Senior Notes"). The Company used the net proceeds from the offering of the 2024 Senior Notes, together with cash on hand, to repay in full its then outstanding term loan indebtedness of $794.8 million.

On August 13, 2015, the Company completed its private offering of $800.0 million aggregate principal amount of 5.75% senior unsecured notes due 2025 (the "2025 Senior Notes"). The $789.5 million of net proceeds from the offering of the 2025 Senior Notes were allocated for general corporate purposes.

On August 4, 2016, the Company completed its private offering of $500.0 million aggregate principal amount of 4.75% senior unsecured notes due 2026 (the "2026 Senior Notes"). The $493.3 million of net proceeds from the offering of the 2026 Senior Notes were allocated for general corporate purposes, including, without limitation, buybacks of its common stock and potential acquisitions.

The 2024 Senior Notes are scheduled to mature and be paid in full on November 15, 2024. At any time prior to November 15, 2019, the Company may redeem all or part of the 2024 Senior Notes upon not less than 30 nor more than 60 days' prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of redemption, plus (iii) accrued and unpaid interest and additional interest, if any, thereon, to the date of redemption. In addition, the Company may redeem all or part of the 2024 Senior Notes, together with accrued and unpaid interest, on or after November 15, 2019, at redemption prices set forth in the indenture governing the 2024 Senior Notes.

The 2025 Senior Notes are scheduled to mature and be paid in full on August 15, 2025. At any time prior to August 15, 2020, the Company may redeem all or part of the 2025 Senior Notes upon not less than 30 nor more than 60 days' prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of redemption, plus (iii) accrued and unpaid interest and additional interest, if any, thereon, to the date of redemption. In addition, the Company may redeem all or part of the 2025 Senior Notes, together with accrued and unpaid interest, on or after August 15, 2020, at redemption prices set forth in the indenture governing the 2025 Senior Notes. At any time prior to August 15, 2018, the Company may use the proceeds of certain equity offerings to redeem up to 35% of the aggregate principal amount of the 2025 Senior Notes, including any permitted additional notes, at a redemption price equal to 105.75% of the principal amount.

The 2026 Senior Notes are scheduled to mature and be paid in full on August 1, 2026. At any time prior to August 1, 2021, the Company may redeem all or part of the 2026 Senior Notes upon not less than 30 nor more than 60 days' prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of redemption, plus (iii) accrued and unpaid interest and additional interest, if any, thereon, to the date of redemption. In addition, the Company may redeem all or part of the 2026 Senior Notes, together with accrued and unpaid interest, on or after August 1, 2021, at redemption prices set forth in the indenture governing the 2026 Senior Notes. At any time prior to August 1, 2019, the Company may use the proceeds of certain equity offerings to redeem up to 35% of the aggregate principal amount of the 2026 Senior Notes, including any permitted additional notes, at a redemption price equal to 104.75% of the principal amount.

Interest payments attributable to the 2024 Senior Notes are due on May 15th and November 15th of each year. Interest payments attributable to the 2025 Senior Notes are due on February 15th and August 15th of each year. Interest payments attributable to the 2026 Senior Notes are due on February 1st and August 1st of each year.

Revolver. On November 20, 2014, the Company entered into a $200.0 million senior unsecured revolving credit agreement (the "2014 Revolving Credit Agreement") with a syndicate of banks. The 2014 Revolving Credit Agreement

had an initial term of five years with an option to extend for two additional one-year terms. On August 4, 2016, the Company entered into Amendment No. 1 (the “Amendment”) to the 2014 Revolving Credit Agreement (the 2014 Revolving Credit Agreement as so amended, the “Revolving Credit Agreement”). The Amendment, among other things, (i) increased aggregate commitments available to be borrowed to $220.0 million, (ii) increased the maximum consolidated leverage ratio and (iii) extended the initial term to August 2021 with an option to extend for an additional one-year term. At March 31, 2018, the Revolving Credit Agreement was undrawn.

Long-term debt at March 31, 2018 was $2,078.8 million, net of $21.2 million in deferred financing fees. Long-term debt at December 31, 2017 was $2,078.1 million, net of $21.9 million in deferred financing fees.

In connection with the closings of the Senior Notes offerings and entry into the 2014 Revolving Credit Agreement and the Amendment, the Company paid certain fees which, together with the existing fees related to prior credit facilities, are being amortized over their related lives. At March 31, 2018, $22.9 million of the deferred financing fees remain unamortized, $0.5 million of which is included in “Prepaid and other assets,” $1.2 million of which is included in “Other non-current assets” and $21.2 million of which is grouped and presented as part of “Long-term debt” on the Unaudited Condensed Consolidated Statement of Financial Condition.

At March 31, 2018 and December 31, 2017, the fair market value of the Company's debt obligations was $2,152.4 million and $2,231.1 million, respectively. The fair market value is determined in accordance with accounting standards related to the determination of fair value and represents Level 2 valuations, which are 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. The Company utilizes the market approach and obtains security pricing from a vendor who uses broker quotes and third-party pricing services to determine fair values.

8. SHAREHOLDERS' EQUITY

Return of capital.

On October 28, 2015, the Board of Directors approved a stock repurchase program authorizing the purchase of up to $1.0 billion worth of shares of MSCI's common stock (the "2015 Repurchase Program").

On October 26, 2016, the Board of Directors approved an additional stock repurchase program authorizing the purchase of up to $750.0 million worth of shares of the Company's common stock (together with the $330.3 million remaining authorization under the 2015 Repurchase Program, the "2016 Repurchase Program"). Share repurchases made pursuant to the 2016 Repurchase Program may take place in the open market or in privately negotiated transactions from time to time based on market and other conditions. This authorization may be modified, suspended or terminated by the Board of Directors at any time without prior notice. As of March 31, 2018, there was $664.7 million of available authorization remaining under the 2016 Repurchase Program.

The following table provides information with respect to repurchases of the Company's common stock made on the open market:

Three Months Ended	Average Price Paid Per Share	Total Number of Shares Repurchased	Dollar Value of Shares Repurchased
		(in thousands)	
March 31, 2018	$138.86	492	$ 68,345
March 31, 2017	$82.25	1,079	$ 88,744

The following table presents dividends declared per common share as well as total amounts declared, distributed and deferred for the periods indicated:

(in thousands, except per share amounts)	Dividends Per Share	Declared	Distributed	Deferred
2018				
Three Months Ended March 31,	0.38	34,848	34,900	(52)
Total	$0.38	$34,848	$ 34,900	$ (52)

2017				
Three Months Ended March 31,	0.28	25,769	25,500	269
Total	$0.28	$25,769	$ 25,500	$ 269

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Common Stock.

The following table presents activity related to shares of common stock issued and repurchased during the three months ended March 31, 2018:

	Common Stock Issued	Treasury Stock	Common Stock Outstanding
Balance At December 31, 2017	129,543,856	(39,438,971)	90,104,885
Dividend payable/paid	111	(111)	—
Common stock issued and exercise of stock options	409,794	—	409,794
Shares withheld for tax withholding and exercises	—	(162,846)	(162,846)
Shares repurchased under stock repurchase programs	—	(492,175)	(492,175)
Shares issued to directors	—	—	—
Balance At March 31, 2018	129,953,761	(40,094,103)	89,859,658

9. INCOME TAXES

The Company’s provision for income taxes was $24.3 million and $28.7 million for the three months ended March 31, 2018 and 2017, respectively. These amounts reflect effective tax rates of 17.5% and 28.2% for the three months ended March 31, 2018 and 2017, respectively. The decrease in the provision for income taxes and in the effective tax rate was primarily driven by Tax Reform as well as the impact of higher net discrete benefits.

The effective tax rate of 17.5% for the three months ended March 31, 2018 reflects the Company’s estimate of the effective tax rate for the period and was impacted by certain net discrete items totaling $7.9 million, primarily related to $7.5 million of excess tax benefits on share-based compensation recognized during the period, which decreased the Company’s effective tax rate by 5.7 percentage points.

On December 22, 2017, the U.S. government enacted Tax Reform which significantly revises the U.S. corporate income tax by, among other things, lowering U.S. corporate income tax rates, implementing a territorial tax system and imposing a one-time tax on deemed repatriation of historic earnings and profits of foreign subsidiaries (the “Toll Charge”). The U.S. federal income tax rate reduction was effective as of January 1, 2018.

The Company’s provisional accounting for the effects of Tax Reform resulted in a net adjustment benefit of $1.6 million in the provision for income taxes for MSCI in the three months ended March 31, 2018 that primarily related to a change in the estimate of taxes on the amount of historical profits that were previously deemed to be permanently invested overseas. The cumulative accrual for Tax Reform as of March 31, 2018, including the charges recognized in the year ended December 31, 2017 and in the three months ended March 31, 2018, totals $32.9 million.

Pursuant to SAB 118 and given the amount and complexity of the changes in tax law resulting from Tax Reform, the Company has not finalized the accounting for the income tax effects of Tax Reform. This includes the provisional amounts recorded related to the Toll Charge, the remeasurement of deferred taxes and the change in the Company’s indefinite reinvestment assertion. The impact of Tax Reform may differ from this estimate, possibly materially, during the defined one-year measurement period due to, among other things, further refinement of the Company’s calculations

as it completes its tax returns for the fiscal year ended December 31, 2017, changes in interpretations and assumptions the Company has made and ongoing guidance and accounting interpretations that may be issued as a result of Tax Reform.

As of December 31, 2017, the Company no longer considers the earnings of its foreign subsidiaries to be indefinitely reinvested. However, the Company is continuing to assess its intentions related to its indefinite reinvestment assertion for future periods.

The Company is under examination by the IRS and other tax authorities in certain jurisdictions, including foreign jurisdictions, such as India, and states in which the Company has significant operations, such as New York. The tax years currently under examination vary by jurisdiction but include years ranging from 2005 through 2016. As a result of having previously been a member of the Morgan Stanley consolidated group, the Company may have future settlements with Morgan Stanley related to the ultimate disposition of their New York State and New York City examination relating to the tax years 2007 and 2008 and their IRS examination relating to the tax years 2006 through 2008. The Company does not believe it has any material exposure to the New York State and New York City examinations. 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.

The Company regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions in which it files income tax returns. The Company has established unrecognized tax benefits that the Company believes are adequate in relation to the potential for additional assessments. Once established, the Company adjusts unrecognized tax benefits only when more information is

available or when an event occurs necessitating a change. As part of the Company's periodic review of unrecognized tax benefits and based on new information regarding the status of federal and state examinations, the Company's unrecognized tax benefits were remeasured. It is reasonably possible that significant changes in the balance of unrecognized tax benefits may occur within the next 12 months. At this time, however, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and the impact on the effective tax rate over the next 12 months.

10. 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, or CODM, in deciding how to allocate resources and assess performance. MSCI's Chief Executive Officer and President, who are together considered to be its CODM, review financial information presented on an operating segment basis for purposes of making operating decisions and assessing financial performance.

The CODM measures and evaluates reportable segments based on segment operating revenues as well as Adjusted EBITDA and other measures. The Company excludes the following items from segment Adjusted EBITDA: provision for income taxes, other expense (income), net, depreciation and amortization of property, equipment and leasehold improvements, amortization of intangible assets and certain transactions or adjustments that the CODM does not consider for the purposes of making decisions to allocate resources among segments or to assess segment performance. Although these amounts are excluded from segment Adjusted EBITDA, they are included in reported consolidated net income and are included in the reconciliation that follows.

The Company's computation of segment Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies because all companies do not calculate segment Adjusted EBITDA in the same fashion.

Revenues and expenses directly associated with each segment are included in determining its operating results. Other expenses that are not directly attributable to a particular segment are based upon allocation methodologies, including time estimates, headcount, sales targets, data center consumption and other relevant usage measures. Due to the integrated structure of our business, certain costs incurred by one segment may benefit other segments. A segment may use the content and data produced by another segment without incurring an arm's-length intersegment charge.

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 Company has four operating segments: Index, Analytics, ESG and Real Estate.

The Index operating segment is primarily a provider of equity indexes. The indexes are used in many areas of the investment process, including index-linked product creation and performance benchmarking, as well as portfolio construction and rebalancing and asset allocation.

The Analytics operating segment offers risk management, performance attribution and portfolio management content, applications and services that provide clients with an integrated view of risk and return and an analysis of market, credit, liquidity and counterparty risk across all major asset classes, spanning short, medium and long-term time horizons. Clients access Analytics content through MSCI's own proprietary applications and application programming

interfaces, or through third party applications or directly on their own platforms. The Analytics operating segment also provides various managed services to help clients operate more efficiently as well as address the needs of certain specialized areas of the investment community by providing a reporting service and performance reporting tools to institutional consultants and investors in hedge funds.

The ESG operating segment offers products and services that help institutional investors understand how environmental, social and governance ("ESG") factors can impact the long-term risk of their investments. In addition, MSCI ESG Research data and ratings are used in the construction of equity and fixed income indexes to help institutional investors more effectively benchmark ESG investment performance, issue index-based investment products, as well as manage, measure and report on ESG mandates.

The Real Estate operating segment includes research, reporting and benchmarking offerings that provide real estate performance analysis for funds, investors and managers. Real Estate performance and risk analytics range from portfolio to property-specific analysis. The Real Estate operating segment also provides business intelligence to real estate owners, managers, developers and brokers worldwide.

The operating segments of ESG and Real Estate do not individually meet the segment reporting thresholds and have been combined and presented as part of All Other for disclosure purposes.

The following table presents operating revenue by reportable segment for the periods indicated:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Operating revenues		
Index	$201,913	$163,435
Analytics	118,987	112,420
All Other	30,415	25,352
Total	$351,316	$301,207

The following table presents segment profitability and a reconciliation to net income for the periods indicated:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Index Adjusted EBITDA	$145,929	$115,677
Analytics Adjusted EBITDA	33,593	29,600
All Other Adjusted EBITDA	7,187	5,544
Total operating segment profitability	186,708	150,821
Amortization of intangible assets	11,338	11,251
Depreciation and amortization of property, equipment and leasehold improvements	8,205	8,838
Operating income	167,166	130,732
Other expense (income), net	27,728	29,107
Provision for income taxes	24,346	28,674
Net income	$115,092	$72,951

Revenue by geography is based on the shipping address of the ultimate customer utilizing the product. The following table presents revenue by geographic area for the periods indicated:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	

Revenues		
Americas:		
United States	$164,835	$144,838
Other	14,884	11,654
Total Americas	179,718	156,492
Europe, the Middle East and Africa ("EMEA"):		
United Kingdom	52,933	47,025
Other	72,687	60,302
Total EMEA	125,620	107,327
Asia & Australia:		
Japan	15,182	12,826
Other	30,796	24,562
Total Asia & Australia	45,978	37,388
Total	$351,316	$301,207

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

	As of March 31, 2018	December 31, 2017
	(in thousands)	
Long-lived assets		
Americas:		
United States	$ 1,836,563	$ 1,847,605
Other	1,617	1,685
Total Americas	1,838,180	1,849,290
EMEA:		
United Kingdom	97,400	94,782
Other	20,255	22,394
Total EMEA	117,655	117,176
Asia & Australia:		
Japan	422	432
Other	8,972	9,996
Total Asia & Australia	9,394	10,428
Total	$ 1,965,229	$ 1,976,894

11. SUBSEQUENT EVENTS

On April 9, 2018, MSCI completed the sale of FEA to Allegro Development Corporation and, as a result, the operating results of FEA will no longer be included in the Analytics financial statements after that date. FEA includes the energy and commodity analytics product and was previously included within the Analytics segment. The impact of this divestiture is not material to the Analytics segment and the Company as a whole.

Subsequent to the three months ended March 31, 2018 and through May 2, 2018, the Company repurchased an additional 1.0 million shares of common stock at an average price of $148.58 per share for a total value of $141.7 million. On May 1, 2018, the Board of Directors authorized an additional stock repurchase program for the purchase of up to $1.0 billion worth of shares of MSCI's common stock (together with the $523.1 million of authorization then remaining under the 2016 Repurchase Program, the "2018 Repurchase Program"). Share repurchases made pursuant to the 2018 Repurchase Program may take place in the open market or in privately negotiated transactions from time to time based on market and other conditions. This authorization may be modified, suspended or terminated by the Board of Directors at any time without prior notice.

On May 1, 2018, the Board of Directors declared a cash dividend of $0.38 per share for second quarter 2018. The second quarter 2018 dividend is payable on May 31, 2018 to shareholders of record as of the close of trading on May

18, 2018.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of MSCI Inc.

Results of Review of Financial Statement

We have reviewed the accompanying condensed consolidated statement of financial condition of MSCI Inc. and its subsidiaries as of March 31, 2018, and the related condensed consolidated statements of income and comprehensive income for the three-month periods ended March 31, 2018 and 2017 and condensed consolidated statement of cash flows for the three-month periods ended March 31, 2018 and 2017, including the related notes (collectively referred to as the "interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of the Company as of December 31, 2017 and the related consolidated statements of income, of comprehensive income, of shareholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated February 26, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated statement of financial condition from which it has been derived.

Basis for Review Results

These interim financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ PricewaterhouseCoopers LLP
New York, New York
May 4, 2018

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the "Form 10-K"). This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in "Item 1A.—Risk Factors," in our Form 10-K.

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

Overview

We are an innovative and leading provider of mission-critical investment decision support tools, including indexes; portfolio construction and risk management products and services; ESG research and ratings; and real estate research, reporting and benchmarking offerings. Our research-derived intellectual property includes methodologies, models, derived data and algorithms (collectively, "content"), as well as applications and services, which help our clients manage their investment processes and address their investment, risk and regulatory challenges.

Our clients comprise a wide spectrum of the global investment industry and include asset owners (pension funds, endowments, foundations, central banks, sovereign wealth funds, family offices and insurance companies), asset managers (institutional, mutual funds, hedge funds, ETFs, private wealth, private banks and real estate investment trusts), private wealth managers, private banks, real estate investment trusts, financial intermediaries (banks, broker-dealers, exchanges, custodians, trust companies and investment consultants) and data distributors.

Our offerings are used by our clients across multiple asset classes to achieve a wide range of objectives, including benchmarking, index-linked product creation, portfolio construction, performance measurement and attribution, risk management, as well as investor and regulatory reporting. In addition, our clients are increasingly integrating the content developed across our company, such as factor and ESG data and indexes, into their investment processes.

As of March 31, 2018, we had over 7,000 clients across 88 countries. To calculate the number of clients, we use the shipping address of the ultimate customer utilizing the product which counts affiliates, user locations, or business units within a single organization as separate clients. If we aggregate all related clients under their respective parent entity, the number of clients would be over 4,000 as of March 31, 2018. We had offices in 32 cities across 21 countries to help serve our diverse client base, with 51.2% of our revenues coming from clients in the Americas, 35.7% in Europe, the Middle East and Africa ("EMEA") and 13.1% in Asia and Australia.

Our principal business model is to license annual, recurring subscriptions to our offerings for a fee, which is, in a majority of cases, paid in advance. Fees may vary by offering, number of users or volume of services. 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. Furthermore, a portion of our revenues comes from clients who use our indexes as the basis for index-linked investment products, such as ETFs, passively managed funds and separate accounts. These clients commonly pay us a license fee, typically in arrears, primarily based on the AUM in their investment product. We also generate revenues from certain exchanges that use our indexes as the basis for futures and options contracts and pay us a license fee, typically in arrears, primarily based on the volume of trades. In addition, we generate revenues from subscription agreements for the receipt of periodic benchmark reports, digests and other publications, which are most often associated with our Real Estate offerings that are recognized upon delivery of such reports or data updates. Fees are primarily paid in arrears after the offering is delivered. We also realize one-time fees related to customized reports, historical data sets, certain derivative financial products and certain implementation and consulting services, as well as

from particular offerings that are purchased on a non-renewal basis.

In evaluating our financial performance, we focus on revenue and profit growth, including results accounted for under accounting principles generally accepted in the United States (“GAAP”) as well as non-GAAP measures, for the Company as a whole and by operating segment. In addition, we focus on operating metrics, including Run Rate, subscription sales and Aggregate Retention Rate 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 profits into excess cash in the future. Our growth strategy includes: (a) creating broad and innovative research-driven content, (b) expanding our client base and deepening existing client relationships, (c) developing flexible and scalable technology, (d) expanding value-added service offerings and (e) executing strategic relationships and acquisitions.

In the discussion that follows, we provide certain variances excluding the impact of foreign currency exchange rate fluctuations. Foreign currency exchange rate fluctuations reflect the difference between the current period results as reported compared to the current period results recalculated using the foreign currency exchange rates in effect for the comparable prior period. We do not provide the impact of foreign currency fluctuations on our asset-based fees tied to average AUM.

The discussion of our results of operations for the three months ended March 31, 2018 and 2017 are presented below. The results of operations for interim periods may not be indicative of future results.

Results of Operations

Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017

The following table presents the results of operations for the periods indicated:

	Three Months Ended March 31,			
	2018	2017	Increase/(Decrease)	
	(in thousands, except per share data)			
Operating revenues	$351,316	$301,207	$ 50,109	16.6 %
Operating expenses:				
Cost of revenues	71,304	67,463	3,841	5.7 %
Selling and marketing	46,409	42,972	3,437	8.0 %
Research and development	20,707	18,970	1,737	9.2 %
General and administrative	26,187	20,981	5,206	24.8 %
Amortization of intangible assets	11,338	11,251	87	0.8 %
Depreciation and amortization of property, equipment and leasehold improvements	8,205	8,838	(633)	(7.2 %)
Total operating expenses	184,150	170,475	13,675	8.0 %
Operating income	167,166	130,732	36,434	27.9 %
Other expense (income), net	27,728	29,107	(1,379)	(4.7 %)
Income before provision for income taxes	139,438	101,625	37,813	37.2 %
Provision for income taxes	24,346	28,674	(4,328)	(15.1 %)
Net income	$115,092	$72,951	$ 42,141	57.8 %
Earnings per basic common share	$1.28	$0.80	$ 0.48	60.0 %
Earnings per diluted common share	$1.24	$0.80	$ 0.44	55.0 %
Operating margin	47.6 %	43.4 %		

Operating Revenues

Our revenues are grouped by the following types: recurring subscriptions, asset-based fees and non-recurring. We also group revenues by major product or reportable segment as follows: Index, Analytics and All Other, which includes the ESG and Real Estate product lines.

The following table presents operating revenues by type for the periods indicated:

	Three Months Ended March 31,			
	2018	2017	Increase/(Decrease)	
	(in thousands)			
Recurring subscriptions	$260,815	$238,099	$ 22,716	9.5 %
Asset-based fees	85,483	57,508	27,975	48.6 %
Non-recurring	5,018	5,600	(582)	(10.4 %)
Total operating revenues	$351,316	$301,207	$ 50,109	16.6 %

Total operating revenues grew 16.6% to $351.3 million for the three months ended March 31, 2018 compared to $301.2 million for the three months ended March 31, 2017. Adjusting for the impact of foreign exchange rate fluctuations, total operating revenues would have increased 16.0% for the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

Revenues from recurring subscriptions increased 9.5% to $260.8 million for the three months ended March 31, 2018 compared to $238.1 million for the three months ended March 31, 2017, primarily driven by growth in Index products, which increased $11.0 million, or 10.8%, and growth in Analytics products, which increased $7.0 million, or 6.3%. Adjusting for the impact of foreign currency exchange rate fluctuations, revenues from recurring subscriptions would have increased 8.8%.

Revenues from asset-based fees increased 48.6% to $85.5 million for the three months ended March 31, 2018 compared to $57.5 million for the three months ended March 31, 2017. The increase in asset-based fees was driven by strong growth across all types of index-linked investment products, including an $18.9 million, or 47.0%, increase in revenue from ETFs linked to MSCI indexes, which was driven by a 48.7% increase in average AUM, partially offset by the impact of a change in product mix. In addition, revenue from non-ETF passive products grew $7.4 million, or 50.1%, driven by higher AUM and an increased contribution from higher fee products. Revenues from exchange traded futures and options contracts based on MSCI indexes grew $1.7 million, or 66.5%, driven by a strong increase in total trading volumes and a more favorable product mix.

The following table presents the value of AUM in ETFs linked to MSCI indexes and the sequential change of such assets as of the end of each of the periods indicated:

	Period Ended[1]				
	2017				2018
	March	June	September	December	March
(in billions)	31,	30,	30,	31,	31,
AUM in ETFs linked to MSCI indexes[2], [3]	$555.7	$624.3	$ 674.3	$ 744.3	$764.9
Sequential Change in Value					
Market Appreciation/(Depreciation)	$35.8	$23.6	$ 32.2	$ 32.0	$(11.7)
Cash Inflows	38.5	45.0	17.8	38.0	32.3
Total Change	$74.3	$68.6	$ 50.0	$ 70.0	$20.6

Source: Bloomberg and MSCI

[1] The historical values of the AUM in ETFs linked to our indexes as of the last day of the month and the monthly average balance can be found under the link "AUM in ETFs Linked to MSCI Indexes" on our Investor Relations homepage at http://ir.msci.com. This information is updated on or about the second U.S. business day of each month. Information contained on our website is not incorporated by reference into this Quarterly Report on Form 10-Q or any other report filed with the SEC.

[2] The value of AUM in ETFs linked to MSCI indexes is calculated by multiplying the ETF net asset value by the number of shares outstanding.

[3] The AUM in ETFs numbers also include AUM in Exchange Traded Notes, the value of which is less than 1.0% of the AUM amounts presented.

The following table presents the average value of AUM in ETFs linked to MSCI indexes for the periods indicated:

	Quarterly Average				
	2017				2018
(in billions)	March	June	September	December	March
AUM in ETFs linked to MSCI indexes	$524.1	$595.0	$ 654.4	$ 712.3	$779.5

For the three months ended March 31, 2018, the average value of AUM in ETFs linked to MSCI equity indexes was $779.5 billion, up $255.4 billion, or 48.7%, from $524.1 billion for the three months ended March 31, 2017.

Non-recurring revenues decreased 10.4% to $5.0 million for the three months ended March 31, 2018, compared to $5.6 million for the three months ended March 31, 2017.

The following table presents operating revenues by reportable segment and revenue type for the periods indicated:

	Three Months Ended March 31,			
	2018	2017	Increase/(Decrease)	
	(in thousands)			
Operating revenues:				
Index				
Recurring subscriptions	$113,205	$102,178	$ 11,027	10.8 %
Asset-based fees	85,483	57,508	27,975	48.6 %
Non-recurring	3,226	3,749	(523)	(14.0 %)
Index total	201,913	163,435	38,478	23.5 %
Analytics				
Recurring subscriptions	118,244	111,269	6,975	6.3 %
Non-recurring	744	1,151	(407)	(35.4 %)
Analytics total	118,987	112,420	6,567	5.8 %
All Other				
Recurring subscriptions	29,367	24,652	4,715	19.1 %
Non-recurring	1,048	700	348	49.7 %
All Other total	30,415	25,352	5,063	20.0 %
Total operating revenues	$351,316	$301,207	$ 50,109	16.6 %

Refer to the section titled "Segment Results" that follows for further discussion of segment revenues.

Operating Expenses

We group our operating expenses into the following activity categories:

- Cost of revenues;
- Selling and marketing;
- Research and development (“R&D”);
- General and administrative (“G&A”);
- Amortization of intangible assets; and
- Depreciation and amortization of property, equipment and leasehold improvements.

Costs are assigned to these activity categories based on the nature of the expense or, when not directly attributable, an estimated allocation based on the type of effort involved.

The following table presents operating expenses by activity category for the periods indicated:

Three Months Ended

	March 31,			
	2018	2017	Increase/(Decrease)	
	(in thousands)			
Operating expenses:				
Cost of revenues	$71,304	$67,463	$ 3,841	5.7 %
Selling and marketing	46,409	42,972	3,437	8.0 %
Research and development	20,707	18,970	1,737	9.2 %
General and administrative	26,187	20,981	5,206	24.8 %
Amortization of intangible assets	11,338	11,251	87	0.8 %
Depreciation and amortization of property, equipment and leasehold improvements	8,205	8,838	(633)	(7.2 %)
Total operating expenses	$184,150	$170,475	$ 13,675	8.0 %

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Total operating expenses increased 8.0% to $184.2 million for the three months ended March 31, 2018 compared to $170.5 million for the three months ended March 31, 2017. Adjusting for the impact of foreign currency exchange rate fluctuations, total operating expenses would have increased 4.7% for the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

Cost of Revenues

Cost of revenues consists of costs related to the production and servicing of our products and services and primarily includes related information technology costs, including data center, platform and infrastructure costs; costs to acquire, produce and maintain market data information; costs of research to support and maintain existing products; costs of product management teams; costs of client service and consultant teams to support customer needs; as well as other support costs directly attributable to the cost of revenues including certain human resources, finance and legal costs. Cost of revenues increased 5.7% to $71.3 million for the three months ended March 31, 2018 compared to $67.5 million for the three months ended March 31, 2017, primarily reflecting increases across the Index and the All Other reporting segments. The change was driven by increases in compensation and benefit costs, primarily relating to wages and salaries, incentive compensation and benefits, as well as higher non-compensation market data costs, information technology costs and occupancy costs, partially offset by lower professional fees and marketing costs.

Selling and Marketing

Selling and marketing expenses consist of costs associated with acquiring new clients or selling new products or product renewals to existing clients and primarily includes the costs of our sales force and marketing teams, as well as costs incurred in other groups associated with acquiring new business, including product management, research, technology and sales operations. Selling and marketing expenses increased 8.0% to $46.4 million for the three months ended March 31, 2018 compared to $43.0 million for the three months ended March 31, 2017, primarily reflecting increases across the Index and the All Other reporting segments. The change was driven by an increase in compensation and benefits costs, primarily relating to an increase in wages and salaries, incentive compensation and benefits, partially offset by a decrease in severance, as well as higher non-compensation costs including travel and entertainment costs, other expenses and occupancy costs, partially offset by lower professional fees.

Research and Development

R&D expenses consist of the costs to develop new or enhance existing products and the costs to develop new or improved technology and service platforms for the delivery of our products and services and primarily includes the costs of development, research, product management, project management and the technology support associated with these efforts. R&D expenses increased 9.2% to $20.7 million for the three months ended March 31, 2018 compared to $19.0 million for the three months ended March 31, 2017. The increase was driven by higher compensation and benefit costs, primarily reflecting higher investments in the Index segment and Analytics segment.

General and Administrative

G&A expenses consist of costs primarily related to finance operations, human resources, office of the CEO, legal, corporate technology, corporate development and certain other administrative costs that are not directly attributed, but are instead allocated, to a product or service. G&A expenses increased 24.8% to $26.2 million for the three months ended March 31, 2018 compared to $21.0 million for the three months ended March 31, 2017, reflecting increases across all three reporting segments. The change was driven by an increase in compensation and benefits costs, primarily relating to an increase in incentive compensation, benefits and wages and salaries, as well as higher non-compensation costs relating to other taxes and professional and miscellaneous fees.

The following table presents operating expenses using compensation and non-compensation categories, rather than using activity categories, for the periods indicated:

	Three Months Ended March 31,		Increase/(Decrease)	
	2018	2017		
	(in thousands)			
Compensation and benefits	$118,497	$108,971	$ 9,526	8.7 %
Non-compensation expenses	46,110	41,415	4,695	11.3 %
Amortization of intangible assets	11,338	11,251	87	0.8 %
Depreciation and amortization of property, equipment and leasehold improvements	8,205	8,838	(633)	(7.2 %)
Total operating expenses	$184,150	$170,475	$ 13,675	8.0 %

Compensation and benefits costs are our most significant expense and typically represent more than 60% of operating expenses or more than 70% of Adjusted EBITDA expenses. We had 3,059 and 2,897 employees as of March 31, 2018 and 2017, respectively, reflecting a 5.6% growth in the number of employees. Continued growth of our emerging market centers around the world is an important factor in our ability to manage and control the growth of our compensation and benefit expenses. As of March 31, 2018, 59.5% of our employees were located in emerging market centers compared to 56.5% as of March 31, 2017.

Compensation and benefits expenses increased 8.7% to $118.5 million for the three months ended March 31, 2018 compared to $109.0 million for the three months ended March 31, 2017 primarily driven by an increase in incentive compensation, wages and salaries and benefits, partially offset by a decrease in severance.

Non-compensation expenses increased 11.3% to $46.1 million for the three months ended March 31, 2018 compared to $41.4 million for the three months ended March 31, 2017, primarily driven by higher costs relating to other taxes, occupancy, market data, miscellaneous fees, information technology and travel and entertainment.

Amortization of Intangible Assets

Amortization of intangible assets expense for the three months ended March 31, 2018 of $11.3 million was flat overall compared to the three months ended March 31, 2017. The three months ended March 31, 2018 reflects $1.4 million of higher amortization of internal capitalized software projects, largely offset by $1.3 million of lower amortization of acquired intangibles as a result of certain assets becoming fully amortized.

Depreciation and Amortization of Property, Equipment and Leasehold Improvements

Depreciation and amortization of property, equipment and leasehold improvements decreased 7.2% to $8.2 million for the three months ended March 31, 2018 compared to $8.8 million for the three months ended March 31, 2017. The decrease was primarily the result of certain data center assets becoming fully depreciated.

Other Expense (Income), Net

Other expense (income), net decreased 4.7% to $27.7 million for the three months ended March 31, 2018 compared to $29.1 million for the three months ended March 31, 2017. The decrease was primarily driven by higher interest income of $2.8 million associated with higher yields on higher cash balances.

Income Taxes

The provision for income tax expense decreased 15.1% to $24.3 million for the three months ended March 31, 2018 compared to $28.7 million for the three months ended March 31, 2017 on higher income before provision for income taxes, offset by a decline in the effective tax rate. These amounts reflect effective tax rates of 17.5% and 28.2% for the three months ended March 31, 2018 and 2017, respectively. The decrease in the effective tax rate was primarily driven by the impact of Tax Reform and the impact of certain discrete items.

The effective tax rate of 17.5% for the three months ended March 31, 2018 reflects the estimate of the effective tax rate for the period and was impacted by certain discrete items totaling $7.9 million that decreased the Company's effective tax rate by 5.7 percentage points. For the three months ended March 31, 2018, the discrete items include $7.5 million of excess tax benefits related to share-based compensation and a $1.6 million net adjustment benefit relating to the adjustment resulting from the Company's provisional accounting for the effects of Tax Reform.

Net Income

As a result of the factors described above, net income for the three months ended March 31, 2018 increased 57.8% to $115.1 million compared to $73.0 million for the three months ended March 31, 2017.

Weighted Average Shares

The weighted average shares outstanding used to calculate basic earnings per share for the three months ended March 31, 2018 decreased by 0.7% compared to the three months ended March 31, 2017. The decrease primarily reflects the impact of share repurchases made pursuant to the 2016 Repurchase Program.

The weighted average shares outstanding used to calculate diluted earnings per share for the three months ended March 31, 2018 increased by 1.1% compared to the three months ended March 31, 2017. The increase primarily reflects the higher dilution caused by restricted stock units for which the ultimate payout is tied to the achievement of multi-year total shareholder return targets, partially offset by the impact of share repurchases made pursuant to the 2016 Repurchase Program.

Adjusted EBITDA

"Adjusted EBITDA," a measure used by management to assess operating performance, is defined as net income before provision for income taxes, other expense (income), net, depreciation and amortization of property, equipment and leasehold improvements, amortization of intangible assets and, at times, certain other transactions or adjustments.

"Adjusted EBITDA expenses," another measure used by management to assess operating performance, is defined as operating expenses less depreciation and amortization of property, equipment and leasehold improvements and amortization of intangible assets.

Adjusted EBITDA and Adjusted EBITDA expenses are believed to be meaningful measures of the operating performance of the Company because they adjust for significant one-time, unusual or non-recurring items as well as eliminate the accounting effects of capital spending and acquisitions that do not directly affect what management considers to be the Company's core operating performance in the period. All companies do not calculate adjusted EBITDA and adjusted EBITDA expenses in the same way. These measures can differ significantly from company to company depending on, among other things, long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. Accordingly, the Company's computation of the Adjusted EBITDA and Adjusted EBITDA expenses measures may not be comparable to similarly titled measures computed by other companies.

The following table presents the calculation of Adjusted EBITDA for the periods indicated:

	Three Months Ended March 31,			
	2018	2017	Increase/(Decrease)	
	(in thousands)			
Operating revenues	$351,316	$301,207	$ 50,109	16.6 %
Adjusted EBITDA expenses	164,607	150,386	14,221	9.5 %
Adjusted EBITDA	$186,708	$150,821	$ 35,887	23.8 %
Adjusted EBITDA margin %	53.1 %	50.1 %		
Operating margin %	47.6 %	43.4 %		

Adjusted EBITDA increased 23.8% to $186.7 million for the three months ended March 31, 2018 compared to $150.8 million for the three months ended March 31, 2017. Adjusted EBITDA margin increased to 53.1% for the three months ended March 31, 2018 compared to 50.1% for the three months ended March 31, 2017. The improvement in margin reflects a higher rate of growth in operating revenues, primarily attributable to strong operating results within the Index segment, as compared to the rate of growth of Adjusted EBITDA expenses.

As a result of the adoption of ASU 2017-07, the Company has restated its Adjusted EBITDA by reclassing $0.1 million of non-service related pension costs out of Adjusted EBITDA expenses for the three months ended March 31, 2017.

Reconciliation of Adjusted EBITDA to Net Income and Adjusted EBITDA Expenses to Operating Expenses

The following table presents the reconciliation of Adjusted EBITDA to net income for the periods indicated:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Index Adjusted EBITDA	$145,929	$115,677
Analytics Adjusted EBITDA	33,593	29,600
All Other Adjusted EBITDA	7,187	5,544
Consolidated Adjusted EBITDA	186,708	150,821
Amortization of intangible assets	11,338	11,251
Depreciation and amortization of property, equipment and leasehold improvements	8,205	8,838
Operating income	167,166	130,732
Other expense (income), net	27,728	29,107
Provision for income taxes	24,346	28,674
Net income	$115,092	$72,951

The following table presents the reconciliation of Adjusted EBITDA expenses to operating expenses for the periods indicated:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Index Adjusted EBITDA expenses	$55,984	$47,758
Analytics Adjusted EBITDA expenses	85,395	82,820
All Other Adjusted EBITDA expenses	23,228	19,808
Consolidated Adjusted EBITDA expenses	164,607	150,386
Amortization of intangible assets	11,338	11,251
Depreciation and amortization of property, equipment and leasehold improvements	8,205	8,838
Total operating expenses	$184,150	$170,475

The discussion of the segment results for the three months ended March 31, 2018 and 2017 is presented below.

Segment Results

Index Segment

The following table presents the results for the Index segment for the periods indicated:

	Three Months Ended March 31,			
	2018	2017	Increase/(Decrease)	
	(in thousands)			
Operating revenues:				
Recurring subscriptions	$113,205	$102,178	$ 11,027	10.8 %
Asset-based fees	85,483	57,508	27,975	48.6 %
Non-recurring	3,226	3,749	(523)	(14.0 %)
Operating revenues total	201,913	163,435	38,478	23.5 %
Adjusted EBITDA expenses	55,984	47,758	8,226	17.2 %
Adjusted EBITDA	$145,929	$115,677	$ 30,252	26.2 %
Adjusted EBITDA margin %	72.3 %	70.8 %		

Revenues related to Index products increased 23.5% to $201.9 million for the three months ended March 31, 2018 compared to $163.4 million for the three months ended March 31, 2017.

Recurring subscriptions were up 10.8% to $113.2 million for the three months ended March 31, 2018 compared to $102.2 million for the three months ended March 31, 2017. The increase was driven by growth in core products and strong growth in factor and ESG indexes and custom and specialized index products.

Revenues from asset-based fees increased 48.6% to $85.5 million for the three months ended March 31, 2018 compared to $57.5 million for the three months ended March 31, 2017. The increase in asset-based fees was driven by strong growth across all types of index-linked investment products, including an $18.9 million, or 47.0%, increase in revenue from ETFs linked to MSCI indexes, which was driven by a 48.7% increase in average AUM, partially offset by the impact of a change in product mix. In addition, revenue from non-ETF passive products grew $7.4 million, or 50.1%, driven by higher AUM and an increased contribution from higher fee products. Revenues from exchange traded futures and options contracts based on MSCI indexes grew $1.7 million, or 66.5%, driven by a strong increase in total trading volumes and a more favorable product mix.

Non-recurring revenues were $3.2 million and $3.7 million for the three months ended March 31, 2018 and 2017, respectively.

Index segment Adjusted EBITDA expenses increased 17.2% to $56.0 million for the three months ended March 31, 2018 compared to $47.8 million for the three months ended March 31, 2017, reflecting higher expenses across all expense activity categories. Adjusting for the impact of foreign currency exchange rate fluctuations, Adjusted EBITDA expenses would have increased 13.3% for the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

Analytics Segment

The following table presents the results for the Analytics segment for the periods indicated:

	Three Months Ended March 31,			
	2018	2017	Increase/(Decrease)	
	(in thousands)			
Operating revenues:				
Recurring subscriptions	$118,244	$111,269	$ 6,975	6.3 %
Non-recurring	744	1,151	(407)	(35.4 %)
Operating revenues total	118,987	112,420	6,567	5.8 %
Adjusted EBITDA expenses	85,395	82,820	2,575	3.1 %
Adjusted EBITDA	$33,593	$29,600	$ 3,993	13.5 %
Adjusted EBITDA margin %	28.2 %	26.3 %		

Analytics segment revenues increased 5.8% to $119.0 million for the three months ended March 31, 2018 compared to $112.4 million for the three months ended March 31, 2017, primarily driven by growth in both Equity and Multi-Asset Class Analytics products. Adjusting for foreign currency exchange rate fluctuations, Analytics segment revenues would have increased 5.6% for the three months ended March 31, 2018.

Analytics segment Adjusted EBITDA expenses increased 3.1% to $85.4 million for the three months ended March 31, 2018 compared to $82.9 million for the three months ended March 31, 2017, primarily driven by higher general and

administrative expenses and research and development expenses. Adjusting for the impact of foreign currency exchange rate fluctuations, Adjusted EBITDA expenses would have increased 0.1% for the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

We completed the divestiture of FEA on April 9, 2018, and, as a result, the operating results of FEA will no longer be included in the Analytics financial statements after that date. The FEA Run Rate was approximately $8.0 million as of March 31, 2018.

All Other Segment

The following table presents the results for the All Other segment for the periods indicated:

	Three Months Ended March 31,			
	2018	2017	Increase/(Decrease)	
	(in thousands)			
Operating revenues:				
Recurring subscriptions	$29,367	$24,652	$ 4,715	19.1 %
Non-recurring	1,048	700	348	49.7 %
Operating revenues total	30,415	25,352	5,063	20.0 %
Adjusted EBITDA expenses	23,228	19,808	3,420	17.3 %
Adjusted EBITDA	$7,187	$5,544	$ 1,643	29.6 %
Adjusted EBITDA margin %	23.6 %	21.9 %		

All Other segment revenues increased 20.0% to $30.4 million for the three months ended March 31, 2018 compared to $25.4 million for the three months ended March 31, 2017. The increase in All Other revenues was driven by a $3.9 million, or 31.0%, increase in ESG revenues to $16.5 million, and a $1.2 million, or 9.1% increase in Real Estate revenues to $14.0 million. The increase in ESG revenues was driven by strong growth in ESG Ratings product revenues, which benefited from increased investments. Adjusting for the impact of foreign currency exchange rate fluctuations, ESG revenues would have increased 30.7% and All Other operating revenues would have increased 14.8% while Real Estate revenues would have decreased 0.9% for the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

All Other segment Adjusted EBITDA expenses increased 17.3% to $23.2 million for the three months ended March 31, 2018 compared to $19.8 million for the three months ended March 31, 2017, primarily driven by higher expenses attributable to both ESG and Real Estate operations. Adjusting for the impact of foreign currency exchange rate fluctuations, Adjusted EBITDA expenses would have increased 11.9% for the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

Run Rate

“Run Rate” estimates at a particular point in time the annualized value of the recurring revenues under our client license agreements (“Client Contracts”) for the next 12 months, assuming all Client Contracts that come up for renewal are renewed and assuming then-current currency exchange rates, subject to the adjustments and exclusions described below. For any Client Contract where fees are linked to an investment product’s assets or trading volume, the Run Rate calculation reflects, for ETFs, the market value on the last trading day of the period, for futures and options, the most recent quarterly volumes, and for other non-ETF products, the most recent client-reported assets. Run Rate does not include fees associated with “one-time” and other non-recurring transactions. In addition, we add to Run Rate the annualized fee value of recurring new sales, whether to existing or new clients, when we execute Client Contracts, even though the license start date, and associated revenue recognition, may not be effective until a later date. We remove from Run Rate the annualized fee value associated with products or services under any Client Contract with respect to which we have received a notice of termination or non-renewal during the period and have determined that such notice evidences the client’s final decision to terminate or not renew the applicable products or services, even

though such notice is not effective until a later date.

Changes in our recurring revenues typically lag changes in Run Rate. The actual amount of recurring revenues we will realize over the following 12 months will differ from Run Rate for numerous reasons, including:

- fluctuations in revenues associated with new recurring sales;
- modifications, cancellations and non-renewals of existing Client Contracts, subject to specified notice requirements;
- differences between the recurring license start date and the date the Client Contract is executed due to, for example, contracts with onboarding periods;
- fluctuations in asset-based fees, which may result from changes in certain investment products' total expense ratios, market movements, including foreign currency exchange rates, or from investment inflows into and outflows from investment products linked to our indexes;
- fluctuations in fees based on trading volumes of futures and options contracts linked to our indexes;
- fluctuations in the number of hedge funds for which we provide investment information and risk analysis to hedge fund investors;