MSCI Inc.
Form 10-Q
May 03, 2019

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, 2019

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

New York, New York
(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 every Interactive Data File required to be submitted 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 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	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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	MSCI	New York Stock Exchange

As of April 26, 2019, there were 84,678,661 shares of the registrant's common stock, par value $0.01, outstanding.

MSCI INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2019

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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”). 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 & 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) 981-1074. 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 contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to future events or to future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our 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 statements. In some cases, you can identify forward-looking statements by the use of words such as “may,” “could,” “expect,” “intend,” “plan,” “seek,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or 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 our control and that could materially affect our 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 the 2018 Annual Report on Form 10-K filed with the SEC on February 22, 2019 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 projected. Any forward-looking statement in this report reflects MSCI’s current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to MSCI's operations, results of operations, growth strategy and liquidity. MSCI 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, blog, podcasts and social media channels, including its 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, blog, podcasts 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, 2019 (unaudited)	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 642,781	$ 904,176
Accounts receivable (net of allowances of $707 and $1,027 at March 31, 2019 and December 31, 2018, respectively)	427,099	473,433
Prepaid income taxes	72,505	19,273
Prepaid and other assets	35,541	38,207
Total current assets	1,177,926	1,435,089
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $189,603 and $185,505 at March 31, 2019 and December 31, 2018, respectively)	86,087	90,877
Right of use assets	170,573	—
Goodwill	1,546,961	1,545,761
Intangible assets (net of accumulated amortization of $554,183 and $541,967 at March 31, 2019 and December 31, 2018, respectively)	274,576	280,803
Deferred tax assets	20,211	14,903
Other non-current assets	19,231	20,519
Total assets	$ 3,295,565	$ 3,387,952
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,099	$ 3,892
Income taxes payable	10,422	16,253
Accrued compensation and related benefits	55,884	137,045
Other accrued liabilities	127,406	113,841
Deferred revenue	524,988	537,977
Total current liabilities	720,799	809,008
Long-term debt	2,576,388	2,575,502
Long-term operating lease liabilities	168,487	—
Deferred tax liabilities	79,598	82,008

Other non-current liabilities	66,801	87,928
Total liabilities	3,612,073	3,554,446
Commitments and Contingencies (see Note 7 and Note 9)		
Shareholders' equity (deficit):		
Preferred stock (par value $0.01, 100,000,000 shares authorized; no shares issued)	—	—
Common stock (par value $0.01; 750,000,000 common shares authorized; 132,265,024 and 130,029,926 common shares issued and 84,675,001 and 84,174,138 common shares outstanding at March 31, 2019 and December 31, 2018, respectively)	1,323	1,300
Treasury shares, at cost (47,590,023 and 45,855,788 common shares held at March 31, 2019 and December 31, 2018, respectively)	(3,557,270)	(3,272,774)
Additional paid in capital	1,316,837	1,306,428
Retained earnings	1,979,804	1,856,951
Accumulated other comprehensive loss	(57,202)	(58,399)
Total shareholders' equity (deficit)	(316,508)	(166,494)
Total liabilities and shareholders' equity (deficit)	$3,295,565	$3,387,952

See Notes to Unaudited Condensed Consolidated Financial Statements

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MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Three Months Ended March 31,	
	2019	2018
	(unaudited)	
Operating revenues	$371,381	$351,316
Operating expenses:		
Cost of revenues	82,346	71,304
Selling and marketing	56,048	46,409
Research and development	23,172	20,707
General and administrative	27,497	26,187
Amortization of intangible assets	11,793	11,338
Depreciation and amortization of property, equipment and leasehold improvements	7,850	8,205
Total operating expenses	208,706	184,150
Operating income	162,675	167,166
Interest income	(4,086)	(2,770)
Interest expense	35,915	29,560
Other expense (income)	2,554	938
Other expense (income), net	34,383	27,728
Income before provision for income taxes	128,292	139,438
Provision for income taxes	(49,900)	24,346
Net income	$178,192	$115,092
Earnings per basic common share	$2.11	$1.28
Earnings per diluted common share	$2.08	$1.24
Weighted average shares outstanding used in computing earnings per share		
Basic	84,253	90,075
Diluted	85,649	92,587

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,	
	2019	2018
	(unaudited)	
Net income	$178,192	$115,092
Other comprehensive (loss) income:		
Foreign currency translation adjustments	1,533	3,962
Income tax effect	(347)	—
Foreign currency translation adjustments, net	1,186	3,962
Pension and other post-retirement adjustments	20	(100)
Income tax effect	(9)	27
Pension and other post-retirement adjustments, net	11	(73)
Net investment hedge adjustments	—	123
Income tax effect	—	—
Net investment hedge adjustments, net	—	123
Other comprehensive (loss) income, net of tax	1,197	4,012
Comprehensive income	$179,389	$119,104

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

(in thousands)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	(unaudited)					
Balance at December 31, 2018	$1,300	$(3,272,774)	$1,306,428	$1,856,951	$ (58,399)	$(166,494)
Net income				178,192		178,192
Dividends declared ($0.58 per common share)				(55,339)		(55,339)
Dividends paid in shares			93			93
Other comprehensive income (loss), net of tax					1,197	1,197
Common stock issued	23					23
Shares withheld for tax withholding and exercises		(182,385)				(182,385)
Compensation payable in common stock and options			9,590			9,590
Common stock repurchased and held in treasury		(102,081)				(102,081)
Common stock issued to directors and held in treasury		(30)				(30)
Exercise of stock options			726			726
Balance at March 31, 2019	$1,323	$(3,557,270)	$1,316,837	$1,979,804	$ (57,202)	$(316,508)
Balance at December 31, 2017	$1,295	$(2,321,989)	$1,264,849	$1,505,204	$ (48,347)	$401,012
Net income				115,092		115,092
ASC 606 Retained Earnings Adjustment				16,135		16,135
Dividends declared ($0.38 per common share)				(34,848)		(34,848)
Dividends paid in shares			35			35
Other comprehensive income (loss), net of tax					4,012	4,012
Common stock issued	5					5
Shares withheld for tax withholding and exercises		(22,932)				(22,932)
Compensation payable in common stock and options			11,123			11,123
		(68,345)				(68,345)

Common stock repurchased and held in treasury						
Common stock issued to directors and held in treasury		(17)				(17)
Exercise of stock options			102			102
Balance at March 31, 2018	$1,300	$(2,413,283)	$1,276,109	$1,601,583	$ (44,335)	$421,374

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31,	
	2019	2018
	(unaudited)	
Cash flows from operating activities		
Net income	$178,192	$115,092
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	11,793	11,338
Stock-based compensation expense	9,541	9,053
Depreciation and amortization of property, equipment and leasehold improvements	7,850	8,205
Amortization of right of use assets	5,583	—
Amortization of debt origination fees	986	849
Deferred taxes	(8,397)	(1,097)
Other non-cash adjustments	(200)	321
Changes in assets and liabilities:		
Accounts receivable	46,805	(134,801)
Prepaid income taxes	(53,613)	13,626
Prepaid and other assets	406	192
Accounts payable	(1,793)	(230)
Accrued compensation and related benefits	(81,170)	(84,517)
Income taxes payable	(5,843)	3,001
Other accrued liabilities	(7,107)	(1,516)
Deferred revenue	(13,352)	148,468
Other	(1,806)	613
Net cash provided by operating activities	87,875	88,597
Cash flows from investing activities		
Capital expenditures	(3,156)	(1,512)
Capitalized software development costs	(4,990)	(4,360)
Proceeds from the sale of capital equipment	10	—
Net cash used in investing activities	(8,136)	(5,872)
Cash flows from financing activities		
Proceeds from exercise of stock options	726	102
Repurchase of treasury shares	(284,466)	(91,277)
Payment of dividends	(57,895)	(34,883)
Net cash used in financing activities	(341,635)	(126,058)
Effect of exchange rate changes	501	3,659
Net decrease in cash	(261,395)	(39,674)

Cash and cash equivalent, beginning of period	904,176	889,502
Cash and cash equivalent, end of period	$642,781	$849,828
Supplemental disclosure of cash flow information:		
Cash paid for interest	$35,148	$35,121
Cash paid for income taxes	$17,312	$8,602
Supplemental disclosure of non-cash investing activities		
Property, equipment and leasehold improvements accrued, but not yet paid	$2,848	$3,101
Supplemental disclosure of non-cash financing activities		
Cash dividends declared, but not yet paid	$237	$337

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 critical investment decision support tools and services for the global investment community. MSCI is dynamic and flexible in the delivery of content and capabilities, such as indexes; portfolio construction tools and risk management services; environmental, social and governance (“ESG”) research and ratings; and real estate benchmarks, return analytics services and market insights; much of which can be accessed by clients through multiple channels and platforms.

Basis of Presentation and Use of Estimates

These unaudited condensed consolidated financial statements include the accounts of MSCI and its subsidiaries and include all adjustments of a normal, recurring nature necessary to state fairly the financial condition as of March 31, 2019 and December 31, 2018, the results of operations, comprehensive income and shareholders’ equity (deficit) for the three months ended March 31, 2019 and 2018 and cash flows for the three months ended March 31, 2019 and 2018. The unaudited condensed consolidated statement of financial condition and related financial statement information as of December 31, 2018 have been derived from the 2018 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, 2018. 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, incremental borrowing rates 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.

Concentrations

For the three months ended March 31, 2019 and 2018, BlackRock, Inc. accounted for 11.6% and 12.9% of the Company’s consolidated operating revenues, respectively. For the three months ended March 31, 2019 and 2018, BlackRock, Inc. accounted for 19.3% and 22.1% of the Index segment operating revenues, respectively. No single customer represented 10.0% or more of operating revenues within the Analytics and All Other segments for the three months ended March 31, 2019 and 2018.

2. RECENT ACCOUNTING STANDARDS UPDATES

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.

In July 2018, the FASB issued Accounting Standards Update No. 2018-10, “Codification Improvements to Topic 842, Leases,” or ASU 2018-10, and Accounting Standards Update No. 2018-11, “Targeted Improvements,” or ASU 2018-11. The amendments in ASU 2018-10 include how an entity should perform the lease classification reassessment, a clarification that a change in a reference index or rate upon which some or all of the variable lease payments in the contract are based does not constitute the resolution of a contingency and a clarification as to whether to recognize a transition adjustment in earnings rather than through equity when an entity initially applies Topic 842 retrospectively to each prior reporting period. The amendments in ASU 2018-11 provide an optional transition method that permits an entity to initially apply the new guidance at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption and not recast comparative periods. As a result, prior period financial statements and disclosures will continue to be presented in accordance with ASC Topic 840. In addition, ASU 2018-11 also includes a practical expedient for lessors to not separate the lease and non-lease components of a contract. The effective date for this amendment is the same as ASU 2016-02 discussed above.

The Company adopted ASU 2016-02 effective January 1, 2019 using the optional transition method available under ASU 2018-11. In preparation for adoption of the guidance, the Company implemented internal controls and processes to enable the preparation of financial information. MSCI elected to apply the transition package of practical expedients permitted within the new guidance which, among other things, allowed the Company to carry forward the historical lease classification. In addition, MSCI elected the hindsight practical expedient to determine the reasonably certain lease term for existing leases. The Company made an election to apply the exemption allowed under ASU 2016-02 for leases with an initial term of 12 months or less to not be recorded in the Condensed Consolidated Statement of Financial Condition and to only recognize the related amounts in the Condensed Consolidated Statement of Income on a straight-line basis over the lease term. See Note 8, "Leases" of the Notes to the Unaudited Condensed Consolidated Financial Statements included herein for further information regarding leases.

In August 2018, the FASB issued Accounting Standards Update No. 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract," or ASU 2018-15, to help entities evaluate the accounting for costs of implementation activities incurred in a cloud computing arrangement that is a service contract. ASU 2018-15 aligns the requirements for deferring implementation costs incurred in a cloud computing arrangement that is a service contract with those incurred to develop or obtain internal-use software. ASU 2018-15 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2019, with early adoption permitted. The Company early-adopted ASU 2018-15 under the prospective transition method effective January 1, 2019. The adoption of ASU 2018-15 did not have a material effect on the Company's condensed consolidated financial statements.

3. REVENUE RECOGNITION

MSCI's revenues are characterized by type, which broadly reflects the nature of how they are recognized or earned. The Company's revenue types are recurring subscription, asset-based fees and non-recurring revenues. The Company also groups its revenues by segment.

The tables that follow present the disaggregated revenues for the periods indicated (in thousands):

	For the Three Months ended March 31, 2019			
	Segments			
	Index	Analytics	All Other	Total
Product Types				
Recurring subscriptions	$127,674	$120,110	$34,580	$282,364
Asset-based fees	81,808	—	—	81,808
Non-recurring	5,291	1,325	593	7,209
Total	$214,773	$121,435	$35,173	$371,381

	For the Three Months ended March 31, 2018		
	Segments		
	Index	Analytics	Total

			All Other	
Product Types				
Recurring subscriptions	$113,205	$118,244	$29,367	$260,816
Asset-based fees	85,483	—	—	85,483
Non-recurring	3,226	743	1,048	5,017
Total	$201,914	$118,987	$30,415	$351,316

	Accounts receivable	Deferred revenue
Opening (12/31/2018)	$473,433	$537,977
Closing (03/31/2019)	427,099	524,988
Increase/(decrease)	$(46,334)	$(12,989)

The amount of revenue recognized in the period that was included in the opening current deferred revenue, which reflects contract liability amounts, was $168.6 million. The difference between the opening and closing balances of the Company's deferred revenue was primarily driven by an increase in the amortization of deferred revenue to operating revenues, partially offset by an increase in billings. MSCI had an insignificant long-term deferred revenue balance as of March 31, 2019 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 and the periods in which they are expected to be recognized are as follows:

	As of March 31, 2019 (in thousands)
First 12-month period	$ 293,968
Second 12-month period	173,545
Third 12-month period	63,478
Periods thereafter	36,860
Total	$ 567,851

4. EARNINGS PER COMMON SHARE

Basic earnings per share ("EPS") is computed by dividing net income 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,	
	2019	2018
(in thousands, except per share data)		
Net income	$178,192	$115,092
Basic weighted average common shares outstanding	84,253	90,075
Effect of dilutive securities:		
Stock options and restricted stock units	1,396	2,512
Diluted weighted average common shares outstanding	85,649	92,587
Earnings per basic common share	$2.11	$1.28
Earnings per diluted common share	$2.08	$1.24

5. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements consisted of the following as of the specified dates:

	As of March 31, 2019	December 31, 2018
	(in thousands)	
Computer & related equipment	$203,145	$ 200,414
Furniture & fixtures	11,689	12,033
Leasehold improvements	52,418	53,429
Work-in-process	8,438	10,506
Subtotal	275,690	276,382
Accumulated depreciation and amortization	(189,603)	(185,505)
Property, equipment and leasehold improvements, net	$86,087	$ 90,877

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Depreciation and amortization expense of property, equipment and leasehold improvements was $7.9 million and $8.2 million for the three months ended March 31, 2019 and 2018, respectively.

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table presents goodwill by reportable segment:

(in thousands)	Index	Analytics	All Other	Total
Goodwill at December 31, 2018	$1,203,404	$290,976	$51,381	$1,545,761
Foreign exchange translation adjustment	743	—	457	1,200
Goodwill at March 31, 2019	$1,204,147	$290,976	$51,838	$1,546,961

Intangible Assets

Amortization expense related to intangible assets for both the three months ended March 31, 2019 and 2018 was $11.8 million and $11.3 million, respectively. The amortization expense of acquired intangible assets for both the three months ended March 31, 2019 and 2018 was $8.7 million and $9.2 million, respectively. The amortization expense of internally developed capitalized software for both the three months ended March 31, 2019 and 2018 was $3.1 million and $2.1 million, respectively.

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

	As of March 31, 2019	December 31, 2018
	(in thousands)	
Gross intangible assets:		
Customer relationships	$356,699	$ 356,700
Trademarks/trade names	208,320	208,320
Technology/software	243,689	238,692
Proprietary data	28,627	28,627
Subtotal	837,335	832,339
Foreign exchange translation adjustment	(8,576)	(9,569)
Total gross intangible assets	$828,759	$ 822,770

Accumulated amortization:		
Customer relationships	$(215,319)	$ (209,867)
Trademarks/trade names	(126,090)	(123,345)
Technology/software	(202,120)	(198,974)
Proprietary data	(12,647)	(12,197)
Subtotal	(556,176)	(544,383)
Foreign exchange translation adjustment	1,993	2,416
Total accumulated amortization	$(554,183)	$ (541,967)
Net intangible assets:		
Customer relationships	$141,380	$ 146,833
Trademarks/trade names	82,230	84,975
Technology/software	41,569	39,718
Proprietary data	15,980	16,430
Subtotal	281,159	287,956
Foreign exchange translation adjustment	(6,583)	(7,153)
Total net intangible assets	$274,576	$ 280,803

The following table presents the estimated amortization expense for the remainder of the year ending December 31, 2019 and succeeding years:

Years Ending December 31,	Amortization Expense (in thousands)
Remainder 2019	$ 36,856
2020	47,731
2021	43,672
2022	36,921
2023	33,374
Thereafter	76,022
Total	$ 274,576

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.

Senior Notes. The Company has issued an aggregate of $2.6 billion in senior unsecured notes (collectively, the “Senior Notes”) in the four discrete private offerings presented in the following table:

	Maturity Date (in thousands)	Principal amount outstanding at March 31, 2019	Carrying value at March 31, 2019	Carrying value at December 31, 2018	Fair Value at March 31, 2019	Fair Value at December 31, 2018
Long-term debt						
5.25% senior unsecured notes due 2024	November 15, 2024	$ 800,000	$ 793,348	$ 793,054	$ 829,576	$ 802,576
5.75% senior unsecured notes due 2025	August 15, 2025	800,000	793,277	793,016	840,368	807,088
		500,000	495,084	494,916	503,725	475,520

4.75% senior unsecured notes due 2026	August 1, 2026					
5.375% senior unsecured notes due 2027	May 15, 2027	500,000	494,679	494,516	530,720	489,745
Total debt		$2,600,000	$2,576,388	$ 2,575,502	$2,704,389	$ 2,574,929

The fair market value of the Company’s debt obligations 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.

The $800.0 million aggregate principal amount of 5.25% senior unsecured notes due 2024 (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 $800.0 million aggregate principal amount of 5.75% senior unsecured notes due 2025 (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.

The $500.0 million aggregate principal amount of 4.75% senior unsecured notes due 2026 (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 plus accrued and unpaid interest, if any, to the redemption date.

The $500.0 million aggregate principal amount of 5.375% senior unsecured notes due 2027 (the “2027 Senior Notes”) are scheduled to mature and be paid in full on May 15, 2027. At any time prior to May 15, 2022, the Company may redeem all or part of the 2027 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 2027 Senior Notes, together with accrued and unpaid interest, on or after May 15, 2022, at redemption prices set forth in the indenture governing the 2027 Senior Notes. At any time prior to May 15, 2021, the Company may use the proceeds of certain equity offerings to redeem up to 35% of the aggregate principal amount of the 2027 Senior Notes, including any permitted additional notes, at a redemption price equal to 105.375% of the principal amount plus accrued and unpaid interest, if any, to the redemption date.

Interest payments attributable to the 2024 Senior Notes and 2027 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 (as amended, the “Revolving Credit Agreement”) with a syndicate of banks. The 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 “First Amendment”) to the Revolving Credit Agreement. The First 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. On May 15, 2018, the Company entered into Amendment No. 2 (the “Second Amendment”) to the Revolving Credit Agreement. The Second Amendment, among other things, (i) increased aggregate commitments available to be borrowed to $250.0 million, (ii) extended the term to May 2023 with an option to extend for an additional one-year term and (iii) decreased the applicable rate and applicable fee rate for loans and commitments. At March 31, 2019, the Revolving Credit Agreement was undrawn.

In connection with the closings of the Senior Notes offerings and entry into the Revolving Credit Agreement and the First and Second Amendments, 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, 2019, $25.3 million of the deferred financing fees remain unamortized, $0.4 million of which is included in “Prepaid and other assets,” $1.3 million of which is included in “Other non-current assets” and $23.6 million of which is grouped and presented as part of “Long-term debt” on the Unaudited Condensed Consolidated Statement of Financial Condition.

8. LEASES

MSCI leases office space, data centers and certain equipment under non-cancellable operating lease agreements and determines if an arrangement is a lease at inception. The Company's leases have remaining lease terms of up to approximately 14 years. Some of these leases have options to extend which, if exercised, would extend the maximum term to approximately 24 years. Some of the leases also provide for early termination, the exercise of which would shorten the term of those leases by up to 5 years. The Company does not currently have any financing lease arrangements.

Operating lease assets, net of initial direct costs and accumulated amortization are reflected in "Right of use assets," with the corresponding present value of operating lease liabilities included in "Other accrued liabilities" and "Long-term operating lease liabilities" in the Unaudited Condensed Consolidated Statement of Financial Condition. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. MSCI uses its incremental borrowing rate based on the information available on the commencement date in determining the present value of lease payments. The incremental borrowing rate reflects the rate of interest that MSCI would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The Company determined its incremental borrowing rates by starting with the rates on its currently outstanding Senior Notes and making adjustments for collateralization and the relevant duration of the associated leases. The lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

Lease expense is recognized on a straight-line basis over the lease term and is included in “Operating expenses” in the Unaudited Condensed Consolidated Statement of Income. Some of the Company’s lease agreements include rental payments adjusted periodically for inflation which are accounted for under ASC Subtopic 842-10, “Leases,” as variable lease amounts but are not reflected as a component of the Company’s lease liability. Certain leases also require the Company to pay real estate taxes, insurance, maintenance and other “Operating expenses” associated with the leased premises or equipment which are also not reflected as a component of the Company’s lease liability. While these expenses are also classified in “Operating expenses,” consistent with similar costs for office locations or equipment, they are not included as a component of the Company’s lease liability. The Company also subleases a small portion of its leased office space to third parties.

Under ASC Subtopic 842-10, the Company recognized a total of $7.3 million of operating lease expenses for the three months ended March 31, 2019. The amounts associated with variable lease costs, short-term lease costs for leases with an initial term of 12 months or less and sublease income were not significant for the three months ended March 31, 2019.

For the three months ended March 31, 2018, the Company followed ASC Subtopic 840-10, “Leases,” which required the recognition of rent expense on a straight-line basis over the lease period. Rent expense for office space, including real estate taxes, insurance, maintenance and other operating expenses associated with the leased premises, for the three months ended March 31, 2018 was $6.3 million.

Future minimum commitments for the Company’s operating leases accounted for in accordance with ASC Subtopic 842-10 in place as of March 31, 2019, the interest and other relevant line items in the Unaudited Condensed Consolidated Statement of Financial Condition are as follows:

Maturity of Lease Liabilities (in thousands)	Operating Leases
2019	$ 20,656
2020	28,729
2021	26,427
2022	22,626
2023	22,149
After 2023	107,886
Total lease payments	$ 228,473
Less: Interest	(37,735)
Present value of lease liabilities	$ 190,738
Other accrued liabilities	$ 22,251
Long-term operating lease liabilities	$ 168,487

Future minimum commitments for the Company’s office leases accounted for in accordance with ASC Subtopic 840-10 in place as of December 31, 2018 were as follows:

Years Ending December 31,	Amount (in thousands)

2019	$ 25,868
2020	24,619
2021	23,452
2022	21,832
2023	21,818
Thereafter	107,800
Total	$ 225,389

Lease term and discount rate for the Company’s operating leases in place as of March 31, 2019 are as follows:

Lease Term and Discount Rate	As of March 31, 2019
Weighted-average remaining lease term (years)	
Operating leases	10.04
Weighted-average discount rate	
Operating leases	3.51 %

Other information for the Company’s operating leases in place for the three months ended March 31, 2019 are as follows:

Other Information (in thousands)	Three Months Ended March 31, 2019
Operating cash flows from operating leases	$7,572
Leased assets obtained in exchange for new operating lease liabilities[1]	$198,281

[1] Includes the initial adjustment of $197.5 million for leases recorded on January 1, 2019.

9. SHAREHOLDERS’ EQUITY (DEFICIT)

Return of capital.

On October 26, 2016, the Board of Directors approved a stock repurchase program for the purchase of up to $750.0 million worth of shares of the Company’s common stock (together with the amount then remaining under a previously existing share repurchase program, the “2016 Repurchase Program”).

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 the Company’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. As of March 31, 2019, there was $706.1 million of available authorization remaining under the 2018 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	Total Number of	Dollar Value of Shares

	Share	Shares	Repurchased
		Repurchased (in thousands)	
March 31, 2019	$147.97	690	$ 102,081
March 31, 2018	$138.86	492	$ 68,345

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
2019				
Three Months Ended March 31,	$0.58	$55,339	$ 57,988	$(2,649)
Total	$0.58	$55,339	$ 57,988	$(2,649)
2018				
Three Months Ended March 31,	$0.38	$34,848	$ 34,900	$(52)
Total	$0.38	$34,848	$ 34,900	$(52)

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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, 2019:

	Common Stock Issued	Treasury Stock	Common Stock Outstanding
Balance At December 31, 2018	130,029,926	(45,855,788)	84,174,138
Dividend payable/paid	502	(158)	344
Common stock issued and exercise of stock options	2,234,596	—	2,234,596
Shares withheld for tax withholding and exercises	—	(1,044,186)	(1,044,186)
Shares repurchased under stock repurchase programs	—	(689,891)	(689,891)
Shares issued to directors	—	—	—
Balance At March 31, 2019	132,265,024	(47,590,023)	84,675,001

10. INCOME TAXES

The Company's provision for income taxes was a benefit of $49.9 million and an expense of $24.3 million for the three months ended March 31, 2019 and 2018, respectively. These amounts reflect effective tax rates of negative 38.9% and 17.5% for the three months ended March 31, 2019 and 2018, respectively.

The effective tax rate of negative 38.9% for the three months ended March 31, 2019 reflects the Company's estimate of the effective tax rate for the period and was impacted by certain discrete items totaling $77.8 million. For the three months ended March 31, 2019, these discrete items primarily related to $66.6 million of excess tax benefits recognized upon vesting during the period of certain multi-year restricted stock units that are subject to the achievement of multi-year total shareholder return targets (performance targets subject to market conditions) granted in 2016 ("2016 multi-year MSUs") and $9.8 million of excess tax benefits on other share-based compensation recognized during the period.

The effective tax rate of 17.5% for the three months ended March 31, 2018 reflected the Company's estimate of the effective tax rate for the period and was impacted by certain discrete items totaling $7.9 million. For the three months ended March 31, 2018 these discrete items primarily related to $7.5 million of excess tax benefits on share-based compensation recognized during the period and to $1.6 million of net adjustment benefit relating to the adjustment resulting from the Company's provisional accounting for the effects of the Tax Cuts and Jobs Act that was enacted on December 22, 2017 ("Tax Reform").

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 2006 through 2017. 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 income tax 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.

11. 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 its 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, at times, certain other transactions or adjustments, including the impact related to the vesting of the 2016 multi-year MSUs, 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.

Operating 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, revenue, headcount, sales targets, data center consumption and other relevant usage measures. Due to the integrated structure of its 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 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, market data and benchmarking offerings that provide real estate performance analysis for funds, investors and managers. Real Estate performance and risk analytics range from enterprise-wide 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, 2019	2018
	(in thousands)	
Operating revenues		
Index	$214,773	$201,914
Analytics	121,435	118,987
All Other	35,173	30,415
Total	$371,381	$351,316

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

	Three Months Ended March 31, 2019	2018
	(in thousands)	
Index Adjusted EBITDA	$152,211	$145,930
Analytics Adjusted EBITDA	36,398	33,593
All Other Adjusted EBITDA	9,098	7,186
Total operating segment profitability	197,707	186,709
2016 multi-year MSUs grant payroll tax expense	15,389	—
Amortization of intangible assets	11,793	11,338
Depreciation and amortization of property, equipment and leasehold improvements	7,850	8,205
Operating income	162,675	167,166
Other expense (income), net	34,383	27,728
Provision for income taxes	(49,900)	24,346
Net income	$178,192	$115,092

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, 2019	2018
	(in thousands)	

Operating revenues		
Americas:		
United States	$166,186	$164,835
Other	15,983	14,883
Total Americas	182,169	179,718
Europe, the Middle East and Africa ("EMEA"):		
United Kingdom	55,207	52,933
Other	76,635	72,687
Total EMEA	131,842	125,620
Asia & Australia:		
Japan	17,948	15,182
Other	39,422	30,796
Total Asia & Australia	57,370	45,978