MSCI Inc.
Form 10-Q
July 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

OR

o 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 x No o

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 x No o

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

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

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

As of July 22, 2016, there were 94,628,529 shares of the registrant's common stock, par value $0.01, outstanding.

MSCI INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2016

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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 Committee and Nominating and Corporate Governance Committee;
- Corporate Governance Policies;
- Procedures for Submission of Ethical 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) 804-1583. 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 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, 2015 and in quarterly reports on Form 10-Q and current reports on Form 8-K filed or furnished with the SEC. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what

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

WEBSITE AND SOCIAL MEDIA DISCLOSURE

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

PART I

Item 1. Financial Statements
MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except per share and share data)

	As of	
	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$404,614	$777,706
Accounts receivable (net of allowances of 1,369 and 1,117 at June 30, 2016 and December 31, 2015, respectively)	247,497	208,239
Prepaid income taxes	56,158	46,115
Prepaid and other assets	28,788	31,211
Total current assets	737,057	1,063,271
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $125,325 and $114,680 at June 30, 2016 and December 31, 2015, respectively)	97,808	98,926
Goodwill	1,560,083	1,565,621
Intangible assets (net of accumulated amortization of $441,055 and $418,512 at June 30, 2016 and December 31, 2015, respectively)	368,715	391,490
Non-current deferred tax assets	9,242	9,180
Other non-current assets	18,081	18,499
Total assets	$2,790,986	$3,146,987
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,732	$2,512
Accrued compensation and related benefits	67,911	116,619
Other accrued liabilities	74,819	61,433
Deferred revenue	365,242	317,552
Total current liabilities	509,704	498,116
Long-term debt	1,580,515	1,579,404
Deferred taxes	105,006	110,937
Other non-current liabilities	60,608	57,043
Total liabilities	2,255,833	2,245,500

Commitments and Contingencies (see Note 6 and Note 7)		
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; 128,886,580 and 128,200,189 common shares issued and 94,991,055 and 101,013,148 common shares outstanding at June 30, 2016 and December 31, 2015, respectively)	1,289	1,282
Treasury shares, at cost (33,895,525 and 27,187,041 common shares held at June 30, 2016 and December 31, 2015, respectively)	(1,865,719)	(1,395,695)
Additional paid in capital	1,205,589	1,173,183
Retained earnings	1,242,151	1,158,462
Accumulated other comprehensive loss	(48,157)	(35,745)
Total shareholders' equity	535,153	901,487
Total liabilities and shareholders' equity	$2,790,986	$3,146,987

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(unaudited)			
Operating revenues	$290,596	$270,580	$569,424	$533,349
Operating expenses:				
Cost of revenues	62,130	67,394	125,302	137,298
Selling and marketing	41,854	42,028	83,543	83,676
Research and development	18,566	20,807	37,494	43,996
General and administrative	22,019	22,080	43,909	42,457
Amortization of intangible assets	11,943	11,695	23,783	23,397
Depreciation and amortization of property, equipment and leasehold improvements	8,393	8,065	16,561	15,272
Total operating expenses	164,905	172,069	330,592	346,096
Operating income	125,691	98,511	238,832	187,253
Interest income	(585)	(185)	(1,206)	(389)
Interest expense	22,918	11,116	45,822	22,224
Other expense (income)	2,814	164	2,895	342
Other expense (income), net	25,147	11,095	47,511	22,177
Income from continuing operations before provision for income taxes	100,544	87,416	191,321	165,076
Provision for income taxes	33,587	31,399	63,997	59,435
Income from continuing operations	66,957	56,017	127,324	105,641
Income (loss) from discontinued operations, net of income taxes	—	—	—	(5,797)
Net income	$66,957	$56,017	$127,324	$99,844
Earnings per basic common share:				
Earnings per basic common share from continuing operations	$0.69	$0.50	$1.30	$0.94
Earnings per basic common share from discontinued operations	—	—	—	(0.05)
Earnings per basic common share	$0.69	$0.50	$1.30	$0.89
Earnings per diluted common share:				
Earnings per diluted common share from continuing operations	$0.69	$0.50	$1.29	$0.93
Earnings per diluted common share from discontinued operations	—	—	—	(0.05)

Earnings per diluted common share	$0.69	$0.50	$1.29	$0.88
Weighted average shares outstanding used in computing				
earnings per share				
Basic	96,412	112,143	97,918	112,330
Diluted	96,888	112,931	98,443	113,225
Dividend declared per common share	$0.22	$0.18	$0.44	$0.36

See Notes to Unaudited Condensed Consolidated Financial Statements

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MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(unaudited)			
Net income	$66,957	$56,017	$127,324	$99,844
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(12,691)	6,151	(12,387)	(439)
Income tax effect	212	766	145	634
Foreign currency translation adjustments, net	(12,479)	6,917	(12,242)	195
Pension and other post-retirement adjustments	81	(271)	(232)	(97)
Income tax effect	(20)	64	62	13
Pension and other post-retirement adjustments, net	61	(207)	(170)	(84)
Other comprehensive (loss) income, net of tax	(12,418)	6,710	(12,412)	111
Comprehensive income	$54,539	$62,727	$114,912	$99,955

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended June 30,	
	2016 (unaudited)	2015
Cash flows from operating activities		
Net income	$127,324	$99,844
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	23,783	23,397
Stock-based compensation expense	15,273	14,539
Depreciation and amortization of property, equipment and leasehold improvements	16,561	15,272
Amortization of debt origination fees	1,417	893
Deferred taxes	(4,756)	(3,541)
Excess tax benefits from share-based compensation	(4,876)	(13,232)
Other non-cash adjustments	511	3,849
Changes in assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable	(40,381)	(36,181)
Prepaid income taxes	(5,193)	(11,541)
Prepaid and other assets	2,341	1,631
Accounts payable	(790)	(669)
Accrued compensation and related benefits	(39,388)	(37,711)
Other accrued liabilities	7,724	1,087
Deferred revenue	47,972	27,989
Other	2,585	5,083
Net cash provided by operating activities	150,107	90,709
Cash flows from investing activities		
Capital expenditures	(13,277)	(15,550)
Capitalized software development costs	(5,088)	(2,787)
Proceeds from the sale of capital equipment	-	55
Acquisitions, net of cash acquired	(60)	-
Net cash used in investing activities	(18,425)	(18,282)
Cash flows from financing activities		
Repurchase of treasury shares	(466,745)	(97,567)
Proceeds from exercise of stock options	3,442	1,760
Excess tax benefits from share-based compensation	4,876	13,232
Payment of dividends	(43,281)	(40,843)
Net cash used in financing activities	(501,708)	(123,418)
Effect of exchange rate changes	(3,066)	(2,787)
Net decrease in cash	(373,092)	(53,778)
Cash and cash equivalent, beginning of period	777,706	508,799

Cash and cash equivalent, end of period	$404,614	$455,021
Supplemental disclosure of cash flow information:		
Cash paid for interest	$44,660	$20,747
Cash paid for income taxes	$72,293	$78,347
Supplemental disclosure of non-cash investing activities		
Property, equipment and leasehold improvements in other accrued liabilities	$6,042	$5,731
Supplemental disclosure of non-cash financing activities		
Treasury share repurchases awaiting settlement	$2,821	$-
Cash dividends declared, but not yet paid	$354	$15

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"), offers content, applications and services to support the needs of institutional investors throughout their investment processes. The Company's flagship products are its global equity indexes, custom indexes, factor indexes and ESG indexes; its analytics products, including multi-factor models, pricing models, methodologies for performance attribution, models for statistical analysis, and tools for portfolio optimization, back testing and stress testing; its ESG research and ratings; and its real estate benchmarks, indexes, business intelligence and analytics.

Income (loss) from discontinued operations, net of income taxes in the Unaudited Condensed Consolidated Statement of Income for the six months ended June 30, 2015 represents the impact of an out-of-period income tax charge associated with tax obligations triggered upon the sale of Institutional Shareholder Services Inc. ("ISS"), which was completed on April 30, 2014.

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 present fairly the financial condition as of June 30, 2016 and December 31, 2015, the results of operations and comprehensive income for the three and six months ended June 30, 2016 and 2015 and cash flows for the six months ended June 30, 2016 and 2015. 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, 2015. The unaudited condensed consolidated financial statement information as of December 31, 2015 has been derived from the 2015 audited consolidated financial statements. 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 accounting principles generally accepted in the United States of America ("GAAP"). These accounting principles require the Company to make certain estimates and judgments that can affect the reported amounts of assets and liabilities as of the date of the 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, the allowance for doubtful accounts, 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.

Concentrations

No single customer represented 10.0% or more of the Company's consolidated operating revenues for the six months ended June 30, 2016, while BlackRock, Inc. accounted for 10.5% of the Company's consolidated operating revenues for the six months ended June 30, 2015. For the six months ended June 30, 2016 and 2015, BlackRock, Inc. accounted for 16.9% and 19.7% of the Index segment operating revenues, respectively. No single customer represented 10.0% or more of revenues within the Analytics and All Other segments for the six months ended June 30, 2016 and 2015.

2. RECENT ACCOUNTING STANDARDS UPDATES

In May 2014, the FASB issued Accounting Standards Update No. 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. In applying the new guidance, an entity will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract's performance obligations; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. Companies have 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. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," or ASU 2015-14. The amendments in ASU 2015-14 defer the effective date of the new revenue standard by one year by changing the effective date to be for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017 from December 15, 2016, with early adoption at the prior date permitted. The Company is continuing to evaluate the potential impact that the update will have on its condensed consolidated financial statements.

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 the 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 evaluating the potential impact that ASU 2016-02 will have on its condensed consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net),” or ASU 2016-08. ASU 2016-08 does not change the core principle of current accounting guidance related to principle versus agent considerations, but rather intended to add clarification to the implementation guidance. ASU 2016-08 affects the guidance in ASU 2014-09 (described above), which is not yet effective. The effective date and transition requirements for ASU 2016-08 are the same as the effective date and transition requirements of ASU 2014-09. The Company is evaluating the potential impact that the adoption of ASU 2016-08 will have on its condensed consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” or ASU 2016-09. The FASB issued ASU 2016-09 as part of its Simplification Initiative. The areas for simplification in ASU 2016-09 involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2016, with early adoption permitted. The Company is evaluating the potential impact that ASU 2016-09 will have on its condensed consolidated financial statements.

In April 2016, the FASB issued Accounting Standards Update No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,” or ASU 2016-10. The amendments in ASU 2016-10 clarify both the process for identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas included in ASU 2014-09, which is not yet effective. The effective date and transition requirements for ASU 2016-10 are the same as the effective date and transition requirements of ASU 2014-09 (described above), which is not yet effective. The Company is evaluating the potential impact that ASU 2016-10 will have on its condensed consolidated financial statements.

In May 2016, the FASB issued Accounting Standards Update No. 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,” or ASU 2016-12. The amendments in ASU 2016-12 clarify guidance in the new revenue standard related to collectability, noncash consideration, presentation of sales tax and contract transition matters. The effective date and transition requirements for ASU 2016-12 are the same as the effective date and transition requirements of ASU 2014-09 (described above), which is not yet effective. The Company is evaluating the potential impact that ASU 2016-12 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, modifies the impairment model for available-for-sale debt securities and provides 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.

3. 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 no stock options or restricted stock units excluded from the calculation of diluted EPS for any period presented.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(in thousands, except per share data)				
Income from continuing operations, net of income taxes	$66,957	$56,017	$127,324	$105,641
Income (loss) from discontinued operations, net of income taxes	—	—	—	(5,797)
Net income	$66,957	$56,017	$127,324	$99,844
Less: Allocations of earnings to unvested restricted stock units[1]	—	(18)	—	(32)
Earnings available to MSCI common shareholders	$66,957	$55,999	$127,324	$99,812
Basic weighted average common shares outstanding	96,412	112,143	97,918	112,330
Effect of dilutive securities:				
Stock options and restricted stock units	476	788	525	895
Diluted weighted average common shares outstanding	96,888	112,931	98,443	113,225
Earnings per basic common share from continuing operations	$0.69	$0.50	$1.30	$0.94
Earnings per basic common share from discontinued operations	—	—	—	(0.05)
Earnings per basic common share	$0.69	$0.50	$1.30	$0.89
Earnings per diluted common share from continuing operations	$0.69	$0.50	$1.29	$0.93
Earnings per diluted common share from discontinued operations	—	—	—	(0.05)
Earnings per diluted common share	$0.69	$0.50	$1.29	$0.88

[1] Restricted stock units granted to employees prior to 2013 and restricted stock units granted to independent directors of the Company prior to April 30, 2015 had a right to participate in all of the earnings of the Company in the computation of basic EPS and, therefore, these restricted stock units were not included as incremental shares in the diluted EPS computation.

4. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements at June 30, 2016 and December 31, 2015 consisted of the following:

	As of	
	June 30, 2016	December 31, 2015
	(in thousands)	
Computer & related equipment	$153,297	$143,499
Furniture & fixtures	10,158	9,870
Leasehold improvements	47,781	47,579
Work-in-process	11,897	12,658
Subtotal	223,133	213,606
Accumulated depreciation and amortization	(125,325)	(114,680)
Property, equipment and leasehold improvements, net	$97,808	$98,926

Depreciation and amortization expense of property, equipment and leasehold improvements was $8.4 million and $8.1 million for the three months ended June 30, 2016 and 2015, respectively. Depreciation and amortization expense of property, equipment and leasehold improvements was $16.6 million and $15.3 million for the six months ended June 30, 2016 and 2015, respectively.

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table presents goodwill by reportable segment:

(in thousands)	Index	Analytics	All Other	Total
Goodwill at December 31, 2015	$1,210,366	$302,551	$52,704	$1,565,621
Changes to goodwill[1]	—	60	—	60
Foreign exchange translation adjustment	(3,456)	—	(2,142)	(5,598)
Goodwill at June 30, 2016	$1,206,910	$302,611	$50,562	$1,560,083

[1] Changes to goodwill reflect the final working capital adjustment payment made during the six months ended June 30, 2016 to complete the acquisition of Insignis, Inc.

Intangible Assets

Amortization expense related to intangible assets for the three months ended June 30, 2016 and 2015 was $11.9 million and $11.7 million, respectively. Amortization expense related to intangible assets for the six months ended June 30, 2016 and 2015 was $23.8 million and $23.4 million, respectively.

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

	As of June 30, 2016	December 31, 2015
	(in thousands)	
Gross intangible assets:		
Customer relationships	$361,746	$361,746
Trademarks/trade names	223,382	223,382
Technology/software	204,853	199,889
Proprietary data	28,627	28,627
Covenant not to compete	1,225	1,225
Subtotal	819,833	814,869
Foreign exchange translation adjustment	(10,063)	(4,867)
Total gross intangible assets	$809,770	$810,002
Accumulated amortization:		
Customer relationships	$(155,448)	$(143,325)
Trademarks/trade names	(99,272)	(93,476)
Technology/software	(179,733)	(175,209)
Proprietary data	(7,688)	(6,698)
Covenant not to compete	(971)	(665)
Subtotal	(443,112)	(419,373)
Foreign exchange translation adjustment	2,057	861

Total accumulated amortization	$(441,055)	$(418,512)
Net intangible assets:		
Customer relationships	$206,298	$218,421
Trademarks/trade names	124,110	129,906
Technology/software	25,120	24,680
Proprietary data	20,939	21,929
Covenant not to compete	254	560
Subtotal	376,721	395,496
Foreign exchange translation adjustment	(8,006)	(4,006)
Total net intangible assets	$368,715	$391,490

The following table presents the estimated amortization expense for the remainder of 2016 and succeeding years:

Years Ending December 31,	Amortization Expense (in thousands)
Remainder 2016	23,810
2017	43,760
2018	40,590
2019	38,522
2020	36,588
Thereafter	185,445
Total	368,715

6. COMMITMENTS AND CONTINGENCIES

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

Leases. The Company leases facilities under non-cancelable operating lease agreements. The terms of certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on the straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Rent expense for the three months ended June 30, 2016 and 2015 was $6.1 million and $6.7 million, respectively. Rent expense for the six months ended June 30, 2016 and 2015 was $12.2 million and $13.5 million, respectively.

Long-term debt. 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”) and also entered into a $200.0 million senior unsecured revolving credit agreement (the “2014 Revolving Credit Agreement”) by and among the Company, as borrower, certain of its subsidiaries, as guarantors (the “subsidiary guarantors”), the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent. 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.

The 2024 Senior Notes are scheduled to mature and be paid in full on November 20, 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. At any time prior to November 15, 2017, the Company may use the proceeds of certain equity offerings to redeem up to 35% of the aggregate principal amount of the 2024 Senior Notes, including any permitted additional notes, at a redemption price equal to 105.25% of the principal amount.

The 2014 Revolving Credit Agreement has an initial term of five years that may be extended, at the Company's request, for two additional one year terms.

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.

Interest payments attributable to the 2024 Senior Notes are due on May 15 and November 15 of each year. The first interest payment was made on May 15, 2015. Interest payments attributable to the 2025 Senior Notes are due on February 15 and August 15 of each year. The first interest payment was made on February 16, 2016.

Long-term debt at June 30, 2016 was $1,580.5 million, net of $19.5 million in deferred financing fees. Long-term debt at December 31, 2015 was $1,579.4 million, net of $20.6 million in deferred financing fees.

In connection with the closing of the 2024 Senior Notes and 2025 Senior Notes offerings and entering into the 2014 Revolving Credit Agreement, the Company paid certain fees which, together with the existing fees related to prior credit facilities, are being amortized over the related lives. At June 30, 2016, $21.6 million of the deferred financing fees remain unamortized, $0.6 million of which is included in "Prepaid and other assets," $1.5 million of which is included in "Other non-current assets" and $19.5 million of which is grouped and presented as part of "Long-term debt" on the Unaudited Condensed Consolidated Statement of Financial Condition.

The Company amortized $0.7 million and $0.4 million of deferred financing fees in interest expense during the three months ended June 30, 2016 and 2015, respectively. The Company amortized $1.4 million and $0.9 million of deferred financing fees in interest expense during the six months ended June 30, 2016 and 2015, respectively.

At June 30, 2016 and December 31, 2015, the fair market value of the Company's debt obligations was $1,652.5 million and $1,638.0 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.

Derivatives and Hedging Activities. The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk primarily by managing the amount, sources and duration of its debt funding and the use of derivative financial instruments.

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

Non-designated Hedges of Foreign Exchange Risk. Derivatives not designated as hedges are not speculative and are used to manage the Company's economic exposure to foreign exchange rate movements but do not meet the strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. As of June 30, 2016, the Company had outstanding foreign currency forwards with a notional amount of $24.2 million that were not designated as hedges in qualifying hedging relationships.

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

(in thousands)	Unaudited Condensed Consolidated Statements of Financial Condition Location	As of June 30,	December 31, 2015

		2016	
Non-designated hedging instruments:			
Asset derivatives:			
Foreign exchange contracts	Prepaid and other assets	$1,367	$ 640
Liability derivatives:			
Foreign exchange contracts	Other accrued liabilities	$(52)	$ (2)

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

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

Derivatives Not Designated as Hedging Instruments (in thousands)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives for the Three Months Ended June 30, 2016	2015
Foreign exchange contracts	Other expense (income)	$ 700	$ (1,000)

Derivatives Not Designated as Hedging Instruments (in thousands)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives for the Six Months Ended June 30, 2016	2015
Foreign exchange contracts	Other expense (income)	$ 914	$ 412

7. SHAREHOLDERS' EQUITY

Return of capital. On February 4, 2014, the Board of Directors approved a stock repurchase program authorizing the purchase of up to $300.0 million worth of shares of MSCI's common stock, which was increased to $850.0 million on September 17, 2014 (the "2014 Repurchase Program"). On October 14, 2015, the Company exhausted the $850.0 million share repurchase authorization under the 2014 Repurchase Program.

On October 28, 2015, the Board of Directors approved a new stock repurchase program authorizing the purchase of up to $1.0 billion worth of shares of MSCI's common stock (the "2015 Repurchase Program"). Share repurchases made pursuant to the 2015 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 June 2, 2015, the Company began purchasing shares of its common stock on the open market in accordance with SEC Rule 10b5-1. Through December 31, 2015, the Company paid $670.8 million to receive approximately 10.7 million shares pursuant to open market repurchases under the 2014 Repurchase Program and the 2015 Repurchase Program at an average purchase price of $62.63 per share.

For the six months ended June 30, 2016, the Company received approximately 6.5 million shares at an average purchase price of $70.12 per share for a total value of $455.5 million under the 2015 Repurchase Program.

Since 2012 and through June 30, 2016, approximately $1.9 billion has been returned to shareholders through share repurchases and payment of cash dividends.

The following table presents cash dividends declared, deferred and distributed per common share for the periods indicated:

(in thousands)	Dividends Per Share	Declared	Distributed	Deferred
2016				
Three Months Ended March 30,	$0.22	$22,046	$ 21,889	$ 157
Three Months Ended June 30,	0.22	21,588	21,391	197
Total	$0.44	$43,634	$ 43,280	$ 354
2015				
Three Months Ended March 30,	$0.18	$20,424	$ 20,411	$ 13
Three Months Ended June 30,	0.18	20,443	20,441	2
Total	$0.36	$40,867	$ 40,852	$ 15

Common Stock.

The following table presents activity related to shares of common stock issued and repurchased for the periods indicated:

	Common Stock Issued	Treasury Stock	Common Stock Outstanding
Balance At December 31, 2015	128,200,189	(27,187,041)	101,013,148
Dividend payable/paid	104	(104)	—
Common stock issued and exercise of stock options	589,402	—	589,402
Shares withheld for tax withholding and exercises	—	(197,769)	(197,769)
Shares repurchased under stock repurchase programs	—	(4,869,423)	(4,869,423)
Balance At March 31, 2016	128,789,695	(32,254,337)	96,535,358
Dividend payable/paid	110	(110)	—
Common stock issued and exercise of stock options	89,816	—	89,816
Shares withheld for tax withholding and exercises	—	(8,355)	(8,355)
Shares repurchased under stock repurchase programs	—	(1,626,450)	(1,626,450)
Shares issued to Directors	6,959	(6,273)	686
Balance At June 30, 2016	128,886,580	(33,895,525)	94,991,055

8. INCOME TAXES

The Company’s provision for income taxes was $64.0 million and $59.4 million for the six months ended June 30, 2016 and 2015, respectively. These amounts reflect effective tax rates of 33.5% and 36.0% for the six months ended June 30, 2016 and 2015, respectively. The decrease in the effective tax rate was primarily driven by efforts to better align our tax profile with our global operating footprint.

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 business operations, such as New York. The tax years currently under examination vary by jurisdiction but include years ranging from 2005 through 2015. 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.

9. 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 makers (“CODM”) in deciding how to allocate resources and assess performance. MSCI’s Chief Executive Officer and Chief Operating Officer, who together are 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 Adjusted EBITDA and key performance indicators, which include operating revenues and other items. The Company excludes the following items from segment Adjusted EBITDA: income (loss) from discontinued operations, net of income taxes, 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 primarily 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 allocated based upon various 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 a provider of investment decision support tools, including equity indexes and equity index benchmarks. The products are used in many areas of the investment process, including portfolio construction and rebalancing, asset allocation, performance benchmarking and attribution, regulatory and client reporting and index-linked investment product creation.

The Analytics operating segment consists of products and services used for portfolio construction, risk management and reporting. The products enable institutional investors to monitor, analyze and report on the risk and return of investments across a variety of asset classes. They are based on proprietary, integrated fundamental multi-factor risk models, value-at-risk methodologies, performance attribution frameworks and asset valuation models. In addition, the Analytics segment includes products that help investors value, model and hedge physical assets and derivatives across a number of market segments, including energy and commodity assets.

The ESG operating segment offers products institutional investors use for assessing risks and opportunities arising from environmental, social and governance issues. ESG tools are used to evaluate both individual securities and investment portfolios.

The Real Estate operating segment is a provider of real estate performance analysis for funds, investors, managers, lenders and occupiers. It provides index products and offers services that include research, reporting and benchmarking.

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 the All Other segment for disclosure purposes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Operating revenues				
Index	$152,117	$140,131	$296,730	$273,685

Analytics	112,393	107,570	222,656	214,415
All Other	26,086	22,879	50,038	45,249
Total	$290,596	$270,580	$569,424	$533,349

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Index Adjusted EBITDA	$106,518	$98,017	$206,567	$191,070
Analytics Adjusted EBITDA	33,302	21,264	63,662	35,344
All Other Adjusted EBITDA	6,207	(1,010)	8,947	(492)
Total operating segment profitability	146,027	118,271	279,176	225,922
Amortization of intangible assets	11,943	11,695	23,783	23,397
Depreciation and amortization of property, equipment and leasehold improvements	8,393	8,065	16,561	15,272
Operating income	125,691	98,511	238,832	187,253
Other expense (income), net	25,147	11,095	47,511	22,177
Provision for income taxes	33,587	31,399	63,997	59,435
Income from continuing operations	66,957	56,017	127,324	105,641
Income (loss) from discontinued operations, net of income taxes	—	—	—	(5,797)
Net income	$66,957	$56,017	$127,324	$99,844

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Revenues				
Americas:				
United States	$134,719	$130,057	$272,364	$255,673
Other	11,388	10,375	21,970	20,230
Total Americas	146,107	140,432	294,334	275,903
Europe, the Middle East and Africa ("EMEA"):				
United Kingdom	43,976	42,155	86,586	82,396
Other	63,435	55,380	116,874	110,309
Total EMEA	107,411	97,535	203,460	192,705
Asia & Australia:				
Japan	13,563	10,958	26,203	22,560
Other	23,515	21,655	45,427	42,181
Total Asia & Australia	37,078	32,613	71,630	64,741

Total	$290,596	$270,580	$569,424	$533,349

Long-lived assets consist of property, equipment, leasehold improvements, goodwill and intangible assets, net of accumulated depreciation and amortization.

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	
	June 30, 2016	December 31, 2015
	(in thousands)	
Long-lived assets		
Americas:		
United States	$1,896,829	$1,916,689
Other	1,910	2,279
Total Americas	1,898,739	1,918,968
EMEA:		
United Kingdom	98,448	110,261
Other	20,806	16,849
Total EMEA	119,254	127,110
Asia & Australia:		
Japan	518	570
Other	8,095	9,389
Total Asia & Australia	8,613	9,959
Total	$2,026,606	$2,056,037

10. SUBSEQUENT EVENTS

On July 27, 2016, the Board of Directors declared a cash dividend of $0.28 per share for third quarter 2016. The third quarter 2016 dividend is payable on August 31, 2016 to shareholders of record as of the close of trading on August 15, 2016.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of MSCI Inc.

We have reviewed the accompanying condensed consolidated statement of financial condition of MSCI Inc. and its subsidiaries as of June 30, 2016, and the related condensed consolidated statements of income and of comprehensive income for the three-month and six-month periods ended June 30, 2016 and June 30, 2015 and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2016 and June 30, 2015. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 Public Company Accounting Oversight Board (United States), 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.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of December 31, 2015, 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, 2016, 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 information as of December 31, 2015, is fairly stated in all material respects in relation to the consolidated statement of financial condition from which it has been derived.

/s/ PricewaterhouseCoopers LLP
New York, New York
July 29, 2016

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, 2015 (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

MSCI offers content, applications and services to support the needs of institutional investors throughout their investment processes. MSCI clients include asset owners, such as pension funds, endowments, foundations, central banks, family offices and insurance companies; asset management firms, such as mutual funds, hedge funds, providers of exchange-traded funds ("ETFs"); private wealth managers; and financial intermediaries, such as banks, broker-dealers, exchanges, custodians, trust companies and investment consultants.

Our products and services include indexes and analytical models; ratings and analysis that enable institutional investors to integrate environmental, social and governance ("ESG") factors into their investment strategies; and analysis of real estate in both privately and publicly owned portfolios. Clients use our content and applications to help construct portfolios and allocate assets. Our analytical tools help them measure and manage risk across all major asset classes. MSCI products and services can also be customized to meet the specific needs of our clients. As of June 30, 2016, we had approximately 6,400 clients across 83 countries. To calculate the number of clients, we may count certain 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 approximately 3,850, as of June 30, 2016. We had offices in 34 cities in 22 countries to help serve our diverse client base, with 51.8% of our revenues coming from clients in the Americas, 35.6% in Europe, the Middle East and Africa ("EMEA") and 12.6% in Asia and Australia.

Our principal business model is to license annual, recurring subscriptions to our products and services for use at specified locations, often by a given number of users or for a certain volume of services, for an annual fee paid up-front. Additionally, our recurring subscriptions include our managed services offering, whereby we oversee the production of risk and performance reports on behalf of our clients. Fees attributable to annual, recurring subscriptions are recorded as deferred revenues on our Unaudited Condensed Consolidated Statement of Financial Condition and are recognized on our Unaudited Condensed 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 or as the basis for passively managed funds and separate accounts. These clients commonly pay us a license fee for the use of our intellectual property based on the investment product's assets. We also generate revenues from certain exchanges that use our indexes as the basis for futures and options contracts and pay us a license fee for the use of our intellectual property based on their volume of trades. 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 products that are recognized upon delivery of such reports or data updates. We also receive revenues from one-time fees related to certain implementation services, historical or customized reports, advisory and consulting services and from certain products and services that are designed for one-time usage.

In evaluating our financial performance, we focus on revenue and profit growth, including GAAP and 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) expanding and deepening our relationships with investment institutions worldwide; (b) developing new and enhancing existing product offerings, including combining existing product features or data derived from our products to create new products; and (c) seeking to acquire products, technologies and companies that will enhance, complement or expand our client base and product offerings.

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.

Factors Affecting the Comparability of Results

Share Repurchases

On February 4, 2014, our Board of Directors approved a stock repurchase program authorizing the purchase of up to $300.0 million worth of shares of our common stock, which was subsequently increased to $850.0 million (the “2014 Repurchase Program”). On October 14, 2015, we exhausted the $850.0 million share repurchase authorization under the 2014 Repurchase Program.

On October 28, 2015, our Board of Directors approved a new stock repurchase program authorizing the purchase of up to $1.0 billion worth of shares of our common stock (the “2015 Repurchase Program”). Share repurchases made pursuant to the 2015 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 our Board of Directors at any time without prior notice.

On September 18, 2014, as part of the 2014 Repurchase Program, we entered into an ASR agreement to initiate share repurchases aggregating $300.0 million (the “September 2014 ASR Agreement”). As a result of the September 2014 ASR Agreement, we received approximately 4.5 million shares of our common stock on September 19, 2014 and approximately 1.2 million shares of our common stock on May 21, 2015 for a combined average price of $52.79 per share.

On June 2, 2015, we began purchasing shares of our common stock in the open market in accordance with SEC Rule 10b5-1. Through December 31, 2015, we paid $670.8 million to receive approximately 10.7 million shares of our common stock pursuant to open market repurchases under the 2014 Repurchase Program and the 2015 Repurchase Program.

For the six months ended June 30, 2016, we received approximately 6.5 million shares at an average purchase price of $70.12 per share for a total value of $455.5 million under the 2015 Repurchase Program.

Since 2012 and through June 30, 2016, approximately $1.9 billion has been returned to shareholders through share repurchases and the payment of cash dividends.

The weighted average shares outstanding used in calculating our diluted earnings per share decreased by 14.2% and 13.1% for the three and six months ended June 30, 2016, respectively, reflecting the impact of the share repurchase programs, partially offset by the impact of restricted stock units and stock options converting to shares.

Senior Notes

On August 13, 2015, we completed a private offering of $800.0 million aggregate principal amount of 5.75% Senior Notes due 2025 (the “2025 Senior Notes”) and received $789.5 million, net of $10.5 million of debt issuance costs. As a result of this offering, our interest expense for the current period has increased, with the annual interest expense expected to be approximately $91.5 million.

The discussion of our results of operations for the three months ended June 30, 2016 and 2015 are presented below. The results of operations for interim periods may not be indicative of future results.

Results of Operations

Three Months Ended June 30, 2016 Compared to the Three Months Ended June 30, 2015

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

	Three Months Ended June 30,			
	2016	2015	Increase/(Decrease)	
	(in thousands, except per share data)			
Operating revenues	$290,596	$270,580	$ 20,016	7.4 %
Operating expenses:				
Cost of revenues	62,130	67,394	(5,264)	(7.8 %)
Selling and marketing	41,854	42,028	(174)	(0.4 %)
Research and development	18,566	20,807	(2,241)	(10.8 %)
General and administrative	22,019	22,080	(61)	(0.3 %)
Amortization of intangible assets	11,943	11,695	248	2.1 %
Depreciation and amortization of property, equipment and leasehold improvements	8,393	8,065	328	4.1 %
Total operating expenses	164,905	172,069	(7,164)	(4.2 %)
Operating income	125,691	98,511	27,180	27.6 %
Other expense (income), net	25,147	11,095	14,052	126.7 %
Income from continuing operations before provision for income taxes	100,544	87,416	13,128	15.0 %
Provision for income taxes	33,587	31,399	2,188	7.0 %
Income from continuing operations	66,957	56,017	10,940	19.5 %
Income from discontinued operations, net of income taxes	—	—	—	—
Net income	$66,957	$56,017	$ 10,940	19.5 %
Earnings per basic common share:				
From continuing operations	$0.69	$0.50	$ 0.19	38.0 %
From discontinued operations	—	—	—	—
Earnings per basic common share	$0.69	$0.50	$ 0.19	38.0 %
Earnings per diluted common share:				
From continuing operations	$0.69	$0.50	$ 0.19	38.0 %
From discontinued operations	—	—	—	—
Earnings per diluted common share	$0.69	$0.50	$ 0.19	38.0 %
Operating margin	43.3 %	36.4 %		

Operating Revenues

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

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

	Three Months Ended