MSCI Inc.
Form 10-Q
November 02, 2018

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 September 30, 2018

OR

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

Commission file number 001-33812

MSCI INC.

(Exact Name of Registrant as Specified in its Charter)

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

(Address of Principal Executive Offices) (Zip Code)
Registrant's telephone number, including area code: (212) 804-3900

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

Indicate by check mark whether the registrant has submitted electronically 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

As of October 26, 2018, there were 88,032,852 shares of the registrant's common stock, par value $0.01, outstanding.

MSCI INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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AVAILABLE INFORMATION

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

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

Other factors that could materially affect actual results, levels of activity, performance or achievements can be found in MSCI Inc.’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on February 26, 2018 and in quarterly reports on Form 10-Q and current reports on Form 8-K filed or furnished with the SEC. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what MSCI Inc. projected. Any forward-looking statement in this report reflects MSCI Inc.'s current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to MSCI Inc.'s operations, results of operations, growth strategy and liquidity. MSCI Inc. assumes no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise, except as required by law.

WEBSITE AND SOCIAL MEDIA DISCLOSURE

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

PART I

Item 1. Financial Statements
MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except per share and share data)

	As of September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,398,398	$ 889,502
Accounts receivable (net of allowances of $1,700 and $1,700 at September 30, 2018 and December 31, 2017, respectively)	378,705	327,597
Prepaid income taxes	21,276	15,103
Prepaid and other assets	39,972	34,927
Assets held-for-sale	18,995	—
Total current assets	1,857,346	1,267,129
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $178,618 and $171,280 at September 30, 2018 and December 31, 2017, respectively)	82,745	94,437
Goodwill	1,547,002	1,560,621
Intangible assets (net of accumulated amortization of $530,760 and $507,612 at September 30, 2018 and December 31, 2017, respectively)	287,445	321,836
Deferred tax assets	11,860	12,013
Other non-current assets	20,007	19,632
Total assets	$ 3,806,405	$ 3,275,668
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,200	$ 1,612
Income taxes payable	9,581	14,828
Accrued compensation and related benefits	109,823	131,156
Other accrued liabilities	106,328	85,710
Deferred revenue	441,884	374,365
Liabilities held-for-sale	5,234	—
Total current liabilities	675,050	607,671
Long-term debt	2,574,616	2,078,093
Deferred taxes	70,629	78,027

Other non-current liabilities	107,669	110,865
Total liabilities	3,427,964	2,874,656
Commitments and Contingencies (see Note 7 and Note 8)		
Shareholders' equity:		
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; 130,002,538 and 129,543,856 common shares issued and 88,593,329 and 90,104,885 common shares outstanding at September 30, 2018 and December 31, 2017, respectively)	1,300	1,295
Treasury shares, at cost (41,409,209 and 39,438,971 common shares held at September 30, 2018 and December 31, 2017, respectively)	(2,615,827)	(2,321,989)
Additional paid in capital	1,295,450	1,264,849
Retained earnings	1,755,727	1,505,204
Accumulated other comprehensive loss	(58,209)	(48,347)
Total shareholders' equity	378,441	401,012
Total liabilities and shareholders' equity	$3,806,405	$3,275,668

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(unaudited)			
Operating revenues	$357,934	$322,097	$1,072,296	$939,393
Operating expenses:				
Cost of revenues	70,906	68,433	213,578	204,434
Selling and marketing	46,149	44,873	139,974	129,395
Research and development	20,591	17,974	61,099	55,140
General and administrative	24,751	22,079	74,974	64,484
Amortization of intangible assets	11,681	10,614	42,556	32,987
Depreciation and amortization of property, equipment and leasehold improvements	7,453	9,325	23,035	27,322
Total operating expenses	181,531	173,298	555,216	513,762
Operating income	176,403	148,799	517,080	425,631
Interest income	(6,522)	(1,835)	(13,573)	(4,077)
Interest expense	35,902	29,020	97,223	87,071
Other expense (income)	177	811	(9,177)	2,698
Other expense (income), net	29,557	27,996	74,473	85,692
Income before provision for income taxes	146,846	120,803	442,607	339,939
Provision for income taxes	23,014	35,650	86,854	100,569
Net income	$123,832	$85,153	$355,753	$239,370
Earnings per basic common share	$1.39	$0.94	$3.98	$2.65
Earnings per diluted common share	$1.36	$0.93	$3.87	$2.61
Weighted average shares outstanding used in computing earnings per share				
Basic	88,796	90,112	89,323	90,406
Diluted	91,372	91,868	91,843	91,731
Dividend declared per common share	$0.58	$0.38	$1.34	$0.94

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(unaudited)			
Net income	$123,832	$85,153	$355,753	$239,370
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(3,338)	3,458	(11,860)	11,362
Income tax effect	—	—	—	—
Foreign currency translation adjustments, net	(3,338)	3,458	(11,860)	11,362
Pension and other post-retirement adjustments	22	(69)	116	(343)
Income tax effect	(10)	(106)	(55)	(366)
Pension and other post-retirement adjustments, net	12	(175)	61	(709)
Net investment hedge adjustments	—	—	1,937	—
Income tax effect	—	—	—	—
Net investment hedge adjustments, net	—	—	1,937	—
Other comprehensive (loss) income, net of tax	(3,326)	3,283	(9,862)	10,653
Comprehensive income	$120,506	$88,436	$345,891	$250,023

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30,	
	2018	2017
	(unaudited)	
Cash flows from operating activities		
Net income	$355,753	$239,370
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	42,556	32,987
Stock-based compensation expense	27,942	27,668
Depreciation and amortization of property, equipment and leasehold improvements	23,035	27,322
Amortization of debt origination fees	2,730	2,547
Deferred taxes	(9,110)	(11,452)
Gain on divestitures, net of costs	(12,055)	—
Other non-cash adjustments	357	294
Changes in assets and liabilities:		
Accounts receivable	(60,250)	(87,168)
Prepaid income taxes	(6,229)	4,605
Prepaid and other assets	(3,756)	(7,132)
Accounts payable	605	1,806
Accrued compensation and related benefits	(18,806)	(19,074)
Income taxes payable	(9,562)	—
Other accrued liabilities	21,157	756
Deferred revenue	89,730	38,932
Other	(4,510)	9,544
Net cash provided by operating activities	439,587	261,005
Cash flows from investing activities		
Capital expenditures	(13,069)	(17,440)
Capitalized software development costs	(13,115)	(10,777)
Proceeds from the sale of capital equipment	10	—
Proceeds from divestitures	21,010	—
Proceeds from sale of investments	—	771
Net cash used in investing activities	(5,164)	(27,446)
Cash flows from financing activities		
Proceeds from exercise of stock options	365	1,781
Repurchase of treasury shares	(292,970)	(150,350)
Payment of dividends	(120,533)	(85,306)
Proceeds from borrowings	500,000	—
Payment of debt issuance costs	(6,262)	—
Net cash provided by (used in) financing activities	80,600	(233,875)
Effect of exchange rate changes	(6,127)	7,497

Net increase in cash	508,896	7,181
Cash and cash equivalent, beginning of period	889,502	791,834
Cash and cash equivalent, end of period	$1,398,398	$799,015
Supplemental disclosure of cash flow information:		
Cash paid for interest	$91,503	$91,264
Cash paid for income taxes	$110,197	$100,161
Supplemental disclosure of non-cash investing activities		
Property, equipment and leasehold improvements accrued, but not yet paid	$3,777	$3,501
Supplemental disclosure of non-cash financing activities		
Cash dividends declared, but not yet paid	$889	$900

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. INTRODUCTION AND BASIS OF PRESENTATION

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

Basis of Presentation and Use of Estimates

These unaudited condensed consolidated financial statements include the accounts of MSCI Inc. and its subsidiaries and include all adjustments of a normal, recurring nature, except assets and liabilities held-for-sale associated with Investor Force Holdings, Inc. (“InvestorForce”), necessary to state fairly the financial condition as of September 30, 2018 and December 31, 2017, the results of operations and comprehensive income for the three and nine months ended September 30, 2018 and 2017 and cash flows for the nine months ended September 30, 2018 and 2017. The unaudited condensed consolidated statement of financial condition and related financial statement information as of December 31, 2017 have been derived from the 2017 audited consolidated financial statements but do not include all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in MSCI’s Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for interim periods are not necessarily indicative of results for the entire year.

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

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

Concentrations

For the nine months ended September 30, 2018 and 2017, BlackRock, Inc. accounted for 12.2% and 11.1% of the Company’s consolidated operating revenues, respectively. For the nine months ended September 30, 2018 and 2017, BlackRock, Inc. accounted for 20.7% and 19.6% of the Index segment operating revenues, respectively. No single customer represented 10.0% or more of revenues within the Analytics and All Other segments for the nine months ended September 30, 2018 and 2017.

2. RECENT ACCOUNTING STANDARDS UPDATES

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

In March 2016, the FASB issued Accounting Standards Update 2016-08, “Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net).” In April 2016, the FASB issued Accounting Standards Update 2016-10, “Identifying Performance Obligations and Licensing.” In May 2016, the FASB issued Accounting Standards Update 2016-12, “Narrow-Scope Improvements and Practical Expedients.” In December 2016, the FASB issued Accounting Standards Update No. 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.” These updates provide supplemental adoption guidance and clarification to ASU 2014-09, and were required to be adopted concurrently. The Company adopted the new revenue standard as of January 1, 2018 using the Modified Retrospective Approach. See Note 3, "Revenue Recognition," for further information regarding revenue recognition.

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

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 address comparative reporting requirements for initial adoption as well as separating lease and non-lease components in a contract and allocating the consideration in the contract to the separate components. ASU 2018-11 provides another transition method in addition to the existing transition method by allowing entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. ASU 2018-11 also provides a practical expedient for lessors to elect, by class of underlying asset, to not separate non-lease components from the associated lease component, similar to the expedient provided for lessees.

The Company has reached a decision as to what system it will use to manage the accounting for leases, determined the contracts that would be considered leases under the new guidance and is currently in the process of implementing the system and establishing the appropriate controls and procedures. The Company will adopt the new lease standard as of January 1, 2019 using the optional transition method provided under ASU 2018-11 and is continuing to evaluate the potential impact that ASU 2016-02, ASU 2018-10 and ASU 2018-11 will have on its condensed consolidated financial statements.

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

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

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

In February 2017, the FASB issued Accounting Standards Update No. 2017-07, “Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” or ASU 2017-07. The FASB issued ASU 2017-07 in order to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. ASU 2017-07 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017. Entities should apply these amendments retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. As a result of the adoption of ASU 2017-07, the Company has restated the Condensed Consolidated Statement of Income for the three months ended September 30, 2017 and the nine months ended September 30, 2017 by reclassifying $0.1 million and $0.4 million, respectively, of non-service related pension costs from "Operating Expenses" to "Other expense (income)."

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, "Compensation—Stock Compensation (Topic 718), Scope of Modification Accounting," or ASU 2017-09. The FASB issued ASU 2017-09 in order to reduce the diversity in practice, as well as the cost and complexity when applying the guidance in Topic 718, "Compensation—Stock Compensation," to a change to the terms or conditions of a share-based payment award. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718, "Compensation—Stock Compensation." ASU 2017-09 provides that an entity shall account for the effects of a modification of the terms or conditions of an equity award as an exchange of the original award for a new award, unless the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used), the vesting conditions and the classification of the modified award are the same as the original award immediately before the award is modified. ASU 2017-09 requires reporting organizations to apply the amendments prospectively to an award modified on or after the adoption date. The adoption of ASU 2017-09 did not have a material effect on the Company's condensed consolidated financial statements.

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

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

In June 2018, the FASB issued Accounting Standards Update No. 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," or ASU 2018-07. The FASB issued ASU 2018-07 in order to align the accounting for share-based payment awards issued to non-employees with the accounting for share-based payment awards issued to employees. ASU 2018-07 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2018, with early adoption permitted. The adoption of ASU 2018-07 is not expected to have a material effect on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-15, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)," 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 is evaluating the potential impact that ASU 2018-15 will have on its condensed consolidated financial statements.

In August 2018, the SEC issued release number 33-10532, "Disclosure Update and Simplification," to facilitate the disclosure of information to investors and simplify compliance without significantly altering the total mix of information provided to investors. The amendments in this release are effective for annual reporting periods, including interim periods within those periods, beginning after November 5, 2018. As a result of the amendments, the Company will be required to, among other things, present, in the form of a reconciliation either as a separate statement or in the footnotes in interim and annual periods, an analysis of changes in each caption of stockholders' equity and non-controlling interests, which will need to be accompanied by dividends per share and in the aggregate for its common shares outstanding.

3. REVENUE RECOGNITION

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

Products and Services

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

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

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

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

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

Accounting policy

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

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

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

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

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

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

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

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

MSCI has elected the Modified Retrospective Approach and, as such, applied the new revenue standard only to contracts that were not completed at the January 1, 2018 adoption date and did not adjust prior reporting periods.

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

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

Included in the above adjustments is an increase of approximately $135.5 million primarily to accounts receivable and deferred revenue with no impact to retained earnings. In accordance with the new revenue standard, the Company now records an accounts receivable and an associated contract liability, reflected as “Deferred revenue” on MSCI’s Unaudited Condensed Consolidated Statement of Financial Condition, when it bills the customer in advance of the start date of the subscription period because the

Company has determined it has an unconditional right to receive cash since the contracts are non-cancellable by the client and non-refundable. Under the old revenue standard, these balances would not have been recorded as accounts receivable and deferred revenue as the contract service start date was subsequent to December 31, 2017.

The impact of adopting the new revenue standard on the Company's Unaudited Condensed Consolidated Statement of Income through the date of September 30, 2018 is as follows (in thousands):

	For the Three Months ended September 30, 2018		
Selected line items	As reported	Impact of Change	Without Adoption of ASC 606
Statement of Income			
Operating revenues	$357,934	$(1,052)	$356,882
Operating income	$176,403	$(1,052)	$175,351
Income before provision for income taxes	$146,846	$(1,052)	$145,794
Provision for income taxes	$23,014	$(210)	$22,804
Net income	$123,832	$(842)	$122,990
Earnings per basic common share	$1.39	$(0.01)	$1.38
Earnings per diluted common share	$1.36	$(0.01)	$1.35

	For the Nine Months ended September 30, 2018		
Selected line items	As reported	Impact of Change	Without Adoption of ASC 606
Statement of Income			
Operating revenues	$1,072,296	$(5,502)	$1,066,794
Operating income	$517,080	$(5,502)	$511,578
Income before provision for income taxes	$442,607	$(5,502)	$437,105
Provision for income taxes	$86,854	$(1,100)	$85,754
Net income	$355,753	$(4,402)	$351,351
Earnings per basic common share	$3.98	$(0.05)	$3.93
Earnings per diluted common share	$3.87	$(0.05)	$3.82

The impact of adopting the new revenue standard on the Company's Unaudited Statement of Financial Condition through the date of September 30, 2018 is as follows (in thousands):

	September 30, 2018		
Selected line items	As reported	Impact of Change	Without Adoption of ASC 606

Statement of Financial Condition			
Accounts receivable	$378,705	$(62,968)	$315,737
Income taxes payable	$9,581	$(5,414)	$4,167
Other accrued liabilities	$106,328	$(2,166)	$104,162
Deferred revenue	$441,884	$(34,851)	$407,033
Retained earnings	$1,755,727	$(20,537)	$1,735,190

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

	For the Three Months ended September 30, 2018			
	Segments			
	Index	Analytics	All Other	Total
Product Types				
Recurring subscriptions	$121,285	$118,857	$27,234	$267,376
Asset-based fees	82,007	—	—	82,007
Non-recurring	6,902	1,041	608	8,551
Total	$210,194	$119,898	$27,842	$357,934

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	For the Nine Months ended September 30, 2018			
	Segments			
	Index	Analytics	All Other	Total
Product Types				
Recurring subscriptions	$354,116	$354,629	$86,185	$794,930
Asset-based fees	255,126	—	—	255,126
Non-recurring	15,800	3,375	3,065	22,240
Total	$625,042	$358,004	$89,250	$1,072,296

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

	September 30, 2018	
	Accounts receivable	Deferred revenue
Opening (1/1/2018)	$473,400	$494,591
Closing (09/30/2018)	378,705	441,884
Increase/(decrease)	$(94,695)	$(52,707)

The amount of revenue recognized in the period that was included in the opening current deferred revenue, which reflects the contract liability amounts, was $420.7 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 September 30, 2018 reflected as a part of "Other non-current liabilities" on its Unaudited Condensed Consolidated Statement of Financial Condition.

For contracts that have a duration of one year or less, the Company has chosen to use the practical expedient available under the new revenue standard and, as such, has not disclosed either the remaining performance obligation as of the end of the reporting period or when the Company expects to recognize the revenue. The remaining performance obligations for contracts that have a duration of greater than one year is $420.5 million, which is expected to be recognized as follows:

- Approximately $237.9 million of the remaining performance obligations over the next 12-month period;
- Approximately $123.0 million of the remaining performance obligations over the second 12-month period;
- Approximately $45.0 million of the remaining performance obligations over the third 12-month period; and
- Approximately $14.6 million of the remaining performance obligations in the periods thereafter.

4. EARNINGS PER COMMON SHARE

Basic earnings per share (“EPS”) is computed by dividing income available to MSCI common shareholders by the weighted average number of common shares outstanding during the period. Common shares outstanding include common stock and vested restricted stock unit awards where recipients have satisfied either the explicit vesting terms or retirement-eligible requirements. Diluted EPS reflects the assumed conversion of all dilutive securities. There were an immaterial number of anti-dilutive securities excluded from the calculation of diluted EPS for all periods presented.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(in thousands, except per share data)				
Net income	$123,832	$85,153	$355,753	$239,370
Basic weighted average common shares outstanding	88,796	90,112	89,323	90,406
Effect of dilutive securities:				
Stock options and restricted stock units	2,576	1,756	2,520	1,325
Diluted weighted average common shares outstanding	91,372	91,868	91,843	91,731
Earnings per basic common share	$1.39	$0.94	$3.98	$2.65
Earnings per diluted common share	$1.36	$0.93	$3.87	$2.61

5. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements at September 30, 2018 and December 31, 2017 consisted of the following:

	As of September 30, 2018	December 31, 2017
	(in thousands)	
Computer & related equipment	$196,322	$ 200,592
Furniture & fixtures	10,447	10,591
Leasehold improvements	50,866	51,128
Work-in-process	3,728	3,406
Subtotal	261,363	265,717
Accumulated depreciation and amortization	(178,618)	(171,280)
Property, equipment and leasehold improvements, net [1]	$82,745	$ 94,437

[1] A portion of the change reflects the reclassification of property, equipment and leasehold improvements, net associated with InvestorForce as a component of “Assets held-for-sale” in the Unaudited Condensed Consolidated Statement of Financial Condition. See Note 11, “Divestitures” for further information regarding the classification of the assets and liabilities associated with InvestorForce.

Depreciation and amortization expense of property, equipment and leasehold improvements was $7.5 million and $9.3 million for the three months ended September 30, 2018 and 2017, respectively. Depreciation and amortization expense of property, equipment and leasehold improvements was $23.0 million and $27.3 million for the nine months ended September 30, 2018 and 2017, respectively.

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table presents goodwill by reportable segment:

(in thousands)	Index	Analytics	All Other [1]	Total
Goodwill at December 31, 2017	$1,205,400	$302,611	$52,610	$1,560,621
Changes to goodwill	—	(11,635) [2]	—	(11,635)
Foreign exchange translation adjustment	(1,228)	—	(756)	(1,984)
Goodwill at September 30, 2018	$1,204,172	$290,976	$51,854	$1,547,002

[1]The goodwill in All Other at September 30, 2018, consisted of $31.6 million in the ESG segment and $20.3 million in the Real Estate segment and at December 31, 2017 consisted of $31.6 million in the ESG segment and $21.0 million in the Real Estate segment.

[2]Reflects the $2.9 million impact of the FEA divestiture and the reclassification of $8.7 million of goodwill associated with InvestorForce as a component of “Assets held-for-sale” in the Unaudited Condensed Consolidated Statement of Financial Condition. See Note 11, “Divestitures” for further information regarding the classification of the assets and liabilities associated with InvestorForce.

The Company completed its annual goodwill impairment test as of July 1, 2018 on its four reporting units, which are the same as its four operating segments, and no impairments were noted. The Company performed a step zero, qualitative impairment test on its four operating segments and determined that it was more likely than not that the fair value for each was not less than the carrying value.

Intangible Assets

Amortization expense related to intangible assets for both the three months ended September 30, 2018 and 2017 was $11.7 million and $10.6 million, respectively. The amortization expense of acquired intangible assets for both the three months ended September 30, 2018 and 2017 was $9.0 million and $9.3 million, respectively. The amortization expense of internally developed capitalized software for both the three months ended September 30, 2018 and 2017 was $2.7 million and $1.3 million, respectively.

Amortization expense related to intangible assets for both the nine months ended September 30, 2018 and 2017 was $42.6 million and $33.0 million, respectively. The amortization expense of acquired intangible assets for both the nine months ended September 30, 2018 and 2017 was $35.2 million and $29.9 million, respectively. The amortization expense of internally developed capitalized software for both the nine months ended September 30, 2018 and 2017 was $7.4 million and $3.1 million, respectively.

During the nine months ended September 30, 2018, management decided to discontinue the use of the IPD tradename utilized by the Real Estate segment and has rebranded the segment to MSCI Real Estate. As a result, the remaining unamortized value of $7.9 million was written off.

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

	As of September 30, 2018	December 31, 2017
	(in thousands)	
Gross intangible assets:		
Customer relationships[1]	$356,699	$ 361,199
Trademarks/trade names[1]	208,320	223,382
Technology/software[1], [2]	233,109	225,407
Proprietary data	28,627	28,627
Subtotal	826,755	838,615
Foreign exchange translation adjustment	(8,550)	(9,167)
Total gross intangible assets	$818,205	$ 829,448

Accumulated amortization:		
Customer relationships[1]	$(204,417)	$ (189,100)
Trademarks/trade names[1]	(120,600)	(116,691)
Technology/software[1], [2]	(195,978)	(193,095)
Proprietary data	(11,753)	(10,352)
Subtotal	(532,748)	(509,238)
Foreign exchange translation adjustment	1,988	1,626
Total accumulated amortization	$(530,760)	$ (507,612)
Net intangible assets:		
Customer relationships[1]	$152,282	$ 172,099
Trademarks/trade names[1]	87,720	106,691
Technology/software[1], [2]	37,131	32,312
Proprietary data	16,874	18,275
Subtotal	294,007	329,377
Foreign exchange translation adjustment	(6,562)	(7,541)
Total net intangible assets	$287,445	$ 321,836

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(1) A portion of the change reflects the impact of the reclassification of the assets associated with InvestorForce as a component of "Assets held-for-sale" in the Unaudited Condensed Consolidated Statement of Financial Condition. See Note 11, "Divestitures" for further information regarding the classification of the assets and liabilities associated with InvestorForce.

(2) A portion of the change reflects the impact of the FEA divestiture. See Note 11, "Divestitures" for further information regarding the FEA divestiture.

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

Years Ending December 31,	Amortization Expense (in thousands)
Remainder 2018	$ 11,787
2019	46,467
2020	44,663
2021	40,443
2022	35,498
Thereafter	108,587
Total	$ 287,445

7. COMMITMENTS AND CONTINGENCIES

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

Leases. The Company leases facilities under non-cancellable 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 September 30, 2018 and 2017 was $6.0 million and $6.1 million, respectively. Rent expense for the nine months ended September 30, 2018 and 2017 was $18.8 million and $18.0 million, respectively.

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:

	Principal amount outstanding at	Carrying value at	Carrying value at	Fair Value at	Fair Value at

	Maturity Date (in thousands)	September 30, 2018	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Long-term debt						
5.25% senior unsecured notes due 2024	November 15, 2024	$ 800,000	$ 792,760	$ 791,880	$ 822,680	$ 847,064
5.75% senior unsecured notes due 2025	August 15, 2025	800,000	792,754	791,967	839,824	858,848
4.75% senior unsecured notes due 2026	August 1, 2026	500,000	494,749	494,246	497,290	525,185
5.375% senior unsecured notes due 2027	May 15, 2027	500,000	494,353	-	511,650	-
Total debt		$ 2,600,000	$ 2,574,616	$ 2,078,093	$ 2,671,444	$ 2,231,097

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.

On May 18, 2018, the Company completed its private offering of $500.0 million aggregate principal amount of 5.375% senior unsecured notes due 2027 (the “2027 Senior Notes”) reflected in the table above. The $495.0 million of net proceeds from the offering of the 2027 Senior Notes were allocated for general corporate purposes, including, without limitation, buybacks of the Company’s common stock and potential acquisitions.

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. The first interest payment attributable to the 2027 Senior Notes will be made on November 15, 2018.

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 September 30, 2018, 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 September 30, 2018, $27.3 million of the deferred financing fees remain unamortized, $0.4 million of which is included in "Prepaid and other assets," $1.5 million of which is included in "Other non-current assets" and $25.4 million of which is grouped and presented as part of "Long-term debt" on the Unaudited Condensed Consolidated Statement of Financial Condition.

8. SHAREHOLDERS' EQUITY

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 September 30, 2018, there was $1,464.2 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:

Nine Months Ended	Average Price Paid Per Share	Total Number of Shares Repurchased	Dollar Value of Shares Repurchased
		(in thousands)	
September 30, 2018	$149.82	1,794	$ 268,850
September 30, 2017	$87.95	1,556	$ 136,850

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

(in thousands, except per share amounts)	Dividends Per Share	Declared	Distributed	Deferred
2018				
Three Months Ended March 31,	$0.38	$34,848	$ 34,900	$ (52)
Three Months Ended June 30,	0.38	34,254	33,935	319
Three Months Ended September 30,	0.58	52,264	51,764	500
Total	$1.34	$121,366	$ 120,599	$ 767
2017				
Three Months Ended March 31,	$0.28	$25,769	$ 25,500	$ 269
Three Months Ended June 30,	0.28	25,710	25,444	266

Three Months Ended September 30,	0.38	34,768	34,403	365
Total	$0.94	$86,247	$ 85,347	$ 900

Common Stock.

The following table presents activity related to shares of common stock issued and repurchased during the nine months ended September 30, 2018:

	Common Stock Issued	Treasury Stock	Common Stock Outstanding
Balance At December 31, 2017	129,543,856	(39,438,971)	90,104,885
Dividend payable/paid	111	(111)	—
Common stock issued and exercise of stock options	409,794	—	409,794
Shares withheld for tax withholding and exercises	—	(162,846)	(162,846)
Shares repurchased under stock repurchase programs	—	(492,175)	(492,175)
Shares issued to directors	—	—	—
Balance At March 31, 2018	129,953,761	(40,094,103)	89,859,658
Dividend payable/paid	117	(117)	—
Common stock issued and exercise of stock options	18,944	—	18,944
Shares withheld for tax withholding and exercises	—	(3,178)	(3,178)
Shares repurchased under stock repurchase programs	—	(1,042,966)	(1,042,966)
Shares issued to directors	6,059	(5,618)	441
Balance At June 30, 2018	129,978,881	(41,145,982)	88,832,899
Dividend payable/paid	165	(165)	—
Common stock issued and exercise of stock options	23,492	—	23,492
Shares withheld for tax withholding and exercises	—	(3,705)	(3,705)
Shares repurchased under stock repurchase programs	—	(259,357)	(259,357)
Shares issued to directors	—	—	—
Balance At September 30, 2018	130,002,538	(41,409,209)	88,593,329

9. INCOME TAXES

The Company’s provision for income taxes was $86.9 million and $100.6 million for the nine months ended September 30, 2018 and 2017, respectively. These amounts reflect effective tax rates of 19.6% and 29.6% for the nine months ended September 30, 2018 and 2017, respectively. The decrease in the provision for income taxes was primarily driven by a decline in the operating tax rate and the impact of discrete items as discussed below, partially offset by higher income before provision for income taxes.

The effective tax rate of 19.6% for the nine months ended September 30, 2018 reflects the Company’s estimate of the effective tax rate for the period and was impacted by certain discrete items totaling $19.0 million that decreased the Company’s effective tax rate by 3.4 percentage points. For the nine months ended September 30, 2018, these discrete items include $8.8 million of excess tax benefits related to stock-based compensation and $11.8 million related to the release of valuation allowances previously recorded on capital loss carryforwards. The Company recognized $7.8 million of the release of the valuation allowance in the three months ended September 30, 2018 due to the execution of the agreement to sell InvestorForce in July 2018 and $4.0 million of the release of the valuation allowance in April 2018 related to the FEA divestiture. See Note 11, “Divestitures,” for additional information. The discrete items also include a $1.6 million net adjustment benefit relating to the adjustment resulting from the Company's provisional accounting for the effects of Tax Reform.

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

The Company's provisional accounting for the effects of Tax Reform resulted in a net adjustment benefit of $1.6 million in the provision for income taxes for MSCI in the nine months ended September 30, 2018 that primarily related to a change in the estimate of taxes on the amount of historical profits that were previously deemed to be permanently invested overseas. The cumulative accrual for Tax Reform as of September 30, 2018, including the charges recognized in the year ended December 31, 2017 and in the nine months ended September 30, 2018, totaled $32.9 million.

Pursuant to SAB 118 and given the amount and complexity of the changes in tax law resulting from Tax Reform, the Company has not finalized the accounting for the income tax effects of Tax Reform. This includes the provisional amounts recorded related to the Toll Charge, the remeasurement of deferred taxes and the change in the Company's indefinite reinvestment assertion. The impact of Tax Reform may differ from this estimate, possibly materially, during the defined one-year measurement period due to, among other things, further refinement of the Company's calculations as it completes its tax returns for the fiscal year ended December 31, 2017, changes in interpretations and assumptions the Company has made and ongoing guidance and accounting interpretations that may be issued as a result of Tax Reform.

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

The Company is under examination by the IRS and other tax authorities in certain jurisdictions, including foreign jurisdictions, such as India, and states in which the Company has significant operations, such as New York. The tax years currently under examination vary by jurisdiction but include years ranging from 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.

10. SEGMENT INFORMATION

ASC Subtopic 280-10, "Segment Reporting," establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or CODM, in deciding how to allocate resources and assess performance. MSCI's Chief Executive Officer and 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 certain transactions or adjustments that the CODM does not consider for the purposes of making decisions to allocate resources among segments or to assess segment performance. Although these amounts are excluded from segment Adjusted EBITDA, they are included in reported consolidated net income and are included in the reconciliation that follows.

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

Revenues and expenses directly associated with each segment are included in determining its operating results. Other expenses that are not directly attributable to a particular segment are based upon allocation methodologies, including time estimates, headcount, sales targets, data center consumption and other relevant usage measures. Due to the integrated structure of 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 and benchmarking offerings that provide real estate performance analysis for funds, investors and managers. Real Estate performance and risk analytics range from portfolio to property-specific analysis. The Real Estate operating segment also provides business intelligence to real estate owners, managers, developers and brokers worldwide.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Operating revenues				
Index	$210,194	$184,594	$625,042	$525,185
Analytics	119,898	114,972	358,004	340,759
All Other	27,842	22,531	89,250	73,449
Total	$357,934	$322,097	$1,072,296	$939,393

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Index Adjusted EBITDA	$154,477	$134,342	$457,923	$379,538

Analytics Adjusted EBITDA	37,046	33,078	106,966	94,483
All Other Adjusted EBITDA	4,014	1,318	17,782	11,919
Total operating segment profitability	195,537	168,738	582,671	485,940
Amortization of intangible assets	11,681	10,614	42,556	32,987
Depreciation and amortization of property, equipment and leasehold improvements	7,453	9,325	23,035	27,322
Operating income	176,403	148,799	517,080	425,631
Other expense (income), net	29,557	27,996	74,473	85,692
Provision for income taxes	23,014	35,650	86,854	100,569
Net income	$123,832	$85,153	$355,753	$239,370