MSCI Inc.
Form 10-Q
October 28, 2016

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, 2016

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	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 No

As of October 21, 2016, there were 94,123,892 shares of the registrant’s common stock, par value $0.01, outstanding.

MSCI INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2016

TABLE OF CONTENTS

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 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) 804-1583. 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," "beli "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, 2015 filed with the SEC on February 26, 2016 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, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$974,062	$777,706
Accounts receivable (net of allowances of $1,212 and $1,117 at September 30, 2016 and December 31, 2015, respectively)	235,803	208,239
Prepaid income taxes	20,585	46,115
Prepaid and other assets	31,913	31,211
Total current assets	1,262,363	1,063,271
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $133,237 and $114,680 at September 30, 2016 and December 31, 2015, respectively)	99,259	98,926
Goodwill	1,558,431	1,565,621
Intangible assets (net of accumulated amortization of $451,990 and $418,512 at September 30, 2016 and December 31, 2015, respectively)	358,431	391,490
Deferred tax assets	9,793	9,180
Other non-current assets	18,807	18,499
Total assets	$3,307,084	$3,146,987
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,249	$2,512
Accrued compensation and related benefits	96,428	116,619
Other accrued liabilities	75,836	61,433
Deferred revenue	343,264	317,552
Total current liabilities	516,777	498,116
Long-term debt	2,074,478	1,579,404
Deferred taxes	102,499	110,937
Other non-current liabilities	61,811	57,043
Total liabilities	2,755,565	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; 128,955,118 and 128,200,189 common shares issued and 94,672,958 and 101,013,148 common shares outstanding at September 30, 2016 and December 31, 2015, respectively)	1,290	1,282
Treasury shares, at cost (34,282,160 and 27,187,041 common shares held at September 30, 2016 and December 31, 2015, respectively)	(1,895,027)	(1,395,695)
Additional paid in capital	1,215,661	1,173,183
Retained earnings	1,280,497	1,158,462
Accumulated other comprehensive loss	(50,902)	(35,745)
Total shareholders' equity	551,519	901,487
Total liabilities and shareholders' equity	$ 3,307,084	$ 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(unaudited)			
Operating revenues	$288,433	$268,771	$857,857	$802,120
Operating expenses:				
Cost of revenues	62,986	65,593	188,288	202,891
Selling and marketing	41,514	38,809	125,057	122,485
Research and development	18,750	15,548	56,244	59,544
General and administrative	21,859	19,960	65,768	62,417
Amortization of intangible assets	11,752	11,710	35,535	35,107
Depreciation and amortization of property, equipment and leasehold improvements	8,312	8,049	24,873	23,321
Total operating expenses	165,173	159,669	495,765	505,765
Operating income	123,260	109,102	362,092	296,355
Interest income	(799)	(285)	(2,005)	(674)
Interest expense	26,790	17,267	72,612	39,491
Other expense (income)	(253)	(6,922)	2,642	(6,580)
Other expense (income), net	25,738	10,060	73,249	32,237
Income from continuing operations before provision for income taxes	97,522	99,042	288,843	264,118
Provision for income taxes	32,241	34,644	96,238	94,079
Income from continuing operations	65,281	64,398	192,605	170,039
Income (loss) from discontinued operations, net of income taxes	—	—	—	(5,797)
Net income	$65,281	$64,398	$192,605	$164,242
Earnings per basic common share:				
Earnings per basic common share from continuing operations	$0.69	$0.59	$1.99	$1.53
Earnings per basic common share from discontinued operations	—	—	—	(0.05)
Earnings per basic common share	$0.69	$0.59	$1.99	$1.48
Earnings per diluted common share:				
Earnings per diluted common share from continuing operations	$0.68	$0.59	$1.98	$1.52
Earnings per diluted common share from discontinued operations	—	—	—	(0.05)

Earnings per diluted common share	$0.68	$0.59	$1.98	$1.47
Weighted average shares outstanding used in computing				
earnings per share				
Basic	94,823	108,773	96,879	111,131
Diluted	95,473	109,440	97,445	111,951
Dividend declared per common share	$0.28	$0.22	$0.72	$0.58

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,	
	2016	2015	2016	2015
	(unaudited)			
Net income	$65,281	$64,398	$192,605	$164,242
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(2,627)	(6,830)	(15,014)	(7,269)
Income tax effect	(101)	156	44	790
Foreign currency translation adjustments, net	(2,728)	(6,674)	(14,970)	(6,479)
Pension and other post-retirement adjustments	(30)	300	(262)	203
Income tax effect	13	(80)	75	(67)
Pension and other post-retirement adjustments, net	(17)	220	(187)	136
Other comprehensive (loss) income, net of tax	(2,745)	(6,454)	(15,157)	(6,343)
Comprehensive income	$62,536	$57,944	$177,448	$157,899

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30,	
	2016	2015
	(unaudited)	
Cash flows from operating activities		
Net income	$ 192,605	$ 164,242
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	35,535	35,107
Stock-based compensation expense	23,591	20,552
Depreciation and amortization of property, equipment and leasehold improvements	24,873	23,321
Amortization of debt origination fees	2,219	1,427
Deferred taxes	(7,638)	(6,095)
Excess tax benefits from share-based compensation	(6,480)	(13,706)
Gain on disposition	(449)	—
Other non-cash adjustments	1,124	(2,284)
Changes in assets and liabilities, net of the effect of acquisitions and dispositions:		
Accounts receivable	(31,021)	(30,482)
Prepaid income taxes	32,002	8,814
Prepaid and other assets	(981)	(306)
Accounts payable	(1,263)	(1,012)
Accrued compensation and related benefits	(11,177)	(15,169)
Other accrued liabilities	12,365	19,846
Deferred revenue	27,337	17,985
Other	4,388	2,432
Net cash provided by operating activities	297,030	224,672
Cash flows from investing activities		
Disposition, net of cash divested	657	—
Proceeds from the sale of capital equipment	—	55
Capital expenditures	(24,144)	(24,525)
Capitalized software development costs	(7,949)	(6,062)
Acquisitions, net of cash acquired	(60)	—
Net cash used in investing activities	(31,496)	(30,532)
Cash flows from financing activities		
Proceeds from borrowing	500,000	800,000
Excess tax benefits from share-based compensation	6,480	13,706
Proceeds from exercise of stock options	4,221	2,433
Repurchase of treasury shares	(498,863)	(444,640)
Payment of dividends	(69,933)	(64,989)
Payment of debt issuance costs in connection with debt	(7,183)	(10,477)
Net cash (used in) provided by financing activities	(65,278)	296,033

Effect of exchange rate changes	(3,900)	(5,484)
Net increase in cash	196,356	484,689
Cash and cash equivalent, beginning of period	777,706	508,799
Cash and cash equivalent, end of period	$974,062	$993,488
Supplemental disclosure of cash flow information:		
Cash paid for interest	$67,888	$20,922
Cash paid for income taxes	$69,471	$92,461
Supplemental disclosure of non-cash investing activities		
Property, equipment and leasehold improvements in other accrued liabilities	$5,093	$7,619
Supplemental disclosure of non-cash financing activities		
Cash dividends declared, but not yet paid	$610	$73

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 nine months ended September 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., 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 September 30, 2016 and December 31, 2015, the results of operations and comprehensive income for the three and nine months ended September 30, 2016 and 2015 and cash flows for the nine months ended September 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 nine months ended September 30, 2016, while BlackRock, Inc. accounted for 10.4% of the Company's consolidated operating revenues for the nine months ended September 30, 2015. For the nine months ended September 30, 2016 and 2015, BlackRock, Inc. accounted for 17.1% and 19.5% 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, 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 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 is 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 ASU 2016-08 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 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. 2016-09, “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 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.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," or ASU 2016-15. The amendments in ASU 2016-15 are intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017, with early adoption permitted. The adoption of ASU 2016-15 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 1,593 and 531 anti-dilutive securities excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2016, respectively. There were 850 and 283 anti-dilutive securities excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2015, respectively.

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
(in thousands, except per share data)				
Income from continuing operations, net of income taxes	$65,281	$64,398	$192,605	$170,039
Income (loss) from discontinued operations, net of income taxes	—	—	—	(5,797)
Net income	$65,281	$64,398	$192,605	$164,242
Basic weighted average common shares outstanding	94,823	108,773	96,879	111,131
Effect of dilutive securities:				
Stock options and restricted stock units	650	667	566	820
Diluted weighted average common shares outstanding	95,473	109,440	97,445	111,951
Earnings per basic common share from continuing operations	$0.69	$0.59	$1.99	$1.53
Earnings per basic common share from discontinued operations	—	—	—	(0.05)
Earnings per basic common share	$0.69	$0.59	$1.99	$1.48
Earnings per diluted common share from continuing operations	$0.68	$0.59	$1.98	$1.52
Earnings per diluted common share from discontinued operations	—	—	—	(0.05)
Earnings per diluted common share	$0.68	$0.59	$1.98	$1.47

4. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

	As of September 30, 2016	December 31, 2015
	(in thousands)	
Computer & related equipment	$ 160,946	$ 143,499
Furniture & fixtures	10,134	9,870
Leasehold improvements	47,924	47,579
Work-in-process	13,492	12,658
Subtotal	232,496	213,606
Accumulated depreciation and amortization	(133,237)	(114,680)
Property, equipment and leasehold improvements, net	$ 99,259	$ 98,926

Depreciation and amortization expense of property, equipment and leasehold improvements was $8.3 million and $8.0 million for the three months ended September 30, 2016 and 2015, respectively. Depreciation and amortization expense of property, equipment and leasehold improvements was $24.9 million and $23.3 million for the nine months ended September 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	—	60 (1)	(110) (2)	(50)
Foreign exchange translation adjustment	(4,408)	—	(2,732)	(7,140)
Goodwill at September 30, 2016	$1,205,958	$302,611	$49,862	$1,558,431

(1) Reflects the final working capital adjustment payment made during the nine months ended September 30, 2016 to complete the acquisition of Insignis, Inc.
(2) Reflects the value disposed in the sale of the Real Estate occupiers business.

Intangible Assets

Amortization expense related to intangible assets for the three months ended September 30, 2016 and 2015 was $11.8 million and $11.7 million, respectively. Amortization expense related to intangible assets for the nine months ended September 30, 2016 and 2015 was $35.5 million and $35.1 million, respectively.

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

	As of September 30, 2016	December 31, 2015
	(in thousands)	
Gross intangible assets:		
Customer relationships	$361,204	$ 361,746
Trademarks/trade names	223,382	223,382
Technology/software	207,517	199,889
Proprietary data	28,627	28,627
Covenant not to compete	1,225	1,225
Subtotal	821,955	814,869
Foreign exchange translation adjustment	(11,534)	(4,867)
Total gross intangible assets	$810,421	$ 810,002
Accumulated amortization:		
Customer relationships	$(161,075)	$ (143,325)
Trademarks/trade names	(102,178)	(93,476)
Technology/software	(182,013)	(175,209)

Proprietary data	(8,141)	(6,698)
Covenant not to compete	(1,049)	(665)
Subtotal	(454,456)	(419,373)
Foreign exchange translation adjustment	2,466	861
Total accumulated amortization	$(451,990)	$ (418,512)
Net intangible assets:		
Customer relationships	$200,129	$ 218,421
Trademarks/trade names	121,204	129,906
Technology/software	25,504	24,680
Proprietary data	20,486	21,929
Covenant not to compete	176	560
Subtotal	367,499	395,496
Foreign exchange translation adjustment	(9,068)	(4,006)
Total net intangible assets	$358,431	$ 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	$ 12,031
2017	44,183
2018	41,138
2019	39,100
2020	36,878
Thereafter	185,101
Total	$ 358,431

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 September 30, 2016 and 2015 was $6.1 million and $6.3 million, respectively. Rent expense for the nine months ended September 30, 2016 and 2015 was $18.3 million and $19.8 million, respectively.

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

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

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

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

The 2024 Senior Notes are scheduled to mature and be paid in full on November 15, 2024. At any time prior to November 15, 2019, the Company may redeem all or part of the 2024 Senior Notes upon not less than 30 nor more than 60 days’ prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of redemption, plus (iii) accrued and unpaid interest and additional interest, if any, thereon, to the date of redemption. In addition, the Company may redeem all or part of the 2024 Senior Notes, together with accrued and unpaid interest, on or after November 15, 2019, at redemption prices set forth in the indenture governing the 2024 Senior Notes. 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 2025 Senior Notes are scheduled to mature and be paid in full on August 15, 2025. At any time prior to August 15, 2020, the Company may redeem all or part of the 2025 Senior Notes upon not less than 30 nor more than 60 days' prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) a make-whole premium as of the date of redemption, plus (iii) accrued and unpaid interest and additional interest, if any, thereon, to the date of redemption. In addition, the Company may redeem all or part of the 2025 Senior Notes, together with accrued and unpaid interest, on or after August 15, 2020, at redemption prices set forth in the indenture governing the 2025 Senior Notes. At any time prior to August 15, 2018, the Company may use the proceeds of certain equity offerings to redeem up to 35% of the aggregate principal amount of the 2025 Senior Notes, including any permitted additional notes, at a redemption price equal to 105.75% of the principal amount.

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

Interest payments attributable to the 2024 Senior Notes are due on May 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. Interest payments attributable to the 2026 Senior Notes are due on February 1 and August 1 of each year. The first interest payment is due on February 1, 2017.

Revolver. On November 20, 2014, the Company entered into a $200.0 million senior unsecured revolving credit agreement (the "2014 Revolving Credit Agreement") with a syndicate of banks. The 2014 Revolving Credit Agreement had an initial term of five years with an option to extend for two additional one-year terms. On August 4, 2016, the Company entered into Amendment No. 1 (the "Amendment") to the 2014 Revolving Credit Agreement (the 2014 Revolving Credit Agreement as so amended, the "Revolving Credit Agreement"). The Amendment, among other things, (i) permits the Company to increase aggregate commitments available to be borrowed to $220.0 million, (ii) increases the maximum consolidated leverage ratio and (iii) extends the initial term to August 2021 with an option to extend for an additional one-year term.

Long-term debt at September 30, 2016 was $2,074.5 million, net of $25.5 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 Senior Notes offerings and entry into the 2014 Revolving Credit Agreement and the Amendment, the Company paid certain fees which, together with the existing fees related to prior credit facilities, are being amortized over the related lives. At September 30, 2016, $28.0 million of the deferred financing fees remain unamortized, $0.5 million of which is included in "Prepaid and other assets," $1.9 million of which is included in "Other non-current assets" and $25.5 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 $0.8 million and $0.5 million of deferred financing fees in interest expense during the three months ended September 30, 2016 and 2015, respectively. The Company amortized $2.2 million and $1.4 million of deferred financing fees in interest expense during the nine months ended September 30, 2016 and 2015, respectively.

At September 30, 2016 and December 31, 2015, the fair market value of the Company's debt obligations was $2,214.7 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 exposures 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 September 30, 2016, the Company had outstanding foreign currency forwards with a notional amount of $19.6 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 September 30, 2016	December 31, 2015
Non-designated hedging instruments:			
Asset derivatives:			
Foreign exchange contracts	Prepaid and other assets	$ 211	$ 640
Liability derivatives:			
Foreign exchange contracts	Other accrued liabilities	$ (15)	$ (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 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 September 30, 2016	2015
Foreign exchange contracts	Other expense (income)	$ 211	$ (125)

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 Nine Months Ended September 30, 2016	2015
Foreign exchange contracts	Other expense (income)	$ 1,125	$ 287

7. SHAREHOLDERS' EQUITY

Return of capital. On February 4, 2014, the Board of Directors of MSCI (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 repurchase 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 nine months ended September 30, 2016, the Company repurchased approximately 6.9 million shares at an average purchase price of $70.43 per share for a total value of $483.8 million under the 2015 Repurchase Program.

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

(in thousands)	Dividends Per Share	Declared	Distributed	Deferred
2016				
Three Months Ended March 31,	$0.22	$22,046	$ 21,889	$ 157
Three Months Ended June 30,	0.22	21,588	21,391	197
Three Months Ended September 30,	0.28	26,936	26,680	256
Total	$0.72	$70,570	$ 69,960	$ 610
2015				
Three Months Ended March 31,	$0.18	$20,424	$ 20,411	$ 13
Three Months Ended June 30,	0.18	20,443	20,441	2
Three Months Ended September 30,	0.22	24,210	24,152	58
Total	$0.58	$65,077	$ 65,004	$ 73

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
Dividend payable/paid	121	(121)	—
Common stock issued and exercise of stock options	68,417	—	68,417
Shares withheld for tax withholding and exercises	—	(12,894)	(12,894)
Shares repurchased under stock repurchase programs	—	(373,620)	(373,620)
Balance At September 30, 2016	128,955,118	(34,282,160)	94,672,958

8. INCOME TAXES

The Company's provision for income taxes was $96.2 million and $94.1 million for the nine months ended September 30, 2016 and 2015, respectively. These amounts reflect effective tax rates of 33.3% and 35.6% for the nine months ended September 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 effective tax rate of 33.3% for the nine months ended September 30, 2016 reflects the Company's estimate of the effective tax rate for the period and was impacted by certain discrete items totaling $1.4 million related to interest received on tax refunds and additional deductions on filing the 2015 tax return, which decreased the Company's effective tax rate by 0.5 percentage points.

The effective tax rate of 35.6% for the nine months ended September 30, 2015 reflected the Company's estimate of the effective tax rate for the period and was impacted by a change in the mix of profits between tax jurisdictions as well as certain discrete items totaling $0.7 million. These items relate to the benefit recognized on the sale of an investment in which the tax basis and book basis were permanently different, partially offset by an increased liability for state taxes.

The Company is under examination by the IRS and other tax authorities in certain jurisdictions, including foreign jurisdictions, such as India, and states in which the Company has significant operations, such as New York. The tax years currently under examination vary by jurisdiction but include years ranging from 2005 through 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 and lenders, as well as occupiers through its date of disposal. This segment provides index products and offers services that include research, reporting and benchmarking. During the three months ended September 30, 2016, the Company disposed of the occupiers business and recorded a gain on the disposition which was recorded in "Other expense (income)," in the Unaudited Condensed Consolidated Statement of Income.

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Operating revenues				
Index	$157,751	$141,577	$454,481	$415,262
Analytics	111,291	108,341	333,947	322,756
All Other	19,391	18,853	69,429	64,102
Total	$288,433	$268,771	$857,857	$802,120

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,	
	2016	2015	2016	2015
	(in thousands)			
Index Adjusted EBITDA	$111,750	$102,927	$318,317	$293,997
Analytics Adjusted EBITDA	31,501	29,216	95,163	64,560
All Other Adjusted EBITDA	73	(3,282)	9,020	(3,774)
Total operating segment profitability	143,324	128,861	422,500	354,783
Amortization of intangible assets	11,752	11,710	35,535	35,107
Depreciation and amortization of property, equipment and leasehold improvements	8,312	8,049	24,873	23,321
Operating income	123,260	109,102	362,092	296,355
Other expense (income), net	25,738	10,060	73,249	32,237

Provision for income taxes	32,241	34,644	96,238	94,079
Income from continuing operations	65,281	64,398	192,605	170,039
Income (loss) from discontinued operations, net of income taxes	—	—	—	(5,797)
Net income	$65,281	$64,398	$192,605	$164,242

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)			
Revenues				
Americas:				
United States	$139,376	$128,770	$411,740	$384,443
Other	11,908	10,817	33,878	31,047
Total Americas	151,284	139,587	445,618	415,490
Europe, the Middle East and Africa ("EMEA"):				
United Kingdom	44,689	42,249	131,275	124,645
Other	56,317	52,564	173,191	162,873
Total EMEA	101,006	94,813	304,466	287,518
Asia & Australia:				
Japan	13,476	11,283	39,679	33,843
Other	22,667	23,088	68,094	65,269
Total Asia & Australia	36,143	34,371	107,773	99,112
Total	$288,433	$268,771	$857,857	$802,120

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	
	September 30, 2016	December 31, 2015
	(in thousands)	
Long-lived assets		
Americas:		
United States	$1,886,593	$ 1,916,689
Other	1,702	2,279
Total Americas	1,888,295	1,918,968
EMEA:		
United Kingdom	94,672	110,261
Other	24,637	16,849
Total EMEA	119,309	127,110
Asia & Australia:		
Japan	477	570

Other	8,040	9,389
Total Asia & Australia	8,517	9,959
Total	$2,016,121	$ 2,056,037

10. SUBSEQUENT EVENTS

On October 26, 2016, the Board of Directors declared a cash dividend of $0.28 per share for fourth quarter 2016. The fourth quarter 2016 dividend is payable on November 30, 2016 to shareholders of record as of the close of trading on November 14, 2016.

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

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 September 30, 2016, and the related condensed consolidated statements of income and of comprehensive income for the three-month and nine-month periods ended September 30, 2016 and September 30, 2015 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2016 and September 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
October 28, 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 research, data and analytics for portfolios of privately and publicly owned real estate. 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 by clients to meet their specific needs. As of September 30, 2016, we had approximately 6,400 clients across 85 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 over 3,800, as of September 30, 2016. We had offices in 33 cities in 22 countries to help serve our diverse client base, with 52.0% of our revenues coming from clients in the Americas, 35.4% 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 record revenues from one-time fees related to certain implementation services, historical or custom requested reports, consulting services and from certain products and services that are designed for one-time or non-recurring 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 repurchased 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 repurchase 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 nine months ended September 30, 2016, we repurchased approximately 6.9 million shares at an average purchase price of $70.43 per share for a total value of $483.8 million under the 2015 Repurchase Program.

Since 2012 and through September 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 to calculate our diluted earnings per share decreased by 12.8% and 13.0% for the three and nine months ended September 30, 2016, respectively, reflecting the impact of the share repurchase programs, partially offset by the impact of restricted stock units and stock options that converted 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.

On August 4, 2016, we completed a private offering of $500.0 million aggregate principal amount of 4.75% Senior Notes due 2026 (the “2026 Senior Notes”) and received $493.3 million, net of $6.7 million of debt issuance costs.

As a result of these offerings, our interest expense for the current period has increased, with the interest expense for the year ending December 31, 2016 expected to be approximately $102 million. The annual interest expense related to these offerings in future years is expected to be approximately $116 million.

The discussion of our results of operations for the three months ended September 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 September 30, 2016 Compared to the Three Months Ended September 30, 2015

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

	Three Months Ended September 30,			
	2016	2015	Increase/(Decrease)	
	(in thousands, except per share data)			
Operating revenues	$288,433	$268,771	$ 19,662	7.3 %
Operating expenses:				
Cost of revenues	62,986	65,593	(2,607)	(4.0 %)
Selling and marketing	41,514	38,809	2,705	7.0 %
Research and development	18,750	15,548	3,202	20.6 %
General and administrative	21,859	19,960	1,899	9.5 %
Amortization of intangible assets	11,752	11,710	42	0.4 %
Depreciation and amortization of property, equipment and leasehold improvements	8,312	8,049	263	3.3 %
Total operating expenses	165,173	159,669	5,504	3.4 %
Operating income	123,260	109,102	14,158	13.0 %
Other expense (income), net	25,738	10,060	15,678	155.8 %
Income from continuing operations before provision for income taxes	97,522	99,042	(1,520)	(1.5 %)
Provision for income taxes	32,241	34,644	(2,403)	(6.9 %)
Income from continuing operations	65,281	64,398	883	1.4 %
Income from discontinued operations, net of income taxes	—	—	—	—
Net income	$65,281	$64,398	$ 883	1.4 %
Earnings per basic common share:				
From continuing operations	$0.69	$0.59	$ 0.10	16.9 %
From discontinued operations	—	—	—	—
Earnings per basic common share	$0.69	$0.59	$ 0.10	16.9 %
Earnings per diluted common share:				
From continuing operations	$0.68	$0.59	$ 0.09	15.3 %
From discontinued operations	—	—	—	—
Earnings per diluted common share	$0.68	$0.59	$ 0.09	15.3 %
Operating margin	42.7 %	40.6 %		

Operating Revenues

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

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

	Three Months Ended September 30,			
	2016	2015	Increase/(Decrease)	
	(in thousands)			
Recurring subscriptions	$226,508	$213,773	$ 12,735	6.0 %
Asset-based fees	56,122	50,736	5,386	10.6 %
Non-recurring	5,803	4,262	1,541	36.2 %
Total operating revenues	$288,433	$268,771	$ 19,662	7.3 %

Total operating revenues grew 7.3% to $288.4 million for the three months ended September 30, 2016 compared to $268.8 million for the three months ended September 30, 2015.

Revenues from recurring subscriptions increased 6.0% to $226.5 million for the three months ended September 30, 2016 compared to $213.8 million for the three months ended September 30, 2015, driven by an increase of $9.5 million, or 10.6%, in Index recurring subscriptions, an increase of $2.5 million, or 2.3%, in Analytics recurring subscriptions and an increase of $1.6 million, or 16.4%, in ESG recurring subscriptions, partially offset by a decrease of $0.8 million, or 9.9%, in Real Estate recurring subscriptions. The impact on total recurring subscriptions from foreign currency exchange rate fluctuations was negligible.

Revenues from asset-based fees increased 10.6% to $56.1 million for the three months ended September 30, 2016 compared to $50.7 million for the three months ended September 30, 2015. The increase in asset-based fees was driven by several items, including a 23.6% increase in revenue from non-ETF passive funds, which was primarily due to initial fund fees recognized in the current period, as well as a 3.6% growth in revenue from ETFs linked to MSCI indexes, which was the result of an 11.7% increase in average AUM, offset by the impact of a change in the product mix. In addition, revenues from futures and options contracts based on MSCI indexes grew 59.7%, driven by a 36.7% increase in total trading volumes. Approximately two-thirds of the underlying securities included in the AUM of our index-linked investment products are denominated in currencies other than the U.S. dollar and subject to foreign currency exchange rate fluctuations.

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

	Period Ended[1]						
	2015				2016		
(in billions)	March 31,	June 30,	September 30,	December 31,	March 31,	June 30,	September 30,
AUM in ETFs linked to MSCI Indexes[2]	$418.0	$435.4	$ 390.2	$ 433.4	$438.3	$439.7	$ 474.9
Sequential Change in Value							
Market Appreciation/(Depreciation)	$13.0	$(6.9)	$ (48.2)	$ 14.5	$(1.7)	$(2.5)	$ 23.7
Cash Inflows	31.7	24.3	3.0	28.7	6.6	3.9	11.5
Total Change	$44.7	$17.4	$ (45.2)	$ 43.2	$4.9	$1.4	$ 35.2

Source: Bloomberg and MSCI

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

(2) The value of AUM in ETFs linked to MSCI Indexes is calculated by multiplying the ETF net asset value by the number of shares outstanding.

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

	Quarterly Average						
	2015				2016		
(in billions)	March	June	September	December	March	June	September
AUM in ETFs linked to MSCI Indexes	$392.5	$441.4	$ 418.2	$ 423.3	$407.9	$438.8	$ 467.3

Non-recurring revenues increased 36.2% to $5.8 million for the three months ended September 30, 2016 compared to $4.3 million for the three months ended September 30, 2015.

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

	Three Months Ended September 30,			
	2016	2015	Increase/(Decrease)	
	(in thousands)			
Operating revenues:				
Index				
Recurring subscriptions	$98,625	$89,139	$ 9,486	10.6 %
Asset-based fees	56,122	50,736	5,386	10.6 %
Non-recurring	3,004	1,702	1,302	76.5 %
Index total	157,751	141,577	16,174	11.4 %
Analytics				
Recurring subscriptions	109,554	107,065	2,489	2.3 %
Non-recurring	1,737	1,276	461	36.1 %
Analytics total	111,291	108,341	2,950	2.7 %
All Other				
Recurring subscriptions	18,329	17,569	760	4.3 %
Non-recurring	1,062	1,284	(222)	(17.3 %)
All Other total	19,391	18,853	538	2.9 %
Total operating revenues	$288,433	$268,771	$ 19,662	7.3 %

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

Operating Expenses

We group our operating expenses into the following activity categories:

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

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

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

	Three Months Ended September 30,			
	2016	2015	Increase/(Decrease)	
	(in thousands)			
Operating expenses:				
Cost of revenues	$62,986	$65,593	$ (2,607)	(4.0 %)
Selling and marketing	41,514	38,809	2,705	7.0 %
Research and development	18,750	15,548	3,202	20.6 %
General and administrative	21,859	19,960	1,899	9.5 %
Amortization of intangible assets	11,752	11,710	42	0.4 %
Depreciation and amortization of property, equipment and leasehold improvements	8,312	8,049	263	3.3 %
Total operating expenses	$165,173	$159,669	$ 5,504	3.4 %

25

Total operating expenses increased 3.4% to $165.2 million for the three months ended September 30, 2016 compared to $159.7 million for the three months ended September 30, 2015. Adjusting for the impact of foreign currency exchange rate fluctuations, total operating expenses would have increased 5.4% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

Cost of Revenues

Cost of revenues consists of costs related to the production and servicing of our products and services and primarily includes related information technology costs, including data center, platform and infrastructure costs; costs to acquire, produce and maintain market data information; costs of research to support, maintain and rebalance existing products; costs of product management teams; costs of client service and consultant teams to support customer needs; and other support costs directly attributable to the cost of revenues including certain human resources, finance and legal costs. Cost of revenues decreased 4.0% to $63.0 million for the three months ended September 30, 2016 compared to $65.6 million for the three months ended September 30, 2015, primarily driven by lower compensation and benefits costs, as well as a decrease in non-compensation information technology costs and professional fees.

Selling and Marketing

Selling and marketing consists of costs associated with acquiring new clients or selling new products or product renewals to existing clients and primarily includes the costs of our sales force and marketing teams, as well as costs incurred in other groups associated with acquiring new business, including product management, research, technology and sales operations. Selling and marketing expenses increased 7.0% to $41.5 million for the three months ended September 30, 2016 compared to $38.8 million for the three months ended September 30, 2015, primarily driven by higher incentive compensation, partially offset by lower salary expense and severance, as well as higher marketing and other costs.

Research and Development

R&D consists of the costs to develop new, or to enhance existing, products and the costs to develop new or improved technology and service platforms for the delivery of our products and services and primarily includes the costs of development, research, product management, project management and the technology support associated with these efforts. R&D expenses increased 20.6% to $18.8 million for the three months ended September 30, 2016 compared to $15.5 million for the three months ended September 30, 2015, primarily driven by higher compensation and benefits costs and higher non-compensation technology costs and professional fees, primarily within the Analytics segment.

General and Administrative

G&A consists of costs primarily related to finance operations, human resources, the office of the Chief Executive Officer, legal, corporate technology, corporate development and certain other administrative costs that are not directly attributed, but are instead allocated, to a product or service. G&A expenses increased 9.5% to $21.9 million for the three months ended September 30, 2016 compared to $20.0 million, primarily driven by higher compensation and benefits costs, partially offset by lower non-compensation recruiting costs.

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

Three Months Ended

	September 30,			
	2016	2015	Increase/(Decrease)	
	(in thousands)			
Compensation and benefits	$102,725	$98,490	$ 4,235	4.3 %
Non-compensation expenses	42,384	41,420	964	2.3 %
Amortization of intangible assets	11,752	11,710	42	0.4 %
Depreciation and amortization of property, equipment and leasehold improvements	8,312	8,049	263	3.3 %
Total operating expenses	$165,173	$159,669	$ 5,504	3.4 %

Compensation and benefits costs are our most significant expense and typically represent more than 60% of operating expenses or more than 70% of Adjusted EBITDA expenses. We had 2,802 and 2,743 employees as of September 30, 2016 and 2015, respectively. Continued growth of our emerging market centers around the world is an important factor in our ability to manage and control the growth of our compensation and benefit expenses. As of September 30, 2016, 55.6% of our employees were located in emerging market centers compared to 52.2% as of September 30, 2015.

Compensation and benefits expenses increased 4.3% to $102.7 million for the three months ended September 30, 2016 compared to $98.5 million for the three months ended September 30, 2015 due to higher incentive compensation, partially offset by lower salary expense, driven by the higher percentage of employees in emerging market centers which have lower cost structures, as well as lower severance.

Non-compensation expenses increased 2.3% to $42.4 million for the three months ended September 30, 2016 compared to $41.4 million for the three months ended September 30, 2015, primarily driven by marketing, professional fees, travel & entertainment, partially offset by lower recruiting costs.

Amortization of Intangible Assets

Amortization of intangible assets expense increased 0.4% to $11.8 million for the three months ended September 30, 2016 compared to $11.7 million for the three months ended September 30, 2015.

Depreciation and Amortization of Property, Equipment and Leasehold Improvements

Depreciation and amortization of property, equipment and leasehold improvements increased 3.3% to $8.3 million for the three months ended September 30, 2016 compared to $8.0 million for the three months ended September 30, 2015.

Other Expense (Income), Net

Other expense (income), net increased 155.8% to $25.7 million for the three months ended September 30, 2016 compared to $10.1 million for the three months ended September 30, 2015. The increase was driven by $9.5 million of higher interest expense resulting from the increased level of indebtedness as well as the impact from a $6.3 million gain on the sale of an investment realized in the three months ended September 30, 2015.

Income Taxes

The provision for income tax expense decreased 6.9% to $32.2 million for the three months ended September 30, 2016 compared to $34.6 million for the three months ended September 30, 2015 on lower income from continuing operations and a decline in the effective tax rate. These amounts reflect effective tax rates of 33.1% and 35.0% for the three months ended September 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 effective tax rate of 33.1% for the three months ended September 30, 2016 reflects the Company’s estimate of the effective tax rate for the period and was impacted by certain discrete items totaling $1.0 million related to interest received on tax refunds and additional deductions on filing the 2015 tax return that decreased the Company’s effective tax rate by 1.0 percentage point.

Net Income

As a result of the factors described above, net income for the three months ended September 30, 2016 increased 1.4% to $65.3 million compared to $64.4 million for the three months ended September 30, 2015.

Adjusted EBITDA

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

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

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

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

	Three Months Ended September 30,			
	2016	2015	Increase/(Decrease)	
	(in thousands)			
Operating revenues	$288,433	$268,771	$ 19,662	7.3 %
Adjusted EBITDA expenses	145,109	139,910	5,199	3.7 %
Adjusted EBITDA	$143,324	$128,861	$ 14,463	11.2 %
Adjusted EBITDA margin %	49.7 %	47.9 %		
Operating margin %	42.7 %	40.6 %		

Adjusted EBITDA increased 11.2% to $143.3 million for the three months ended September 30, 2016 compared to $128.9 million for the three months ended September 30, 2015. Adjusted EBITDA margin increased to 49.7% for the three months ended September 30, 2016 compared to 47.9% for the three months ended September 30, 2015. The improvement in margin reflects higher rate of growth in operating revenues, primarily attributable to higher recurring subscriptions within the Index segment, as compared to the rate of growth to expenses.

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

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

	Three Months Ended September 30,	
	2016	2015
	(in thousands)	
Index Adjusted EBITDA	$111,750	$102,927
Analytics Adjusted EBITDA	31,501	29,216
All Other Adjusted EBITDA	73	(3,282)
Consolidated Adjusted EBITDA	143,324	128,861
Amortization of intangible assets	11,752	11,710
Depreciation and amortization of property, equipment and leasehold improvements	8,312	8,049
Operating income	123,260	109,102
Other expense (income), net	25,738	10,060
Provision for income taxes	32,241	34,644
Income from continuing operations	65,281	64,398
Income (loss) from discontinued operations,	—	—

net of income taxes		
Net income	$65,281	$64,398

28

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

	Three Months Ended September 30,	
	2016	2015
	(in thousands)	
Index Adjusted EBITDA expenses	$46,001	$38,650
Analytics Adjusted EBITDA expenses	79,790	79,125
All Other Adjusted EBITDA expenses	19,318	22,135
Consolidated Adjusted EBITDA expenses	145,109	139,910
Amortization of intangible assets	11,752	11,710
Depreciation and amortization of property, equipment and leasehold improvements	8,312	8,049
Total operating expenses	$165,173	$159,669

The discussion of our segment results for the three months ended September 30, 2016 and 2015 is presented below.

Segment Results

Index Segment

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

	Three Months Ended September 30,			
	2016	2015	Increase/(Decrease)	
	(in thousands)			
Operating revenues:				
Recurring subscriptions	$98,625	$89,139	$ 9,486	10.6 %
Asset-based fees	56,122	50,736	5,386	10.6 %
Non-recurring	3,004	1,702	1,302	76.5 %
Operating revenues total	157,751	141,577	16,174	11.4 %
Adjusted EBITDA expenses	46,001	38,650	7,351	19.0 %
Adjusted EBITDA	$111,750	$102,927	$ 8,823	8.6 %
Adjusted EBITDA margin %	70.8 %	72.7 %		

Revenues related to Index products increased 11.4% to $157.8 million for the three months ended September 30, 2016 compared to $141.6 million for the three months ended September 30, 2015.

Recurring subscriptions were up 10.6% to $98.6 million for the three months ended September 30, 2016 compared to $89.1 million for the three months ended September 30, 2015, primarily driven by growth in benchmark and data products broadly, with growth in core products, factor and thematic products, usage fees and custom products.

Revenues from asset-based fees increased 10.6% to $56.1 million for the three months ended September 30, 2016 compared to $50.7 million for the three months ended September 30, 2015. The increase in asset-based fees was driven by several items, including a 23.6% increase in revenue from non-ETF passive funds, which was primarily due to initial fund fees recognized in the current period, as well as a 3.6% growth in revenue from ETFs linked to MSCI indexes, which was the result of an 11.7% increase in average AUM, offset by the impact of a change in the product mix. In addition, revenues from futures and options contracts based on MSCI indexes grew 59.7%, driven by a 36.7% increase in total trading volumes.

Non-recurring revenues were $3.0 million and $1.7 million for the three months ended September 30, 2016 and 2015, respectively.

Index segment Adjusted EBITDA expenses increased 19.0% to $46.0 million for the three months ended September 30, 2016 compared to $38.7 million for the three months ended September 30, 2015, primarily reflecting higher selling and marketing costs and cost of revenues. Adjusting for the impact of foreign currency exchange rate fluctuations, Adjusted EBITDA expenses would have increased 21.3% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

Analytics Segment

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

	Three Months Ended September 30, 2016	2015	Increase/(Decrease)	
	(in thousands)			
Operating revenues:				
Recurring subscriptions	$109,554	$107,065	$ 2,489	2.3 %
Non-recurring	1,737	1,276	461	36.1 %
Operating revenues total	111,291	108,341	2,950	2.7 %
Adjusted EBITDA expenses	79,790	79,125	665	0.8 %
Adjusted EBITDA	$31,501	$29,216	$ 2,285	7.8 %
Adjusted EBITDA margin %	28.3 %	27.0 %		

Analytics segment revenues increased 2.7% to $111.3 million for the three months ended September 30, 2016 compared to $108.3 million for the three months ended September 30, 2015, primarily driven by higher revenues from equity models, as well as higher revenues from RiskManager and InvestorForce products. Adjusting for foreign currency exchange rate fluctuations, Analytics segment revenues would have increased 4.1% for the three months ended September 30, 2016.

Analytics segment Adjusted EBITDA expenses increased 0.8% to $79.8 million for the three months ended September 30, 2016 compared to $79.1 million for the three months ended September 30, 2015, primarily driven by higher R&D costs, partially offset by lower cost of revenues. Adjusting for the impact of foreign currency exchange rate fluctuations, Adjusted EBITDA expenses would have increased 2.4% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

All Other Segment

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

	Three Months Ended September 30, 2016	2015	Increase/(Decrease)	
	(in thousands)			
Operating revenues:				
Recurring subscriptions	$18,329	$17,569	$ 760	4.3 %
Non-recurring	1,062	1,284	(222)	(17.3 %)
Operating revenues total	19,391	18,853	538	2.9 %
Adjusted EBITDA expenses	19,318	22,135	(2,817)	(12.7 %)
Adjusted EBITDA	$73	$(3,282)	$ 3,355	102.2 %
Adjusted EBITDA margin %	0.4 %	(17.4 %)		

All Other segment revenues increased 2.9% to $19.4 million for the three months ended September 30, 2016 compared to $18.9 million for the three months ended September 30, 2015. The increase in All Other revenues was driven by a $1.8 million, or 18.3%, increase in ESG revenues to $11.5 million, partially offset by a $1.2 million, or 13.5%, decrease in Real Estate revenues to $7.9 million. Adjusting for the impact of foreign currency exchange rate fluctuations and the divestiture of the Real Estate occupiers business, Real Estate products would have increased 5.5% and All Other operating revenues would have increased 12.4% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

All Other segment Adjusted EBITDA expenses decreased 12.7% to $19.3 million for the three months ended September 30, 2016 compared to $22.1 million for the three months ended September 30, 2015, primarily driven by lower compensation and benefits costs attributable to Real Estate operations. Adjusting for the impact of foreign currency exchange rate fluctuations, Adjusted EBITDA expenses would have decreased 9.5% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015

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

	Nine Months Ended September 30,			
	2016	2015	Increase/(Decrease)	
	(in thousands, except per share data)			
Operating revenues	$857,857	$802,120	$55,737	6.9 %
Operating expenses:				
Cost of revenues	188,288	202,891	(14,603)	(7.2 %)
Selling and marketing	125,057	122,485	2,572	2.1 %
Research and development	56,244	59,544	(3,300)	(5.5 %)
General and administrative	65,768	62,417	3,351	5.4 %
Amortization of intangible assets	35,535	35,107	428	1.2 %
Depreciation and amortization of property, equipment and leasehold improvements	24,873	23,321	1,552	6.7 %
Total operating expenses	495,765	505,765	(10,000)	(2.0 %)
Operating income	362,092	296,355	65,737	22.2 %
Other expense (income), net	73,249	32,237	41,012	127.2 %
Income from continuing operations before provision for income taxes	288,843	264,118	24,725	9.4 %
Provision for income taxes	96,238	94,079	2,159	2.3 %
Income from continuing operations	192,605	170,039	22,566	13.3 %
Income from discontinued operations, net of income taxes	—	(5,797)	5,797	(100.0 %)
Net income	$192,605	$164,242	$28,363	17.3 %
Earnings per basic common share:				
From continuing operations	$1.99	$1.53	$0.46	30.1 %
From discontinued operations	—	(0.05)	0.05	(100.0 %)
Earnings per basic common share	$1.99	$1.48	$0.51	34.5 %
Earnings per diluted common share:				
From continuing operations	$1.98	$1.52	$0.46	30.3 %
From discontinued operations	—	(0.05)	0.05	(100.0 %)
Earnings per diluted common share	$1.98	$1.47	$0.51	34.7 %
Operating margin	42.2 %	36.9 %		

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

Nine Months Ended September 30,		
2016	2015	Increase/(Decrease)

(in thousands)				
Recurring subscriptions	$684,578	$641,625	$ 42,953	6.7 %
Asset-based fees	154,455	147,776	6,679	4.5 %
Non-recurring	18,824	12,719	6,105	48.0 %
Total operating revenues	$857,857	$802,120	$ 55,737	6.9 %

Total operating revenues grew 6.9% to $857.9 million for the nine months ended September 30, 2016 compared to $802.1 million for the nine months ended September 30, 2015.

Revenues from recurring subscriptions increased 6.7% to $684.6 million for the nine months ended September 30, 2016 compared to $641.6 million for the nine months ended September 30, 2015, primarily driven by growth in Index products, which increased $27.7 million, or 10.6%. The impact on total recurring subscriptions from foreign currency exchange rate fluctuations was negligible.

Revenues from asset-based fees increased 4.5% to $154.5 million for the nine months ended September 30, 2016 compared to $147.8 million for the nine months ended September 30, 2015, primarily driven by a 16.9% increase in revenue from non-ETF passive funds, which was primarily due to initial fund fees recognized in the current year and a 43.7% increase in revenues from futures and options contracts based on MSCI indexes, driven by a 46.0% increase in total trading volumes. These increases were partially offset by a 1.5% decrease in revenue from ETFs linked to MSCI indexes, resulting from a 5.0% increase in average AUM which was offset by the impact of a change in the product mix.

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

	Year-to-Date Average						
	2015				2016		
	March	June	September	December	March	June	September
AUM in ETFs linked to MSCI Indexes	$392.5	$417.0	$ 417.4	$ 418.8	$407.9	$423.5	$ 438.1

Non-recurring revenues increased 48.0% to $18.8 million for the nine months ended September 30, 2016, compared to $12.7 million for the nine months ended September 30, 2015, primarily due to a payment received for the use of our indexes in connection with derivative products.

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

	Nine Months Ended September 30,			
	2016	2015	Increase/(Decrease)	
	(in thousands)			
Operating revenues:				
Index				
Recurring subscriptions	$289,409	$261,729	$ 27,680	10.6 %
Asset-based fees	154,455	147,776	6,679	4.5 %
Non-recurring	10,617	5,757	4,860	84.4 %
Index total	454,481	415,262	39,219	9.4 %
Analytics				
Recurring subscriptions	328,636	318,871	9,765	3.1 %
Non-recurring	5,311	3,885	1,426	36.7 %
Analytics total	333,947	322,756	11,191	3.5 %
All Other				
Recurring subscriptions	66,533	61,025	5,508	9.0 %
Non-recurring	2,896	3,077	(181)	(5.9 %)
All Other total	69,429	64,102	5,327	8.3 %

Total operating revenues	$857,857	$802,120	$ 55,737	6.9 %

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

Operating Expenses

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