

MSCI Inc.
Form 424B1
July 16, 2008
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Filed Pursuant to Rule 424(b)(1)
Registration Statement File No. 333-152173

PROSPECTUS

23,000,000 SHARES

MSCI INC.

CLASS A COMMON STOCK

The selling stockholder identified in this prospectus is offering 23,000,000 shares of class A common stock of MSCI Inc. The selling stockholder will receive all of the net proceeds from this offering.

*MSCI Inc.'s class A common stock is listed on the New York Stock Exchange under the symbol **MXB**. The last reported sale price of MSCI Inc.'s class A common stock on the New York Stock Exchange on July 15, 2008 was \$32.16 per share.*

*Investing in the class A common stock involves risks. See **Risk Factors** on page 13.*

PRICE \$32.00 A SHARE

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		<i>Underwriting Discounts and Commissions</i>	<i>Proceeds to Selling Stockholder</i>
<i>Per Share</i>	<i>Price to Public</i>		
	\$32.00	\$1.20	\$30.80
<i>Total</i>	\$736,000,000	\$27,600,000	\$708,400,000

The selling stockholder expects to grant the underwriters the right to purchase up to an additional 3,450,000 shares of class A common stock to cover over-allotments. The selling stockholder will receive the net proceeds from any shares sold pursuant to the underwriters' over-allotment option.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on July 21, 2008.

MORGAN STANLEY
BANC OF AMERICA SECURITIES LLC
WILLIAM BLAIR & COMPANY

FOX-PITT KELTON COCHRAN CARONIA WALLER
KEEFE, BRUYETTE & WOODS

UBS INVESTMENT BANK

MERRILL LYNCH & CO.

July 15, 2008

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This prospectus incorporates by reference important information. You should read the information incorporated by reference before deciding to invest in shares of our class A common stock and you may obtain this information incorporated by reference without charge by following the instructions under "Where You Can Find More Information" appearing below. All references in this prospectus to "MSCI," the "company," "we," "us" or "our" refer to MSCI Inc.

You should rely only on the information contained or incorporated by reference in this prospectus. We and the selling stockholder have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus. The selling stockholder is offering to sell, and seeking offers to buy, shares of class A common stock only in jurisdictions where offers and sales are permitted. The information contained or incorporated by reference in this prospectus is accurate only as of its date. Our business, financial condition, results of operations and prospects may have changed since that date.

We own or have rights to use trademarks, trade names and service marks that we use in conjunction with the operation of our business, including, but not limited to: @CREDIT, @ENERGY, @INTEREST, ACWI, Aegis, Alphabuilder, Barra, Barra One, BarraOne, Cosmos, EAFE, FEA, GICS, IndexMap, Market Impact Model, MSCI, ProStorage, StructureTool, TotalRisk, VaRdelta and VaRworks. Designations of trademarks, service marks and registrations thereof have been omitted from the text of this prospectus.

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NOTICE TO INVESTORS

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). The shares of class A common stock are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares of class A common stock will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

In any EEA Member State that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the Prospectus Directive), this communication is only addressed to and is only directed at qualified investors in that Member State within the meaning of the Prospectus Directive.

This prospectus has been prepared on the basis that any offer of shares of class A common stock in any Member State of the European Economic Area (EEA) which has implemented the Prospectus Directive (2003/71/EC) (each, a Relevant Member State) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of shares of class A common stock. Accordingly any person making or intending to make any offer within the EEA of shares of class A common stock which are the subject of the placement contemplated in this prospectus may only do so in circumstances in which no obligation arises for MSCI Inc. or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither MSCI Inc. nor the underwriters have authorized, nor do they authorize, the making of any offer (other than permitted public offers) of shares of class A common stock in circumstances in which an obligation arises for MSCI Inc. or the underwriters to publish a prospectus for such offer.

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PROSPECTUS SUMMARY

This summary highlights information contained or incorporated by reference in this prospectus. This summary does not contain all of the information that you should consider before deciding to invest in our class A common stock. You should read this entire prospectus carefully, including the information incorporated by reference in this prospectus. See Risk Factors in each of our Annual Report on Form 10-K for the fiscal year ended November 30, 2007 and our Quarterly Report on Form 10-Q for the quarter ended May 31, 2008, both incorporated by reference herein.

MSCI

The Company

We are a leading provider of investment decision support tools to investment institutions worldwide. We produce indices and risk and return portfolio analytics for use in managing investment portfolios. Our products are used by institutions investing in or trading equity, fixed income and multi-asset class instruments and portfolios around the world. Our flagship products are our international equity indices marketed under the MSCI brand and our equity portfolio analytics marketed under the Barra brand. Our products are used in many areas of the investment process, including portfolio construction and optimization, performance benchmarking and attribution, risk management and analysis, index-linked investment product creation, asset allocation, investment manager selection and investment research.

Our clients include asset owners such as pension funds, endowments, foundations, central banks and insurance companies; institutional and retail asset managers, such as managers of pension assets, mutual funds, exchange traded funds (ETFs), hedge funds and private wealth; and financial intermediaries such as broker-dealers, exchanges, custodians and investment consultants. As of May 31, 2008, we had a client base of over 3,000 clients across more than 60 countries with approximately 52% of our operating revenues from clients in the Americas, 33% from Europe, the Middle East and Africa (EMEA), 8% from Japan and 7% from Asia-Pacific (not including Japan). To help serve our diverse client base, we had 19 offices in 14 countries as of May 31, 2008.

Our principal sales model is to license annual, recurring subscriptions to our products for use at specified locations by a given number of users for an annual fee paid upfront. The substantial majority of our revenues comes from these annual, recurring subscriptions. Over time, as their needs evolve, our clients often add product modules, users and locations to their subscriptions, which results in an increase in our revenues per client. Additionally, a rapidly growing source of our revenues comes from clients who use our indices as the basis for index-linked investment products such as ETFs. These clients commonly pay us a license fee based on the investment product's assets. We also generate a limited amount of our revenues from certain exchanges that use our indices as the basis for futures and options contracts and pay us a license fee based on their volume of trades.

We have experienced growth in recent years with operating revenues, operating income and net income increasing by 19.1%, 55.3%, and 13.5%, respectively, for the year ended November 30, 2007 compared to the year ended November 30, 2006 and by 11.6%, 13.1%, and 31.0%, respectively, in the fiscal year ended November 30, 2006 compared to the fiscal year ended November 30, 2005. For the six months ended May 31, 2008 compared to the six months ended May 31, 2007, operating revenue and operating income both increased by 21.2% and net income decreased by 11.9%. The decline in net income primarily reflects founders grant expense, higher interest expense and lower interest income, which were offset, in part, by the increase in operating income.

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We were a pioneer in developing the market for international equity index products and equity portfolio risk analytics tools. MSCI introduced its first equity index products in 1969 and Barra launched its first equity risk

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analytics products in 1975. Over the course of more than 30 years, our research organization has accumulated an in-depth understanding of the investment process worldwide. Based on this wealth of knowledge, we have created and continue to develop, enhance and refine sophisticated index construction methodologies and risk models to meet the growing, complex and diverse needs of our clients' investment processes. Our models and methodologies are the intellectual foundation of our business and include the innovative algorithms, formulas and analytical and quantitative techniques that we use, together with market data, to produce our products. Our long history has allowed us to build extensive databases of proprietary index and risk data, as well as to accumulate valuable historical market data, which we believe would be difficult to replicate and which provide us with a substantial competitive advantage.

Our primary products consist of equity indices, equity portfolio analytics and multi-asset class portfolio analytics. We also have product offerings in the areas of fixed income portfolio analytics, hedge fund indices and risk models, and energy and commodity asset valuation analytics. Our products are generally comprised of proprietary index data, risk data and sophisticated software applications. Our index and risk data are created by applying our models and methodologies to market data. For example, we input closing stock prices and other market data into our index methodologies to calculate our index data, and we input fundamental data and other market data into our risk models to produce our risk forecasts for individual securities and portfolios of securities. Our clients can use our data together with our proprietary software applications, third-party applications or their own applications in their investment processes. Our software applications offer our clients sophisticated portfolio analytics to perform in-depth analysis of their portfolios, using our risk data, the client's portfolio data and fundamental and market data. Our products are marketed under three leading brands. Our index products are typically branded MSCI. Our portfolio analytics products are typically branded Barra. Our energy and commodity analytics products are typically branded FEA.

Our MSCI-branded equity index products are designed to measure returns available to investors across a wide variety of markets (e.g., Europe, Japan or emerging markets), size (e.g., small capitalization or large capitalization), style (e.g., growth or value) and industries (e.g., banks or media). As of May 31, 2008, we calculated over 100,000 equity indices daily.

Over 2,200 clients worldwide subscribed to our equity index products for use in their investment portfolios and for market performance measurement and analysis in the second quarter of 2008. In addition to delivering our products directly to our clients, as of May 31, 2008, we also had approximately 50 third-party financial information and analytics software providers who distribute our various equity index products worldwide. The performance of our equity indices is also frequently referenced when selecting investment managers, assigning return benchmarks in mandates, comparing performance and providing market and academic commentary. The performance of certain of our indices is reported on a daily basis in the financial media.

Our Barra-branded equity portfolio analytics products assist investment professionals in analyzing and managing risks and returns for equities at both the asset and portfolio level in major equity markets worldwide. Barra equity risk models identify and analyze the factors that influence equity asset returns and risk. Our most widely used Barra equity products utilize our fundamental multi-factor equity risk model data to help our clients construct, analyze, optimize and manage equity portfolios. Approximately 800 clients worldwide subscribed to our equity portfolio analytics products as of May 31, 2008. Asset owners often request Barra risk model measurements for portfolio risk and tracking error when selecting investment managers, prescribing investment restrictions and assigning investment mandates.

Our multi-asset class portfolio analytics products offer a consistent risk assessment framework for managing and monitoring investments in a variety of asset classes across an organization. The products are based on proprietary fundamental multi-factor risk models, value-at-risk methodologies and asset valuation models. They enable clients to identify, monitor, report and manage potential market risks from equities, fixed income, derivatives contracts and alternative investments, and to analyze portfolios and systematically analyze risk and

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return across multiple asset classes. Using these tools, clients can identify the drivers of market risk across their investments, produce daily risk reports, run pre-trade analysis and optimizations, evaluate and monitor multiple asset managers and investment teams and access correlations across a group of selected portfolios.

Growth Strategy

We believe we are well-positioned for significant growth and have a multi-faceted growth strategy that builds on our strong client relationships, products, brands and integral role in the investment process. The number, diversity, size, sophistication and amount of assets held in investment institutions that own, manage and direct financial assets have grown significantly in recent years. These investment institutions increasingly require sophisticated investment management tools such as ours to support their complex and global investment processes. Set forth below are the principal elements of our strategy to grow our company and meet the increasing needs of these institutions for investment decision support tools:

Client Growth.

Increase product subscriptions and users within our current client base. Many of our clients use only one or a limited number of our products, and we believe there are substantial opportunities to cross sell our other investment decision support tools.

Expand client base in current client types. We plan to add new clients by leveraging our brand strength, our products, our broad access to the global investment community and our strong knowledge of the investment process.

Expand into client types in which we are underrepresented. We plan to expand into client types in which we do not currently have a leading presence. In particular, we intend to continue to focus on increasing the number of hedge fund managers using our products.

Expand global presence. We have a strong presence in the U.S., Western Europe and certain parts of Asia. While we have established a presence in selected markets within the Middle East, Asia, Africa, Eastern Europe and Latin America, there is potential for further penetration and growth in these markets. We intend to leverage our strong brands, reputation, products and existing presence to continue to expand in these markets and gain more clients.

Product Growth.

Create innovative new equity product offerings and enhancements. In order to maintain and enhance our leadership position, we plan to introduce innovative new products and enhancements to existing products. We maintain an active dialogue with our clients in order to understand their needs and anticipate market developments.

Expand our presence across all asset classes. We believe our well-established reputation and client base in the equity area as well as our experienced research staff provide us with a strong foundation to become a leading provider of tools for investors in multi-asset class portfolios and other asset classes such as fixed income.

Expand our capacity to design and produce new products. We intend to increase our investments in new model research, data production systems and software application design to enable us to design and produce new products more quickly and

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cost-effectively. We believe increasing our ability to process additional models and data, and design and code software applications more effectively, will allow us to respond faster to client needs and bring new products and product enhancements to the market more quickly.

Growth Through Acquisitions. We intend to actively seek to acquire products, technologies and companies that will enhance, complement or expand our product offerings and client base, as well as increase our ability to provide investment decision support tools to equity, fixed income and multi-asset class investment institutions.

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Competitive Advantages

We believe our competitive advantages include the following:

Strong brand recognition. Our indices, portfolio analytics and energy and commodity asset valuation analytics, marketed under the MSCI, Barra and FEA brands, respectively, are well-established and recognized throughout the investment community worldwide. We are an industry leader in international equity indices and equity portfolio analytics tools worldwide.

Strong client relationships and deep understanding of their needs. Our consultative approach to product development, dedication to client support and range of products have helped us build strong relationships with investment institutions around the world. We believe the skills, knowledge and experience of our research, software engineering, data management and production and product management teams enable us to develop and enhance our models, methodologies, data and software applications in accordance with client demands and needs.

Client reliance on our products. Many of our clients have come to rely on our products in their investment management processes, integrating our products into their performance measurement and risk management processes, where they become an integral part of their daily portfolio management functions. In certain cases, our clients are requested by their customers to report using our tools or data.

Sophisticated models with practical applications. We have invested significant time and resources for more than three decades in developing highly sophisticated and practical index methodologies and risk models that combine financial theory and investment practice.

Open architecture and transparency. We have an open architecture philosophy. Clients can access our data through our software applications, third-party applications or their own applications. In order to provide transparency, we document and disclose many details of our models and methodologies to our clients so that they can better understand and utilize the tools we offer.

Global products and operations. Our products cover most major investment markets throughout the world. For example, our international equity indices include 68 developed, emerging and frontier market countries. As of May 31, 2008, we produced equity risk data for 41 single country models and a model covering an additional 15 European countries, and an integrated multi-asset class risk model that covered 56 equity markets and 46 fixed income markets. As of May 31, 2008, our clients were located in over 60 countries and many of them have a presence in multiple locations around the world. As of May 31, 2008, our employees were located in 14 countries in order to maintain close contact with our clients and the international markets we follow. We believe our global presence and focus allow us to serve our clients well and capitalize on a great number of business opportunities in many countries and regions of the world.

Highly skilled employees. Our workforce is highly skilled, technical and, in some instances, specialized. In particular, our research and software application development departments include experts in advanced mathematics, statistics, finance, portfolio investment and software engineering, who combine strong academic credentials with market experience.

Extensive historical databases. We have accumulated comprehensive databases of historical global market data and proprietary index and risk data. We believe our substantial and valuable databases of proprietary index and risk data, including over 35 years of certain index data history and over 30 years of certain risk data history, would be difficult and costly for another party to replicate. Historical data is a critical component of our clients' investment processes, allowing them to research and back-test investment strategies and analyze portfolios over many investment and business cycles and under a variety of historical situations and market environments.

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Our Corporate Information

Our principal executive offices are located at Wall Street Plaza, 88 Pine Street, New York, New York 10005 and our telephone number is (212) 804-3900. Our website address is www.msclub.com. Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into this prospectus or the registration statement of which they form a part.

Share Conversion

We have two classes of common stock outstanding. As of the date of this prospectus, Morgan Stanley owns 53,038,764.79 shares of our class B common stock, which represents approximately 84.94% of the combined voting power of all classes of voting stock. As of the date of this prospectus, we have 47,013,312 shares of class A common stock outstanding, representing approximately 15.06% of the combined voting power of all classes of voting stock. Our class A common stock generally has fewer votes per share than our class B common stock.

Under the terms of our Amended and Restated Certificate of Incorporation, any holder of shares of class B common stock has the right to convert those shares into shares of our class A common stock at any time prior to a tax-free distribution of the shares held by Morgan Stanley to its shareholders or securityholders (including a distribution in exchange for Morgan Stanley shares or securities) or another similar transaction intended to qualify as a tax-free distribution under Section 355 of the Internal Revenue Code of 1986, as amended (the Code), or any corresponding provision of any successor statute (a Tax-Free Distribution). In addition, under the Amended and Restated Certificate of Incorporation, shares of our class B common stock can be transferred only to Morgan Stanley, Capital Group International, Inc. (Capital Group International) or their respective subsidiaries or affiliates, and any other transfer of such shares will result in the automatic conversion of those shares into shares of our class A common stock without any action by the transferor or transferee. Consequently, Morgan Stanley is selling class A common stock in this offering because its class B common stock will automatically convert into shares of our class A common stock when sold pursuant to this offering.

For as long as Morgan Stanley continues to beneficially own more than 50% of the combined voting power of all classes of our voting stock, Morgan Stanley will be able to direct the election of all of the members of our Board of Directors and exercise a controlling influence over our business and affairs, including any decisions with respect to mergers or other business combinations involving us, the acquisition or disposition of assets by us, our approval or disapproval of amendments to our Amended and Restated Certificate of Incorporation and By-laws, the incurrence of indebtedness, the issuance of any additional common stock or other equity securities, the repurchase or redemption of common stock or preferred stock and the payment of dividends. See Risk Factors Risks Related to Our Relationship with Morgan Stanley in our Annual Report on Form 10-K for the fiscal year ended November 30, 2007, incorporated by reference herein. Similarly, Morgan Stanley will have the power to determine or significantly influence the outcome of matters submitted to a vote of our stockholders, including the power to prevent an acquisition or any other change in control of us and could take other actions that might be favorable to Morgan Stanley and potentially unfavorable to you. See Description of Capital Stock in our initial public offering Registration Statement on Form S-1, as amended and filed with the SEC on November 13, 2007 (the IPO Registration Statement), and incorporated by reference herein.

Upon completion of the offering, Morgan Stanley will own 30,038,764.79 shares of our class B common stock (26,588,764.79 shares if the underwriters exercise their over-allotment option in full), which will represent approximately 68.21% of the combined voting power of all classes of voting stock (64.41% if the underwriters exercise their over-allotment option in full) and approximately 30.02% of the economic interest (26.57% if the underwriters exercise their over-allotment option in full). As a result, Morgan Stanley will cease to own more than 80% of the combined voting power of all classes of voting stock and 50% of the economic interest and, therefore, Morgan Stanley will no longer be able to conduct a Tax-Free Distribution. This offering is consistent

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with Morgan Stanley's previous indication that it might sell a portion of its ownership interest in us and that it may ultimately divest its entire interest in us. Any definitive decision by Morgan Stanley to divest its remaining ownership interest in us will be made in the future on the basis of all the circumstances existing at such time, including stock market conditions, our performance and other factors.

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Class A common stock offered by the selling stockholder	23,000,000 shares
Over-allotment option	3,450,000 shares of class A common stock
Common stock outstanding before this offering:	
Class A common stock	47,013,312 shares
Class B common stock	53,038,764.79 shares
Total	100,052,076.79 shares
Common stock outstanding immediately after this offering:	
Class A common stock	70,013,312 shares (73,463,312 shares if the underwriters exercise their over-allotment option in full)
Class B common stock	30,038,764.79 shares (26,588,764.79 shares if the underwriters exercise their over-allotment option in full)
Total	100,052,076.79 shares
Voting rights	The holders of class A common stock, par value \$0.01 per share (the class A common stock), generally have rights, including as to dividends, identical to those of holders of class B common stock, par value \$0.01 per share (the class B common stock), except that holders of class A common stock are entitled to one vote per share and holders of class B common stock are generally entitled to five votes per share. Holders of the class A common stock and the class B common stock generally vote together as a single class, except when amending or altering any provision of our Amended and Restated Certificate of Incorporation or By-laws so as to adversely affect the rights of one class. See Description of Capital Stock Common Stock Voting Rights in our IPO Registration Statement, incorporated by reference herein. Under certain circumstances, shares of class B common stock may be converted into shares of class A common stock. See Relationship with Morgan Stanley and Description of Capital Stock Common Stock Conversion in our IPO Registration Statement, incorporated by reference herein.
Use of proceeds	The selling stockholder will receive all net proceeds from the sale of the shares of the class A common stock in this offering. MSCI will not receive any of the proceeds from

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the sale of shares of our class A common stock by the selling stockholder.

Dividend policy

We do not intend to pay dividends on our class A common stock or our class B common stock (collectively, the common stock).

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Controlling shareholder	Currently, Morgan Stanley owns 100% of the outstanding shares of our class B common stock, which represents approximately 84.94% of the combined voting power of all classes of voting stock. Upon completion of this offering, Morgan Stanley will beneficially own 30,038,764.79 shares (26,588,764.79 shares if the underwriters exercise their over-allotment in full) of our class B common stock, which will represent approximately 68.21% of the combined voting power of all classes of voting stock (64.41% if the underwriters' over-allotment option is exercised in full). For information regarding the relationship between Morgan Stanley and us, see Arrangements Between Morgan Stanley and Us.
Risk factors	You should read the Risk Factors section of this prospectus for a discussion of factors that you should consider carefully before deciding to invest in shares of our class A common stock.
New York Stock Exchange symbol	MXB

Unless we indicate otherwise, all information in this prospectus excludes 12,929,443 shares of class A common stock reserved for issuance pursuant to our equity incentive compensation plan and our independent directors' equity compensation plan and assumes no exercise of the underwriters' over-allotment option.

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SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary historical consolidated financial data for the periods presented and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto set forth in this prospectus and our Annual Report on Form 10-K for the fiscal year ended November 30, 2007 and our Quarterly Report on Form 10-Q for the quarter ended May 31, 2008, each incorporated by reference herein. The consolidated statement of income data for the fiscal years ended November 30, 2005, 2006 and 2007 and the consolidated financial condition data as of November 30, 2006 and 2007 are derived from our audited consolidated financial statements included in this prospectus and our Annual Report on Form 10-K for the fiscal year ended November 30, 2007, incorporated by reference herein. The consolidated statement of income data for the fiscal years ended November 30, 2003 and 2004 and the consolidated statement of financial condition data as of November 30, 2003, 2004 and 2005 are derived from our audited historical consolidated financial statements not included in this prospectus or incorporated by reference herein. The condensed consolidated statement of income data for the six-month periods ended May 31, 2007 and 2008 and the condensed consolidated financial condition data as of May 31, 2007 and 2008 are derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus which, in our opinion, have been prepared on the same basis as the audited consolidated financial statements and reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations and financial position.

The historical financial information presented below may not be indicative of our future performance and does not necessarily reflect what our financial position and results of operations would have been had we operated as a stand-alone company during the periods presented. Results for the six months ended May 31, 2008 are not necessarily indicative of results that may be expected for the entire year.

On July 19, 2007, we paid a dividend of \$973.0 million, consisting of \$325.0 million in cash and \$648.0 million in demand notes. Morgan Stanley was issued a demand note in the amount of \$625.9 million and Capital Group International was issued a demand note in the amount of \$22.1 million. On July 19, 2007, we paid in full the \$22.1 million demand note held by Capital Group International. On November 20, 2007, we completed an initial public offering of 16.1 million shares of our class A common stock. The net proceeds from the offering were \$265.0 million after deducting \$20.3 million of underwriting discounts and commissions and \$4.5 million of other offering expenses. Simultaneously with the initial public offering, we entered into a \$500 million credit facility (the "Credit Facility") under which we borrowed \$425.0 million to pay a portion of the \$625.9 million demand note held by Morgan Stanley. The balance of the demand note was repaid with proceeds from our initial public offering.

The pro forma consolidated statement of income data for the fiscal year ended November 30, 2007 reflects (1) the \$973.0 million dividend as if it had been paid on December 1, 2006, (2) the sale by us of 16,100,000 shares of our class A common stock pursuant to our initial public offering based on the initial public offering price of \$18.00 per share and the application of the net proceeds from the initial public offering to pay a portion of the \$625.9 million demand note held by Morgan Stanley as if the initial public offering and the payment of the demand note had occurred on December 1, 2006 and (3) the payment of the balance of the \$625.9 million demand note held by Morgan Stanley with the net proceeds from the borrowing under the Credit Facility as if the borrowing and the payment of the demand note had occurred on December 1, 2006.

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	For the Fiscal Year Ended November 30,					For the Fiscal Year Ended	For the Six Months		
	2003 ⁽²⁾	2004 ⁽²⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	November 30, 2007 Pro Forma ⁽⁴⁾	Ended May 31, 2007 ⁽¹⁾	2008 ⁽¹⁾	
	(amounts in thousands, except per share data)								
Operating revenues	\$ 91,277	\$ 178,446	\$ 278,474	\$ 310,698	\$ 369,886	\$ 369,886	\$ 175,821	\$ 213,146	
Cost of services	44,670	86,432	106,598	115,426	121,711	121,711	62,607	61,597	
Selling, general, and administrative	30,082	47,099	70,220	85,820	92,477	92,477	44,453	69,161	
Amortization of intangible assets		14,910	28,031	26,156	26,353	26,353	12,531	14,250	
Total operating expenses	74,752	148,441	204,849	227,402	240,541	240,541	119,591	145,008	
Operating income	16,525	30,005	73,625	83,296	129,345	129,345	56,230	68,138	
Interest income	924	1,250	8,738	15,482	13,143	819	10,586 ⁽⁸⁾	5,880	
Interest expense	131	624	1,864	352	9,586	32,047	597 ⁽⁸⁾	15,131	
Other income (loss)		(13)	398	1,043	390	390	53	233	
Interest income (expense) and other, net	793	613	7,272	16,173	3,947	(30,838)	10,042	(9,018)	
Income before provision for income taxes, discontinued operations and cumulative effect of change in accounting principle	17,318	30,618	80,897	99,469	133,292	98,507	66,272	59,120	
Provision for income taxes	5,921	9,711	30,449	36,097	52,181	38,516	24,779	22,555	
Income before discontinued operations and cumulative effect of change in accounting principle	11,397	20,907	50,448	63,372	81,111	59,991	41,493	36,565	
Discontinued operations ⁽³⁾ :									
Income (loss) from discontinued operations		(84)	5,847	12,699					
Provision (benefit) for income taxes on discontinued operations		(30)	2,054	4,626					
Income (loss) from discontinued operations		(54)	3,793	8,073					
Income before cumulative effect of change in accounting principle	11,397	20,853	54,241	71,445	81,111	59,991	41,493	36,565	
Cumulative effect of change in accounting principle			313						
Net income	\$ 11,397	\$ 20,853	\$ 54,554	\$ 71,445	\$ 81,111	\$ 59,991	\$ 41,493	\$ 36,565	
Earnings (loss) per basic common share ⁽⁷⁾ :									
Continuing operations	\$ 0.40	\$ 0.37	\$ 0.60	\$ 0.76	\$ 0.96	\$ 0.60	\$ 0.49	\$ 0.37	
Discontinued operations			0.05	0.10					
Cumulative effect of change in accounting principle									
Earnings (loss) per basic common share	\$ 0.40	\$ 0.37	\$ 0.65	\$ 0.85	\$ 0.96	\$ 0.60	\$ 0.49	\$ 0.37	
Earnings (loss) per diluted common share ⁽⁷⁾ :									
Continuing operations	\$ 0.40	\$ 0.37	\$ 0.60	\$ 0.76	\$ 0.96	\$ 0.60	\$ 0.49	\$ 0.36	
Discontinued operations			0.05	0.10					
Cumulative effect of change in accounting principle									
Earnings (loss) per diluted common share	\$ 0.40	\$ 0.37	\$ 0.65	\$ 0.85	\$ 0.96	\$ 0.60	\$ 0.49	\$ 0.36	

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Weighted average shares outstanding used in computing earnings (loss) per common share ⁽⁷⁾ :								
Basic	28,612	56,256	83,900	83,900	84,608	100,000	83,900	100,019
Diluted	28,612	56,256	83,900	83,900	84,624	100,000	83,900	101,223

Table of Contents**Consolidated Statements of Financial Condition Data**

	2003 ⁽²⁾	As of November 30,				As of May 31,	
		2004 ⁽²⁾	2005	2006 ⁽¹⁾	2007 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾
	(in thousands)						
Cash and cash equivalents	\$ 5,735	\$ 33,076	\$ 23,411	\$ 24,362	\$ 33,818	\$ 29,951	\$ 32,294
Cash deposited with related parties ⁽⁵⁾	\$ 67,492	\$ 98,873	\$ 252,882	\$ 330,231	\$ 137,625	\$ 367,010	\$ 203,315
Goodwill and intangible assets	\$	\$ 781,238	\$ 668,539	\$ 642,383	\$ 616,030	\$ 629,852	\$ 601,780
Total assets	\$ 123,100	\$ 996,444	\$ 1,047,519	\$ 1,112,775	\$ 904,679	\$ 1,138,705	\$ 1,002,777
Deferred revenue	\$ 53,007	\$ 88,689	\$ 87,952	\$ 102,368	\$ 125,230	\$ 139,654	\$ 168,824
Shareholders' equity	\$ 36,624	\$ 708,501	\$ 757,217	\$ 825,712	\$ 200,021	\$ 868,545	\$ 250,861

Other Data

	2003 ⁽²⁾	For the Fiscal Year Ended November 30,				For the Six Months Ended May 31,	
		2004 ⁽²⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾
	(dollar amounts in thousands)						
Operating margin ⁽⁶⁾	18.1%	16.8%	26.4%	26.8%	35.0%	32.0%	32.0%
Cash disbursements for capital expenditures	\$ 1,231	\$ 2,058	\$ 346	\$ 2,435	\$ 535	\$ 357	\$ 5,820

- (1) The audited consolidated financial statements as of November 30, 2006 and 2007 and for the years ended November 30, 2005, 2006 and 2007 included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2007 are incorporated by reference herein. The unaudited condensed consolidated financial statements as of May 31, 2007 and 2008 and for the six months ended May 31, 2007 and 2008 included in our Quarterly Report on Form 10-Q for the quarter ended May 31, 2008 are also incorporated by reference herein.
- (2) On June 3, 2004, Morgan Stanley completed the acquisition of Barra, Inc. (Barra). The operations of Barra have been included with our results of operations since that date. All information prior to June 3, 2004 does not include the operations of Barra.
- (3) Income (loss) from discontinued operations relates to our interest in POSIT JV, a joint venture that was acquired with the purchase of Barra in 2004. On February 1, 2005, we sold our interest in POSIT JV to MSCI's joint venture partner, Investment Technology Group, Inc. (ITG) for \$90 million. We recorded a pre-tax gain of \$6.8 million at the time of sale. As part of the sale agreement, we were entitled to additional royalties for a period of 10 years subsequent to the sale pursuant to an earn-out arrangement, based on fees earned by ITG related to the POSIT system. In September 2006, ITG exercised its option to accelerate the earn-out period by making a lump sum payment to us of \$11.7 million. We will receive no further payments pursuant to the earn-out arrangement.
- (4) We made pro forma adjustments to the historical results of operations for the fiscal year ended November 30, 2007 to show the pro forma effect for the following as if they had occurred on December 1, 2006:
 - (i) The reclassification of each share of our outstanding common stock into 2,861.235208 shares of our class B common stock.
 - (ii) The issuance and sale by us of 16,100,000 shares of our class A common stock pursuant to our initial public offering based on the initial public offering price of \$18.00 per share.
 - (iii) The receipt of proceeds from the \$425.0 million borrowing under the \$500.0 million Credit Facility we entered into on the date of the initial public offering. The pro forma adjustments to interest expense reflect the borrowings under this Credit Facility.

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- (iv) The payment of a \$973.0 million dividend with the proceeds from (ii) and (iii) above.

The pro forma basic and diluted earnings (loss) per share were calculated using 100,000,000 shares, which represent the number of shares outstanding for the year (after giving effect to the Reclassification (as defined below)) plus the number of shares issued in the initial public offering as if these shares were issued on December 1, 2006. The interest expense related to the Credit Facility is based on a weighted average interest rate of 7.5%. A tax rate of 39.1% was used in calculating the related income tax effect.

- (5) Prior to July 1, 2008, we had deposited most of our excess funds with our principal shareholder, Morgan Stanley, and received interest at Morgan Stanley's internal prevailing rates.
- (6) Operating margin is defined as operating income divided by operating revenues.
- (7) On October 24, 2007, our Board of Directors approved our Amended and Restated Certificate of Incorporation, which includes:
 - (i) authority to issue 850,000,000 shares of stock, consisting of 500,000,000 shares of class A common stock, par value \$0.01 per share, 250,000,000 shares of class B common stock, par value \$0.01 per share, and 100,000,000 shares of preferred stock, par value \$0.01 per share; and
 - (ii) a reclassification of each share of our outstanding common stock into 2,861.235208 shares of class B common stock (the "Reclassification"). All per share computations included in the consolidated financial statements incorporated by reference herein have been restated to reflect the Reclassification.
- (8) As of May 31, 2007, the cash deposited with related parties balance was approximately \$367.0 million resulting in \$10.5 million in interest income. There was no long-term debt outstanding as of May 31, 2007. Interest expense for the six months ended May 31, 2007 relates only to interest on amounts due to related parties.

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RISK FACTORS

Investing in our class A common stock involves a high degree of risk. You should carefully consider all the information set forth in this prospectus and incorporated by reference herein before deciding to invest in shares of our class A common stock. In particular, we urge you to consider carefully the factors set forth under **Risk Factors** and **Forward-Looking Statements** in our Annual Report on Form 10-K for the fiscal year ended November 30, 2007, incorporated by reference herein, and under **Risk Factors** in our Quarterly Report on Form 10-Q for the quarter ended May 31, 2008, incorporated by reference herein.

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USE OF PROCEEDS

The selling stockholder will receive all net proceeds from the sale of the shares of our class A common stock in this offering. We will not receive any of the proceeds from the sale of shares of our class A common stock by the selling stockholder, including any sales pursuant to the over-allotment option.

DIVIDEND POLICY

We do not intend to pay any dividends in the foreseeable future and intend to retain all available funds for use in the operation and expansion of our business, including growth through acquisitions. In addition, our Credit Facility contains restrictions on the payment of dividends. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources in our Annual Report on Form 10-K for the fiscal year ended November 30, 2007 and in our Quarterly Report on Form 10-Q for the quarter ended May 31, 2008, each incorporated by reference herein.

Table of Contents**PRICE RANGE OF CLASS A COMMON STOCK**

Our class A common stock has traded on the New York Stock Exchange under the symbol **MXB** since November 15, 2007. The following table sets forth the high and low intraday sales prices per share of our common stock, as reported by the New York Stock Exchange, for the periods indicated.

	Price Range	
	High	Low
2007		
Quarter ended November 30, 2007 ⁽¹⁾	\$ 29.49	\$ 22.06
2008		
Quarter ended February 29, 2008	\$ 38.40	\$ 24.74
Quarter ended May 31, 2008	\$ 37.75	\$ 23.29
Quarter ended August 31, 2008 (through July 15, 2008)	\$ 38.05	\$ 29.33

(1) Our class A common stock began trading on November 15, 2007.

The closing sale price of our class A common stock, as reported by the New York Stock Exchange, on July 15, 2008 was \$32.16. As of June 30, 2008, there were eight holders of record of our class A common stock.

Our class B common stock is neither listed nor publicly traded. As of June 30, 2008, there was one holder of record of our class B common stock.

Table of Contents**CAPITALIZATION**

The following table sets forth our cash and cash equivalents, cash deposited with related parties and capitalization as of May 31, 2008:

This table should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto set forth in this prospectus.

	As of May 31, 2008 (in thousands, except share and per share amounts)
Cash and cash equivalents	\$ 32,294
Cash deposited with related parties	203,315
Total cash and cash equivalents and cash deposited with related parties	\$ 235,609
Total debt	\$ 413,875
Shareholders' equity/accumulated deficit:	
Class A common stock, \$0.01 par value per share, 500,000,000 shares authorized, 47,012,928 shares issued and outstanding; class B common stock, \$0.01 par value per share, 250,000,000 shares authorized, 53,038,764.79 shares issued and outstanding ⁽¹⁾	1,001
Treasury stock, 18,198 shares ⁽¹⁾	(557)
Additional paid-in capital	277,173
Accumulated other comprehensive income	2,735
Accumulated deficit	(29,491)
Total shareholders' equity	250,861
Total capitalization	\$ 664,736

⁽¹⁾ Currently, there are 47,013,312 shares of our class A common stock issued and outstanding and 18,480 shares of treasury stock reserved. These changes are the result of shares issued to and treasury stock withheld from eligible employees after May 31, 2008 under our equity incentive compensation plan.

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SELECTED FINANCIAL DATA

The following table presents our summary historical consolidated financial data for the periods presented and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto set forth in this prospectus and our Annual Report on Form 10-K for the fiscal year ended November 30, 2007 and our Quarterly Report on Form 10-Q for the quarter ended May 31, 2008, each incorporated by reference herein. The consolidated statement of income data for the fiscal years ended November 30, 2005, 2006 and 2007 and the consolidated financial condition data as of November 30, 2006 and 2007 are derived from our audited consolidated financial statements included in this prospectus and our Annual Report on Form 10-K for the fiscal year ended November 30, 2007, incorporated by reference herein. The consolidated statement of income data for the fiscal years ended November 30, 2003 and 2004 and the consolidated statement of financial condition data as of November 30, 2003, 2004 and 2005 are derived from our audited historical consolidated financial statements not included in this prospectus or incorporated by reference herein. The condensed consolidated statement of income data for the six-month periods ended May 31, 2007 and 2008 and the condensed consolidated financial condition data as of May 31, 2007 and 2008 are derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus which, in our opinion, have been prepared on the same basis as the audited consolidated financial statements and reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations and financial position.

The historical financial information presented below may not be indicative of our future performance and does not necessarily reflect what our financial position and results of operations would have been had we operated as a stand-alone company during the periods presented. Results for the six months ended May 31, 2008 are not necessarily indicative of results that may be expected for the entire year.

On July 19, 2007, we paid a dividend of \$973.0 million, consisting of \$325.0 million in cash and \$648.0 million in demand notes. Morgan Stanley was issued a demand note in the amount of \$625.9 million and Capital Group International was issued a demand note in the amount of \$22.1 million. On July 19, 2007, we paid in full the \$22.1 million demand note held by Capital Group International. On November 20, 2007, we completed an initial public offering of 16.1 million shares of our class A common stock. The net proceeds from the offering were \$265.0 million after deducting \$20.3 million of underwriting discounts and commissions and \$4.5 million of other offering expenses. Simultaneously with the initial public offering, we entered into the \$500 million Credit Facility under which we borrowed \$425.0 million to pay a portion of the \$625.9 million demand note held by Morgan Stanley. The balance of the demand note was repaid with proceeds from our initial public offering.

The pro forma consolidated statement of income data for the fiscal year ended November 30, 2007 reflects (1) the \$973.0 million dividend as if it had been paid on December 1, 2006, (2) the sale by us of 16,100,000 shares of our class A common stock pursuant to our initial public offering based on the initial public offering price of \$18.00 per share and the application of the net proceeds from the initial public offering to pay a portion of the \$625.9 million demand note held by Morgan Stanley as if the initial public offering and the payment of the demand note had occurred on December 1, 2006 and (3) the payment of the balance of the \$625.9 million demand note held by Morgan Stanley with the net proceeds from the borrowing under the Credit Facility as if the borrowing and the payment of the demand note had occurred on December 1, 2006.

Table of Contents**Consolidated Statements of Income Data**

	For the Fiscal Year Ended November 30,					For the Fiscal Year Ended November 30, 2007	For the Six Months Ended May 31,	
	2003 ⁽²⁾	2004 ⁽²⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	Pro Forma ⁽⁴⁾	2007 ⁽¹⁾	2008 ⁽¹⁾
	(amounts in thousands, except per share data)							
Operating revenues	\$ 91,277	\$ 178,446	\$ 278,474	\$ 310,698	\$ 369,886	\$ 369,886	\$ 175,821	\$ 213,146
Cost of services	44,670	86,432	106,598	115,426	121,711	121,711	62,607	61,597
Selling, general, and administrative	30,082	47,099	70,220	85,820	92,477	92,477	44,453	69,161
Amortization of intangible assets		14,910	28,031	26,156	26,353	26,353	12,531	14,250
Total operating expenses	74,752	148,441	204,849	227,402	240,541	240,541	119,591	145,008
Operating income	16,525	30,005	73,625	83,296	129,345	129,345	56,230	68,138
Interest income	924	1,250	8,738	15,482	13,143	819	10,586 ⁽⁸⁾	5,880
Interest expense	131	624	1,864	352	9,586	32,047	597 ⁽⁸⁾	15,131
Other income (loss)		(13)	398	1,043	390	390	53	233
Interest income (expense) and other, net	793	613	7,272	16,173	3,947	(30,838)	10,042	(9,018)
Income before provision for income taxes, discontinued operations and cumulative effect of change in accounting principle	17,318	30,618	80,897	99,469	133,292	98,507	66,272	59,120
Provision for income taxes	5,921	9,711	30,449	36,097	52,181	38,516	24,779	22,555
Income before discontinued operations and cumulative effect of change in accounting principle	11,397	20,907	50,448	63,372	81,111	59,991	41,493	36,565
Discontinued operations ⁽³⁾ :								
Income (loss) from discontinued operations		(84)	5,847	12,699				
Provision (benefit) for income taxes on discontinued operations		(30)	2,054	4,626				
Income (loss) from discontinued operations		(54)	3,793	8,073				
Income before cumulative effect of change in accounting principle	11,397	20,853	54,241	71,445	81,111	59,991	41,493	36,565
Cumulative effect of change in accounting principle			313					
Net income	\$ 11,397	\$ 20,853	\$ 54,554	\$ 71,445	\$ 81,111	\$ 59,991	\$ 41,493	\$ 36,565
Earnings (loss) per basic common share ⁽⁷⁾ :								
Continuing operations	\$ 0.40	\$ 0.37	\$ 0.60	\$ 0.76	\$ 0.96	\$ 0.60	\$ 0.49	\$ 0.37
Discontinued operations			0.05	0.10				
Cumulative effect of change in accounting principle								
Earnings (loss) per basic common share	\$ 0.40	\$ 0.37	\$ 0.65	\$ 0.85	\$ 0.96	\$ 0.60	\$ 0.49	\$ 0.37
Earnings (loss) per diluted common share ⁽⁷⁾ :								
Continuing operations	\$ 0.40	\$ 0.37	\$ 0.60	\$ 0.76	\$ 0.96	\$ 0.60	\$ 0.49	\$ 0.36
Discontinued operations			0.05	0.10				
Cumulative effect of change in accounting principle								
Earnings (loss) per diluted common share	\$ 0.40	\$ 0.37	\$ 0.65	\$ 0.85	\$ 0.96	\$ 0.60	\$ 0.49	\$ 0.36

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Weighted average shares outstanding used in computing earnings (loss) per common share ⁽⁷⁾ :								
Basic	28,612	56,256	83,900	83,900	84,608	100,000	83,900	100,019
Diluted	28,612	56,256	83,900	83,900	84,624	100,000	83,900	101,223

Table of Contents**Consolidated Statements of Financial Condition Data**

	2003 ⁽²⁾	As of November 30,				As of May 31,	
		2004 ⁽²⁾	2005	2006 ⁽¹⁾	2007 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾
	(in thousands)						
Cash and cash equivalents	\$ 5,735	\$ 33,076	\$ 23,411	\$ 24,362	\$ 33,818	\$ 29,951	\$ 32,294
Cash deposited with related parties ⁽⁵⁾	\$ 67,492	\$ 98,873	\$ 252,882	\$ 330,231	\$ 137,625	\$ 367,010	\$ 203,315
Goodwill and intangible assets	\$	\$ 781,238	\$ 668,539	\$ 642,383	\$ 616,030	\$ 629,852	\$ 601,780
Total assets	\$ 123,100	\$ 996,444	\$ 1,047,519	\$ 1,112,775	\$ 904,679	\$ 1,138,705	\$ 1,002,777
Deferred revenue	\$ 53,007	\$ 88,689	\$ 87,952	\$ 102,368	\$ 125,230	\$ 139,654	\$ 168,824
Shareholders' equity	\$ 36,624	\$ 708,501	\$ 757,217	\$ 825,712	\$ 200,021	\$ 868,545	\$ 250,861

Other Data

	2003 ⁽²⁾	For the Fiscal Year Ended November 30,				For the Six Months Ended May 31,	
		2004 ⁽²⁾	2005 ⁽¹⁾	2006 ⁽¹⁾	2007 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾
	(dollar amounts in thousands)						
Operating margin ⁽⁶⁾	18.1%	16.8%	26.4%	26.8%	35.0%	32.0%	32.0%
Cash disbursements for capital expenditures	\$ 1,231	\$ 2,058	\$ 346	\$ 2,435	\$ 535	\$ 357	\$ 5,820

- (1) The audited consolidated financial statements as of November 30, 2006 and 2007 and for the years ended November 30, 2005, 2006 and 2007 included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2007 are incorporated by reference herein. The unaudited condensed consolidated financial statements as of May 31, 2007 and 2008 and for the six months ended May 31, 2007 and 2008 included in our Quarterly Report on Form 10-Q for the quarter ended May 31, 2008 are also incorporated by reference herein.
- (2) On June 3, 2004, Morgan Stanley completed the acquisition of Barra, Inc. (Barra). The operations of Barra have been included with our results of operations since that date. All information prior to June 3, 2004 does not include the operations of Barra.
- (3) Income (loss) from discontinued operations relates to our interest in POSIT JV, a joint venture that was acquired with the purchase of Barra in 2004. On February 1, 2005, we sold our interest in POSIT JV to MSCI's joint venture partner, Investment Technology Group, Inc. (ITG) for \$90 million. We recorded a pre-tax gain of \$6.8 million at the time of sale. As part of the sale agreement, we were entitled to additional royalties for a period of 10 years subsequent to the sale pursuant to an earn-out arrangement, based on fees earned by ITG related to the POSIT system. In September 2006, ITG exercised its option to accelerate the earn-out period by making a lump sum payment to us of \$11.7 million. We will receive no further payments pursuant to the earn-out arrangement.
- (4) We made pro forma adjustments to the historical results of operations for the fiscal year ended November 30, 2007 to show the pro forma effect for the following as if they had occurred on December 1, 2006:
- (i) The reclassification of each share of our outstanding common stock into 2,861.235208 shares of our class B common stock.
 - (ii) The issuance and sale by us of 16,100,000 shares of our class A common stock pursuant to our initial public offering based on the initial public offering price of \$18.00 per share.
 - (iii) The receipt of proceeds from the \$425.0 million borrowing under the \$500.0 million Credit Facility we entered into on the date of the initial public offering. The pro forma adjustments to interest expense reflect the borrowings under this Credit Facility.

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- (iv) The payment of a \$973.0 million dividend with the proceeds from (ii) and (iii) above.

The pro forma basic and diluted earnings (loss) per share were calculated using 100,000,000 shares, which represent the number of shares outstanding for the year (after giving effect to the Reclassification (as defined below)) plus the number of shares issued in the initial public offering as if these shares were issued on December 1, 2006. The interest expense related to the credit facility is based on a weighted average interest rate of 7.5%. A tax rate of 39.1% was used in calculating the related income tax effect.

- (5) Prior to July 1, 2008, we had deposited most of our excess funds with our principal shareholder, Morgan Stanley, and received interest at Morgan Stanley's internal prevailing rates.
- (6) Operating margin is defined as operating income divided by operating revenues.
- (7) On October 24, 2007, our Board of Directors approved our Amended and Restated Certificate of Incorporation, which includes:
 - (i) authority to issue 850,000,000 shares of stock, consisting of 500,000,000 shares of class A common stock, par value \$0.01 per share, 250,000,000 shares of class B common stock, par value \$0.01 per share, and 100,000,000 shares of preferred stock, par value \$0.01 per share; and
 - (ii) a reclassification of each share of our outstanding common stock into 2,861.235208 shares of class B common stock (the "Reclassification"). All per share computations included in the consolidated financial statements incorporated by reference herein have been restated to reflect the Reclassification.
- (8) As of May 31, 2007, the cash deposited with related parties balance was approximately \$367.0 million resulting in approximately \$10.5 million in interest income. There was no long-term debt outstanding as of May 31, 2007. Interest expense for the six months ended May 31, 2007 relates only to interest on amounts due to related parties.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS**

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with the consolidated financial statements and related notes included in this prospectus, our Annual Report on Form 10-K for the fiscal year ended November 30, 2007 and our Quarterly Report on Form 10-Q for the quarter ended May 31, 2008, each incorporated by reference herein. 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 under Risk Factors and Forward-Looking Statements in our Annual Report on Form 10-K for the fiscal year ended November 30, 2007, incorporated by reference herein and under Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended May 31, 2008, incorporated by reference herein.

Overview

We are a leading provider of investment decision support tools to investment institutions worldwide. We produce indices and risk and return portfolio analytics for use in managing investment portfolios. Our products are used by institutions investing in or trading equity, fixed income and multi-asset class instruments and portfolios around the world. Our flagship products are our international equity indices marketed under the MSCI brand and our equity portfolio analytics marketed under the Barra brand. Our products are used in many areas of the investment process, including for portfolio construction and optimization, performance benchmarking and attribution, risk management and analysis, index-linked investment product creation, asset allocation, investment manager selection and investment research.

Our clients include asset owners such as pension funds, endowments, foundations, central banks and insurance companies; institutional and retail asset managers, such as managers of pension assets, mutual funds, ETFs, hedge funds and private wealth; and financial intermediaries such as broker-dealers, exchanges, custodians and investment consultants. As of May 31, 2008, we had a client base of over 3,000 clients across more than 60 countries with approximately 52% of our operating revenues from clients in the Americas, 33% from EMEA, 8% from Japan and 7% from Asia-Pacific (not including Japan). To help serve our diverse client base, we had 19 offices in 14 countries as of May 31, 2008.

We sell our products through a common sales force, produce them on common data and systems platforms and develop them in our global research and product management organizations. In evaluating our results, we focus on revenues and revenue growth by product category and operating margins encompassing the entire cost structure supporting all our operations. Our current financial focus is on accelerating our revenue growth to generate cash flow to expand our market position and capitalize on the many growth opportunities before us. Our revenue growth strategy includes: (a) expanding and deepening our relationships with the large and increasing number of investment institutions worldwide; (b) developing new and enhancing existing equity product offerings, as well as further developing and growing our investment tools for multi-asset class portfolio analytics and (c) actively seeking to acquire products, technologies and companies that will enhance, complement or expand our client base and our product offerings. See Business Growth Strategy.

To maintain and accelerate our revenue and operating income growth, we will continue to invest in and expand our operating functions and infrastructure, including new sales and client support staff and facilities in locations around the world; additional staff and supporting technology for our research and our data management and production functions; and additional personnel and supporting technology in our general and administrative functions, particularly finance and human resources personnel required to operate as a stand-alone public company. At the same time, managing and controlling our operating expenses is very important to us and a distinct part of our culture. Over time, our goal is to keep the rate of growth of our operating expenses below the rate of growth of our revenues allowing us to expand our operating margins. However, at times, because of

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significant market opportunities, it may be more important to us to invest in our business in order to support increased efforts to attract new clients and to develop new product offerings, rather than emphasize short-term operating margin expansion. Furthermore, in some periods, our operating expense growth may exceed our operating revenue growth due to the variability of revenues from licensing our equity indices as the basis of ETFs and in the near term, transition expenses as we separate from Morgan Stanley.

We experienced growth in both revenues and expenses during the fiscal year ended November 30, 2007 and the six months ended May 31, 2008. The growth in revenues for both periods was mainly attributable to (i) continued strong revenue growth in our equity index products, reflecting an increase in (a) equity index subscriptions, with notable growth in subscriptions to the MSCI Global Investable Market Indices (GIMI) and our core and small cap developed and emerging market indices and (b) ETF asset based fee revenues due to the growth in value of assets linked to our products, (ii) growth in revenues from equity analytics products resulting in part from investments made during 2006 to enhance and add features to our Barra Aegis and Equity Models Direct product offerings, which has led to increased demand for these products and (iii) accelerated growth in revenues in our multi-asset class portfolio analytics products from increased subscriptions to our BarraOne product. Product enhancements continued throughout 2007 and first half 2008. Aegis 4.1, BarraOne 1.9 and the MSCI GIMI methodology were released in 2007. In first half 2008, several thematic and strategy indices, the MSCI Frontier Market Indices and BarraOne 3.0 and 3.1 were released. See Business Our Products and Services.

The higher operating expenses during fiscal years 2007 and 2006 were primarily due to increased compensation and benefit expenses for existing personnel as well as an increase in compensation and benefit expenses related to staff additions that were made during the third and fourth quarters of fiscal 2006. Operating expenses also increased during the six months ended May 31, 2008 due primarily to founders grant expenses, increased compensation expense and expenses associated with replacing services currently provided by Morgan Stanley.

Key Financial Metrics and Drivers

Revenues

Our principal sales model is to license annual, recurring subscriptions to our products for use at specified locations by a given number of client users for an annual fee paid upfront. The substantial majority of our revenues come from these annual, recurring subscriptions. These fees are recorded as deferred revenues on our consolidated statement of financial condition and are recognized each month on our income statement as the service is rendered. Over time, as their needs evolve, our clients often add product modules, users and locations to their subscriptions, which results in an increase in our revenues per client. Additionally, a growing source of our revenues comes from clients who use our indices as the basis for certain index-linked investment products such as ETFs, passive mutual funds and structured products. These clients commonly pay us a license fee based on the investment product's assets.

We group our revenues into the following four product categories:

Equity Indices

This category includes fees from MSCI equity index data subscriptions, fees based on assets in investment products linked to our equity indices, fees from one-time licenses of our equity index historical data and fees from custom MSCI indices. We also generate a limited amount of revenues based on the trading volume of futures and options contracts linked to our indices.

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Clients typically subscribe to equity index data modules for use by a specified number of users at a particular location. Clients may select delivery from us or delivery via a third-party vendor. We are able to grow our revenues for data subscriptions by expanding the number of client users and their locations and the number of

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third-party vendors the client uses for delivery of our data modules. The increasing scope and complexity of a client's data requirements beyond standard data modules, such as requests for historical data or customized indices, also provide opportunities for further revenue growth from an existing client.

Revenues from our index-linked investment product licenses, such as ETFs, increase or decrease as a result of changes in value of the assets in the investment products. These changes in the value of the assets in the investment products can result from equity market price changes and investment inflows and outflows. In most cases, fees for these licenses are paid quarterly in arrears and are calculated by multiplying a negotiated basis point fee times the average daily assets in the investment product for the most recent period.

Equity Portfolio Analytics

This category includes revenues from annual, recurring subscriptions to Barra Aegis and our proprietary risk data in it, Equity Models Direct products, and our proprietary equity risk data incorporated in third-party software application offerings (e.g., Barra on Vendors).

Barra Aegis has many uses, including portfolio risk analysis and forecasting, optimization and factor-based portfolio performance attribution. A base subscription for use in portfolio analysis typically involves a subscription to Barra Aegis and various risk data modules. A client may add portfolio performance attribution, optimization tools, process automation tools or other features to its Barra Aegis subscription. By licensing the client to receive additional software modules and risk data, or increasing the number of permitted client users or client locations, we can increase our revenues per client further.

Our Equity Models Direct risk data is distributed directly to clients who then combine it with their own software applications or upload the risk data onto third-party applications. A base subscription to our Equity Models Direct product provides equity risk data for a single country for a set fee that authorizes two users. By licensing the client to receive equity risk model data for additional countries, or increasing the number of permitted client users or client locations, we can further increase our revenues per client.

The Barra on Vendors product makes our proprietary risk data from our Equity Models Direct product available to clients via third party providers, such as FactSet Research Systems, Inc.

Multi-Asset Class Portfolio Analytics

This category includes revenues from annual, recurring subscriptions to BarraOne and Barra TotalRisk together with our proprietary risk data for multiple asset classes. Currently, we are actively selling subscriptions only to BarraOne and related risk data. Once most of the features and functionality of TotalRisk have been added to BarraOne, we plan to decommission TotalRisk. We are offering our TotalRisk clients the opportunity to transition to BarraOne. Therefore, as this transition takes place, revenues from this product group will increasingly come from BarraOne, partially offset by declines in revenues from TotalRisk.

Other Products

This category includes revenues from a number of products, including Barra Cosmos for fixed income analytics, MSCI hedge fund indices, and FEA energy and commodity asset valuation analytics products.

Run Rate

At the end of any period, we generally have subscription and investment product license agreements in place for a large portion of our total revenues for the following 12 months. We measure the fees related to these agreements and refer to this as our Run Rate. The Run Rate at a particular point in time represents the forward-looking fees for the next 12 months from all subscriptions and investment product licenses we currently provide

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to our clients under renewable contracts assuming all contracts that come up for renewal are renewed and assuming then-current exchange rates. For any license whose fees are linked to an investment product's assets or trading volume, the Run Rate calculation reflects an annualization of the most recent periodic fee earned under such license. The Run Rate does not include fees associated with one-time and other non-recurring transactions. In addition, we remove from the Run Rate the fees associated with any subscription or investment product license agreement with respect to which we have received a notice of termination or non-renewal at the time we receive such notice, even if the notice is not effective until a later date.

Because the Run Rate represents potential future fees, there is typically a delayed impact on our operating revenues from changes in our Run Rate. In addition, the actual amount of revenues we will realize over the following 12 months will differ from the Run Rate because of:

revenues associated with new subscriptions and one-time sales;

modifications, cancellations and non-renewals of existing agreements, subject to specified notice requirements;

fluctuations in asset-based fees, which may result from market movements or from investment inflows into and outflows from investment products linked to our indices;

fluctuations in fees based on trading volumes of futures and options contracts linked to our indices;

price changes;

timing differences under GAAP between when we receive fees and the realization of the related revenues; and

fluctuations in foreign exchange rates.

Changes in Run Rate between periods reflect increases from new subscriptions, decreases from cancellations, increases or decreases, as the case may be, from the change in the value of assets of investment products linked to MSCI indices, the change in trading volumes of futures and options contracts linked to MSCI indices, price changes and fluctuations in foreign exchange rates.

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The following tables set forth our Run Rates as of the dates indicated and the percentage change between the dates indicated:

Run Rate by Product Category

	As of		Percentage Change	As of		% Change Year-over-Year
	May 31, 2008	May 31, 2007		November 30, 2007	November 30, 2006	
(dollar amounts in thousands)						
Subscription based fees⁽¹⁾						
Equity indices	\$ 161,147	\$ 129,627	24.3%	\$ 143,718		
Equity portfolio analytics	134,509	116,243	15.7%	123,561		
Multi-asset class analytics	33,255	24,112	37.9%	30,638		
Other	19,315	15,913	21.4%	17,728		
Subscription based fees total	348,226	285,895	21.8%	315,645	\$ 264,317	19.4%
Asset based fees						
Equity indices ⁽²⁾	79,358	62,185	27.6%	76,898	43,800	75.6%
Hedge fund indices	2,684	6,217	(56.8)%	4,963	6,880	(27.9)%
Asset based fees total	82,042	68,402	19.9%	81,861	50,680	61.5%
Total Run Rate	\$ 430,268	\$ 354,297	21.4%	\$ 397,505	\$ 314,996	26.2%

(1) Comparable data for fiscal year 2006 is not available.

(2) Includes asset based fees for ETFs and passive mutual funds and transaction volume-based fees for futures and options traded on certain MSCI indices and other structured products.

Run Rate by Product Category

	May 31, 2008	As of February 29, 2008	% Change Sequential
(in thousands)			
Subscription based fees			
Equity indices	\$ 161,147	\$ 154,103	4.6%
Equity portfolio analytics	134,509	131,349	2.4%
Multi-asset class analytics	33,255	31,739	4.8%
Other	19,315	18,400	5.0%
Subscription based fees total	348,226	335,591	3.8%
Asset based fees			
Equity indices ⁽¹⁾	79,358	73,358	8.2%
Hedge fund indices	2,684	4,371	(38.6)%
Asset based fees total	82,042	77,729	5.5%

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Total Run Rate	\$ 430,268	\$ 413,320	4.1%
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- (1) Includes asset based fees for ETFs and passive mutual funds and transaction volume-based fees for futures and options traded on certain MSCI indices and other structured products.

Table of Contents***Aggregate and Core Retention Rates***

Because subscription cancellations decrease our Run Rate and ultimately our operating revenues, other key metrics are our Aggregate Retention Rate and our Core Retention Rate. The Aggregate Retention Rate represents the percentage of the Run Rate as of the beginning of the period that is not cancelled during the period. The Aggregate Retention Rate is computed on a product-by-product basis. Therefore, if a client reduces the number of products to which it subscribes or switches between our products, we treat it as a cancellation. In addition, we treat any reduction in fees resulting from renegotiated contracts as a cancellation in the calculation to the extent of the reduction. We do not calculate Aggregate or Core Retention Rates for that portion of our Run Rate attributable to assets in investment products linked to our indices or to trading volumes of futures and options contracts linked to our indices. Aggregate and Core Retention Rates for a non-annual period are annualized. Our Core Retention Rate is calculated in the same way as our Aggregate Retention Rate, except that the Core Retention Rate does not treat switches between products as a cancellation.

The following table sets forth our Aggregate and Core Retention Rates for the fiscal periods indicated:

	Six Months Ended		Fiscal Years Ended		
	May 31,		November 30,		
	2008	2007	2007	2006	2005
Aggregate Retention Rate	94%	94%	92%	91%	89%
Core Retention Rate ⁽¹⁾	95%	95%	93%		

(1) Data not available for the fiscal years ended November 30, 2006 and 2005.

In recent years on average, approximately 40% of our subscription cancellations for the full year have occurred in the fourth fiscal quarter. As a result, our Aggregate Retention Rate generally has been higher during the first three fiscal quarters and lower in the fourth fiscal quarter.

Expenses

Compensation and benefits expenses represent the majority of our expenses across all of our operating functions, and typically represent approximately 60% of our total operating expenses. These expenses generally contribute to the majority of our expense increases from period to period, reflecting existing staff compensation and benefit increases and increased staffing levels. Continued growth of our staff in lower cost locations around the world is an important factor in our ability to manage and control the growth of our compensation and benefit expenses. An important location for us is Mumbai, India, where we have increased our staff levels significantly since commencing our operations there in early 2004 with a small staff in data management and production. Subsequently, we expanded the scale of our operations there by adding teams in research and administration, as well as by continuing to expand the data management and production team. Our office in Mumbai has grown from 12 employees as of November 30, 2004 to 70 full-time employees as of May 31, 2008. Another important location for us is Budapest, Hungary, where we opened an office in August 2007. We plan to continue to develop this location as an important information technology center, software engineering center and client service center. Our Budapest office had 33 employees as of May 31, 2008.

A significant expense for us is services provided by our principal shareholder, Morgan Stanley. As a majority-owned subsidiary of Morgan Stanley, we have relied on Morgan Stanley to provide a number of administrative support services and facilities. Although we will continue to operate under a services agreement with Morgan Stanley, the amount and composition of our expenses may vary from historical levels as we replace these services with ones supplied by us or by third parties. We are investing in expanding our own administrative functions, including

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finance, legal and compliance and human resources, as well as information technology infrastructure, to replace services currently provided by Morgan Stanley. Because of initial set-up costs and overlaps with services currently provided by Morgan Stanley, our expenses increased in the second fiscal quarter of 2008. We expect operating expense increases from initial set-up costs and overlaps with the cost of Morgan Stanley services to continue until we have replaced services currently provided by Morgan Stanley. In addition,

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we are incurring additional costs as a public company, including directors' compensation, audit, listing fees, investor relations, stock administration and regulatory compliance costs.

Information technology costs, which include market data, amortization of hardware and software products, and telecommunications services, are also an important part of our expense base.

We group our expenses into three categories:

Cost of services,

Selling, general and administrative (SG&A), and

Amortization of intangible assets.

Because compensation and benefits represent the majority of our expenses in both the cost of services and SG&A expense categories, we have begun presenting our compensation and non-compensation expenses separately in each of these categories. Other costs associated with the number of employees such as office space and professional services are included in both the cost of services and SG&A expense categories consistent with the allocation of employees to those respective areas.

Cost of Services

Cost of services includes costs related to our research, data management and production, client service, software engineering and product management functions. Costs in these areas include staff compensation and benefits, allocated office space, market data fees and certain information technology services provided by Morgan Stanley. The largest expense in this category is compensation and benefits. As such, they generally contribute to a majority of our expense increases from period to period, reflecting compensation and benefits increases for existing staff and increased staffing levels.

Selling, General and Administrative

Selling, general and administrative includes compensation expenses for our sales and marketing staff, and our finance, human resources, legal and compliance, information technology infrastructure and corporate administration personnel. As with cost of services, the largest expense in this category is compensation and benefits. As such, they generally contribute to a majority of our expense increases from period to period, reflecting compensation and benefits increases for existing staff and increased staffing levels. Other significant expenses are for services provided by Morgan Stanley and office space.

Amortization of Intangible Assets

This category consists of expenses related to amortizing intangible assets arising from the acquisition of Barra in June 2004. At the time of acquisition, the intangible assets had weighted average useful lives ranging from 1.5 to 21.5 years. Our intangible assets consist primarily of technology and software, trademarks and client relationships.

Interest Income (Expense) and Other, net

This category consists primarily of interest we pay on payables to related parties as well as interest on our Credit Facility entered into November 14, 2007 less interest we collect on cash balances, including cash deposited with Morgan Stanley. Average cash balances and the weighted average yield received are the two largest factors that impact interest income from period to period.

Factors Impacting Comparability of Our Financial Results

Our historical results of operations for the periods presented may not be comparable with prior periods or with our results of operations in the future for the reasons discussed below.

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Barra Acquisition and Divestiture of POSIT JV

On June 3, 2004, Morgan Stanley completed the acquisition of Barra. On December 1, 2004, Morgan Stanley contributed Barra to us. The contribution of Barra was accounted for as a transfer of net assets between entities under common control and therefore, we have presented our financial position and results of operations as if Barra had been combined with us from the date of the acquisition. Founded in 1975, Barra became a public company in 1991, trading on the NASDAQ under the ticker symbol BARZ.

On February 1, 2005, we sold for \$90.0 million our 50% interest in POSIT JV, a joint venture that owned the intellectual property for and certain licenses underlying the POSIT equity crossing system that matches institutional buyers and sellers, to our joint venture partner, ITG. We recorded a pre-tax gain of \$6.8 million at the time of sale. We acquired the POSIT JV interest as part of our acquisition of Barra. As part of the sale agreement, we were entitled to additional royalties for a period of 10 years subsequent to the sale pursuant to an earn-out arrangement based on fees earned by ITG related to the POSIT system. In September 2006, ITG exercised its option to accelerate the earn-out period by making a lump sum payment to us of \$11.7 million. In addition, we received royalty payments of \$3.2 million and \$1.0 million in fiscal 2005 and 2006, respectively, prior to the lump sum earn-out payment. With the issuance of FASB Interpretation 46R *Consolidation of Variable Interest Entities* (FIN 46R), Barra determined that POSIT JV qualified as a variable interest entity. Barra was entitled to 95% of the gains and losses of the joint venture and thus consolidated POSIT JV. We accounted for the results of operations of POSIT JV, the gain on sale of POSIT JV, and the lump sum payment from ITG as discontinued operations in our financial statements.

Our Relationship with Morgan Stanley

Our consolidated financial statements have been derived from the financial statements and accounting records of Morgan Stanley using the historical results of operations and historical bases of assets and liabilities of our business. The historical costs and expenses reflected in our audited consolidated financial statements include an allocation for certain corporate functions historically provided by Morgan Stanley, including human resources, information technology, accounting, legal and compliance, tax, office space leasing, corporate services, treasury and other services. On November 20, 2007, we entered into a services agreement with Morgan Stanley pursuant to which Morgan Stanley and its affiliates agreed to provide us with certain of these services for so long as Morgan Stanley owns more than 50% of our outstanding common stock and for periods, varying for different services, of up to 12 months thereafter. We intend to enter into an amended services agreement upon completion of this offering to provide, among other things, that the foregoing services will continue for so long as Morgan Stanley owns greater than 50% of the total voting power to elect our directors. See *Arrangements Between Morgan Stanley and Us Services Agreement*.

For the fiscal years ended November 30, 2007, 2006 and 2005, the expense allocations for services provided by Morgan Stanley were \$26.4 million, \$23.1 million and \$20.0 million, respectively. For the six months ended May 31, 2008 compared to the six months ended May 31, 2007, the allocation for services provided by Morgan Stanley decreased to \$12.1 million from \$12.8 million, as certain corporate charges were eliminated and as we in-sourced services previously provided by Morgan Stanley. These allocations were based on what we and Morgan Stanley considered to be reasonable reflections of the utilization levels of these services required in support of our business and are based on methods that include direct time tracking, headcount, inventory metrics and corporate overhead. The historical information does not necessarily indicate what our results of operations, financial condition or cash flows will be in the future.

Until we complete the process of replacing services currently provided by Morgan Stanley our expenses will increase in the near term due to initial set up costs and overlaps with the costs of Morgan Stanley services. For the six months ended May 31, 2008, expenses associated with replacing services currently provided by Morgan Stanley were \$7.8 million. These expenses reflect the costs associated with the enhancement of our own information technology, financial, administrative and other support systems or contracting with third parties to

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replace Morgan Stanley's systems. We are also establishing our own accounting and internal auditing functions separate from those provided to us by Morgan Stanley. After we completely replace the services provided by Morgan Stanley, our expenses may be higher or lower in total than the amounts reflected in the consolidated statements of income.

Public Company Expenses

As a public company, we are subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act. All of the procedures and practices required as a majority-owned subsidiary of Morgan Stanley were previously established, but we continue to add procedures and practices required as a public company. As a result, we incurred legal, accounting and other expenses during the six months ended May 31, 2008 of \$2.4 million that we did not incur during the six months ended May 31, 2007.

July 2007 Dividend

On July 19, 2007, we paid a dividend of \$973.0 million, consisting of \$325.0 million in cash and \$648.0 million of demand notes. Morgan Stanley was issued a demand note in the amount of \$625.9 million and Capital Group International was issued a demand note in the amount of \$22.1 million. On July 19, 2007, we paid in full the \$22.1 million demand note held by Capital Group International.

Founders Grants

On November 6, 2007, our Board of Directors approved the award of founders grants to our employees in the form of restricted stock units and/or options. The aggregate value of the grants, which were made on November 14, 2007, was approximately \$68.0 million of restricted stock units and options. The restricted stock units and options vest over a four-year period, with 50% vesting on the second anniversary of the grant date and 25% vesting on each of the third and fourth anniversaries of the grant date. The options have an exercise price per share of \$18.00 and have a term of ten years subject to earlier cancellation in certain circumstances. The aggregate value of the options is calculated using the Black-Scholes valuation method.

No stock-based compensation was granted to employees in addition to the one time founders grant for fiscal 2007. Similar to years prior to fiscal 2007, we expect to pay stock-based compensation to employees for fiscal 2008.

The pre-tax expense of the founders grant for the six months ended May 31, 2008 and fiscal year 2007 was approximately \$13.9 million and \$1.1 million, respectively, prior to any estimated forfeitures. After estimated forfeitures, the pre-tax expense of the founders grant for each of the six months ended May 31, 2008 and fiscal year 2007 was \$11.7 million and \$0.8 million, respectively. The anticipated pre-tax expense of the founders grant is approximately \$26.9 million, \$26.2 million, \$9.7 million and \$4.1 million for the fiscal years ended November 30, 2008, 2009, 2010 and 2011, respectively, prior to any estimated forfeitures. We periodically review our forfeiture estimates and update them as we deem appropriate.

Share Reclassification

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On October 24, 2007, our Board of Directors approved the Amended and Restated Certificate of Incorporation, which included: (i) authority to issue 850,000,000 shares of stock, consisting of 500,000,000 shares of class A common stock, par value \$0.01 per share, 250,000,000 shares of class B common stock, par value \$0.01 per share, and 100,000,000 shares of preferred stock, par value \$0.01 per share; and (ii) a reclassification of each share of our outstanding common stock into 2,861.235208 shares of class B common stock. All per share computations included in the accompanying consolidated financial statements have been restated to reflect the reclassification.

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Weighted Shares Outstanding

In November 2007, we completed our initial public offering in which we issued 16.1 million shares. As such, weighted average common shares outstanding for the six months ended May 31, 2008 includes these additional shares. Weighted average common shares outstanding for the six months ended May 31, 2008 also includes actual shares and restricted stock awards issued to employees and non-employee directors during the quarter.

Credit Facility

On November 14, 2007, we entered into a \$500.0 million Credit Facility with Morgan Stanley Senior Funding, Inc. and Bank of America, N.A. as agents for a syndicate of lenders, and other lenders party thereto. The Credit Facility is comprised of a \$200.0 million term loan A facility, a \$225.0 million term loan B facility, which was issued at a discount of 0.5% of the principal amount resulting in proceeds of approximately \$223.9 million, and a \$75.0 million revolving credit facility (under which there were no drawings as of May 31, 2008). Outstanding borrowings under the Credit Facility accrue interest at (i) LIBOR plus a fixed margin of 2.50% in the case of the term loan A facility and the revolving credit facility and 3.00% in the case of the term loan B facility or (ii) the base rate plus a fixed margin of 1.50% in the case of the term loan A facility and the revolving credit facility and 2.00% in the case of the term loan B facility, in each case subject to interest rate step downs based on the achievement of consolidated leverage ratio (as defined in the Credit Facility) conditions. The term loan A facility and the term loan B facility will mature on November 20, 2012 and November 20, 2014, respectively. On November 20, 2007, we borrowed \$425.0 million (the full amount of the term loans) under the Credit Facility and used the proceeds to pay a portion of the \$625.9 million demand note held by Morgan Stanley. The balance of the demand note was paid with the net proceeds from our initial public offering. The revolving credit facility is available for working capital requirements and other general corporate purposes (including the financing of permitted acquisitions), subject to certain conditions, and matures on November 20, 2012. In connection with our Credit Facility, we entered into an interest rate swap agreement on February 13, 2008. See [Quantitative and Qualitative Disclosures About Market Risk](#) [Interest Rate Sensitivity](#) below.

On April 14, 2008, we met certain conditions as defined in the Credit Facility and qualified for a tier change, resulting in a decrease in the LIBOR fixed margin to 2.25% for the term loan A facility and 2.75% for the term loan B facility. From February 29, 2008 through April 13, 2008, the Credit Facility was bearing interest at 5.59% in the case of the term loan A facility and 6.09% in the case of the term loan B facility. From April 14, 2008 through May 29, 2008, the Credit Facility was bearing interest at 5.34% in the case of the term loan A facility and 5.84% in the case of the term loan B facility. Due to a LIBOR reset, the Credit Facility began bearing interest at 4.90% in the case of the term loan A facility and 5.40% in the case of the term loan B facility on May 30, 2008.

The Credit Facility is guaranteed on a senior secured basis by each of our direct and indirect wholly-owned domestic subsidiaries and secured by a valid and perfected first priority lien and security interest in substantially all of the shares of capital stock of our present and future domestic subsidiaries and up to 65% of the shares of capital stock of our foreign subsidiaries, substantially all of our and our domestic subsidiaries' present and future property and assets and the proceeds thereof. In addition, the Credit Facility contains certain restrictive covenants and requires us and our subsidiaries to achieve specified financial and operating results and maintain compliance with the following financial ratios on a consolidated basis: (1) the maximum total leverage ratio (as defined in the Credit Facility) measured quarterly on a rolling four-quarter basis shall not exceed (a) 3.75:1.0 through November 30, 2009, (b) 3.50:1.0 from December 1, 2009 through November 30, 2010 and (c) 3.25:1.0 thereafter; and (2) the minimum interest coverage ratio (as defined in the Credit Facility) measured quarterly on a rolling four-quarter basis shall be (a) 3.00:1.0 through November 30, 2009, (b) 3.50:1.0 from December 1, 2009 through November 30, 2010 and (c) 4.00:1.0 thereafter.

In addition, the Credit Facility contains the following affirmative covenants, among others: periodic delivery of financial statements, budgets and officer's certificates; payment of other obligations; compliance with

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laws and regulations; payment of taxes and other material obligations; maintenance of property and insurance; performance of material leases; right of the lenders to inspect property, books and records; notices of defaults and other material events and maintenance of books and records.

Currently, we have \$413.9 million outstanding under our Credit Facility. We have \$75 million available under the revolving credit facility.

As a result of the borrowings under the Credit Facility, we expect interest expense to be substantially higher in future periods than in comparable historical periods.

Results of Operations*Six Months Ended May 31, 2008 Compared to the Six Months Ended May 31, 2007*

	For the Six Months Ended May 31,		Increase/(Decrease)	
	2008	2007		
	(in thousands, except per share data)			
Operating revenues	\$ 213,146	\$ 175,821	\$ 37,325	21.2%
Operating expenses				
Cost of services	61,597	62,607	(1,010)	(1.6)%
Selling, general and administrative	69,161	44,453	24,708	55.6%
Amortization of intangible assets	14,250	12,531	1,719	13.7%
Total operating expenses	145,008	119,591	25,417	21.3%
Operating income	68,138	56,230	11,908	21.2%
Interest income (expense) and other, net	(9,018)	10,042	(19,060)	(189.8)%
Provision for income taxes	22,555	24,779	(2,224)	(9.0)%
Net income	\$ 36,565	\$ 41,493	\$ (4,928)	(11.9)%
Earnings per basic common share	\$ 0.37	\$ 0.49	\$ (0.12)	(24.5)%
Earnings per diluted common share	\$ 0.36	\$ 0.49	\$ (0.13)	(26.5)%
Operating margin	32.0%	32.0%		

Operating Revenues

Operating Revenues by Product Category

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	For the Six Months Ended May 31,		Increase/(Decrease)	
	2008	2007		
	(in thousands)			
Equity indices				
Equity index subscriptions	\$ 80,613	\$ 66,343	\$ 14,270	21.5%
Equity index asset based fees	37,895	27,691	10,204	36.8%
Total equity indices	118,508	94,034	24,474	26.0%
Equity portfolio analytics	66,244	59,571	6,673	11.2%
Multi-asset class portfolio analytics	16,490	8,701	7,789	89.5%
Other products	11,904	13,515	(1,611)	(11.9)%
Total operating revenues	\$ 213,146	\$ 175,821	\$ 37,325	21.2%

Total operating revenues for the six months ended May 31, 2008 increased 21.2% to \$213.1 million compared to \$175.8 million for the six months ended May 31, 2007. The growth was driven by an increase in our

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revenues related to three of our four product categories. Revenues from our subscription products grew 18.3% in the aggregate for first half 2008 to \$175.3 million reflecting increased subscriptions from existing clients and new client wins. Approximately 80% of our new subscriptions during first half 2008 came from existing clients. Revenues from equity index asset based fees increased 36.8% for first half 2008 to \$37.9 million largely reflecting the increase in the value of ETFs linked to our equity indices.

Revenues from equity indices includes fees from MSCI equity index data subscriptions, fees based on assets in investment products linked to our equity indices, fees from one-time licenses of our equity index historical data, fees from custom MSCI indices and, to a lesser extent, revenues based on the trading volume of futures and options contracts linked to our indices.

Revenues related to equity indices increased \$24.5 million, or 26.0%, to \$118.5 million in first half 2008 compared to first half 2007. Approximately, \$14.3 million, or 58.3%, of the revenue increase was attributable to revenues from equity index subscriptions which increased 21.5% to \$80.6 million for first half 2008 largely reflecting growth in subscriptions to our MSCI Global Investable Market Indices, with particular strength in subscriptions to our small cap indices.

Revenues attributable to equity index asset based fees increased \$10.2 million, or 36.8%, to \$37.9 million in first half 2008 led by growth in our ETF asset based fee revenues. As of May 31, 2008, the value of assets in ETFs linked to MSCI equity indices was \$199.6 billion, representing an increase of \$49.4 billion, or 32.9%, from \$150.2 billion as of May 31, 2007. Approximately 90% of the year-over-year growth in value of assets in ETFs linked to MSCI equity indices was attributable to net asset inflows and 10% was attributable to net asset appreciation. The average value of the assets in ETFs linked to MSCI indices was \$183.2 billion for the quarter ended February 29, 2008 and \$184.4 billion for the quarter ended May 31, 2008 which compares to the average value of \$123.8 billion for the quarter ended February 28, 2007 and \$140.8 billion for the quarter ended May 31, 2007. The value of assets in ETFs linked to MSCI indices decreased \$22.8 billion from \$199.6 billion as of May 31, 2008 to \$176.8 billion as of June 30, 2008, primarily as a result of market depreciation.

The three MSCI indices with the largest amount of ETF assets linked to them as of May 31, 2008 were the MSCI EAFE, Emerging Markets and Japan Indices. The assets linked to these indices were \$49.0 billion, \$40.6 billion and \$11.2 billion in assets, respectively.

Revenues for equity portfolio analytics include annual recurring subscriptions to Barra Aegis and our proprietary risk data. Equity Models Direct products and our proprietary equity risk data incorporated in third-party software application offerings (Barra on Vendors).

In first half 2008, revenues related to equity portfolio analytics were \$66.2 million, an increase of \$6.7 million, or 11.2%, compared to \$59.6 million for the six months ended May 31, 2007. The growth reflects continued new subscriptions of our proprietary equity risk data accessed through our Equity Models Direct and Barra on Vendors products. Subscriptions to Barra Aegis also contributed to the growth.

Revenues for multi-asset class portfolio analytics include revenues from recurring subscriptions to BarraOne and Barra TotalRisk and for our proprietary risk data for multiple asset classes.

In first half 2008, revenues related to multi-asset class portfolio analytics were \$16.5 million, an increase of \$7.8 million, or 89.5%, compared to \$8.7 million for the six months ended May 31, 2007. The year-over-year increase is primarily attributable to revenue growth from BarraOne due primarily to strong demand from asset managers and asset owners for our risk management application used for internal risk reporting and compliance reporting. We also benefited from licensing to existing clients our performance attribution module which was launched in first

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quarter 2008. We are in the process of decommissioning TotalRisk and are providing clients the opportunity to transition to BarraOne.

The other products category includes revenues from Barra Cosmos for fixed income analytics, MSCI hedge fund indices, and FEA energy and commodity asset valuation analytics products.

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Revenues from other products decreased 11.9% to \$11.9 million in the six months ended May 31, 2008 compared to \$13.5 million in the six months ended May 31, 2007. The decline reflects a decrease of 45.9% in asset based fees from investment products linked to MSCI hedge fund indices and a decrease of 21.1% for fixed income analytics offset by a 26.9% increase for our energy and commodity analytics products. The decline in hedge fund indices revenues reflects the decline in the values of assets in investment products linked to our hedge fund indices, which is attributable to market depreciation and investor withdrawals.

Operating Expenses

Operating expenses for first half 2008 increased 21.3% to \$145.0 million compared to \$119.6 million in the first half 2007. Founders grant expenses for the first half 2008 totaled \$11.7 million. Excluding the founders grant expenses, operating expenses increased 11.5% to \$133.3 million for first half 2008 with compensation expense increasing 6.8% and non-compensation expense increasing 19.2%. The increase in operating expenses was primarily the result of \$7.8 million of expenses associated with replacing services currently provided by Morgan Stanley that were not incurred in first half of 2007. This increase was partially offset by a \$0.7 million decrease in the allocation for services currently provided by Morgan Stanley from \$12.8 million in first half 2007 to \$12.1 million in first half 2008.

Compensation expense increased 23.8% to \$85.1 million for first half 2008 compared to \$68.7 million for first half 2007. The increase includes \$3.1 million of expenses related to the replacement of current Morgan Stanley services. In addition, the increase compared to first half 2007 reflects founders grant expense, higher compensation costs for existing staff and new hires which was partly offset by a movement of personnel to lower cost locations. Non-compensation expense increased 19.2% to \$45.7 million for first half 2008 compared to \$38.3 million for first half 2007. The increase in non-compensation expense reflects \$4.7 million of expenses related to the replacement of current Morgan Stanley services, \$2.4 million of public company expenses and \$0.9 million of expenses associated with the May 2008 secondary equity offering, partially offset by the decline in the expense allocation from Morgan Stanley of \$0.7 million.

In both the cost of services of SG&A expense categories, compensation and benefits represent the majority of our expenses. Other costs associated with the number of employees such as office space and professional services are included in both the cost of services and SG&A expense categories consistent with the allocation of employees to those respective areas. Our operating expenses include the following categories:

	Six Months Ended 31,		Increase/(Decrease)	
	2008	2007		
	(in thousands)			
Cost of services:				
Compensation	\$ 39,699	\$ 39,906	\$ (207)	(0.5)%
Non-compensation expenses	21,898	22,701	(803)	(3.5)%
Total cost of services	61,597	62,607	(1,010)	(1.6)%
Selling, general and administrative:				
Compensation	45,368	28,823	16,545	57.4%
Non-compensation expenses	23,793	15,630	8,163	52.2%
Total selling, general and administrative	69,161	44,453	24,708	55.6%
Amortization of intangible assets	14,250	12,531	1,719	13.7%
Total operating expenses	\$ 145,008	\$ 119,591	\$ 25,417	21.3%

Cost of Services

Cost of services includes costs related to our research, data management and production, client service, software engineering and product management functions. Costs in these areas include staff compensation and benefits, allocated office space, market data fees and certain information technology services provided by

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Morgan Stanley. The largest expense in this category is compensation and benefits. As such, they generally contribute to a majority of our expense increases from period to period, reflecting compensation and benefits increases for existing staff and increased staffing levels.

Cost of services decreased \$1.0 million, or 1.6%, to \$61.6 million in our costs of services category for first half 2008 compared to first half 2007. Compensation expense decreased 0.5% to \$39.7 million for first half 2008 reflecting lower headcount, the movement of personnel to lower cost centers, offset in part, by the founders grant expense of \$3.2 million. Non-compensation expense decreased 3.5% to \$21.9 million largely as a result of a reduction in the expense allocation from Morgan Stanley.

Selling, General and Administrative

Selling, general and administrative expenses include compensation expenses for our sales and marketing staff, and our finance, human resources, legal and compliance, information technology infrastructure and corporate administration personnel. As with cost of services, the largest expense in this category is compensation and benefits. As such, they generally contribute to a majority of our expense increases from period to period, reflecting compensation and benefits increases for existing staff and increased staffing levels. Other significant expenses are for services provided by Morgan Stanley and office space.

Selling, general and administrative expenses increased 55.6% to \$69.2 million for first half 2008. Compensation expenses of \$45.4 million increased by \$16.6 million, or 57.4%, for the first half 2008 compared to \$28.8 million for first half 2007. This increase was attributable to amortization of founders grant expenses, higher compensation costs for existing staff, increased staffing levels related to the replacement of current Morgan Stanley services and higher bonus accruals. The amortization of the founders grant expense was \$8.5 million for first half 2008. No founders grant expense was incurred for the same period in 2007.

Non-compensation expenses increased for first half 2008, by \$8.2 million, or 52.2%, to \$23.8 million. The increase in non-compensation expense reflects \$4.7 million of expenses related to the replacement of services currently provided by Morgan Stanley, \$2.4 million of public company expenses, and \$0.9 million of expenses associated with the May 2008 secondary equity offering.

Founders Grant

Expenses related to the founders grant of \$11.7 million for first half 2008 reflected the amortization of share based compensation expense associated with restricted stock units and options awarded to employees as a one-time grant which became effective in connection with our IPO completed during November 2007. In first half 2007, there were no expenses associated with the founders grant.

Interest Income (Expense) and Other, Net

Interest income (expense) and other, net was an expense of \$9.0 million in first half 2008 compared to income of \$10.0 million in first half 2007. The \$19.1 million decrease reflects a reduction of interest income resulting from lower cash balances and an increase in interest expense due to interest paid on term loan borrowings under our Credit Facility, which was partially offset by \$1.4 million of interest income on a federal income

tax refund.

Income Taxes

The provision for income taxes decreased 9.0% to \$22.6 million in first half 2008 as a result of lower pre-tax income. The effective tax rate for first half 2008 was 38.2% compared to 37.4% in second quarter 2007. The increase is largely due to a higher portion of our income being subject to US income tax rather than non-US income taxes.

Table of Contents*Fiscal Year Ended November 30, 2007 Compared to Fiscal Year Ended November 30, 2006**Results of Operations*

	For the Fiscal Years Ended November 30,		Increase/(Decrease)	
	2007	2006		
	(in thousands, except per share data)			
Operating revenues	\$ 369,886	\$ 310,698	\$ 59,188	19.1%
Operating expenses				
Cost of services	121,711	115,426	6,285	5.4%
Selling, general and administrative	92,477	85,820	6,657	7.8%
Amortization of intangible assets	26,353	26,156	197	0.8%
Total operating expenses	240,541	227,402	13,139	5.8%
Operating income	129,345	83,296	46,049	55.3%
Interest income (expense) and other, net	3,947	16,173	(12,226)	(75.6)%
Provision for income taxes	52,181	36,097	16,084	44.6%
Discontinued operations, net of tax		8,073	(8,073)	(100.0)%
Net income	\$ 81,111	\$ 71,445	\$ 9,666	13.5%
Earnings per basic common share				
Continuing operations	\$ 0.96	\$ 0.76	\$ 0.20	26.3%
Discontinued operations		0.10	(0.10)	(100.0)%
Earnings per basic common share	\$ 0.96	\$ 0.85	\$ 0.11	12.9%
Earnings per diluted common share				
Continuing operations	\$ 0.96	\$ 0.76	\$ 0.20	26.3%
Discontinued operations		0.10	(0.10)	(100.0)%
Earnings per basic common share	\$ 0.96	\$ 0.85	\$ 0.11	12.9%
Operating margin	35.0%	26.8%		

Revenues

	For the Fiscal Year Ended November 30,		Increase/(Decrease)	
	2007	2006		
	(in thousands)			
Equity indices				
Equity index subscriptions	\$ 137,089	\$ 117,752	\$ 19,337	16.4%
Equity index asset based fees	62,903	39,020	23,883	61.2%

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Total equity indices	199,992	156,772	43,220	27.6%
Equity portfolio analytics	120,648	110,007	10,641	9.7%
Multi-asset class portfolio analytics	23,070	16,873	6,197	36.7%
Other products	26,176	27,046	(870)	(3.2)%
Total operating revenues	\$ 369,886	\$ 310,698	\$ 59,188	19.1%

Revenues increased \$59.2 million, or 19.1%, to \$369.9 million for fiscal 2007 compared to fiscal 2006, with significant percentage gains across three of our four major product categories. The increase reflects increased revenues from equity indices, equity portfolio analytics, and multi-asset class portfolio analytics. Price increases added very little to our revenue growth.

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Revenues from equity indices increased \$43.2 million, or 27.6%, to \$200.0 million in fiscal 2007 compared to fiscal 2006. Approximately \$23.9 million, or 55.3%, of the revenue increase was attributable to increases in fees based on assets of investment products linked to MSCI indices, and the balance to additional index subscriptions from existing and new clients. Growth of assets in ETFs linked to our equity indices drove the higher fees we received from assets in investment products. The majority of growth in assets under management was the result of increased investment flows into the ETFs.

Revenues from equity portfolio analytics increased \$10.6 million, or 9.7%, to \$120.6 million in fiscal 2007 compared to fiscal 2006. The increase was the result of strong new subscription growth for our equity risk models and related analytics products with a notable increase in demand for our proprietary equity risk data through third-party software vendors. In addition, this increase was due to significantly higher retention rates for Barra Aegis.

Revenues from multi-asset class portfolio analytics increased \$6.2 million, or 36.7%, to \$23.1 million in fiscal 2007 compared to fiscal 2006. The increase primarily reflects additional subscriptions to BarraOne by asset owners and fund managers with notable strength from EMEA and the Americas. The increase in BarraOne revenue was offset in part by a decline in revenues from TotalRisk due to our decision in late 2006 to stop licensing subscriptions to TotalRisk.

Revenues from other products decreased \$0.9 million, or 3.2%, to \$26.2 million in fiscal 2007 compared to fiscal 2006. The decrease is principally the result of the cancellation of a large fixed income index subscription at the end of first quarter 2007 and decreased revenues from MSCI hedge fund indices due to declining asset levels of investment products linked to these indices. The decrease was mitigated by strong growth in our energy and commodity valuation analytics product subscriptions marketed under the FEA brand.

Expenses

	For the Fiscal Year Ended November 30,		Increase/(Decrease)	
	2007	2006		
	(in thousands)			
Cost of services	\$ 121,711	\$ 115,426	\$ 6,285	5.4%
Selling, general and administrative	92,477	85,820	6,657	7.8%
Amortization of intangible assets	26,353	26,156	197	0.8%
Total operating expenses	\$ 240,541	\$ 227,402	\$ 13,139	5.8%

Total operating expenses of \$240.5 million for the fiscal year ended November 30, 2007 were \$13.1 million or 5.8% higher compared to fiscal 2006. Excluding the founders grant expense of \$0.8 million, operating expenses increased 5.4% to \$239.7 million for fiscal 2007 with compensation expense increasing 10.1% and non-compensation expense remaining unchanged. For fiscal 2007, compensation and benefit expenses represented 55.8% of the total operating expenses compared to 53.2% in fiscal 2006. Excluding expenses related to the founders grant of \$0.8 million and the \$9.7 million of non-recurring items in 2006 (\$9.1 million of selling, general and administrative expenses, which are discussed below), expenses for fiscal 2007 increased 10.4%, comprised of compensation and benefits costs increases of 14.9% and non-compensation expenses increases of 5.3%, compared to fiscal year 2006.

Cost of services

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Cost of services increased \$6.3 million, or 5.4%, to \$121.7 million in fiscal 2007 compared to fiscal 2006. The majority of the increase, \$3.8 million, was driven by increased personnel costs that reflected hires made in the second half of 2006 in the information technology group as well as the hiring of a Chief Operating Officer.

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Additional market data costs, including costs associated with introducing the GIMI methodology, rent increases from adding business continuity space in Hong Kong and London, as well as higher allocations of information technology and administrative expenses from Morgan Stanley, were the largest contributors to non-compensation expense growth. As a percentage of revenues, cost of services declined to 32.9% from 37.2%.

Selling, general and administrative

Selling, general and administrative expenses increased \$6.7 million, or 7.8%, to \$92.5 million in fiscal 2007 compared to fiscal 2006. This increase was mainly due to an increase in compensation and benefit expenses, which increased \$9.3 million, or 19.1%, due to the hiring of additional employees in the second half of 2006, and increased compensation and benefit costs for existing personnel. Overall, non-compensation expenses decreased year-over-year by \$2.6 million, or 7.0%.

Fiscal 2006 included a number of expense items not repeated in fiscal 2007 which totaled \$9.1 million. These non-recurring expenses included accrued stock based compensation expense for equity awards for retirement eligible employees, recruitment fees associated with senior staff additions and acquisition related costs. Excluding these \$9.1 million of non-recurring items in 2006, expenses for fiscal 2007 increased by 20.5% compared to fiscal 2006. This increase included a 30.7% increase in compensation and benefit expenses and a 6.8% increase in non-compensation expenses. The increase in compensation and benefit expenses was driven by the full year cost in fiscal 2007 related to staff hires made in the second half of 2006 and increased compensation and benefit costs for existing personnel. Increases in non-compensation costs for fiscal 2007 were due to an increase in the allocation of general and administrative expenses from Morgan Stanley and travel expenses incurred as a result of the growth of our sales organization.

As a percentage of revenues, selling, general and administrative expenses declined to 25.0% from 27.6%.

Amortization of intangible assets

Amortization expense increased \$0.2 million, or 0.8%, to \$26.4 million in fiscal 2007 compared to fiscal 2006. As a percentage of revenues, amortization expense declined to 7.1% from 8.4%.

Interest income (expense) and other, net

Interest income (expense) and other, net was \$3.9 million for fiscal year 2007, a decrease of 75.6% compared to fiscal year 2006. The net decrease was the result of an increase in gross interest expense and a reduction of gross interest income. Gross interest income decreased as a result of holding substantially lower cash balances resulting from the payment of the \$973 million dividend to Morgan Stanley and Capital Group International. We experienced higher gross interest expense on account of interest due on the demand note issued to Morgan Stanley in July 2007 and, following repayment of the demand note, on borrowings of \$425.0 million under the Credit Facility we entered into simultaneously with the completion of our initial public offering. See [Liquidity and Capital Resources](#) below.

Provision for income taxes

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Our provision for income taxes increased \$16.1 million, or 44.6%, to \$52.2 million for fiscal 2007. The effective tax rate for fiscal 2007 increased to 39.1% from 36.3% in fiscal 2006. The increase reflects higher taxable earnings and two significant adjustments to the tax provision.

As a result of a recent settlement entered into by Morgan Stanley with New York State and New York City tax authorities, we will now be included in the combined New York State and New York City income tax returns of Morgan Stanley, and have increased taxes, for the period 1999 through 2007. When filing as a separate taxpayer, our New York State and New York City income taxes were lower than when calculated as part of

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Morgan Stanley's combined state and local income tax return over the applicable period. Consequently, we recorded an adjustment of \$3.7 million for tax and interest (net of federal tax benefit) relating to tax years 1999 through 2007 to reflect the additional taxes owed.

The other component of the increased income tax provision is the establishment of additional tax reserves of \$1.7 million related to the potential disallowance of certain Research and Experimental tax credits previously allocated to us.

So long as we are included in the consolidated federal income tax return of Morgan Stanley and in returns filed by Morgan Stanley with certain state and foreign taxing jurisdictions, our tax liability will reflect amounts due as outlined under our tax sharing agreement dated November 20, 2007 with Morgan Stanley.

Fiscal Year Ended November 30, 2006 Compared to Fiscal Year Ended November 30, 2005*Results of Operations*

	For the Fiscal Years Ended November 30,		Increase/(Decrease)	
	2006 (in thousands, except per share data)	2005		
Operating revenues	\$ 310,698	\$ 278,474	\$ 32,224	11.6%
Operating expenses				
Cost of services	115,426	106,598	8,828	8.3%
Selling, general and administrative	85,820	70,220	15,600	22.2%
Amortization of intangible assets	26,156	28,031	(1,875)	(6.7)%
Total operating expenses	227,402	204,849	22,553	11.0%
Operating income	83,296	73,625	9,671	13.1%
Interest income (expense) and other, net	16,173	7,272	8,901	122%
Provision for income taxes	36,097	30,449	5,648	18.5%
Discontinued operations, net of tax	8,073	3,793	4,280	113%
Cumulative effect of change in accounting principle		313	(313)	(100.0)%
Net income	\$ 71,445	\$ 54,554	\$ 16,891	31.0%
Earnings per basic common share				
Continuing operations	\$ 0.76	\$ 0.60	\$ 0.16	26.7%
Discontinued operations	0.10	0.05	0.05	100.0%
Earnings per basic common share	\$ 0.85	\$ 0.65	\$ 0.20	30.8%
Earnings per diluted common share				
Continuing operations	\$ 0.76	\$ 0.60	\$ 0.16	26.7%
Discontinued operations	0.10	0.05	0.05	100.0%
Earnings per basic common share	\$ 0.85	\$ 0.65	\$ 0.20	30.8%

Operating margin	26.8%	26.4%
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	For the Fiscal Year Ended November 30,		Increase/(Decrease)	
	2006	2005		
	(in thousands)			
Equity indices				
Equity index subscriptions ⁽¹⁾	\$ 117,752			
Equity index asset based fees ⁽¹⁾	39,020			
Total equity indices	156,772	\$ 126,533	\$ 30,239	23.9%
Equity portfolio analytics	110,007	106,594	3,413	3.2%
Multi-asset class portfolio analytics	16,873	17,260	(387)	(2.2)%
Other products	27,046	28,087	(1,041)	(3.7)%
Total operating revenues	\$ 310,698	\$ 278,474	\$ 32,224	11.6%

(1) Comparable data for fiscal year 2005 is not available.

Revenues increased \$32.2 million, or 11.6%, to \$310.7 million for fiscal 2006 compared to fiscal 2005. Growth in index subscriptions was the main driver while increased asset-based fees attributable to higher assets of investment products linked to MSCI equity indices also contributed strongly to revenue growth. The increase also reflects increased revenues from equity portfolio analytics partially offset by a decrease in revenues from our multi-asset class portfolio analytics products and other products including hedge fund indices. Price increases contributed very little to our revenue growth.

Revenues from equity indices increased \$30.2 million, or 23.9%, to \$156.8 million in fiscal 2006 compared to fiscal 2005. Approximately \$21.0 million, or 70%, of the revenue increase was attributable to index subscriptions and the remainder to fees based on assets of investment products linked to MSCI indices. Growth of assets in ETFs linked to our equity indices drove the higher fees we received from assets of investment products. A majority of the growth in assets under management was the result of increased investment flows into the ETFs.

Revenues from equity portfolio analytics increased \$3.4 million, or 3.2%, to \$110.0 million in fiscal 2006 compared to fiscal 2005. The increase reflects additional subscriptions to Equity Models Direct by existing and new clients as well as higher Retention Rates for Barra Aegis.

Revenues from multi-asset class portfolio analytics decreased \$0.4 million, or 2.2%, to \$16.9 million in fiscal 2006 compared to fiscal 2005. The decrease stems from a decline in TotalRisk revenues of \$1.8 million, attributable to lower Retention Rates as well as our decision to stop licensing subscriptions to TotalRisk and gradually transition clients from TotalRisk to BarraOne. The decline in TotalRisk revenues was offset in part by a \$1.4 million increase from BarraOne revenues attributable to new subscriptions from asset owners and balanced fund managers.

Revenues from other products decreased \$1.0 million, or 3.7%, due to lower fees attributable to reduced assets of investment products linked to our hedge fund indices. The decrease was mitigated by strong growth in our energy and commodity valuation analytics product subscriptions marketed under the FEA brand.

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	For the Fiscal Year Ended November 30,		Increase/(Decrease)	
	2006	2005		
	(in thousands)			
Cost of services	\$ 115,426	\$ 106,598	\$ 8,828	8.3%
Selling, general and administrative	85,820	70,220	15,600	22.2%
Amortization of intangible assets	26,156	28,031	(1,875)	(6.7)%
Total operating expenses	\$ 227,402	\$ 204,849	\$ 22,553	11.0%

Total expenses of \$227.4 million for the fiscal year ended November 30, 2006 were \$22.6 million, or 11%, higher compared to fiscal 2005. Compensation and benefits continue to account for our largest expense increase, accounting for \$12.9 million in growth from the prior year. This increase stems from hiring personnel to support business growth mainly in the U.S. and Europe and the hiring of a Chief Operating Officer and a Chief Financial Officer. Additional increases were principally due to rises in general and administrative expenses from Morgan Stanley, information technology and software engineering costs. The percentage of compensation and benefits expenses of total operating expenses remained unchanged at 53% in fiscal 2006, as compared to fiscal 2005.

Cost of services

Cost of services increased \$8.8 million, or 8.3%, to \$115.4 million in fiscal 2006 versus 2005. The rise mainly stems from higher research, information technology and software engineering costs incurred in order to add new product features and to expand the breadth of our equity securities universe. The increase is also attributable to the hiring of a Chief Operating Officer. In addition, allocations from Morgan Stanley increased by \$2.4 million to reflect our expanded use of services after we migrated Barra onto Morgan Stanley platforms. As a percentage of revenues, cost of services declined to 37% in fiscal 2006 from 38% in 2005.

Selling, general and administrative

Selling, general and administrative expenses increased \$15.6 million, or 22.2%, to \$85.8 million in fiscal 2006 compared to fiscal 2005. The primary drivers of the increase in fiscal 2006 were an increase in personnel and occupancy costs. The increase in personnel costs was a result of expanding staffing in the sales organization and information technology infrastructure areas, as well as the hiring of a Chief Financial Officer. The hiring also caused recruiting expenses to increase substantially compared to 2005. Higher occupancy costs were attributable to the expansion of office space and the establishment of business continuity sites in Hong Kong and London. As a percentage of revenues, selling, general and administrative expenses increased to 28% from 25%.

Amortization of intangible assets

Amortization expense decreased \$1.9 million, or 6.7%, to \$26.2 million in fiscal 2006 compared to fiscal 2005. The decrease principally reflects the full amortization of some components of our identified intangibles, primarily related to developed technology for our energy and commodity

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products, by the end of fiscal 2005. As a percentage of revenues, amortization expense decreased to 8% from 10%.

Interest income (expense) and other, net

Interest income (expense) and other, net was \$16.2 million in fiscal 2006, an increase of \$8.9 million compared to fiscal 2005. The increase reflects higher average cash balances, including cash deposited with Morgan Stanley, and higher average interest rates earned on these balances, as well as a \$1.1 million gain associated with the sale of our interest in two unconsolidated companies, LoanPerformance and ValuBond, in the fourth quarter of fiscal 2006. As a percentage of revenues, interest income (expense) and other, net increased to 5% from 3%.

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Provision for income taxes

Our provision for income taxes increased \$5.6 million, or 19%, to \$36.1 million in fiscal 2006 compared to fiscal 2005. The effective tax rate decreased to 36.3% from 37.7% in fiscal 2006 compared to fiscal 2005. This decrease primarily reflects lower tax rates applicable to non-U.S. earnings during fiscal 2006. Effective tax rates are subject to change based on the taxable income in all the jurisdictions in which we do business.

Discontinued operations

Income from discontinued operations, net of tax, increased \$4.3 million, or 112.8%, to \$8.1 million in fiscal 2006 compared to fiscal 2005. Pre-tax income from discontinued operations increased \$6.9 million, or 117.2%, to \$12.7 million in fiscal 2006 compared to fiscal 2005. On February 1, 2005, we sold our interest in POSIT JV to our joint venture partner, ITG, for \$90.0 million. We recorded a pre-tax gain of \$6.8 million at the time of sale. As part of the sale agreement, we were entitled to additional royalties for a period of 10 years subsequent to the sale through an earn-out arrangement, based on fees earned by ITG related to the POSIT system. In September 2006, ITG exercised its option to accelerate the earn-out period by making a lump sum payment to us of \$11.7 million. In addition, we received royalty payments of \$1.0 million and \$3.2 million in fiscal 2006 and 2005, respectively, prior to the lump sum earn-out payment.

Liquidity and Capital Resources

We require capital to fund ongoing operations, internal growth initiatives and acquisitions. Our working capital requirements and funding for capital expenditures, strategic investments and acquisitions were historically part of the corporate-wide cash management program of Morgan Stanley. We are solely responsible for the provision of funds to finance our working capital and other cash requirements.

Our primary sources of liquidity are cash flows generated from our operations, existing cash and cash equivalents and funds available under the Credit Facility. We intend to use these sources of liquidity to service our debt and fund our working capital requirements, capital expenditures, investments and acquisitions. In connection with our business strategy, we regularly evaluate acquisition opportunities. We believe our liquidity, along with other financing alternatives, will provide the necessary capital to fund these transactions and achieve our planned growth.

As described in Factors Impacting Comparability of our Financial Results July 2007 Dividend, we paid a dividend of \$973.0 million, consisting of \$325.0 million in cash and \$648.0 million of demand notes, on July 19, 2007. Morgan Stanley was issued a demand note in the amount of \$625.9 million and Capital Group International was issued a demand note in the amount of \$22.1 million. On July 19, 2007, we paid in full in cash the \$22.1 million demand note held by Capital Group International.

On November 14, 2007, we entered into a \$500.0 million Credit Facility with Morgan Stanley Senior Funding, Inc. and Bank of America, N.A. as agents for a syndicate of lenders, and other lenders party thereto. The Credit Facility is comprised of a \$200.0 million term loan A facility, a \$225.0 million term loan B facility, which was issued at a discount of 0.5% of the principal amount resulting in proceeds of approximately \$223.9 million, and a \$75.0 million revolving credit facility (under which there were no drawings as of May 31, 2008). Outstanding borrowings under the Credit Facility accrue interest at (i) LIBOR plus a fixed margin of 2.50% in the case of the term loan A facility and the revolving credit facility and 3.00% in the case of the term loan B facility or (ii) the base rate plus a fixed margin of 1.50% in the case of the term loan A facility and the revolving credit facility and 2.00% in the case of the term loan B facility, in each case subject to interest rate step downs based on the

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achievement of consolidated leverage ratio (as defined in the Credit Facility) conditions. On April 14, 2008, we met certain conditions as defined in the Credit Facility and qualified for a tier change, resulting in a decrease in the LIBOR fixed margin to 2.25% for the term loan A facility and 2.75% for the term loan B facility. The term loan A facility and the term loan B facility will mature on November 20, 2012 and

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November 20, 2014, respectively. On November 20, 2007, we borrowed \$425.0 million (the full amount of the term loans) under the Credit Facility and used the proceeds to pay a portion of the \$625.9 million demand note held by Morgan Stanley. The balance of the demand note was paid with the net proceeds from our initial public offering. The revolving credit facility is available for working capital requirements and other general corporate purposes (including the financing of permitted acquisitions), subject to certain conditions, and matures on November 20, 2012. In connection with our Credit Facility, we entered into an interest rate swap agreement on February 13, 2008. See [Quantitative and Qualitative Disclosures About Market Risk](#) [Interest Rate Sensitivity](#) below.

The Credit Facility is guaranteed on a senior secured basis by each of our direct and indirect wholly-owned domestic subsidiaries and secured by a valid and perfected first priority lien and security interest in substantially all of the shares of capital stock of our present and future domestic subsidiaries and up to 65% of the shares of capital stock of our foreign subsidiaries, substantially all of our and our domestic subsidiaries' present and future property and assets and the proceeds thereof. In addition, the Credit Facility contains certain restrictive covenants that limit our ability and our existing or future subsidiaries' abilities, among other things, to:

incur liens;

incur additional indebtedness;

make or hold investments;

merge, dissolve, liquidate, consolidate with or into another person;

sell, transfer or dispose of assets;

pay dividends or other distributions in respect of our capital stock;

change the nature of our business;

enter into any transactions with affiliates other than on an arm's length basis (except as described in [Arrangements Between Morgan Stanley and Us](#)); and

prepay, redeem or repurchase debt.

The Credit Facility also requires us and our subsidiaries to achieve specified financial and operating results and maintain compliance with the following financial ratios on a consolidated basis: (1) the maximum total leverage ratio (as defined in the Credit Facility) measured quarterly on a rolling four-quarter basis shall not exceed (a) 3.75:1.0 through November 30, 2009, (b) 3.50:1.0 from December 1, 2009 through November 30, 2010 and (c) 3.25:1.0 thereafter; and (2) the minimum interest coverage ratio (as defined in the Credit Facility) measured quarterly on a rolling four-quarter basis shall be (a) 3.00:1.0 through November 30, 2009, (b) 3.50:1.0 from December 1, 2009 through November 30, 2010 and (c) 4.00:1.0 thereafter.

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In addition, the Credit Facility contains the following affirmative covenants, among others: periodic delivery of financial statements, budgets and officer's certificates; payment of other obligations; compliance with laws and regulations; payment of taxes and other material obligations; maintenance of property and insurance; performance of material leases; right of the lenders to inspect property, books and records; notices of defaults and other material events and maintenance of books and records.

Currently, we have \$413.9 million outstanding under our Credit Facility. We have \$75 million available under the revolving credit facility.

As a result of the borrowings under the Credit Facility, we expect interest expense to be substantially higher in future periods than in comparable historical periods.

Table of Contents**Cash Flows***Cash and cash equivalents and cash deposited with related parties*

	May 31, 2008	As of November 30, 2007
	(in thousands)	
Cash and cash equivalents	\$ 32,294	\$ 33,818
Cash deposited with related parties	203,315	137,625
Total	\$ 235,609	\$ 171,443

Cash and cash equivalents were \$32.3 million, and \$33.8 million as of May 31, 2008 and November 30, 2007, respectively. This constituted approximately 3.2% of total assets as of May 31, 2008 and 3.7% of total assets as of November 30, 2007. Prior to July 1, 2008, excess cash was deposited with Morgan Stanley and was shown separately on the balance sheet under cash deposited with related parties. Cash deposited with Morgan Stanley was \$203.3 million and \$137.6 million as of May 31, 2008 and November 30, 2007, respectively, representing approximately 20.3% and 15.2% of total assets, respectively. Our cash, including cash equivalents and cash deposited with related parties, increased from November 30, 2007, primarily as a result of net cash provided by operations. We believe that our cash flow from operations (including prepaid subscription fees), together with existing cash balances, will be sufficient to meet our cash requirements for capital expenditures and other cash needs for ongoing business operations for at least the next 12 months.

On June 30, 2008, at our instruction, Morgan Stanley transferred our cash held on deposit to us and following the transfer, we deposited the cash predominately with Bank of America.

Cash provided by operating activities and used in investing and financing activities

	For the six months ended May 31,	
	2008	2007
	(in thousands)	
Cash provided by operating activities	\$ 80,737	\$ 41,385
Cash used in investing activities	\$ (71,510)	\$ (37,136)
Cash used in financing activities	\$ (11,682)	\$

Cash flows provided by operating activities

Cash flow from operating activities for the six months ended May 31, 2008 was \$80.7 million compared to \$41.4 million for the prior year. The increase reflects the timing of amounts paid to Morgan Stanley and higher net income after adjusting for non-cash items.

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Our primary uses of cash from operating activities are for payment of cash compensation expenses, office rent, technology costs and services provided by Morgan Stanley. The payment of cash compensation expense is historically at its highest level in the first quarter when we pay discretionary employee compensation related to the previous fiscal year. We expect to meet all interest obligations on outstanding borrowings under the Credit Facility from cash generated by operations.

Cash flows used in investing activities

Cash flows used in investing activities include cash used for capital expenditures and cash deposited with Morgan Stanley. During the six months ended May 31, 2008, we had a net cash outflow of \$71.5 million from investing activities primarily due to cash deposited with Morgan Stanley of \$65.7 million. Capital expenditures totaled \$5.8 million in the six months ended May 31, 2008, relating primarily to the purchase of computer equipment and build-out costs of leased office space as we continue to replace services currently provided by Morgan Stanley. We anticipate funding any future capital expenditures from our cash balances.

Table of Contents*Cash flows used in financing activities*

Cash flows used in financing activities was \$11.7 million in the six months ended May 31, 2008, largely reflecting scheduled repayments on the outstanding long-term debt.

	As of and for the Fiscal Year Ended		
	2007	November 30, 2006 (in thousands)	2005
Cash and cash equivalents	\$ 33,818	\$ 24,362	\$ 23,411
Cash deposited with related parties	\$ 137,625	\$ 330,231	\$ 252,882
Cash provided by operating activities	\$ 110,225	\$ 83,665	\$ 59,881
Cash provided by (used in) investing activities	\$ 192,071	\$ (79,764)	\$ (63,708)
Cash used in financing activities	\$ (292,064)	\$ (5,000)	\$

Cash and cash equivalents and cash deposited with related parties

Cash and cash equivalents were \$33.8 million, \$24.4 million and \$23.4 million as of November 30, 2007, 2006 and 2005, respectively. This constituted approximately 3.7% of total assets as of November 30, 2007 and 2.2% as of each of November 30, 2006 and 2005, respectively. Prior to July 1, 2008, excess cash was deposited with Morgan Stanley and was shown separately on the balance sheet under cash deposited with related parties. Cash deposited with related parties was \$137.6 million, \$330.2 million and \$252.9 million as of November 30, 2007, 2006 and 2005, respectively, representing approximately 15.2%, 29.7% and 24.1% of total assets, respectively. Our cash, including cash equivalents and cash deposited with related parties decreased in fiscal 2007. This decrease was primarily the result of cash used in financing activities, representing the payment of a cash dividend of \$973.0 million. We believe that our cash flow from operations (including prepaid subscription fees), together with existing cash balances, will be sufficient to meet our cash requirements for capital expenditures and other cash needs for ongoing business operations for at least the next 12 months and the foreseeable future.

Cash flows provided by (used in) operating activities

In fiscal 2007, our operating cash flow reflected net income of \$81.1 million, adjusted for non-cash items such as amortization of intangible assets of \$26.4 million and depreciation of \$1.5 million. During fiscal 2007, we generated operating cash flows of \$35.2 million from the settlement of related party balances. Our collections were offset by our payment of \$47.5 million in settlement of related party balances owed and by an increase in accounts receivable.

Our primary uses of cash from operating activities are for payment of cash compensation expenses, office rent, technology costs and services provided by Morgan Stanley. In addition, we expect to meet all interest obligations on outstanding borrowings under the Credit Facility from cash generated by operations. The payment of cash compensation expenses is historically at its highest level in the first quarter when we pay discretionary employee compensation related to the previous fiscal year.

Timing differences relating to the payment of amounts due to related parties between fiscal 2007 and fiscal 2006 caused us to use \$47.5 million of cash during fiscal 2007 in settlement of related party balances.

Cash flows provided by (used in) investing activities

Cash flows from investing activities include cash used for capital expenditures, cash deposited with Morgan Stanley and cash received from the sale of discontinued operations. In fiscal 2007, the amount of cash deposited with Morgan Stanley decreased by \$192.6 million as a result of the payment of the \$973.0 million cash dividend offset by the proceeds of our initial public offering and the borrowings against the Credit Facility. Capital expenditures totaled \$0.5 million in fiscal 2007, relating primarily to the purchase of computer equipment and build-out costs of leased office space. We anticipate funding any future capital expenditures out of our operating cash flows.

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In fiscal 2005, we sold our interest in POSIT JV to our joint venture partner, ITG, for \$90.0 million. We deposited the cash proceeds from this sale with Morgan Stanley, contributing in part to the increase of \$154.0 million in cash deposited with related parties during fiscal 2005.

Cash flows used in financing activities

Cash flows from financing activities largely represent payments for cash dividends. Cash dividends paid in fiscal years 2007, 2006 and 2005 amounted to \$973.0 million, 5.0 million and \$0.0 million, respectively. During fiscal 2007, the net cash used in financing activities was \$292.1 million, representing the payment of a portion of a dividend of \$973.0 million. The remainder of the dividend was paid with a portion of the proceeds from our initial public offering and from borrowings under our Credit Facility.