MSCI Inc.
Form 10-Q
August 04, 2017
w

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

OR

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

Commission file number 001-33812

MSCI INC.

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 28, 2017, there were 90,059,125 shares of the registrant's common stock, par value $0.01, outstanding.

MSCI INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2017

TABLE OF CONTENTS

AVAILABLE INFORMATION

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

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

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

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

MSCI Inc.’s Code of Ethics and Business Conduct applies to all directors, officers and employees, including its Chief Executive Officer and its Chief Financial Officer. MSCI Inc. will post any amendments to the Code of Ethics and Business Conduct and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange LLC on its website. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, MSCI Inc., 7 World Trade Center, 250 Greenwich Street, 49th Floor, New York, NY 10007; (212) 804-1583. The information on MSCI Inc.’s website is not incorporated by reference into this report or any other report filed or furnished by us with the SEC.

FORWARD-LOOKING STATEMENTS

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

Other factors that could materially affect actual results, levels of activity, performance or achievements can be found in MSCI Inc.’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on February 24, 2017 and in quarterly reports on Form 10-Q and current reports on Form 8-K filed or furnished with the SEC. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what MSCI Inc. projected. Any forward-looking statement in this report reflects MSCI Inc.'s current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to MSCI Inc.'s operations, results of operations, growth strategy and liquidity. MSCI Inc. assumes no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise, except as required by law.

WEBSITE AND SOCIAL MEDIA DISCLOSURE

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

PART I

Item 1. Financial Statements
MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except per share and share data)

	As of June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 750,581	$ 791,834
Accounts receivable (net of allowances of $1,296 and $1,035 at June 30, 2017 and December 31, 2016, respectively)	289,227	221,504
Prepaid income taxes	16,201	12,389
Prepaid and other assets	27,429	29,943
Total current assets	1,083,438	1,055,670
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $155,884 and $136,841 at June 30, 2017 and December 31, 2016, respectively)	88,825	95,585
Goodwill	1,558,429	1,555,850
Intangible assets (net of accumulated amortization of $485,960 and $462,860 at June 30, 2017 and December 31, 2016, respectively)	332,624	347,640
Deferred tax assets	9,992	9,531
Other non-current assets	16,789	18,302
Total assets	$ 3,090,097	$ 3,082,578
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 329	$ 568
Accrued compensation and related benefits	72,107	119,113
Other accrued liabilities	80,845	82,531
Deferred revenue	399,116	334,358
Total current liabilities	552,397	536,570
Long-term debt	2,076,647	2,075,201
Deferred taxes	87,422	94,067
Other non-current liabilities	66,431	59,135

Total liabilities	2,782,897	2,764,973
Commitments and Contingencies (see Note 6 and Note 7)		
Shareholders' equity:		
Preferred stock (par value $0.01, 100,000,000 share authorized; no shares issued)	—	—
Common stock (par value $0.01; 750,000,000 common shares authorized; 129,477,122 and 128,996,344 common shares issued and 90,129,138 and 91,279,590 common shares outstanding at June 30, 2017 and December 31, 2016, respectively)	1,295	1,290
Treasury shares, at cost (39,347,984 and 37,716,754 common shares held at June 30, 2017 and December 31, 2016, respectively)	(2,312,471)	(2,170,739)
Additional paid in capital	1,246,779	1,225,565
Retained earnings	1,424,962	1,322,224
Accumulated other comprehensive loss	(53,365)	(60,735)
Total shareholders' equity	307,200	317,605
Total liabilities and shareholders' equity	$3,090,097	$3,082,578

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(unaudited)			
Operating revenues	$316,089	$290,596	$617,296	$569,424
Operating expenses:				
Cost of revenues	68,595	62,130	136,116	125,302
Selling and marketing	41,594	41,854	84,608	83,543
Research and development	18,203	18,566	37,180	37,494
General and administrative	21,448	22,019	42,452	43,909
Amortization of intangible assets	11,122	11,943	22,373	23,783
Depreciation and amortization of property, equipment and leasehold improvements	9,159	8,393	17,997	16,561
Total operating expenses	170,121	164,905	340,726	330,592
Operating income	145,968	125,691	276,570	238,832
Interest income	(1,310)	(585)	(2,242)	(1,206)
Interest expense	29,027	22,918	58,051	45,822
Other expense (income)	740	2,814	1,625	2,895
Other expense (income), net	28,457	25,147	57,434	47,511
Income before provision for income taxes	117,511	100,544	219,136	191,321
Provision for income taxes	36,245	33,587	64,919	63,997
Net income	$81,266	$66,957	$154,217	$127,324
Earnings per basic common share	$0.90	$0.69	$1.70	$1.30
Earnings per diluted common share	$0.89	$0.69	$1.68	$1.29
Weighted average shares outstanding used in computing earnings per share				
Basic	90,404	96,412	90,555	97,918
Diluted	91,708	96,888	91,665	98,443
Dividend declared per common share	$0.28	$0.22	$0.56	$0.44

See Notes to Unaudited Condensed Consolidated Financial Statements

6

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(unaudited)			
Net income	$81,266	$66,957	$154,217	$127,324
Other comprehensive (loss) income:				
Foreign currency translation adjustments	4,963	(12,691)	7,904	(12,387)
Income tax effect	—	212	—	145
Foreign currency translation adjustments, net	4,963	(12,479)	7,904	(12,242)
Pension and other post-retirement adjustments	(175)	81	(274)	(232)
Income tax effect	(297)	(20)	(260)	62
Pension and other post-retirement adjustments, net	(472)	61	(534)	(170)
Other comprehensive (loss) income, net of tax	4,491	(12,418)	7,370	(12,412)
Comprehensive income	$85,757	$54,539	$161,587	$114,912

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended June 30,	
	2017	2016
	(unaudited)	
Cash flows from operating activities		
Net income	$154,217	$127,324
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	22,373	23,783
Stock-based compensation expense	18,737	15,273
Depreciation and amortization of property, equipment and leasehold improvements	17,997	16,561
Amortization of debt origination fees	1,698	1,417
Deferred taxes	(7,080)	(4,756)
Other non-cash adjustments	(464)	511
Changes in assets and liabilities:		
Accounts receivable	(66,661)	(40,381)
Prepaid income taxes	(4,157)	(5,193)
Prepaid and other assets	2,918	2,341
Accounts payable	(247)	(790)
Accrued compensation and related benefits	(48,366)	(39,388)
Other accrued liabilities	(1,862)	7,724
Deferred revenue	63,618	47,972
Other	6,511	2,585
Net cash provided by operating activities	159,232	154,983
Cash flows from investing activities		
Capital expenditures	(11,051)	(13,277)
Capitalized software development costs	(5,613)	(5,088)
Proceeds from sale of investments	771	—
Acquisitions, net of cash acquired	—	(60)
Net cash used in investing activities	(15,893)	(18,425)
Cash flows from financing activities		
Proceeds from exercise of stock options	1,273	3,442
Repurchase of treasury shares	(140,977)	(466,745)
Payment of dividends	(50,920)	(43,281)
Net cash used in financing activities	(190,624)	(506,584)
Effect of exchange rate changes	6,032	(3,066)
Net decrease in cash	(41,253)	(373,092)
Cash and cash equivalent, beginning of period	791,834	777,706
Cash and cash equivalent, end of period	$750,581	$404,614

Supplemental disclosure of cash flow information:		
Cash paid for interest	$56,157	$44,660
Cash paid for income taxes	$71,246	$72,293
Supplemental disclosure of non-cash investing activities		
Property, equipment and leasehold improvements in other accrued liabilities	$3,765	$6,042
Supplemental disclosure of non-cash financing activities		
Cash dividends declared, but not yet paid	$535	$354

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. INTRODUCTION AND BASIS OF PRESENTATION

MSCI Inc., together with its wholly-owned subsidiaries (the "Company" or "MSCI"), offers products and services to support the needs of institutional investors throughout their investment processes. The Company's products and services include the development and production of indexes and analytical models; the provision of ratings and analysis that identify environmental, social and governance risks and opportunities and the analysis of real estate in both privately and publicly owned portfolios.

Basis of Presentation and Use of Estimates

These unaudited condensed consolidated financial statements include the accounts of MSCI Inc. and its subsidiaries and include all adjustments of a normal, recurring nature necessary to state fairly the financial condition as of June 30, 2017 and December 31, 2016, the results of operations and comprehensive income for the three and six months ended June 30, 2017 and 2016 and cash flows for the six months ended June 30, 2017 and 2016. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in MSCI's Annual Report on Form 10-K for the year ended December 31, 2016. The unaudited condensed consolidated financial statement information as of December 31, 2016 has been derived from the 2016 audited consolidated financial statements. The results of operations for interim periods are not necessarily indicative of results for the entire year.

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

Concentrations

For the six months ended June 30, 2017, BlackRock, Inc. accounted for 10.7% of the Company's consolidated operating revenues while no single customer represented 10.0% or more of the Company's consolidated operating revenues for the six months ended June 30, 2016. For the six months ended June 30, 2017 and 2016, BlackRock, Inc. accounted for 19.0% and 16.9% of the Index segment operating revenues, respectively. No single customer represented 10.0% or more of revenues within the Analytics and All Other segments for the six months ended June 30, 2017 and 2016.

2. RECENT ACCOUNTING STANDARDS UPDATES

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606),” or ASU 2014-09. The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities have the option of adopting ASU 2014-09 retrospectively to each prior period presented, or retrospectively with a cumulative-effect adjustment recognized as of the date of initial application. In August 2015, the FASB issued ASU 2015-14, “Deferral of the Effective Date,” which defers the effective date of ASU 2014-09 by one year by changing the effective date to be for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017 from December 15, 2016, with early adoption at the prior date permitted.

In March 2016, the FASB issued ASU 2016-08, “Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net).” In April 2016, the FASB issued ASU 2016-10, “Identifying Performance Obligations and Licensing.” In May 2016, the FASB issued ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients.” In December 2016, the FASB issued Accounting Standards Update No. 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.” These updates provide supplemental adoption guidance and clarification to ASU 2014-09 and must be adopted concurrently. The Company intends to adopt the new revenue guidance as of January 1, 2018 using the modified retrospective transition method. Under this adoption method, the Company will record a cumulative adjustment to retained earnings at January 1, 2018 and apply the provisions of the ASU prospectively. Currently, the Company expects that ASU 2014-09 will have an impact on a number of accounting practices, including but not limited to, the timing of revenue recognition and costs for implementation services; the timing of revenue recognition of licenses for desktop applications; and accounting for multi-year deals. In addition, the new standard will require certain amounts in accounts receivable and deferred revenues to be netted on the balance sheet and enhanced disclosures in relation to (i) disaggregated revenue, (ii) reconciliations of contract balances, (iii) performance obligations, (iv) significant judgments and (v) cost to obtain or fulfill contracts. The Company has not yet determined the quantitative impact of the new standard on its condensed consolidated financial statements. The Company is in the process of upgrading its technology infrastructure in order to support the accounting under the new standard as well as assessing the impact that the new standard will have on its processes and internal controls.

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

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," or ASU 2016-09. The FASB issued ASU 2016-09 as part of its Simplification Initiative. The areas for simplification in ASU 2016-09 involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. Amendments related to accounting for the income tax consequences have been adopted prospectively, resulting in the recognition of $1.0 million and $4.1 million of excess tax benefits within income taxes rather than additional paid in capital for the three and six months ended June 30, 2017, respectively. This increased diluted earnings per share by $0.01 and $0.04 per share for the three and six months ended June 30, 2017, respectively. Excess tax benefits related to share-based compensation are now included in operating cash flows rather than financing cash flows. This change has been applied retrospectively in accordance with ASU 2016-09 and resulted in an increase of $4.9 million in net cash provided by operating activities with a matching decrease in net cash used in financing activities for the six months ended June 30, 2017, respectively, compared to previously reported results. The Company has previously classified cash paid for tax withholding purposes as a financing activity in the statement of cash flows, therefore there is no change related to this requirement. The amendments allow for a one-time accounting policy election to either account for forfeitures as they occur or continue to estimate forfeitures as required by current guidance. The Company has elected to continue estimating forfeitures under the current guidance.

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

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," or ASU 2017-01. The amendments in ASU 2017-01 provide a screen to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. Under ASU 2017-01, an entity first determines whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set is not a business. If it's not met, the entity then evaluates whether the set meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. ASU 2017-01 also narrows the definition of outputs by more closely aligning it with how outputs are described in Topic 606. ASU 2017-01 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017, with early adoption permitted. The adoption of ASU 2017-01 is not expected to have a material effect on the Company's condensed consolidated financial statements.

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

In February 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," or ASU 2017-07. The FASB issued ASU 2017-07 in order to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. ASU 2017-07 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017, with early adoption permitted. Entities should apply these amendments retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The adoption of ASU 2017-07 is not expected to have a material effect on the Company's condensed consolidated financial statements.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, "Compensation—Stock Compensation (Topic 718), Scope of Modification Accounting," or ASU 2017-09. The FASB issued ASU 2017-09 in order to reduce the diversity in practice, as well as the cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 provides that an entity shall account for the effects of a modification of the terms or conditions of an equity award as an exchange of the original award for a new award, unless the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used), the vesting conditions and the classification of the modified award are the same as the original award immediately before the award is modified. ASU 2017-09 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2017, with early adoption permitted. ASU 2017-09 requires reporting organizations to apply the amendments prospectively to an award modified on or after the adoption date. The adoption of ASU 2017-09 is not expected to have a material effect on the Company's condensed consolidated financial statements.

3. EARNINGS PER COMMON SHARE

Basic earnings per share ("EPS") is computed by dividing income available to MSCI common shareholders by the weighted average number of common shares outstanding during the period. Common shares outstanding include common stock and vested restricted stock unit awards where recipients have satisfied either the explicit vesting terms or retirement-eligible requirements. Diluted EPS reflects the assumed conversion of all dilutive securities. There were 1,501 anti-dilutive securities excluded from the calculation of diluted EPS for the six months ended June 30, 2017, respectively. There were no anti-dilutive securities excluded from the calculation of diluted EPS for the three months ended June 30, 2017 and the three and six months ended June 30, 2016.

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

	Three Months Ended	Six Months Ended

	June 30, 2017	2016	June 30, 2017	2016
(in thousands, except per share data)				
Net income	$81,266	$66,957	$154,217	$127,324
Basic weighted average common shares outstanding	90,404	96,412	90,555	97,918
Effect of dilutive securities:				
Stock options and restricted stock units	1,304	476	1,110	525
Diluted weighted average common shares outstanding	91,708	96,888	91,665	98,443
Earnings per basic common share	$0.90	$0.69	$1.70	$1.30
Earnings per diluted common share	$0.89	$0.69	$1.68	$1.29

4. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements at June 30, 2017 and December 31, 2016 consisted of the following:

	As of June 30, 2017	December 31, 2016
	(in thousands)	
Computer & related equipment	$175,117	$ 162,306
Furniture & fixtures	10,207	9,724
Leasehold improvements	51,045	49,442
Work-in-process	8,340	10,954
Subtotal	244,709	232,426
Accumulated depreciation and amortization	(155,884)	(136,841)
Property, equipment and leasehold improvements, net	$88,825	$ 95,585

Depreciation and amortization expense of property, equipment and leasehold improvements was $9.2 million and $8.4 million for the three months ended June 30, 2017 and 2016, respectively. Depreciation and amortization expense of property, equipment and leasehold improvements was $18.0 million and $16.6 million for the six months ended June 30, 2017 and 2016, respectively.

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The following table presents goodwill by reportable segment:

(in thousands)	Index	Analytics	All Other [1]	Total
Goodwill at December 31, 2016	$1,202,448	$302,611	$50,791	$1,555,850
Foreign exchange translation adjustment	1,596	—	983	2,579
Goodwill at June 30, 2017	$1,204,044	$302,611	$51,774	$1,558,429

(1) The goodwill in All Other at June 30, 2017, consisted of $31.6 million in the ESG segment and $20.2 million in the Real Estate segment and at December 31, 2016 consisted of $31.6 million in the ESG segment and $19.2 million in the Real Estate segment.

Intangible Assets

Amortization expense related to intangible assets for the three months ended June 30, 2017 and 2016 was $11.1 million and $11.9 million, respectively. Amortization expense related to intangible assets for the six months ended June 30, 2017 and 2016 was $22.4 million and $23.8 million, respectively.

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

	As of June 30, 2017	December 31, 2016
	(in thousands)	
Gross intangible assets:		
Customer relationships	$361,199	$ 361,199
Trademarks/trade names	223,382	223,382
Technology/software	215,572	210,013
Proprietary data	28,627	28,627
Covenant not to compete	1,225	1,225