MSCI Inc.
Form 10-Q
October 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-33812

MSCI INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State of Incorporation)	13-4038723 (I.R.S. Employer Identification Number)
Wall Street Plaza, 88 Pine Street New York, NY (Address of Principal Executive Offices)	10005 (Zip Code)

Registrant's telephone number, including area code: (212) 804-3900

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x	Smaller Reporting Company o

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

As of September 30, 2008, there were 72,346,596 shares of the Registrant’s Class A Common Stock, $0.01 par value, outstanding and 27,708,653.79 shares of Registrant’s Class B Common Stock, $0.01 par value, outstanding.

MSCI INC.
FORM 10-Q

FOR THE QUARTER ENDED AUGUST 31, 2008

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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. All other trademarks, trade names and service marks included in this Quarterly Report on Form 10-Q are property of their respective owners. For ease of reading, designations of trademarks and registered marks have been omitted from the text of this Quarterly Report on Form 10-Q.

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 we file 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 an internet site 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 internet site, www.sec.gov.

MSCI Inc.’s internet site is www.mscibarra.com. You can access MSCI Inc.’s Investor Relations webpage at www.mscibarra.com/about/ir. MSCI Inc. makes available free of charge, on or through its Investor Relations webpage, 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 webpage, via a link to the SEC’s internet site, statements of beneficial ownership of MSCI Inc.’s equity securities filed by its directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

MSCI Inc. has a Corporate Governance webpage. You can access information about MSCI Inc.’s corporate governance at www.mscibarra.com/about/company/governance. MSCI Inc. posts the following on its Corporate Governance webpage:

- Charters for our Audit Committee, Compensation Committee and Nominating and Governance Committee;
- Corporate Governance Policies; 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, Inc. (“NYSE”) on its internet site. You can request a copy of these documents, excluding exhibits, at no cost, by contacting Investor Relations, Wall Street Plaza, 88 Pine Street, New York, NY 10005; (212) 804-1583. The information on MSCI Inc.’s internet site is not incorporated by reference into this report.

PART I

Item 1. Unaudited Condensed Consolidated Financial Statements

MSCI INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands, except share and per share data)

	August 31, 2008 (unaudited)	November 30, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 246,452	$ 33,818
Cash deposited with related parties		137,625
Trade receivables (net of allowances of $524 and $1,584 as of August 31, 2008 and November 30, 2007, respectively)	85,108	77,748
Due from related parties	5,694	2,627
Deferred taxes	19,971	17,425
Prepaid and other assets	9,459	12,160
Total current assets	366,684	281,403
Property, equipment and leasehold improvements, (net of accumulated depreciation of $13,039 and $13,404 at August 31, 2008 and November 30, 2007, respectively)	21,977	4,246
Investments in unconsolidated company	3,000	3,000
Goodwill	441,623	441,623
Intangible assets (net of accumulated amortization of $115,918 and $94,543 at August 31, 2008 and November 30, 2007, respectively)	153,032	174,407
Other assets	7,143	
Total assets	$ 993,459	$ 904,679
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 2,060	$ 70
Payable to related parties	15,237	17,143
Income taxes payable	20,627	16,212
Accrued compensation and related benefits	49,748	53,831
Other accrued liabilities	14,100	10,195
Current maturities of long-term debt	22,250	22,250
Deferred revenue	158,697	125,230
Total current liabilities	282,719	244,931
Long-term debt, net of current maturities	385,067	402,750
Deferred taxes	52,316	56,977
Total liabilities	720,102	704,658

Commitments and Contingencies (see note 9)		
Shareholders' Equity		
Common stock (par value $0.01, 500,000,000 class A shares authorized and 250,000,000 class B shares authorized; 72,344,810 class A shares and 27,708,654 class B shares issued and outstanding)	1,001	1,000
Treasury shares, at cost (19,089 shares at August 31, 2008)	(586)	—
Additional paid in capital	282,570	265,098
Accumulated deficit	(10,613)	(65,884)
Accumulated other comprehensive income (loss)	985	(193)
Total shareholders' equity	273,357	200,021
Total liabilities and shareholders' equity	$ 993,459	$ 904,679

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Three Months Ended August 31, 2008	Three Months Ended August 31, 2007	Nine Months Ended August 31, 2008	Nine Months Ended August 31, 2007
	(unaudited)		(unaudited)	
Operating revenues (1)	$ 110,399	$ 92,407	$ 323,545	$ 268,228
Cost of services (1)	28,131	29,354	89,222	91,968
Selling, general and administrative (1)	37,624	23,093	107,360	67,940
Amortization of intangible assets	7,125	6,697	21,375	19,228
Total operating expenses	72,880	59,144	217,957	179,136
Operating income	37,519	33,263	105,588	89,092
Interest income (1)	(1,843)	(1,125)	(7,723)	(11,711)
Interest expense (1)	5,991	1,259	21,122	1,856
Other expense (income)	3,224	210	2,922	(244)
Interest expense (income) and other, net	7,372	344	16,321	(10,099)
Income before provision for income taxes	30,147	32,919	89,267	99,191
Provision for income taxes	11,269	11,540	33,824	36,319
Net income	$ 18,878	$ 21,379	$ 55,443	$ 62,872
Earnings per basic common share	$ 0.19	$ 0.25	$ 0.55	$ 0.75
Earnings per diluted common share	$ 0.19	$ 0.25	$ 0.55	$ 0.75
Weighted average shares outstanding used in computing earnings per share				
Basic	100,052	83,900	100,020	83,900
Diluted	101,698	83,900	101,236	83,900

(1) Amounts attributable to related parties are as follows:

	For the Three Months Ended August 31, 2008	For the Three Months Ended August 31, 2007	For the Nine Months Ended August 31, 2008	For the Nine Months Ended August 31, 2007
	(in thousands)		(in thousands)	
Operating revenues	$ 2,906	$ 3,282	$ 9,141	$ 10,301
Cost of services	$ 1,544	$ 4,451	$ 7,578	$ 11,559
Selling, general and administrative	$ 2,392	$ 2,559	$ 8,430	$ 8,247

Interest income	$	948	$	1,067	$	5,332	$	11,563
Interest expense	$	23	$	1,259	$	385	$	1,604

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.
CONDENSED CONSOLIDATED STATEMENTS CASH FLOWS
(in thousands)

	Nine Months Ended August 31, 2008	Nine Months Ended August 31, 2007
	(unaudited)	
Cash flows from operating activities		
Net income	$ 55,443	$ 62,872
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, equipment and leasehold improvements	2,274	1,530
Amortization of intangible assets	21,375	19,228
Compensation payable in common stock and options	17,494	
Provision for (recovery of) bad debts	(1,060)	75
Amortization of discount on long term debt	124	
Deferred taxes	(7,207)	(6,864)
Loss on sale or disposal of property, equipment and leasehold improvements, net	76	150
Changes in assets and liabilities:		
Trade receivables	(6,300)	(16,356)
Due from related parties	(3,067)	33,483
Prepaid and other assets	1,581	(156)
Other assets	(7,143)	
Accounts payable	1,960	
Payable to related parties	(1,906)	(52,282)
Deferred revenue	33,467	29,048
Accrued compensation and related benefits	(2,913)	(8,408)
Income taxes payable	4,415	(545)
Other accrued liabilities	2,951	6,581
Net cash provided by operating activities	111,564	68,356
Cash flows from investing activities		
Cash deposited with related parties	137,625	278,432
Purchased property, equipment and leasehold improvements	(19,097)	(946)
Net cash provided by investing activities	118,528	277,486
Cash flows from financing activities		
Repayment of long-term debt	(16,687)	
Note Payable to Morgan Stanley		625,901
Payments of cash dividends		(973,000)
Repurchase of treasury shares	(586)	
Expenses related to initial public offering	(21)	
Net cash used in financing activities	(17,294)	(347,099)
Effect of exchange rate changes	(164)	(1,506)

Net increase (decrease) in cash		212,634		(2,763)
Cash and cash equivalents, beginning of period		33,818		24,362
Cash and cash equivalents, end of period	$	246,452	$	21,599
Supplemental disclosure of cash flow information				
Cash paid for interest	$	20,594	$	1,856
Cash paid for income taxes	$	51,574	$	5,207
Supplemental disclosure of non-cash investing activities				
Non-cash purchase of property, equipment and leasehold improvements	$	984	$	—
Supplemental disclosure of non-cash financing activities				
Initial public offering related costs	$	—	$	1,888

See Notes to Unaudited Condensed Consolidated Financial Statements

MSCI INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. INTRODUCTION AND BASIS OF PRESENTATION

Organization

The condensed consolidated financial statements include the accounts of MSCI Inc. (formerly known as Morgan Stanley Capital International Inc.) and its subsidiaries. MSCI Inc. and its subsidiaries are hereafter referred to collectively as the "Company" or "MSCI." In November 2007, MSCI completed an initial public offering of 16.1 million class A common shares, representing 16.1% of the economic interest in the Company, and received net proceeds of $265.0 million, net of underwriters discounts, commissions and other offering expenses. In May 2008, Morgan Stanley ("Morgan Stanley") and the Capital Group Companies Charitable Foundation ("Capital Group") sold approximately 28.0 million and approximately 2.9 million class A common shares, respectively, pursuant to a registered secondary equity offering. In July 2008, Morgan Stanley sold approximately 25.3 million class A common shares pursuant to a registered secondary equity offering. Morgan Stanley retained approximately 27.7% of the economic interest and approximately 65.7% of the voting interest in the Company. Morgan Stanley is a global financial services firm that, through its subsidiaries and affiliates, provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals.

MSCI is a leading global provider of investment decision support tools including indices and portfolio risk and performance analytics for use in managing investment portfolios. The Company's products are used by institutions investing in or trading equity, fixed income and multi-asset class instruments and portfolios around the world. The Company's flagship products are its international equity indices marketed under the MSCI brand and its equity and multi-asset class portfolio analytics marketed under the Barra brand. The Company's 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.

The Company's primary products consist of equity indices, equity portfolio analytics and multi-asset class portfolio analytics. The Company also has product offerings in the areas of fixed income portfolio analytics, hedge fund indices and risk models, and energy and commodity asset valuation analytics. The Company's products are generally comprised of proprietary index data, risk data and sophisticated software applications. The Company's index and risk data are created by applying its models and methodologies to market data. The Company's clients can use its data together with its proprietary software applications, third-party applications or their own applications in their investment processes. The Company's proprietary software applications offer its clients sophisticated portfolio analytics to perform in-depth analysis of their portfolios, using its risk data, the client's portfolio data and fundamental and market data.

Basis of Presentation and Use of Estimates

These condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and include all normal and recurring adjustments necessary to present fairly the financial condition as of August 31, 2008 and November 30, 2007, and the results of operations for the three and nine months ended August 31, 2008 and 2007, as well as cash flows for the nine months ending August 31, 2008 and 2007. The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes included in MSCI's Annual Report on Form 10-K for the fiscal year ended November 30, 2007. The November 30, 2007 consolidated financial statement information has been derived from the 2007 audited consolidated financial statements. Income from interim periods may not be indicative of future results.

The Company’s 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 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 income, the allowance for doubtful accounts, impairment of long-lived assets, goodwill, intangible assets, accounting for income taxes and other matters that affect the condensed consolidated financial statements and related disclosures. The Company believes that estimates used in the preparation of these condensed consolidated financial statements are reasonable; however, actual results could differ materially from these estimates.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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The condensed consolidated statements of income reflect expense allocations for certain corporate functions historically provided by Morgan Stanley, including human resources, information technology, accounting, legal and compliance, corporate services, treasury and other services. These allocations are based on what the Company and Morgan Stanley considered reasonable reflections of the utilization levels of these services required in support of the Company's business and are based on methods that include direct time tracking, headcount, inventory metrics and corporate overhead. Inter-company balances and transactions are eliminated in consolidation.

Certain prior period amounts have been reclassified to conform to current period presentations.

Change in Presentation

Effective June 1, 2008, the Company began presenting gains and losses resulting from foreign currency transactions as a component of other expense (income) in accordance with Statement of Financial Accounting Standard ("SFAS") No. 52, "Foreign Currency Translation" ("SFAS 52"). Prior to June 1, 2008, the Company included such gains and losses as components of cost of services and selling, general and administrative. The Company changed its presentation because foreign currency gains and losses are incidental to the business and not part of day to day operations. Prior period amounts have been reclassified to conform to current period presentation. For the three months ended August 31, 2007, $72,000 and $338,000 recorded in cost of services and selling, general and administrative expenses, respectively, was moved to other expense (income). For the nine months ended August 31, 2007, $65,000 and ($56,000) recorded in cost of services and selling, general and administrative expenses, respectively, was moved to other expense (income).

Concentration of Credit Risk

The Company licenses its products and services to investment managers primarily in the United States, Europe, Asia (Japan, Hong Kong and Singapore) and Australia. The Company evaluates the credit of its customers and does not require collateral. The Company maintains reserves for estimated credit losses.

Financial instruments that may potentially subject the Company to concentrations of credit risk consist principally of cash investments and short-term investments. Prior to July 1, 2008, excess cash was held on deposit with Morgan Stanley and was unsecured. The Company received interest at Morgan Stanley's internal prevailing rates. At November 30, 2007, amounts held on deposit with Morgan Stanley were $137.6 million. On June 30, 2008, at MSCI's instruction, Morgan Stanley transferred MSCI's cash held on deposit to MSCI and following the transfer, the Company deposited the cash predominantly with Bank of America.

For the three months ended August 31, 2008 and 2007, Barclays PLC and its affiliates accounted for 11.7% and 14.3%, respectively, of the Company's operating revenues. For the nine months ended August 31, 2008 and 2007, Barclays PLC and its affiliates accounted for 11.9% and 13.0%, respectively, of the Company's operating revenues.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2007, the Emerging Issues Task Force ("EITF") reached consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards " EITF Issue No. 06-11 requires that the tax benefit related to dividend equivalents paid on restricted stock units that are expected to vest be recorded as an increase to additional paid-in capital. The Company currently accounts for this tax benefit as a reduction to its income tax provision. EITF Issue No. 06-11 is to be applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2007. As the Company currently has no plans to pay a dividend, the adoption of EITF Issue No. 06-11 is not expected to have an impact on the Company's condensed consolidated financial statements.

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141(R), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS

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No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after December 1, 2009.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 13" ("SFAS No. 161"). SFAS No. 161 establishes, among other things, the disclosure requirements for derivative instruments and for hedging activities. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing the impact that SFAS No. 161 will have on its condensed consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"). SFAS No. 162 identifies, within the accounting literature established by the FASB, the sources and hierarchy of the accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission's ("SEC's") approval of the Public Company Accounting Oversight Board ("PCAOB") amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption is not expected to have an impact on the Company's condensed consolidated financial statements.

3. EARNINGS PER COMMON SHARE

Basic and diluted earnings per common share ("EPS") are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted weighted average common shares includes vested and unvested stock options and unvested restricted stock awards. No stock options or restricted stock awards were excluded from the calculation of diluted earnings per share for the three or nine months ended August 31, 2008 or 2007.

The following table sets forth the computation of earnings per share:

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2008	2007	2008	2007
	(in thousands, except per share data)		(in thousands, except per share data)	
Net income	$ 18,878	$ 21,379	$ 55,443	$ 62,872
Basic weighted average common shares outstanding	100,052	83,900	100,020	83,900
Basic weighted average common shares outstanding	100,052	83,900	100,020	83,900
Effect of dilutive securities:				
Stock options and restricted stock units	1,646	—	1,216	—
Diluted weighted average common shares outstanding	101,698	83,900	101,236	83,900

Earnings per basic common share	$	0.19	$	0.25	$	0.55	$	0.75
Earnings per diluted common share	$	0.19	$	0.25	$	0.55	$	0.75

4. COMPREHENSIVE INCOME

The components of comprehensive income are as follows:

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	Three Months Ended August 31,		Nine Months Ended August 31,	
	2008	2007	2008	2007
	(in thousands)		(in thousands)	
Net income	$ 18,878	$ 21,379	$ 55,443	$ 62,872
Other comprehensive income, net of tax:				
Net changes in unrealized (losses) gains on cash flow hedges	(858)	—	1,305	—
Foreign currency translation adjustments	(1,095)	(2,846)	(164)	(1,506)
Comprehensive income	$ 16,925	$ 18,533	$ 56,584	$ 61,366

5. RELATED PARTY TRANSACTIONS

Cash Deposits, Receivables from Related Parties and Interest Income. Prior to July 1, 2008, the Company deposited most of its excess funds with Morgan Stanley. Related party receivables consist of amounts due to the Company for sales of products and services to Morgan Stanley. The Company received interest at Morgan Stanley's internal prevailing rates on its cash deposits and related party receivables. Related party receivables as of August 31, 2008 were approximately $5.7 million. On June 30, 2008, at MSCI's instruction, Morgan Stanley transferred MSCI's cash held on deposit to MSCI and following the transfer, the Company deposited the cash predominately with Bank of America. Interest earned on both cash on deposit with Morgan Stanley and related party receivables for the three months ended August 31, 2008 and 2007 totaled approximately $0.9 million and $1.1 million, respectively. Interest earned on both cash on deposit with Morgan Stanley and related party receivables for the nine months ended August 31, 2008 and 2007 totaled approximately $5.3 million and $11.6 million, respectively.

Revenues. Morgan Stanley or its affiliates subscribe to, in the normal course of business, certain of the Company's products. Revenues recognized by the Company from subscription to the Company's products by Morgan Stanley for the three months ended August 31, 2008 and 2007 were $2.9 million and $3.3 million, respectively. For the nine months ended August 31, 2008 and 2007, revenues of $9.1 million and $10.3 million, respectively, were from Morgan Stanley and from Capital Group International, which is not a related party for the three or nine months ended August 31, 2008.

Administrative Expenses. Morgan Stanley affiliates have invoiced administrative expenses to the Company relating to office space, equipment and staff services. The amounts invoiced by Morgan Stanley affiliates for staff services for the three months ended August 31, 2008 and 2007 were $3.9 million and $7.0 million, respectively. The amounts invoiced by Morgan Stanley affiliates for staff services for the nine months ended August 31, 2008 and 2007 were $16.0 million and $19.8 million, respectively.

Payables to Related Parties. Current payables to related parties consist principally of amounts due to Morgan Stanley affiliates for services provided to the Company and state income taxes. Historically, payables to related parties consisted of amounts due to Morgan Stanley affiliates for the Company's expenses, income taxes and prepayments for the Company's services. The amounts outstanding are unsecured, bear interest at Morgan Stanley's internal prevailing rates and are payable on demand. Amounts payable to related parties as of August 31, 2008 were $15.2 million. Interest expense on these payables for the three months ended August 31, 2008 and 2007 was less than $0.1 million and $1.3 million, respectively. Interest expense on these payables for the nine months ended August 31, 2008 and 2007 was $0.4 million and $1.6 million, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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6. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements at August 31, 2008 and November 30, 2007 consisted of the following:

	As of	
	August 31, 2008	November 30, 2007
Computer & related equipment	$ 19,376	$ 7,598
Furniture & fixtures	2,332	1,520
Leasehold improvements	10,479	8,532
Work-in-process	2,829	
Subtotal	35,016	17,650
Accumulated depreciation and amortization	(13,039)	(13,404)
Property, equipment and leasehold improvements, net	$ 21,977	$ 4,246

Depreciation and amortization expense of property, equipment and leasehold improvements was $1.3 million and $0.4 million for the three months ended August 31, 2008 and 2007, respectively. Depreciation and amortization expense of property, equipment and leasehold improvements was $2.3 million and $1.5 million for the nine months ended August 31, 2008 and 2007, respectively.

7. INTANGIBLE ASSETS

The Company amortizes definite-lived intangible assets over their estimated useful lives. Amortizable intangible assets are tested for impairment when impairment indicators are present, and, if impaired, written down to fair value based on either discounted cash flows or appraised values. No impairment of intangible assets has been identified during any of the periods presented. The Company has no indefinite-lived intangibles.

Amortization expense related to intangible assets for the three months ended August 31, 2008 and 2007 was approximately $7.1 million and $6.7 million, respectively. Amortization expense related to intangible assets for the nine months ended August 31, 2008 and 2007 was approximately $21.4 million and $19.2 million, respectively.

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

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
		(in thousands)	
As of August 31, 2008			
Technology/software	$ 140,800	$ (84,631)	$ 56,169
Trademarks	102,220	(20,669)	81,551
Customer relationships	25,880	(10,568)	15,312

Non-competes	50	(50)	—
Total	$ 268,950	$ (115,918)	$ 153,032

8. INVESTMENT IN UNCONSOLIDATED COMPANY

The Company holds a 17% interest in Alacra, Inc. on a fully diluted basis. The investment is carried at approximately $3.0 million, which has been accounted for under the cost method. This interest was acquired as part of the purchase of Barra in 2004. The Company periodically reviews the financial performance, liquidity and other general market factors related to Alacra, Inc. to determine if the carrying value is still appropriate. The Company performed such a review as of February 29, 2008. No impairment was recorded.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

9. COMMITMENTS AND CONTINGENCIES

Leases. The Company leases facilities under non-cancelable operating lease agreements. The terms of certain lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on the straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Rent expense for the three and nine months ended August 31, 2008 was $2.1 million and $8.0 million, respectively. Rent expense for the three and nine months ended August 31, 2007 was $2.9 million and $8.0 million, respectively.