

BARRA INC /CA
Form 10-Q
August 14, 2001

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

FORM 10-Q

(MARK ONE)

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2001 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 0-19690

BARRA, INC. (Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

94-2993326

(I.R.S. Employer Identification Number)

2100 Milvia Street

Berkeley, California 94704-1113

(Address of principal executive offices including zip code)

(510) 548-5442

(Registrant's telephone number, including area code)

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 reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [],

The number of shares of the registrant's Common Stock outstanding as of August 9, 2001 was 21,670,849.

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

BARRA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands except for share and per share amounts)

	June 30, 2001	March 31, 2001
	----- (Unaudited)	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$32,952	\$61,837
Investments in marketable equity trading securities.....	14,693	15,848
Investments in marketable debt securities available-for-sale.....	110,558	76,523
Accounts receivable:		
Subscription and other (Less allowance for doubtful accounts of \$854 and \$518).....	12,451	11,916
Asset management.....	6,058	11,175
Related parties.....	6,541	6,221
Prepaid expenses.....	2,549	2,675
	-----	-----

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Total current assets.....	185,802	186,195
Investments in unconsolidated companies.....	4,831	4,849
Premises and equipment:		
Computer and office equipment.....	16,238	15,491
Furniture and fixtures.....	6,277	6,263
Leasehold improvements.....	8,814	8,764
Total premises and equipment.....	31,329	30,518
Less accumulated depreciation and amortization.....	(17,246)	(16,052)
	14,083	14,466
Deferred tax assets.....	7,978	8,153
Computer software (less accumulated amortization of \$2,272 and \$2,082).....	1,492	1,615
Other assets.....	1,354	1,139
Goodwill and other intangibles (less accumulated amortization of \$7,174 and \$7,174).....	9,995	9,995
Total.....	\$225,535	\$226,412
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$340	\$850
Accrued expenses payable:		
Accrued compensation.....	7,316	17,018
Accrued corporate income taxes.....	8,658	11,816
Other accrued expenses.....	9,819	8,602
Unearned revenues.....	33,121	29,682
Total current liabilities.....	59,254	67,968
Deferred tax liabilities.....	4,286	2,468
Minority interest in equity of subsidiary.....	1,979	1,249
STOCKHOLDERS' EQUITY:		
Preferred stock, no par; 10,000,000 shares authorized; none issued and outstanding.....	--	--
Common stock, \$.0001 par value; 75,000,000 shares authorized; 21,415,827 and 21,370,677 shares issued and outstanding.....	2	2
Additional paid-in capital.....	24,369	29,340
Retained earnings.....	135,883	125,623
Accumulated other comprehensive loss.....	(238)	(238)
Total stockholders' equity.....	160,016	154,727
Total.....	\$225,535	\$226,412
	=====	=====

The accompanying notes are an integral part of the BARRA, Inc. Consolidated Financial Statements

BARRA INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF INCOME***(Amounts in thousands except for share and per share amounts)*

	Three Months Ended June 30,	
	2001	2000
	(Unaudited)	(Unaudited)
Operating Revenues:		
Portfolio and Enterprise Risk Management.....	\$29,888	\$25,351
POSIT.....	6,270	5,818
Other Ventures.....	6,309	7,574
Total operating revenues...	42,467	38,743
Operating Expenses:		
Communication, data, and seminar costs.....	2,187	1,549
Compensation and benefits....	19,873	18,092
Occupancy	1,558	1,639
Other operating expenses.....	6,387	5,789
Total operating expenses...	30,005	27,069
Interest Income and Other.....	1,571	477
Income before Equity in Net Income and Loss of Investees, Income Taxes, and Discontinued Operations..	14,033	12,151
Equity in Net Income and Loss of Investees.....	(2)	(25)
Income from Continuing Operations before Income Taxes.....	14,031	12,126
Income Taxes.....	(4,858)	(4,171)
Income Before Discontinued Operations.....	9,173	7,955
Income from Discontinued Operations, Net of Taxes.....	1,087	2,295
Net Income	\$10,260	\$10,250
Income Per Share - Continuing Operations:		
Basic.....	\$0.43	\$0.39
Diluted.....	\$0.40	\$0.36
Income Per Share - Discontinued Operations:		
Basic.....	\$0.05	\$0.11

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	=====	=====
Diluted.....	\$0.05	\$0.10
	=====	=====
Net Income Per Share -		
Consolidated:		
Basic.....	\$0.48	\$0.50
	=====	=====
Diluted.....	\$0.45	\$0.47
	=====	=====
Weighted Average Common and		
Common Equivalent Shares:		
Basic.....	21,420,511	20,612,895
	=====	=====
Diluted.....	22,862,066	22,013,838
	=====	=====

The accompanying notes are an integral part of the BARRA, Inc. Consolidated Financial Statements

BARRA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Three Months Ended June 30,	
	-----	-----
	2001	2000
	-----	-----
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$10,260	\$10,250
Adjustments to reconcile net income to net		
cash provided by operating activities:		
Equity in net income of investees.....	18	25
Minority interest.....	1,678	3,413
Depreciation and amortization.....	1,400	2,106
(Gains) losses on marketable equity trading		
securities.....	55	(339)
(Purchase) sale of marketable equity trading		
securities.....	1,100	(117)
Deferred taxes.....	1,993	46
Other.....	(6)	322
Changes in:		
Accounts receivable - subscription and other.	(535)	(1,475)
Accounts receivable - asset management.....	5,117	(1,760)
Accounts receivable - related parties.....	(320)	912
Prepaid expenses.....	126	(654)

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Other assets.....	(215)	(541)
Accounts payable, due to related party and accrued expenses.....	(8,752)	(6,351)
Unearned revenues.....	3,439	5,464
	-----	-----
Net cash provided by operating activities..	15,358	11,301
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures.....	(888)	(888)
Investment in marketable debt securities - available for sale.....	(34,035)	(20,005)
Investments in unconsolidated companies.....	--	(3,032)
	-----	-----
Net cash used in investing activities	(34,923)	(23,925)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments to minority shareholders.....	(948)	(1,987)
Proceeds from sale of common stock.....	2,153	2,164
Common stock repurchased.....	(10,525)	(224)
	-----	-----
Net cash used in financing activities.....	(9,320)	(47)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(28,885)	(12,671)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD..	61,837	53,320
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$32,952	\$40,649
	=====	=====
OTHER CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest expense.....	--	--
Income taxes.....	\$2,980	\$1,914

The accompanying notes are an integral part of the BARRA, Inc. Consolidated Financial Statements

BARRA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of Barra, Inc. (the Company, which may be referred to as "Barra", we, us or our) and its wholly-owned subsidiaries. Discontinued operations represents the results of operations from Symphony Asset Management LLC (Symphony) as management entered into a plan to sell this business in June, 2001. (See Note 6.) All significant intercompany transactions and balances have been eliminated. Certain reclassifications have been made to prior period financial statements to conform to the current period presentation.

In our opinion, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting of normal recurring entries) necessary to present fairly our financial position as of June 30, 2001 and the results of our operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States. The results of operations for the interim periods are not necessarily indicative of results of operations for a full year. The March 31, 2001 condensed consolidated balance sheet is derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2001 (Form 10-K), but does not include all disclosures required by generally accepted accounting principles. We suggest that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and related notes included in the Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-Q.

2. COMPREHENSIVE INCOME

Comprehensive income includes foreign currency translation gains and losses. A summary of comprehensive income follows (in thousands):

	Three Months Ended June 30	
	2001	2000
Net Income	\$10,260	\$10,250
Foreign currency translation gain	--	72
Comprehensive income	\$10,260	\$10,322

3. SEGMENT INFORMATION

Our business segments are organized into differing groups of products and services. Our Core Business has one segment: our portfolio and enterprise risk management business. Barra Ventures is composed of investments, joint ventures or significant licensing arrangements that leverage the ideas and intellectual property of our Core Business. Barra Ventures has three segments: POSIT, the Symphony Venture and Other Ventures. The Symphony Venture is presented in the following tables as Discontinued Operations, reflecting the sale of this venture (See Notes 1 and 6). POSIT is a joint venture which licenses institutional trading systems that allow institutional investors to trade portfolios of securities directly with each other in a confidential environment. The Symphony Venture is composed of our wholly owned subsidiary (Symphony Asset Management, Inc.) and Symphony, a 50% owned subsidiary. Our Symphony Venture provides asset management services (See Note 6.) Other Ventures includes our subsidiaries Bond Express, Inc. and Barra RogersCasey, Inc. and our strategic consulting division (Strategic Consulting).

Segment income from operations is defined as segment revenues net of segment expenses and equity in joint venture gains and losses for the current year. Segment expenses include costs for sales and client support activities, the cost of delivering the product or service including data and data processing costs, and allocated amounts of depreciation and amortization. Segment expenses also include allocated portions of research and development, general and administrative expenses, amortization of acquired intangibles, and interest income for the current year.

For all years presented, segment expenses exclude income taxes.

There are no differences between the accounting policies used to measure profit and loss for segments and those used on a consolidated basis. Revenues are defined as revenues from external customers and there are no inter-segment revenues or expenses.

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Our management does not identify or allocate its assets, including capital expenditures, by operating segment. Accordingly, assets are not being reported by segment because the information is not available by segment and is not reviewed to make decisions about resources to be allocated to the segments, when assessing their performance. Depreciation and amortization is allocated to segments in order to determine segment profit or loss.

The following tables present information about reported segments for the three month periods ended June 30, 2001 and 2000, respectively (amounts in thousands):

For the three months ended June 30, 2001:

	BARRA CORE		BARRA VENTURES			
	Core	POSIT Joint Venture	Discontinued Operations	Other	Total Ventures	Total
Portfolio and Enterprise Risk Management.....	\$29,888					\$29,888
POSIT.....		\$6,270			6,270	6,270
Other Ventures.....				\$6,309	6,309	6,309
Total revenues	29,888	6,270	-	6,309	12,579	42,466
Compensation and benefits...	(14,237)	(525)		(5,111)	(5,636)	(19,873)
Other segment expenses.....	(8,166)	(251)		(1,715)	(1,966)	(10,132)
Interest income and other...	1,557			14	14	1,571
Equity in joint venture gains (losses).....		16		(18)	(2)	(2)
Total segment expenses	(20,846)	(760)	-	(6,830)	(7,590)	(28,436)
Segment income (loss) - continuing operations	\$9,042	\$5,510		(\$521)	\$4,989	\$14,031
Segment income - discontinued operations			\$1,753		\$1,753	\$1,753
Depreciation and amortization	\$1,085	\$26	\$72	\$217	\$315	\$1,400

For the three months ended June 30, 2000:

	BARRA CORE		BARRA VENTURES			
	Core	POSIT Joint Venture	Discontinued Operations	Other	Total Ventures	Total
Portfolio and Enterprise Risk Management.....	\$25,351					\$25,351
POSIT.....		\$5,818			5,818	5,818
Other Ventures.....				\$7,574	7,574	7,574
Total revenues	25,351	5,818	-	7,574	13,392	38,743
Compensation and benefits...	(12,812)	(265)		(5,015)	(5,280)	(18,092)
Other segment expenses.....	(6,611)	(151)		(2,215)	(2,366)	(8,977)
Interest income and other...	477					477

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Equity in joint venture gains (losses)		13		(38)	(25)	(2)
Total segment expenses	(18,946)	(403)	—	(7,268)	(7,671)	(26,61)
Segment income - continuing operations	\$6,405	\$5,415		\$306	\$5,721	\$12,12
Segment income - discontinued operations			\$3,634		\$3,634	\$3,63
Depreciation and amortization	\$1,400	\$40	\$65	\$601	\$706	\$2,10

4. PER SHARE DATA

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" ("SFAS 128"), basic earnings per share is based on the weighted-average number of common shares outstanding for the period. Diluted earnings per share data is based on the weighted-average number of common and dilutive potential common shares outstanding. Dilutive potential common shares result from the assumed exercise of outstanding stock options that have a dilutive effect when applying the treasury stock method. For all periods presented, the only difference between basic and diluted earnings per share for the Company is the inclusion of dilutive stock options in the denominator for purposes of calculating diluted earnings per share.

5. NEW ACCOUNTING STANDARDS

Effective April 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS 133 requires the recognition of all derivatives in the balance sheet as either an asset or a liability measured at fair value. The statement also requires a company to recognize changes in the derivative's fair value currently in earnings unless it meets specific hedge accounting criteria. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings and are recognized in the income statement when the hedged item affects earnings. The adoption of SFAS 133 did not have a significant impact on the financial position, results of operations, or cash flows of the Company.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives will not be amortized, but will rather be tested at least annually for impairment. The Company adopted SFAS 142 for its fiscal year beginning April 1, 2001. The adoption of SFAS 142 did not have a significant impact on the financial position, results of operations, or cash flows of the Company.

6. SUBSEQUENT EVENT - SALE OF SYMPHONY ASSET MANAGEMENT

On July 16, 2001, Barra completed the sale of its 50 percent ownership interest in Symphony to The John Nuveen Company. Barra will receive approximately \$128 million in initial cash proceeds and up to an additional \$12 million in future contingent consideration for its ownership interest. An after tax gain of approximately \$80 million is expected to be recorded from the sale in the second quarter of fiscal 2002. The operating results of Symphony have

been classified as discontinued in the accompanying condensed consolidated statements of income and prior periods have been reclassified on this basis. Net revenues from the discontinued operations are as follows:

	Three Months Ended June 30,	
	2001	2000
Net revenues.....	\$7,327	\$9,854
Pre-tax income from discontinued operations...	1,753	3,634
Income taxes.....	(666)	(1,339)
Income from discontinued operations.....	\$1,087	\$2,295

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This discussion and analysis and other parts of this Form 10-Q contain forward looking statements that involve risks and uncertainties. These forward-looking statements are made in reliance on the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. For further information regarding how to identify forward looking statements and the factors that could cause actual results to differ, please refer to the information under the heading "Cautionary Factors That May Affect Future Results" below. Any or all of the forward-looking statements that we make in this Form 10-Q or any other public statements we issue may turn out to be wrong. It is also important to remember that other factors besides those we mention could also adversely affect us and our business, operating results or financial condition.

GENERAL

Certain of the information required by this item has been previously reported under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Form 10-K.

Foreign Currency

As an international corporation, we generate revenue from clients throughout the world, maintain sales and representative offices worldwide and hold certain deposits and accounts in foreign currencies. Our revenue is generated from both United States and non-U.S. currencies. Our subscriptions in the United Kingdom and the European Community are priced in British pounds sterling (pounds) and euros, respectively. Additionally, our consolidated subsidiary, Barra Japan Co., Ltd. (f/k/a Barra International (Japan), Ltd. (Barra Japan)), generates revenues, has expenses and has assets and liabilities in Japanese yen (yen). All other international clients are billed in U.S. dollars. The functional and reporting currency to all non-U.S. operations is the U.S. dollar. Accordingly, gains and losses on translation of current assets and liabilities denominated in foreign currencies to the U.S. reporting currency are included in other operating expenses.

The following table presents a summary of revenue by geographic region for the three months ended June 30, 2001 and 2000 (in thousands). Revenues are distributed to geographic areas based on the country in which the Barra sales office is located:

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	2001		2000	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
North America:				
United States.....	\$26,052	61%	\$24,052	62%
Other.....	911	2	944	2
Total North America.....	26,963	63	24,996	64
Europe:				
United Kingdom.....	7,218	17	6,412	17
Germany.....	1,900	5	1,617	4
Other.....	311	1	267	1
Total Europe.....	9,429	23	8,296	22
Asia and Australia:				
Japan.....	4,709	11	4,046	10
Other.....	1,366	3	1,405	4
Total Asia and Australia.	6,075	14	5,451	14
TOTAL	\$42,467	100%	\$38,743	100%

All other things being equal, weakening of the U.S. dollar has a positive impact on profits, and strengthening of the U.S. dollar has a negative impact. Our management has implemented a hedging program designed to partially mitigate our exposure to foreign currency fluctuations through the use of forward commitments to sell certain foreign currencies. This hedging program is specifically designed to hedge our net assets denominated in pounds, euros and yen.

For the three month period ended June 30, 2001, when compared to the same period a year ago, the U.S. dollar strengthened against the pound, euro, and yen. This had the net effect of decreasing net revenues and net income by approximately \$1,116,000 and \$715,000, respectively, compared to exchange rates in effect for the three month period ended June 30, 2000.

Under current operating arrangements in the countries in which we do business (other than Brazil), there are no significant restrictions upon the flow of funds from our foreign subsidiaries to the parent company. In Brazil, our local subsidiary is required to register exchange agreements with the Brazilian Central Bank.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents, marketable equity securities held for trading and marketable debt securities available for sale totaled \$158.2 million at June 30, 2001. In addition, we have a commitment from a bank for an unsecured short-term line of credit of up to \$5 million, of which no amounts have been, or are presently anticipated to be, drawn down on that line of credit.

We believe that our cash flow from operations (including prepaid subscription fees), together with existing cash balances, will be sufficient to meet cash requirements for capital expenditures and other cash needs for ongoing

business operations. Other than commitments described in this discussion and analysis and in the financial statements and notes, we have no present binding understandings or commitments with respect to any significant expenditures.

PRINCIPAL FINANCIAL COMMITMENTS

Our principal financial commitments consist of obligations under operating leases and contracts for the use of computer and office facilities. Our Board of Directors has also authorized the repurchase of up to 750,000 shares of our common stock.

RESULTS OF OPERATIONS

References to the dollar and percentage increases or decreases set forth below in this discussion and analysis of our results of operations are derived from comparisons of our condensed consolidated statements of income for the three month periods ended June 30, 2001 and June 30, 2000.

Net Income.

Net income for the three month period ended June 30, 2001 was \$10,260,000 or \$0.45 per share (diluted) compared to net income of \$10,250,000 or \$0.47 per share (diluted) for the same quarter a year ago.

Operating Revenues.

Total operating revenues for the three month period ended June 30, 2001 increased \$3,724,000 or 10% compared to the same period a year ago.

Portfolio and Enterprise Risk Management.

Portfolio and Enterprise Risk Management fees consist of annual subscription fees and other related revenues for our Core Business portfolio risk management and enterprise risk management systems. A summary of the components of this revenue is as follows (amounts in thousands):

	Three Months Ended June 30,		
	2001	2000	%Change
Core product subscriptions..	\$28,218	\$23,966	18
Implementation fees.....	693	810	(14)
Other Core product related..	977	575	70
TOTAL.....	\$29,888	\$25,351	18

Core Product Subscriptions

are revenues for our portfolio risk management and enterprise risk management products, including related updates. We generally bill and collect fees on an annual basis, but recognize the income 1/12th per month over each year of the subscription period. The growth in annual subscription fees continues to be generated from a combination of obtaining new clients and increasing revenues from existing customers through the introduction of new products, features, users and other services. Subscription revenues excluding the negative impact of changes in foreign currency translation rates increased 21% compared to the same quarter last year.

Implementation Fees

are revenues related to implementation services in connection with enterprise risk management system installations. Implementation fees are recorded as earned, generally on a time and materials basis. The timing of the recording of enterprise risk management implementation fees is governed by the terms of the implementation contracts and other factors that can cause significant variations from quarter to quarter. The decrease in implementation fees reflects both the completion of one major project in the previous quarter as well as general weakness in the demand for such services amidst spending constraints at some of our larger client installations. We expect implementation service fee revenue to continue to show decreases year over year for at least the next two fiscal quarters.

Other Core Product Related

revenues include seminar revenues and other recurring and one-time fees. The increase in revenue in the current quarter as compared to the same quarter a year ago is due primarily to increased revenues from seminars stemming from more events being held in the current quarter as compared to the same quarter a year ago.

POSIT.

POSIT revenues increased \$452,000 or 8% compared to the same quarter a year ago. Our revenues from POSIT come from royalties based on commissions generated by the trading volume in the various POSIT systems.

Other Ventures.

As a group, in the current quarter Other Ventures revenues decreased \$1,265,000, or 17%. The decrease principally reflects the effect of having no revenue related to the Global Estimates business in the current quarter. We sold our Global Estimates business in December 2001. Excluding Global Estimates, revenues for Other Ventures for the quarter ended June 30, 2000 were \$6,287,000, relatively unchanged from the current quarter.

Operating Expenses.

For the quarter ended June 30, 2001 compared to the same quarter a year ago, total operating expenses, increased \$2,936,000 or 11%.

Communication, data and seminar costs

consists of computer access and communication charges, software and data costs, computer leasing and seminar expenses. This component of expense increased \$638,000 or 41% compared to the same quarter a year ago. The increase is due primarily to increased seminar and workshop costs, reflecting additional events being held in the current quarter as compared to the same period a year ago, along with increased purchased data costs.

Compensation and Benefits

increased \$1,781,000 or 9% compared to the same quarter a year ago. The increases from the same quarter a year ago are primarily the result of higher wage and incentive compensation associated with increased headcount from a year ago and the effect of our annual wage raises which are effective each July.

Occupancy Expense

decreased \$81,000 or 5% compared to the same quarter a year ago. This decrease is the result of additional sublease income from leasing more of our excess facilities, as well as the effect of the closure of several offices in the past year. This decrease was partially offset by higher rental costs at our Japan facilities associated with new and expanded

office space in Tokyo.

Other Operating Expenses

increased \$598,000 or 10% compared to the same quarter a year ago. Other operating expenses include travel, office, maintenance, depreciation, amortization, data and other expenses related to asset management operations, marketing, advertising, outside legal and accounting services, foreign currency translation gains and losses, and other corporate expenses. Other operating expenses increased from the same period a year ago primarily as a result of increases in marketing and related advertising expenses associated with our branding campaign.

Interest Income and Other -

Interest Income and Other increased \$1,094,000 or 229% compared to the same quarter a year ago. The increase is due primarily to increased interest income earned on cash balances arising from significantly higher cash balances.

Equity in Net Income (Loss) of Investees

represents net gains and (losses) from our equity investments in Risk Reporting Limited and Australian POSIT. The decrease reflects a lower loss related to the Risk Reporting Limited investment.

Discontinued Operations

represent the results of operations from Symphony. Income from discontinued operations decreased \$1,208,000 or 52% compared to the same quarter a year ago. This decrease is primarily the result of decreased revenues from Symphony in the current quarter as compared to the same quarter last year. Performance fees included in discontinued operations were \$1,429,000 for the three months ended June 30, 2001 compared to \$3,441,000 for the same period a year ago. Performance fees are recognized only at the measurement date for determining performance of an account. The measurement date typically is at the end of the first year of a client's contract and on each subsequent annual anniversary date for the years after the first year. Performance fees in both quarters represent fees on approximately 10% of the accounts.

As of June 30, 2001, Symphony had approximately \$4.1 billion of assets under direct management. Of these funds, approximately \$3.3 billion are managed under agreements that provide for performance fees in addition to a base management fee. These amounts include approximately \$950 million of leverage associated with performance fee accounts in addition to the capital invested by Symphony clients.

On July 16, 2001, Barra completed the sale of its 50 percent ownership interest in Symphony to The John Nuveen Company. (See Note 6 to the Condensed Consolidated Financial Statements.)

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

Our disclosure and analysis in this Form 10-Q contain several forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate", "estimate", "expect", "opinion", "project", "intend", "plan", "believe", "designed", "future", "forecast", "perceive", "vary", "possible", "potential", "target", "will", "may", "scheduled", "would", "could", "should", "forward", "assure" and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, events or results. From time to time we may also provide oral or written forward-looking statements in other materials that we release to the public.

Any or all of the forward-looking statements that we make in this Form 10-Q or any other public statements we issue may turn out to be wrong. They can be affected by inaccurate assumptions that we might make or by known or unknown risks and uncertainties. Many factors mentioned in this Form 10-Q will be important in determining future results. Consequently, no forward looking statement can be guaranteed. Actual future results may vary materially.

We are under no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. We suggest, however, that you consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K filings with the SEC. Our Form 10-K filing for the 2001 fiscal year listed various important factors that could cause actual results to differ materially from expected and historic results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Readers can find them in Part I of that filing under the heading "Risk Factors" and in our recent earnings press release for the quarter ended June 30, 2001. We incorporate that section of that Form 10-K in this filing and investors should refer to it. Those are factors that we think could cause our actual results to differ materially from expected and historical results. Other factors besides those listed in our Form 10-K or elsewhere in this Form 10-Q could also adversely affect us or our business. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to the interest bearing portions of our direct investment portfolio. We place our direct investments with high quality credit issuers and, by policy, limit the amount of credit exposure to any one issuer. Our first priority is to reduce the risk of principal loss. Consequently, we seek to preserve our invested funds by limiting default risk, market risk, and re-investment risk. We attempt to mitigate default risk by investing only in high quality credit securities that we believe to be low risk and by positioning our portfolio to respond appropriately to a significant reduction in credit rating of any investment issuer or guarantor. The direct investment portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity. We do not use derivative financial instruments in our investment portfolio.

Our direct interest bearing investment portfolio primarily consists of investments in short-term, high-credit quality money market funds and U.S. Treasury Securities. These investments totaled approximately \$32.9 million at June 30, 2001 with an average interest rate of 3.8%. At June 30, 2001, the portfolio also had approximately \$110.6 million of short-term, high credit quality municipal and corporate debt securities with an average taxable equivalent interest rate of 4.4%. The short-term money market funds and the municipal and corporate debt securities are not insured and, because of the short-term nature of the investments, are subject to credit risk, but are not likely to fluctuate significantly in market value.

From time to time, we provide the initial invested funds for the startup of new investment products offered by Symphony and the BARRA RogersCasey Asset Services Group. In these cases, the primary considerations are related to supporting a new business rather than making investments that fall under the guidelines of our investment policy.

Our investments in primarily market-neutral programs, which amounted to approximately \$14.7 million at June 30, 2001, are non-interest bearing and consist principally of long and short positions placed directly through other fund managers in U.S and non-U.S. equity securities of both public and private issuers. Although the intent of the managers of these funds is to structure portfolios that are hedged against general market movements, these investments can be subject to significant changes in market value and are not insured. All investment decisions with respect to these market neutral programs are made by professional

investment advisers and the performance of the funds is reviewed periodically by our management.

Foreign Currency Risk

We invoice customers in Europe in both pounds and euros. In Japan, we bill our customers in yen. Excluding customers in these locations, we generally bill for our services in U.S. dollars. To the extent we invoice our customers in local currency (yen, pound and euro), our international revenues are subject to currency exchange fluctuation risk. To the extent that international revenues that are invoiced in local currencies increase in the future, our exposure to fluctuations in currency exchange rates will correspondingly increase. Currency fluctuations may also effectively increase the cost of our products and services in countries in which customers are invoiced in U.S. dollars.

We have a hedging program in place which is designed to reduce our exposure to fluctuations in certain foreign currency translation rates from holding net assets denominated in foreign currencies. The program utilizes forward contracts for the sale of foreign currencies to hedge our net asset exposure, consisting principally of cash and receivables denominated in pounds, euros and yen. At June 30, 2001, we had one contract to sell 500 million yen at 124.55, maturing on August 3, 2001, with an unrealized gain of \$5,000. Also at June 30, 2001, we had one contract to sell 5 million euro at 0.8450, maturing on August 3, 2001, with an unrealized loss of \$26,500. Additionally, at June 30, 2001, we had one contract to sell 5 million pounds at 1.4015, maturing on August 3, 2001, with an unrealized loss of \$61,500. We enter into forward currency contracts only with approved counterparties and all hedging activities are reviewed by our Foreign Exchange Committee. Our hedging program is currently designed only to reduce our exposure to gains and losses that result from translating our foreign assets and liabilities into U.S. dollars. It does not currently limit or reduce the exposure we have from fluctuations in currency exchange rates on our reported revenues that are billed in non-U.S. currencies.

We have no foreign debt and non-U.S. dollar cash balances held overseas are generally kept at levels necessary to meet current operating and capitalization needs. The capitalization of BARRA Japan includes approximately \$2.0 million invested in a yen-denominated mutual fund.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

All information that is required by this item was reported under the heading "Legal Proceedings" in our Form 10-K for the fiscal year ended March 31, 2001. There have been no other material developments in our legal proceedings since the date of our Form 10-K.

ITEM 5. OTHER INFORMATION.

On May 10, 2001, our Board of Directors authorized amendments to our Bylaws: (a) effective as of August 9, 2001, to change the number of directors from seven (7) to six (6), and (b) effective as of May 10, 2001, to permit the Board of Directors to determine the time, date and place for the Annual Meeting of Shareholders.

On that date, our Board of Directors also authorized the Company to repurchase up to 750,000 shares of our Common Stock pursuant to our stock repurchase plan. On June 22, 2001, we repurchased 175,000 shares of our Common Stock for an aggregate price of \$7,705,792.50.

All other information that is required by this item was reported under the heading "Other Information" in our 2001 Form 10-K for the fiscal year ended March 31, 2001. There has been no other material information to report since the date of our Form 10-K.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) The following exhibits are required by Item 601 of the Regulation S-K:

Exhibit

Number

Description

3.2.2	Amended and Restated Bylaws of Company, effective May 10, 2001
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(b) Reports on Form 8-K:

On June 18, 2001, Barra filed a Current Report on Form 8-K. The Form 8-K contained our press release announcing the signing a definitive agreement, along with the principals of Symphony Asset Management LLC, to sell Symphony to The John Nuveen Company. The Form 8-K also contained a copy of the Acquisition Agreement between the parties.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, BARRA has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BARRA, Inc.
(Registrant)

Dated: August 14, 2001

By: /s/ Kamal Duggirala

Kamal Duggirala
President and Chief Executive Officer

Dated: August 14, 2001

By: /s/ Greg V. Stockett

Greg V. Stockett
Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.2.2	Amended and Restated Bylaws fo Company, effective May 10, 2001
