

MOODYS CORP /DE/
Form 10-Q
November 02, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2010

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 1-14037

Moody s Corporation

(Exact name of registrant as specified in its charter)

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Delaware
(State of Incorporation)

13-3998945
(I.R.S. Employer Identification No.)

7 World Trade Center at

250 Greenwich Street, New York, N.Y.
(Address of Principal Executive Offices)

10007
(Zip Code)

Registrant's telephone number, including area code:

(212) 553-0300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 during the preceding 12 months, or for such shorter period that the registrant was required to submit and post such files. Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

| Title of Each Class | Shares Outstanding at September 30, 2010 |
|--|---|
| Common Stock, par value \$0.01 per share | 234.2 million |

Table of Contents

MOODY S CORPORATION

INDEX TO FORM 10-Q

| | Page(s) |
|--|----------------|
| <u>Glossary of Terms and Abbreviations</u> | 3-6 |
| <u>PART I. FINANCIAL INFORMATION</u> | |
| Item 1. <u>Financial Statements</u> | |
| <u>Consolidated Statements of Operations (Unaudited) for the Three and Nine Months Ended September 30, 2010 and 2009</u> | 7 |
| <u>Consolidated Balance Sheets (Unaudited) at September 30, 2010 and December 31, 2009</u> | 8 |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2010 and 2009</u> | 9 |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> | 10-27 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 28-55 |
| <u>The Company</u> | 28 |
| <u>Critical Accounting Estimates</u> | 28-30 |
| <u>Operating Segments</u> | 30-31 |
| <u>Results of Operations</u> | 31-41 |
| <u>Liquidity and Capital Resources</u> | 42-48 |
| <u>2010 Outlook</u> | 48 |
| <u>Recently Issued Accounting Pronouncements</u> | 48 |
| <u>Contingencies</u> | 49-51 |
| <u>Regulation</u> | 51-54 |
| <u>Forward-Looking Statements</u> | 55 |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 56 |
| Item 4. <u>Controls and Procedures</u> | 56 |
| <u>PART II. OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | 57 |
| Item 1A. <u>Risk Factors</u> | 57-58 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 59 |
| Item 5. <u>Other Information</u> | 59 |
| Item 6. <u>Exhibits</u> | 60 |
| <u>SIGNATURES</u> | 61 |
| Exhibits Filed Herewith | |
| 31.1 <u>Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> | |
| 31.2 <u>Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> | |
| 32.1 <u>Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> | |
| 32.2 <u>Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> | |

Table of Contents**GLOSSARY OF TERMS AND ABBREVIATIONS**

The following terms, abbreviations and acronyms are used to identify frequently used terms in this report:

| TERM | DEFINITION |
|--------------------------|--|
| ACNielsen | ACNielsen Corporation a former affiliate of Old D&B |
| Analytics | Moody's Analytics reportable segment of MCO formed in January 2008, which includes the non-rating commercial activities of MCO |
| AOCI | Accumulated other comprehensive income (loss); a separate component of shareholders' equity (deficit) |
| ASC | The FASB Accounting Standards Codification; the sole source of authoritative GAAP as of July 1, 2009 except for rules and interpretive releases of the SEC, which are also sources of authoritative GAAP for SEC registrants |
| ASU | The FASB Accounting Standards Updates to the ASC. It also provides background information for accounting guidance and the bases for conclusions on the changes in the ASC. ASUs are not considered authoritative until codified into the ASC. |
| Basel II | Capital adequacy framework published in June 2004 by the Basel Committee on Banking Supervision |
| Board | The board of directors of the Company |
| Bps | Basis points |
| Canary Wharf Lease | Operating lease agreement entered into on February 6, 2008 for office space in London, England, occupied by the Company in the second half of 2009. |
| CDOs | Collateralized debt obligations |
| CESR | Committee of European Securities Regulators |
| CFG | Corporate finance group; an LOB of MIS |
| CMBS | Commercial mortgage-backed securities; part of CREF |
| Cognizant | Cognizant Corporation a former affiliate of Old D&B; comprised the IMS Health and NMR businesses |
| Commission | European Commission |
| Company | Moody's Corporation and its subsidiaries; MCO; Moody's |
| Corporate Family Ratings | Rating opinion of a corporate family's ability to honor all of its financial obligations which is assigned to the corporate family as if it had a single class of debt and a single consolidated legal entity structure. This rating is often issued in connection with ratings of leveraged finance transactions. |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| CP | Commercial paper |
| CP Notes | Unsecured commercial paper notes |
| CP Program | The Company's commercial paper program entered into on October 3, 2007 |
| CRAs | Credit rating agencies |
| CRA Reform Act | Credit Rating Agency Reform Act of 2006 |
| CREF | Commercial real estate finance which includes REITs, commercial real estate CDOs and MBS; part of SFG |
| D&B Business | Old D&B's Dun & Bradstreet operating company |
| DBPP | Defined benefit pension plans |

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| | |
|-------------------|--|
| Debt/EBITDA | Ratio of Total Debt to EBITDA |
| Directors' Plan | The 1998 MCO Non-Employee Directors' Stock Incentive Plan |
| Distribution Date | September 30, 2000; the date which old D&B separated into two publicly traded companies: Moody's Corporation and New D&B |
| EBITDA | Earnings before interest, taxes, depreciation and amortization |
| ECAIs | External Credit Assessment Institutions |
| ECB | European Central Bank |

Table of Contents

| TERM | DEFINITION |
|----------------------|---|
| EMEA | Represents countries within Europe, the Middle East and Africa |
| EPS | Earnings per share |
| ESP | Estimated selling price; price, as defined by the ASC, at which a vendor would transact if a deliverable were sold by the vendor regularly on a standalone basis |
| ESPP | The 1999 Moody's Corporation Employee Stock Purchase Plan |
| ETR | Effective tax rate |
| EU | European Union |
| EUR | Euros |
| Excess Tax Benefit | The difference between the tax benefit realized at exercise of an option or delivery of a restricted share and the tax benefit recorded at the time that the option or restricted share is expensed under GAAP |
| Exchange Act | The Securities Exchange Act of 1934, as amended |
| FASB | Financial Accounting Standards Board |
| FIG | Financial institutions group; an LOB of MIS |
| Fitch | Fitch Ratings, a division of the Fitch Group which is a majority-owned subsidiary of Fimalac, S.A. |
| Financial Reform Act | Dodd-Frank Wall Street Reform and Consumer Protection Act |
| FSF | Financial Stability Forum |
| FX | Foreign exchange |
| GAAP | U.S. Generally Accepted Accounting Principles |
| GBP | British pounds |
| G-8 | The finance ministers and central bank governors of the group of eight countries consisting of Canada, France, Germany, Italy, Japan, Russia, U.S. and U.K., that meet annually |
| G-20 | The G-20 is an informal forum of industrial and emerging-market countries on key issues related to global economic stability. The G-20 is comprised of: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the U.K. and the U.S. and The EU who is represented by the rotating Council presidency and the ECB |
| HFSC | House Financial Services Committee |
| IMS Health | A spin-off of Cognizant; provides services to the pharmaceutical and healthcare industries |
| Indenture | Indenture and supplemental indenture dated August 19, 2010, relating to the 2010 Senior Notes |
| Indicative Ratings | These are ratings which are provided as of a point in time, and not published or monitored. They are primarily provided to potential or current issuers to indicate what a rating may be based on business fundamentals and financial conditions as well as based on proposed financings |
| IOSCO | International Organization of Securities Commissions |
| IOSCO Code | Code of Conduct Fundamentals for Credit Rating Agencies |
| IRS | Internal Revenue Service |
| Legacy Tax Matter(s) | Exposures to certain potential tax liabilities assumed in connection with the 2000 Distribution |
| LIBOR | London Interbank Offered Rate |

Table of Contents

| TERM | DEFINITION |
|---------------------------|---|
| LOB | Line of business |
| MA | Moody's Analytics – a reportable segment of MCO formed in January 2008; which includes the non-rating commercial activities of MCO |
| Make Whole Amount | The prepayment penalty amount relating to the Series 2005-1 Notes, Series 2007-1 Notes, and 2010 Senior Notes which is a premium based on the excess, if any, of the discounted value of the remaining scheduled payments over the prepaid principal |
| MCO | Moody's Corporation and its subsidiaries; the Company; Moody's |
| MD&A | Management's Discussion and Analysis of Financial Condition and Results of Operations |
| MIS | Moody's Investors Service – a reportable segment of MCO; consists of four LOBs – SFG, CFG, FIG and PPIF |
| MIS Code | Moody's Investors Service Code of Professional Conduct |
| Moody's | Moody's Corporation and its subsidiaries; MCO; the Company |
| Net Income | Net income attributable to Moody's Corporation, which excludes net income from consolidated noncontrolling interests belonging to the minority interest holder |
| New D&B | The New D&B Corporation - which comprises the D&B business |
| NM | Percentage change is not meaningful |
| NMR | Nielsen Media Research, Inc.; a spin-off of Cognizant; a leading source of television audience measurement services |
| Notices | IRS Notices of Deficiency for 1997-2002 |
| NRSRO | Nationally Recognized Statistical Rating Organization |
| Old D&B | The former Dun and Bradstreet Company which distributed New D&B shares on September 30, 2000, and was renamed Moody's Corporation |
| Post-Retirement Plans | Moody's funded and unfunded pension plans, the post-retirement healthcare plans and the post-retirement life insurance plans |
| PPIF | Public, project and infrastructure finance; an LOB of MIS |
| Profit Participation Plan | Defined contribution profit participation plan that covers substantially all U.S. employees of the Company |
| RD&A | Research, Data and Analytics; an LOB within MA that produces, sells and distributes research, data and related content. Includes products generated by MIS, such as analyses on major debt issuers, industry studies, and commentary on topical credit events, as well as economic research, data, quantitative risk scores, and other analytical tools that are produced within MA |
| Reform Act | Credit Rating Agency Reform Act of 2006 |
| REITs | Real estate investment trusts |
| RMBS | Residential mortgage-backed security; part of SFG |
| RMS | The Risk Management Software LOB within MA which provides both economic and regulatory capital risk management software and implementation services |
| S&P | Standard & Poor's Ratings Services; a division of The McGraw-Hill Companies, Inc. |
| SEC | U.S. Securities and Exchange Commission |
| Securities Act | Securities Act of 1933 |
| Series 2005-1 Notes | Principal amount of \$300.0 million, 4.98% senior unsecured notes due in September 2015 pursuant to the 2005 Agreement |
| Series 2007-1 Notes | Principal amount of \$300.0 million, 6.06% senior unsecured notes due in September 2017 pursuant to the 2007 Agreement |

Table of Contents

| TERM | DEFINITION |
|-----------------------------|---|
| SFG | Structured finance group; an LOB of MIS |
| SG&A | Selling, general and administrative expenses |
| Stock Plans | The 1998 Plan and the 2001 Plan |
| T&E | Travel and entertainment expenses |
| TPE | Third party evidence; evidence, as defined in the ASC, used to determine selling price based on a vendor's or any competitor's largely interchangeable products or services in standalone sales transactions to similarly situated customers |
| Total Debt | All indebtedness of the Company as reflected on the consolidated balance sheets, excluding current accounts payable and deferred revenue incurred in the ordinary course of business |
| U.K. | United Kingdom |
| U.S. | United States |
| USD | U.S. dollar |
| UTBs | Unrecognized tax benefits |
| UTPs | Uncertain tax positions |
| VAT | Value added tax |
| VSOE | Vendor specific objective evidence; evidence, as defined in the ASC, of selling price limited to either of the following: the price charged for a deliverable when it is sold separately, or for a deliverable not yet being sold separately, the price established by management having the relevant authority |
| 1998 Plan | Old D&B's 1998 Key Employees' Stock Incentive Plan |
| 2000 Distribution | The distribution by Old D&B to its shareholders of all of the outstanding shares of New D&B common stock on September 30, 2000 |
| 2000 Distribution Agreement | Agreement governing certain ongoing relationships between the Company and New D&B after the 2000 Distribution including the sharing of any liabilities for the payment of taxes, penalties and interest resulting from unfavorable IRS rulings on certain tax matters and certain other potential tax liabilities |
| 2001 Plan | The Amended and Restated 2001 MCO Key Employees' Stock Incentive Plan |
| 2005 Agreement | Note purchase agreement dated September 30, 2005, relating to the Series 2005-1 Notes |
| 2007 Agreement | Note purchase agreement dated September 7, 2007 relating to the Series 2007-1 Notes |
| 2007 Facility | Revolving credit facility of \$1 billion entered into on September 28, 2007, expiring in 2012 |
| 2007 Restructuring Plan | The Company's 2007 restructuring plan approved on December 31, 2007 |
| 2008 Term Loan | Five-year \$150.0 million senior unsecured term loan entered into by the Company on May 7, 2008 |
| 2009 Restructuring Plan | The Company's 2009 restructuring plan approved on March 27, 2009 |
| 2010 Senior Notes | Principal amount of \$500.0 million, 5.50% senior unsecured notes due in September 2020 pursuant to the Indenture |
| 7WTC | The Company's corporate headquarters located at 7 World Trade Center in New York, NY |
| 7WTC Lease | Operating lease agreement entered into on October 20, 2006 |

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Amounts in millions, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------------|------------------------------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue | \$ 513.3 | \$ 451.8 | \$ 1,467.7 | \$ 1,311.4 |
| Expenses | | | | |
| Operating | 153.7 | 135.1 | 423.9 | 385.5 |
| Selling, general and administrative | 152.2 | 124.3 | 418.5 | 351.2 |
| Restructuring | 0.4 | 3.7 | | 18.6 |
| Depreciation and amortization | 18.1 | 16.2 | 49.1 | 47.5 |
| Total expenses | 324.4 | 279.3 | 891.5 | 802.8 |
| Operating income | 188.9 | 172.5 | 576.2 | 508.6 |
| Non-operating (expense) income, net | | | | |
| Interest (expense) income, net | (12.8) | (11.5) | (35.1) | (20.9) |
| Other non-operating (expense) income, net | 5.3 | 1.7 | 0.7 | (8.8) |
| Total non-operating (expense) income, net | (7.5) | (9.8) | (34.4) | (29.7) |
| Income before provision for income taxes | 181.4 | 162.7 | 541.8 | 478.9 |
| Provision for income taxes | 44.2 | 61.0 | 167.3 | 175.1 |
| Net income | 137.2 | 101.7 | 374.5 | 303.8 |
| Less: Net income attributable to noncontrolling interests | 1.2 | 1.1 | 4.1 | 3.7 |
| Net income attributable to Moody s | \$ 136.0 | \$ 100.6 | \$ 370.4 | \$ 300.1 |
| Earnings per share attributable to Moody s common shareholders | | | | |
| Basic | \$ 0.58 | \$ 0.43 | \$ 1.57 | \$ 1.27 |
| Diluted | \$ 0.58 | \$ 0.42 | \$ 1.56 | \$ 1.26 |
| Weighted average number of shares outstanding | | | | |
| Basic | 234.3 | 236.4 | 235.5 | 236.0 |
| Diluted | 235.7 | 238.2 | 237.1 | 237.6 |

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| | | | | |
|--|----------|---------|---------|---------|
| Dividends declared per share attributable to Moody's common shareholders | \$ 0.105 | \$ 0.10 | \$ 0.21 | \$ 0.20 |
|--|----------|---------|---------|---------|

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

MOODY S CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(Amounts in millions, except share and per share data)

| | September 30, 2010 | December 31, 2009 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 793.7 | \$ 473.9 |
| Short-term investments | 10.8 | 10.0 |
| Accounts receivable, net of allowances of \$31.2 in 2010 and \$24.6 in 2009 | 410.6 | 444.9 |
| Deferred tax assets, net | 47.1 | 32.3 |
| Other current assets | 39.2 | 51.8 |
| Total current assets | 1,301.4 | 1,012.9 |
| Property and equipment, net of accumulated depreciation of \$197.5 in 2010 and \$164.8 in 2009 | 307.5 | 293.0 |
| Goodwill | 355.2 | 349.2 |
| Intangible assets, net | 93.3 | 104.9 |
| Deferred tax assets, net | 227.8 | 192.6 |
| Other assets | 63.0 | 50.7 |
| Total assets | \$ 2,348.2 | \$ 2,003.3 |
| LIABILITIES AND SHAREHOLDERS DEFICIT | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 321.0 | \$ 317.2 |
| Commercial paper | 15.0 | 443.7 |
| Current portion of long-term debt | 9.4 | 3.8 |
| Deferred revenue | 447.2 | 471.3 |
| Total current liabilities | 792.6 | 1,236.0 |
| Non-current portion of deferred revenue | 96.9 | 103.8 |
| Long-term debt | 1,235.6 | 746.2 |
| Deferred tax liabilities, net | 15.9 | 31.4 |
| Unrecognized tax benefits | 171.2 | 164.2 |
| Other liabilities | 333.6 | 317.8 |
| Total liabilities | 2,645.8 | 2,599.4 |
| Contingencies (Note 12) | | |
| Shareholders' deficit: | | |
| Preferred stock, par value \$.01 per share; 10,000,000 shares authorized; no shares issued and outstanding | | |
| Series common stock, par value \$.01 per share; 10,000,000 shares authorized; no shares issued and outstanding | | |
| Common stock, par value \$.01 per share; 1,000,000,000 shares authorized; 342,902,272 shares issued at September 30, 2010 and December 31, 2009 | 3.4 | 3.4 |
| Capital surplus | 384.1 | 391.1 |
| Retained earnings | 3,650.1 | 3,329.0 |
| | (4,320.7) | (4,288.5) |

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| | | |
|---|------------|------------|
| Treasury stock, at cost; 108,690,561 and 106,044,833 shares of common stock at September 30, 2010 and December 31, 2009, respectively | | |
| Accumulated other comprehensive loss | (24.6) | (41.2) |
| Total Moody's shareholders' deficit | (307.7) | (606.2) |
| Noncontrolling interests | 10.1 | 10.1 |
| Total shareholders' deficit | (297.6) | (596.1) |
| Total liabilities and shareholders' deficit | \$ 2,348.2 | \$ 2,003.3 |

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**MOODY S CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(Amounts in millions)

| | Nine Months Ended September 30, | |
|--|------------------------------------|----------------|
| | 2010 | 2009 |
| Cash flows from operating activities | | |
| Net income | \$ 374.5 | \$ 303.8 |
| Reconciliation of net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 49.1 | 47.5 |
| Stock-based compensation expense | 41.3 | 44.4 |
| Excess tax benefits from stock-based compensation plans | (6.1) | (3.2) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 31.1 | 51.3 |
| Other current assets | (1.1) | 45.1 |
| Other assets | (46.2) | 9.4 |
| Accounts payable and accrued liabilities | 24.7 | 7.1 |
| Restructuring | (4.7) | 7.8 |
| Deferred revenue | (30.7) | (22.8) |
| Unrecognized tax benefits | 21.8 | (26.8) |
| Other liabilities | 21.0 | (7.0) |
| Net cash provided by operating activities | 474.7 | 456.6 |
| Cash flows from investing activities | | |
| Capital additions | (54.6) | (64.3) |
| Purchases of short-term investments | (24.0) | (10.7) |
| Sales and maturities of short-term investments | 23.6 | 11.5 |
| Cash paid for acquisitions, net of cash acquired | | (0.9) |
| Net cash used in investing activities | (55.0) | (64.4) |
| Cash flows from financing activities | | |
| Borrowings under revolving credit facilities | 250.0 | 2,412.0 |
| Repayments of borrowings under revolving credit facilities | (250.0) | (3,025.0) |
| Issuance of commercial paper | 2,232.8 | 7,703.0 |
| Repayments of commercial paper | (2,661.5) | (7,276.6) |
| Issuance of notes | 496.9 | |
| Repayment of notes | (1.9) | |
| Net proceeds from stock-based compensation plans | 26.0 | 14.6 |
| Cost of treasury shares repurchased | (119.6) | |
| Excess tax benefits from stock-based compensation plans | 6.1 | 3.2 |
| Payment of dividends | (74.1) | (70.8) |
| Payment of dividends to noncontrolling interests | (4.4) | (2.9) |
| Payments under capital lease obligations | (1.0) | (1.1) |
| Debt issuance costs and related fees | (4.0) | |
| Net cash used in financing activities | (104.7) | (243.6) |
| Effect of exchange rate changes on cash and cash equivalents | 4.8 | 28.2 |

| | | |
|---|-----------------|-----------------|
| Net increase in cash and cash equivalents | 319.8 | 176.8 |
| Cash and cash equivalents, beginning of the period | 473.9 | 245.9 |
| Cash and cash equivalents, end of the period | \$ 793.7 | \$ 422.7 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

Table of Contents**MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****(tabular dollar and share amounts in millions, except per share data)****NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

Moody's is a provider of (i) credit ratings, (ii) credit and economic related research, data and analytical tools, (iii) risk management software and (iv) quantitative credit risk measures, credit portfolio management solutions and training services. In 2007 and prior years, Moody's operated in two reportable segments: Moody's Investors Service and Moody's KMV. Beginning in January 2008, Moody's segments were changed to reflect the Reorganization announced in August 2007 and Moody's now reports in two new reportable segments: MIS and MA. As a result of the Reorganization, the rating agency remains in the MIS operating segment and several ratings business lines have been realigned. All of Moody's other non-rating commercial activities are included within the new Moody's Analytics segment. The MIS segment publishes credit ratings on a wide range of debt obligations and the entities that issue such obligations in markets worldwide. Revenue is derived from the originators and issuers of such transactions who use MIS's ratings to support the distribution of their debt issues to investors. The MA segment develops a wide range of products and services that support the credit risk management activities of institutional participants in global financial markets. These offerings include quantitative credit risk scores, credit processing software, economic research, analytical models, financial data, and specialized advisory and training services. MA also distributes investor-oriented research and data developed by MIS as part of its rating process, including in-depth research on major debt issuers, industry studies and commentary on topical events.

The Company operated as part of Old D&B until September 30, 2000, when Old D&B separated into two publicly traded companies: Moody's Corporation and New D&B. At that time, Old D&B distributed to its shareholders shares of New D&B stock. New D&B comprised the business of Old D&B's Dun & Bradstreet operating company. The remaining business of Old D&B consisted solely of the business of providing ratings and related research and credit risk management services and was renamed Moody's Corporation. For purposes of governing certain ongoing relationships between the Company and New D&B after the 2000 Distribution and to provide for an orderly transition, the Company and New D&B entered into various agreements including a distribution agreement, tax allocation agreement and employee benefits agreement.

These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the Company's consolidated financial statements and related notes in the Company's 2009 annual report on Form 10-K filed with the SEC on March 1, 2010. The results of interim periods are not necessarily indicative of results for the full year or any subsequent period. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Other than the update to the Company's revenue recognition policy pursuant to the early adoption of ASU No. 2009-13, *Multiple-Deliverable Revenue Arrangements* further described below, there have been no material changes to the Company's significant accounting policies from those disclosed in its Form 10-K filed with the SEC for the year ended December 31, 2009.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or the services have been provided and accepted by the customer when applicable, fees are determinable and the collection of resulting receivables is considered probable.

In October 2009, the FASB issued ASU No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13). The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration based on the relative selling price of each deliverable. The Company has elected to early adopt ASU 2009-13 on a prospective basis for applicable transactions originating or materially modified on or after January 1, 2010. If applied in the same manner to the year ended December 31, 2009, ASU 2009-13 would not have had a material impact on net revenue reported for both its MIS and MA segments in terms of the timing and pattern of revenue recognition. The adoption of ASU 2009-13 did not have a significant effect on the Company's net revenue in the period of adoption and is also not expected to have a significant effect on the Company's net revenue in periods after the initial adoption.

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when applied to multiple element arrangements based on the currently anticipated business volume and pricing.

For 2010 and future periods, pursuant to the guidance of ASU 2009-13, when a sales arrangement contains multiple deliverables, the Company allocates revenue to each deliverable based on its relative selling price which is determined based on its vendor specific objective evidence (VSOE) if available, third party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available.

Table of Contents

MOODY S CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(tabular dollar and share amounts in millions, except per share data)

The Company's products and services will generally continue to qualify as separate units of accounting under ASU 2009-13. The Company evaluates each deliverable in an arrangement to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has stand-alone value to the customers and if the arrangement includes a customer refund or return right relative to the delivered item, the delivery and performance of the undelivered item is considered probable and substantially in the Company's control. In instances where the aforementioned criteria are not met, the deliverable is combined with the undelivered items and revenue recognition is determined as one single unit.

The Company determines whether its selling price in a multi-element transaction meets the VSOE criteria by using the price charged for a deliverable when sold separately. In instances where the Company is not able to establish VSOE for all deliverables in a multiple element arrangement, which may be due to the Company infrequently selling each element separately, not selling products within a reasonably narrow price range, or only having a limited sales history, the Company attempts to establish TPE for deliverables. The Company determines whether TPE exists by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. However, due to the difficulty in obtaining third party pricing, possible differences in its market strategy from that of its peers and the potential that products and services offered by the Company may contain a significant level of differentiation and/or customization such that the comparable pricing of products with similar functionality cannot be obtained, the Company generally is unable to reliably determine TPE. Based on the selling price hierarchy established by ASU 2009-13, when the Company is unable to establish selling price using VSOE or TPE, the Company will establish an ESP. ESP is the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. The Company establishes its best estimate of ESP considering internal factors relevant to its pricing practices such as costs and margin objectives, standalone sales prices of similar products, percentage of the fee charged for a primary product or service relative to a related product or service, and customer segment and geography. Additional consideration is also given to market conditions such as competitor pricing strategies and market trend. The Company reviews its determination of VSOE, TPE and ESP on an annual basis or more frequently as needed.

In the MIS segment, revenue attributed to initial ratings of issued securities is recognized when the rating is issued. Revenue attributed to monitoring of issuers or issued securities is recognized ratably over the period in which the monitoring is performed, generally one year. In the case of commercial mortgage-backed securities, derivatives, international residential mortgage-backed and asset-backed securities, issuers can elect to pay the monitoring fees upfront. These fees are deferred and recognized over the future monitoring periods based on the expected lives of the rated securities.

Multiple element revenue arrangements in the MIS segment are generally comprised of an initial rating and the related monitoring service. Beginning January 1, 2010, in instances where monitoring fees are not charged for the first year monitoring effort, fees are allocated to the initial rating and monitoring services based on the relative selling price of each service to the total arrangement fees. The Company generally uses ESP in determining the selling price for its initial ratings as the Company rarely sells initial ratings separately without providing related monitoring services and thus is unable to establish VSOE or TPE for initial ratings. Prior to January 1, 2010 and pursuant to the previous accounting standards, for these types of arrangements the initial rating fee was first allocated to the monitoring service determined based on the estimated fair market value of monitoring services, with the residual amount allocated to the initial rating. Under ASU 2009-13 this practice can no longer be used for non-software deliverables upon the adoption of ASU 2009-13.

In the MA segment, products and services offered by the Company include software licenses and related maintenance, subscriptions, and professional services. Revenue from subscription based products, such as research and data subscriptions and certain software-based credit risk management subscription products, is recognized ratably over the related subscription period, which is principally one year. Revenue from sale of perpetual licenses of credit processing software is generally recognized at the time the product master or first copy is delivered or transferred to and accepted by the customer. Software maintenance revenue is recognized ratably over the annual maintenance period. Revenue from services rendered within the professional services line of business is generally recognized as the services are performed. If uncertainty exists regarding customer acceptance of the product or service, revenue is not recognized until acceptance occurs.

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Products and services offered within the MA segment are sold either stand-alone or together in various combinations. In instances where a multiple element arrangement includes software and non-software deliverables, revenue is allocated to the non-software deliverables and to the software deliverables, as a group, using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. Revenue is recognized for each element based upon the conditions for revenue recognition noted above.

If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is allocated to each software deliverable using VSOE. In the instances where the Company is not able to determine VSOE for all of the deliverables of an arrangement, the Company allocates the revenue to the undelivered elements equal to its VSOE and the residual revenue to the delivered elements. If the Company is unable to determine VSOE for an undelivered element, the Company defers all revenue allocated to the software deliverables until the Company has delivered all of the elements or when VSOE has been determined for the undelivered elements.

Prior to January 1, 2010 and pursuant to the previous accounting standards, the Company allocated revenue in a multiple element arrangement to each deliverable based on its relative fair value, or for software elements, based on VSOE. If the fair value was not available for an undelivered element, the revenue for the entire arrangement was deferred.

Table of Contents

MOODY S CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(tabular dollar and share amounts in millions, except per share data)

NOTE 3. STOCK-BASED COMPENSATION

Presented below is a summary of the stock-based compensation cost and associated tax benefit included in the accompanying consolidated statements of operations:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------|-------------------------------------|---------|------------------------------------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| Stock compensation cost | \$ 13.6 | \$ 13.8 | \$ 41.3 | \$ 44.4 |
| Tax benefit | \$ 5.0 | \$ 5.0 | \$ 15.6 | \$ 16.3 |

During the nine months ended September 30, 2010 the Company granted 2.4 million employee stock options, which had a weighted average grant date fair value of \$10.39 per share based on the Black-Scholes option-pricing model. The Company also granted 1.4 million shares of restricted stock in the first nine months of 2010, which had a weighted average grant date fair value of \$25.50 per share. Of the shares granted, approximately 0.4 million contained a condition whereby the number of shares that ultimately vest are based on the achievement of certain non-market based performance metrics of the Company over a three year period.

The following weighted average assumptions were used in determining the fair value for options granted in 2010:

| | |
|---------------------------|-----------|
| Expected dividend yield | 1.58% |
| Expected stock volatility | 44% |
| Risk-free interest rate | 2.73% |
| Expected holding period | 5.9 years |
| Grant date fair value | \$ 10.39 |

On April 20, 2010, the shareholders of the Company approved an increase in the number of shares which may be issued with respect to awards granted under the 2001 Plan. The 2001 Plan, which is shareholder approved, now permits the granting of up to 35.6 million shares, of which not more than 15.0 million shares are available for grants of awards other than stock options.

Unrecognized compensation expense at September 30, 2010 was \$39.3 million and \$43.8 million for stock options and nonvested restricted stock, respectively, which is expected to be recognized over a weighted average period of 1.6 years and 1.4 years, respectively.

The following tables summarize information relating to stock option exercises and restricted stock vesting:

| | Nine Months Ended September 30, | |
|--------------------------------------|------------------------------------|---------|
| | 2010 | 2009 |
| Stock option exercises: | | |
| Proceeds from stock option exercises | \$ 28.5 | \$ 13.5 |
| Aggregate intrinsic value | \$ 16.3 | \$ 9.2 |
| Tax benefit realized upon exercise | \$ 6.6 | \$ 3.7 |

Restricted stock vesting:

| | | |
|-----------------------------------|----------------|--------|
| Fair value of shares vested | \$ 12.4 | \$ 7.9 |
| Tax benefit realized upon vesting | \$ 4.6 | \$ 2.9 |

NOTE 4. INCOME TAXES

Moody's effective tax rate was 24.4% and 37.5% for the three month periods ended September 30, 2010 and 2009, respectively and 30.9% and 36.6% for the nine month periods ended September 30, 2010 and 2009, respectively. The decrease in the effective tax rate for both periods was primarily due to a tax benefit, recorded in the third quarter of 2010, on foreign earnings that are indefinitely reinvested. The year over year decrease in the effective tax rate is also due to the completion of various tax audits resulting in the recognition of UTBs.

The Company classifies interest related to UTBs in interest expense in its consolidated statements of operations. Penalties, if incurred, would be recognized in other non-operating expenses. During the third quarter of 2010, the Company had an overall increase in its UTBs of \$0.2 million (\$3.1 million decrease, net of federal tax benefit), and an overall increase in its UTBs during the first nine months of 2010 of \$7.0 million (\$0.7 million decrease, net of federal tax benefit).

Prepaid taxes of \$4.2 million and \$18.6 million at September 30, 2010 and December 31, 2009, respectively, are included in other current assets in the consolidated balance sheets.

Table of Contents**MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****(tabular dollar and share amounts in millions, except per share data)**

Moody's Corporation and subsidiaries are subject to U.S. federal income tax as well as income tax in various state, local and foreign jurisdictions. Moody's U.S. federal tax returns filed for the years 2007 through 2009 remain subject to examination by the IRS. The Company's tax filings in New York State for the years 2004 through 2007 are currently under examination. The income tax returns for 2008 remain open to examination for both New York State and New York City. Tax filings in the U.K. for 2006 are currently under examination by the U.K. taxing authorities and for 2007 and 2008 remain open to examination.

For ongoing audits related to open tax years, it is possible the balance of UTBs could decrease in the next twelve months as a result of the settlement of these audits, which might involve the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also possible that new issues might be raised by tax authorities which could necessitate increases to the balance of UTBs. As the Company is unable to predict the timing or outcome of these audits, it is therefore unable to estimate the amount of changes to the balance of UTBs at this time. However, the Company believes that it has adequately provided for its financial exposure for all open tax years by tax jurisdiction in accordance with the applicable provisions of topic 740 of the ASC regarding UTBs. Additionally, the Company is seeking tax rulings on certain tax positions that, if granted, could decrease the balance of UTPs over the next twelve months however, due to the uncertainty involved with this process, the Company is unable to estimate the amount of changes to the balance of UTPs at this time.

NOTE 5. WEIGHTED AVERAGE SHARES OUTSTANDING

Below is a reconciliation of basic to diluted shares outstanding:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Basic | 234.3 | 236.4 | 235.5 | 236.0 |
| Dilutive effect of shares issuable under stock-based compensation plans | 1.4 | 1.8 | 1.6 | 1.6 |
| Diluted | 235.7 | 238.2 | 237.1 | 237.6 |
| Anti-dilutive options to purchase common shares and restricted stock excluded from the table above | 16.0 | 14.7 | 16.3 | 16.0 |

The calculation of diluted EPS requires certain assumptions regarding the use of both cash proceeds and assumed proceeds that would be received upon the exercise of stock options and vesting of restricted stock outstanding as of September 30, 2010 and 2009. These assumed proceeds include Excess Tax Benefits and any unrecognized compensation on the awards.

NOTE 6. SHORT-TERM INVESTMENTS

Short-term investments are securities with maturities greater than 90 days at the time of purchase that are available for operations in the next twelve months. The short-term investments, primarily consisting of certificates of deposit, are classified as held-to-maturity and therefore are carried at cost. The remaining contractual maturities of the short-term investments were one month to eight months and one month to three months as of September 30, 2010 and December 31, 2009, respectively. Interest and dividends are recorded into income when earned.

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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The Company is exposed to global market risks, including risks from changes in FX rates and changes in interest rates. Accordingly, the Company uses derivatives in certain instances to manage the aforementioned financial exposures that occur in the normal course of business. The Company does not hold or issue derivatives for speculative purposes.

The Company engages in hedging activities to protect against FX risks from forecasted billings and related revenue denominated in the EUR and the GBP. FX options and forward exchange contracts are utilized to hedge exposures related to changes in FX rates. As of September 30, 2010, all FX options and forward exchange contracts had maturities between one and two months. The hedging program mainly utilizes FX options. The forward exchange contracts are immaterial. Both the FX options and forward exchange contracts are designated as cash flow hedges.

Table of Contents

MOODY S CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(tabular dollar and share amounts in millions, except per share data)

The following table summarizes the notional amounts of the Company's outstanding FX options:

| | September 30, 2010 | December 31, 2009 |
|-----------------------------------|-----------------------|----------------------|
| Notional amount of Currency Pair: | | |
| GBP/USD | £ 0.6 | £ 5.0 |
| EUR/USD | 1.9 | 9.9 |
| EUR/GBP | 2.6 | 21.0 |

In May 2008, the Company entered into interest rate swaps with a total notional amount of \$150.0 million to protect against fluctuations in the LIBOR-based variable interest rate on the 2008 Term Loan, further described in Note 11. These interest rate swaps are designated as cash flow hedges.

The Company also enters into foreign exchange forwards to mitigate foreign exchange gains and losses on certain intercompany loans denominated in currencies other than a subsidiary's functional currency. These forward contracts are not designated as hedging instruments under the applicable sections of Topic 815 of the ASC. Accordingly, changes in the fair value of these contracts are recognized immediately in other non-operating (expense) income, net in the Company's consolidated statements of operations along with the FX gain or loss recognized on the intercompany loan.

The tables below show the classification between assets and liabilities on the Company's consolidated balance sheets of the fair value of derivative instruments as well as information on gains/(losses) on those instruments:

| | Fair Value of Derivative Instruments | | | |
|---|--------------------------------------|----------------------|-----------------------|----------------------|
| | Asset | | Liability | |
| | September 30, 2010 | December 31, 2009 | September 30, 2010 | December 31, 2009 |
| Derivatives designated as hedging instruments: | | | | |
| FX options | \$ 0.2 | \$ 1.2 | \$ | \$ |
| Interest rate swaps | | | 10.1 | 7.6 |
| Total derivatives designated as hedging instruments | 0.2 | 1.2 | 10.1 | 7.6 |
| Derivatives not designated as hedging instruments: | | | | |
| FX forwards on intercompany loans | 2.3 | 0.3 | | 1.0 |
| Total | \$ 2.5 | \$ 1.5 | \$ 10.1 | \$ 8.6 |

The fair value of FX options and interest rate swaps are included in other current assets and other liabilities, respectively, in the consolidated balance sheets at September 30, 2010 and December 31, 2009. The fair value of the FX forwards are included in other current assets at September 30, 2010 and in other current assets and accounts payable and accrued liabilities as of December 31, 2009. All of the above derivative instruments are valued using Level 2 inputs as defined in Topic 820 of the ASC. In determining the fair value of the derivative contracts in the table above, the Company utilizes industry standard valuation models when active market quotes are not available. Where applicable, these models project future cash flows and discount the future amounts to a present value using spot rates, forward points, currency volatilities,

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interest rates as well as the risk of non-performance of the Company and the counterparties with whom it has derivative contracts. The Company has established strict counterparty credit guidelines and only enters into transactions with financial institutions that adhere to these guidelines. Accordingly, the risk of counterparty default is deemed to be minimal.

Table of Contents

MOODY S CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(tabular dollar and share amounts in millions, except per share data)

| Derivatives in Cash Flow | Amount of Gain/(Loss) | | Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) | Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) Three Months | | Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion Excluded from Effectiveness Testing) | Gain / (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | |
|--------------------------------|---|-----------------|---|---|-----------|--|--|-----------|
| | Three Months Ended September 30, 2010 2009 | | | Ended September 30, 2010 2009 | | | Three Months Ended September 30, 2010 2009 | |
| FX options | \$ (0.4) | \$ (1.5) | Revenue | \$ (0.2) | \$ 0.7 | Revenue | \$ | \$ |
| Interest rate swaps | (1.1) | (1.4) | Interest expense | (0.7) | (0.7) | N/A | | |
| Total | \$ (1.5) | \$ (2.9) | | \$ (0.9) | \$ | | \$ | \$ |

| | Nine Months Ended September 30, 2010 2009 | | | Nine Months Ended September 30, 2010 2009 | | | Nine Months Ended September 30, 2010 2009 | |
|------------------------|---|-----------------|------------------|--|-----------------|-----|---|-----------------|
| | FX options | \$ 0.1 | | \$ (1.3) | Revenue | | \$ (0.7) | \$ 1.6 |
| Interest rate swaps | (3.6) | (0.5) | Interest expense | (2.3) | (1.8) | N/A | | |
| Total | \$ (3.5) | \$ (1.8) | | \$ (3.0) | \$ (0.2) | | \$ (0.2) | \$ (0.2) |

All gains and losses on derivatives designated as hedging instruments are initially recognized through AOCI. Realized gains and losses reported in AOCI are reclassified into earnings (into revenue for the FX options and into Interest expense, net for the interest rate swaps) as the underlying transaction is recognized. The existing realized gains as of September 30, 2010 expected to be reclassified to earnings in the next twelve months are immaterial.

The cumulative amount of unrecognized hedge losses recorded in AOCI is as follows:

| | Unrecognized Losses, net of tax | |
|---------------------|------------------------------------|----------------------|
| | September 30, 2010 | December 31, 2009 |
| FX options | \$ (0.2) | \$ (1.2) |
| Interest rate swaps | (6.4) | (5.1) |

| | | |
|-------|----------|----------|
| Total | \$ (6.6) | \$ (6.3) |
|-------|----------|----------|

NOTE 8. GOODWILL AND OTHER ACQUIRED INTANGIBLE ASSETS

The following table summarizes the activity in goodwill for the periods indicated:

| | Nine Months Ended September 30, 2010 | | | Year Ended December 31, 2009 | | |
|-----------------------|---|----------|--------------|---------------------------------|----------|--------------|
| | MIS | MA | Consolidated | MIS | MA | Consolidated |
| Beginning balance | \$ 11.1 | \$ 338.1 | \$ 349.2 | \$ 10.6 | \$ 327.4 | \$ 338.0 |
| Additions/adjustments | | | | (0.3) | 5.0 | 4.7 |
| FX translation | 0.2 | 5.8 | 6.0 | 0.8 | 5.7 | 6.5 |
| Ending balance | \$ 11.3 | \$ 343.9 | \$ 355.2 | \$ 11.1 | \$ 338.1 | \$ 349.2 |

The 2009 additions/adjustments for the MA segment in the table above relate primarily to adjustments made to the purchase accounting associated with acquisitions made in December 2008.

Table of Contents

MOODY S CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(tabular dollar and share amounts in millions, except per share data)

Acquired intangible assets and related amortization consisted of:

| | September 30, 2010 | December 31, 2009 |
|---------------------------------------|-----------------------|----------------------|
| Customer lists | \$ 80.4 | \$ 80.6 |
| Accumulated amortization | (47.3) | (42.8) |
| Net customer lists | 33.1 | 37.8 |
| Trade secret | 25.5 | 25.5 |
| Accumulated amortization | (10.3) | (8.7) |
| Net trade secret | 15.2 | 16.8 |
| Software | 54.6 | 55.0 |
| Accumulated amortization | (18.8) | (14.8) |
| Net software | 35.8 | 40.2 |
| Other | 28.2 | 26.8 |
| Accumulated amortization | (19.0) | (16.7) |
| Net other | 9.2 | 10.1 |
| Total acquired intangible assets, net | \$ 93.3 | \$ 104.9 |

Other intangible assets primarily consist of databases, trade names and covenants not to compete.

Amortization expense is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------|-------------------------------------|--------|------------------------------------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| Amortization expense | \$ 4.2 | \$ 4.2 | \$ 12.1 | \$ 12.4 |

Estimated future amortization expense for acquired intangible assets subject to amortization is as follows:

Year Ending December 31,

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| | |
|---------------------------|--------|
| 2010 (after September 30) | \$ 3.8 |
| 2011 | 14.8 |
| 2012 | 14.2 |
| 2013 | 14.0 |
| 2014 | 10.6 |
| Thereafter | 35.9 |

Intangible assets are reviewed for impairment whenever circumstances indicate that the carrying amount may not be recoverable. If the estimated undiscounted future cash flows are lower than the carrying amount of the related asset, a loss is recognized for the difference between the carrying amount and the estimated fair value of the asset. Goodwill is tested for impairment annually as of November 30th, or more frequently if circumstances indicate the assets may be impaired. For the nine months ended September 30, 2010 there were no impairments to goodwill or intangible assets. For the nine months ended September 30, 2009, there were no impairments to goodwill, however \$0.2 million of intangible assets was included in the restructuring charge as further described in Note 9 below.

NOTE 9. RESTRUCTURING

On March 27, 2009, the Company approved the 2009 Restructuring Plan to reduce costs in response to a strategic review of its business in certain jurisdictions and weak global economic and market conditions. The 2009 Restructuring Plan consisted of headcount reductions of approximately 150 positions representing approximately 4% of the Company's workforce at December 31, 2008 as well as contract termination costs and the divestiture of non-strategic assets. The 2009 Restructuring Plan included closing offices in South Bend, Indiana; Jakarta, Indonesia and Taipei, Taiwan. There was \$0.2 million in accelerated amortization for intangible assets recognized in the first quarter of 2009 relating to the closure of the Jakarta, Indonesia office. The remaining liability relating to this charge will result in cash outlays that will be substantially paid out over the next twelve months. The cumulative amount of expense incurred from inception through September 30, 2010 for the 2009 Restructuring Plan was \$14.8 million. The 2009 Restructuring Plan was substantially complete at September 30, 2009.

Table of Contents**MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

(tabular dollar and share amounts in millions, except per share data)

On December 31, 2007, the Company approved the 2007 Restructuring Plan that reduced global headcount by approximately 275 positions, or approximately 7.5% of the workforce at September 30, 2007, in response to the Company's reorganization announced in August 2007 and a decline in the then current and anticipated issuance of rated debt securities in some market sectors. Included in the 2007 Restructuring Plan was a reduction of staff as a result of: (i) consolidation of certain corporate staff functions, (ii) the integration of businesses comprising MA and (iii) an anticipated decline in new securities issuance in some market sectors. The 2007 Restructuring Plan also called for the termination of technology contracts as well as the outsourcing of certain technology functions. The cumulative amount of expense incurred from inception through September 30, 2010 for the 2007 Restructuring Plan was \$50.2 million. The 2007 Restructuring Plan was substantially complete as of December 31, 2008.

Total expenses included in the accompanying consolidated statements of operations are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------|-------------------------------------|---------------|------------------------------------|----------------|
| | 2010 | 2009 | 2010 | 2009 |
| | (in millions) | | | |
| 2007 Restructuring Plan | \$ 0.3 | \$ 0.7 | \$ 0.8 | \$ 1.6 |
| 2009 Restructuring Plan | 0.1 | \$ 3.0 | (0.8) | 17.0 |
| Total | \$ 0.4 | \$ 3.7 | \$ | \$ 18.6 |

The amount related to the 2009 Restructuring Plan for the three months and nine months ended September 30, 2009 reflects costs associated with initial estimates for this plan. All other amounts in the table above reflect adjustments to previous estimates for both plans.

Changes to the restructuring liability during the first nine months of 2010 were as follows:

| | Employee Termination Costs | | | Contract Termination Costs | Total Restructuring Liability |
|--------------------------------------|----------------------------|------------------------|---------------|-------------------------------|-------------------------------------|
| | Severance | Pension Settlements | Total | | |
| Balance at December 31, 2009 | \$ 4.4 | \$ 8.1 | \$ 12.5 | \$ 1.5 | \$ 14.0 |
| <i>2007 Restructuring Plan</i> | | | | | |
| Cost incurred and adjustments | (0.2) | | (0.2) | 0.4 | 0.2 |
| Cash payments | | | | (0.4) | (0.4) |
| <i>2009 Restructuring Plan</i> | | | | | |
| Cost incurred and adjustments | (1.0) | | (1.0) | | (1.0) |
| Cash payments | (3.0) | | (3.0) | (0.4) | (3.4) |
| FX Translation | (0.1) | | (0.1) | | (0.1) |
| Balance at September 30, 2010 | \$ 0.1 | \$ 8.1 | \$ 8.2 | \$ 1.1 | \$ 9.3 |

As of September 30, 2010, the remaining restructuring liability of \$1.2 million relating to severance and contract termination costs is expected to be paid out before the end of 2010. Payments related to the \$8.1 million unfunded pension liability will be paid in accordance with the

Post-Retirement Plans as certain of the affected employees reach retirement age.

Severance and contract termination costs of \$1.2 million and \$5.9 million as of September 30, 2010 and December 31, 2009, respectively, are recorded in accounts payable and accrued liabilities in the Company's consolidated balance sheets. Additionally, the amount for pension settlements is recorded within other liabilities as of September 30, 2010 and December 31, 2009.

NOTE 10. PENSION AND OTHER POST-RETIREMENT BENEFITS

Moody's maintains funded and unfunded noncontributory Defined Benefit Pension Plans primarily for U.S. based employees. The DBPPs provide defined benefits using a cash balance formula based on years of service and career average salary for its U.S. employees or final average pay for selected executives. The Company also provides certain healthcare and life insurance benefits for retired U.S. employees. The post-retirement healthcare plans are contributory with participants' contributions adjusted annually; the life insurance plans are noncontributory. Moody's funded and unfunded pension plans, the post-retirement healthcare plans and the post-retirement life insurance plans are collectively referred to herein as the Post-Retirement Plans.

Effective January 1, 2008, the Company no longer offers DBPPs to U.S. employees hired or rehired on or after January 1, 2008. New U.S. employees will instead receive a retirement contribution of similar benefit value under the Company's Profit Participation Plan. Current participants of the Company's U.S. DBPPs continue to accrue benefits based on existing plan benefit formulas.

Table of Contents

MOODY S CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(tabular dollar and share amounts in millions, except per share data)

The components of net periodic benefit expense related to the Post-Retirement Plans are as follows:

| | Three Months Ended September 30, | | | |
|--|----------------------------------|--------|-----------------------------|--------|
| | Pension Plans | | Other Post-Retirement Plans | |
| | 2010 | 2009 | 2010 | 2009 |
| Components of net periodic expense | | | | |
| Service cost | \$ 3.3 | \$ 3.0 | \$ 0.2 | \$ 0.2 |
| Interest cost | 3.1 | 2.5 | 0.2 | 0.2 |
| Expected return on plan assets | (2.7) | (2.5) | | |
| Amortization of net actuarial loss from earlier periods | 0.7 | 0.1 | | |
| Amortization of net prior service costs from earlier periods | 0.2 | 0.1 | 0.1 | |
| Net periodic expense | \$ 4.6 | \$ 3.2 | \$ 0.5 | \$ 0.4 |

| | Nine Months Ended September 30, | | | |
|--|---------------------------------|--------|-----------------------------|--------|
| | Pension Plans | | Other Post-Retirement Plans | |
| | 2010 | 2009 | 2010 | 2009 |
| Components of net periodic expense | | | | |
| Service cost | \$ 10.1 | \$ 9.1 | \$ 0.6 | \$ 0.6 |
| Interest cost | 9.1 | 7.4 | 0.6 | 0.6 |
| Expected return on plan assets | (8.0) | (7.5) | | |
| Amortization of net actuarial loss from earlier periods | 2.1 | 0.4 | | |
| Amortization of net prior service costs from earlier periods | 0.5 | 0.3 | 0.1 | |
| Net periodic expense | \$ 13.8 | \$ 9.7 | \$ 1.3 | \$ 1.2 |

In March 2010, the Patient Protection and Affordable Care Act (the Act) and the related reconciliation measure, which modifies certain provisions of the Act, were signed into law. The Act repeals the current rule permitting deduction of the portion of the drug coverage expense that is offset by the Medicare Part D subsidy. The provision of the Act is effective for taxable years beginning after December 31, 2010 and the reconciliation measure delays the aforementioned repeal of the drug coverage expense reduction by two years to December 31, 2012. The Company has accounted for the enactment of the two laws in the first quarter of 2010, for which the impact to the Company's income tax expense and net income was immaterial.

The Company made payments of \$1.1 million to its unfunded DBPPs and \$0.3 million to its other post-retirement plans during the nine months ended September 30, 2010. The Company presently anticipates making additional payments of \$7.2 million to its unfunded DBPPs and \$0.3 million to its other post-retirement plans during the remainder of 2010.

Table of Contents

MOODY S CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(tabular dollar and share amounts in millions, except per share data)

NOTE 11. INDEBTEDNESS

The following table summarizes total indebtedness:

| | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| 2007 Facility | \$ | \$ |
| Commercial paper, net of unamortized discount of nil and \$0.1 million at 2010 and 2009, respectively. | 15.0 | 443.7 |
| Notes payable: | | |
| Series 2005-1 Notes due 2015 | 300.0 | 300.0 |
| Series 2007-1 Notes due 2017 | 300.0 | 300.0 |
| 2010 Senior Notes, net of unamortized discount of \$3.1 million at 2010, due 2020 | 496.9 | |
| 2008 Term Loan, various payments through 2013 | 148.1 | 150.0 |
| Total Debt | 1,260.0 | 1,193.7 |
| Current portion | (24.4) | (447.5) |
| Total long-term debt | \$ 1,235.6 | \$ 746.2 |

2007 Facility

On September 28, 2007, the Company entered into a \$1.0 billion five-year senior, unsecured revolving credit facility, expiring in September 2012. The 2007 Facility will serve, in part, to support the Company's CP Program described below. Interest on borrowings is payable at rates that are based on LIBOR plus a premium that can range from 16.0 to 40.0 basis points of the outstanding borrowing amount depending on the Debt/EBITDA ratio. The Company also pays quarterly facility fees, regardless of borrowing activity under the 2007 Facility. The quarterly fees for the 2007 Facility can range from 4.0 to 10.0 basis points per annum of the facility amount, depending on the Company's Debt/EBITDA ratio. The Company also pays a utilization fee of 5.0 basis points on borrowings outstanding when the aggregate amount outstanding exceeds 50% of the total facility. The 2007 Facility contains certain covenants that, among other things, restrict the ability of the Company and certain of its subsidiaries, without the approval of the lenders, to engage in mergers, consolidations, asset sales, transactions with affiliates and sale-leaseback transactions or to incur liens, as defined in the related agreement. The 2007 Facility also contains financial covenants that, among other things, require the Company to maintain a Debt/EBITDA ratio of not more than 4.0 to 1.0 at the end of any fiscal quarter.

Commercial Paper

On October 3, 2007, the Company entered into a private placement commercial paper program under which the Company may issue CP notes up to a maximum amount of \$1.0 billion. Amounts available under the CP Program may be re-borrowed. The CP Program is supported by the Company's 2007 Facility. The maturities of the CP Notes will vary, but may not exceed 397 days from the date of issue. The CP Notes are sold at a discount from par or, alternatively, sold at par and bear interest at rates that will vary based upon market conditions at the time of issuance. The rates of interest will depend on whether the CP Notes will be a fixed or floating rate. The interest on a floating rate may be based on the following: (a) certificate of deposit rate; (b) commercial paper rate; (c) federal funds rate; (d) LIBOR; (e) prime rate; (f) Treasury rate; or (g) such other base rate as may be specified in a supplement to the private placement agreement. The weighted average interest rate on CP

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borrowings outstanding was 0.6% and 0.3% as of September 30, 2010 and December 31, 2009, respectively. The CP Program contains certain events of default including, among other things: non-payment of principal, interest or fees; entrance into any form of moratorium; and bankruptcy and insolvency events, subject in certain instances to cure periods.

Notes Payable

On August 19, 2010, the Company issued \$500 million aggregate principal amount of unsecured notes in a public offering. The 2010 Senior Notes bear interest at a fixed rate of 5.50% and mature on September 1, 2020. Interest on the 2010 Senior Notes will be due semi-annually on September 1 and March 1 of each year, commencing March 1, 2011. The Company may prepay the 2010 Senior Notes, in whole or in part, at any time at a price equal to 100% of the principal amount being prepaid, plus accrued and unpaid interest and a Make-Whole Amount. Additionally, at the option of the holders of the notes, the Company may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event, as defined in the Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The Indenture contains covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur or create liens and enter into sale and leaseback transactions. In addition, the Indenture contains a covenant that limits the ability of the Company to consolidate or merge with another entity or to sell all or substantially all of its assets to another entity. The Indenture contains customary default provisions. In addition, an event of default will occur if the Company or certain of its subsidiaries fail to pay the principal of any indebtedness (as defined in the Indenture) when due at maturity in an aggregate amount of \$50 million or more, or a default occurs that results in the acceleration of the maturity of the Company's or certain of its subsidiaries' indebtedness in an aggregate amount of \$50 million or more. Upon the occurrence and during the continuation of an event of default under the Indenture, the notes may become immediately due and payable either automatically or by the vote of the holders of more than 25% of the aggregate principal amount of all of the notes then outstanding.

Table of Contents**MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****(tabular dollar and share amounts in millions, except per share data)**

On September 7, 2007, the Company issued and sold through a private placement transaction, \$300.0 million aggregate principal amount of its 6.06% Series 2007-1 Senior Unsecured Notes due 2017 pursuant to the 2007 Agreement. The Series 2007-1 Notes have a ten-year term and bear interest at an annual rate of 6.06%, payable semi-annually on March 7 and September 7. Under the terms of the 2007 Agreement, the Company may, from time to time within five years, in its sole discretion, issue additional series of senior notes in an aggregate principal amount of up to \$500.0 million pursuant to one or more supplements to the 2007 Agreement. The Company may prepay the Series 2007-1 Notes, in whole or in part, at any time at a price equal to 100% of the principal amount being prepaid, plus accrued and unpaid interest and a Make Whole Amount. The 2007 Agreement contains covenants that limit the ability of the Company, and certain of its subsidiaries to, among other things: enter into transactions with affiliates, dispose of assets, incur or create liens, enter into any sale-leaseback transactions, or merge with any other corporation or convey, transfer or lease substantially all of its assets. The Company must also not permit its Debt/EBITDA ratio to exceed 4.0 to 1.0 at the end of any fiscal quarter.

On September 30, 2005, the Company issued and sold through a private placement transaction, \$300.0 million aggregate principal amount of its Series 2005-1 Senior Unsecured Notes due 2015 pursuant to the 2005 Agreement. The Series 2005-1 Notes have a ten-year term and bear interest at an annual rate of 4.98%, payable semi-annually on March 30 and September 30. Proceeds from the sale of the Series 2005-1 Notes were used to refinance \$300.0 million aggregate principal amount of the Company's outstanding 7.61% senior notes which matured on September 30, 2005. In the event that Moody's pays all, or part, of the Series 2005-1 Notes in advance of their maturity, such prepayment will be subject to a Make Whole Amount. The Series 2005-1 Notes are subject to certain covenants that, among other things, restrict the ability of the Company and certain of its subsidiaries, without the approval of the lenders, to engage in mergers, consolidations, asset sales, transactions with affiliates and sale-leaseback transactions or to incur liens, as defined in the related agreements.

2008 Term Loan

On May 7, 2008, Moody's entered into a five-year, \$150.0 million senior unsecured term loan with several lenders. Proceeds from the loan were used to pay off a portion of the CP outstanding. Interest on borrowings under the 2008 Term Loan is payable quarterly at rates that are based on LIBOR plus a margin that can range from 125 basis points to 175 basis points depending on the Company's Debt/EBITDA ratio. The outstanding borrowings shall amortize beginning in 2010 in accordance with the schedule of payments set forth in the 2008 Term Loan outlined in the table below.

The 2008 Term Loan contains restrictive covenants that, among other things, restrict the ability of the Company to engage or to permit its subsidiaries to engage in mergers, consolidations, asset sales, transactions with affiliates and sale-leaseback transactions or to incur, or permit its subsidiaries to incur, liens, in each case, subject to certain exceptions and limitations. The 2008 Term Loan also limits the amount of debt that subsidiaries of the Company may incur. In addition, the 2008 Term Loan contains a financial covenant that requires the Company to maintain a Debt/EBITDA ratio of not more than 4.0 to 1.0 at the end of any fiscal quarter.

The principal payments due on the 2008 Term Loan through its maturity are as follows:

| | |
|---------------------------------|-----------------|
| Year Ending December 31, | |
| 2010 (after September 30) | \$ 1.9 |
| 2011 | 11.3 |
| 2012 | 71.2 |
| 2013 | 63.7 |
| Total | \$ 148.1 |

At September 30, 2010, the Company was in compliance with all covenants contained within all of the debt agreements. In addition to the covenants described above, the 2007 Facility, the 2005 Agreement, the 2007 Agreement, the 2010 Senior Notes and the 2008 Term Loan contain cross default provisions. These provisions state that default under one of the aforementioned debt instruments could in turn permit lenders under other debt instruments to declare borrowings outstanding under those instruments to be immediately due and payable. As of September 30, 2010, there were no such cross defaults.

Table of Contents

MOODY S CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(tabular dollar and share amounts in millions, except per share data)

Interest (expense) income, net

The following table summarizes the components of interest as presented in the consolidated statements of operations:

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------|-----------------------|-----------|
| | September 30, 2010 | 2009 | September 30, 2010 | 2009 |
| Expense on borrowings | \$ (14.0) | \$ (10.4) | \$ (35.4) | \$ (34.8) |
| Income | 0.8 | 0.6 | 1.9 | 2.0 |
| Expense on UTBs and other tax related liabilities | (0.2) | (2.4) | (5.3) | 4.3 |
| Capitalized | 0.6 | 0.7 | 1.2 | 1.1 |
| Legacy Tax (a) | | | 2.5 | 6.5 |
| Total interest expense, net | \$ (12.8) | \$ (11.5) | \$ (35.1) | \$ (20.9) |

(a) The amounts in both years represent interest income related to the favorable settlement of Legacy Tax Matters, as further discussed in Note 12 below.

Net interest expense of \$20.9 million for the first nine months of 2009 reflects a reduction of approximately \$12 million related to tax and tax-related liabilities.

The Company's long-term debt, including the current portion, is recorded at cost. The fair value and carrying value of the Company's long-term debt as of September 30, 2010 and December 31, 2009 is as follows:

| | September 30, 2010 | | December 31, 2009 | |
|---------------------|--------------------|----------------------------|--------------------|----------------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Series 2005-1 Notes | \$ 300.0 | \$ 314.4 | \$ 300.0 | \$ 291.1 |
| Series 2007-1 Notes | 300.0 | 327.8 | 300.0 | 298.6 |
| 2010 Senior Notes | 496.9 | 515.0 | | |
| 2008 Term Loan | 148.1 | 148.1 | 150.0 | 150.0 |
| Total | \$ 1,245.0 | \$ 1,305.3 | \$ 750.0 | \$ 739.7 |

The fair value of the Company's 2010 Senior Notes is based on quoted market prices. The fair value of the remaining long-term debt, which is not publicly traded, is estimated using discounted cash flows based on prevailing interest rates available to the Company for borrowings with similar maturities.

NOTE 12. CONTINGENCIES

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From time to time, Moody's is involved in legal and tax proceedings, governmental investigations, claims and litigation that are incidental to the Company's business, including claims based on ratings assigned by MIS. Moody's is also subject to ongoing tax audits in the normal course of business. Management periodically assesses the Company's liabilities and contingencies in connection with these matters based upon the latest information available. Moody's discloses material pending legal proceedings pursuant to SEC rules and other pending matters as it may determine to be appropriate.

Following the events in the U.S. subprime residential mortgage sector and the credit markets more broadly over the last several years, MIS and other credit rating agencies are the subject of intense scrutiny, increased regulation, ongoing investigation, and civil litigation. Legislative, regulatory and enforcement entities around the world are considering additional legislation, regulation and enforcement actions, including with respect to MIS's compliance with newly imposed regulatory standards. Moody's has received subpoenas and inquiries from states attorneys general and other governmental authorities and is responding to such investigations and inquiries.

On July 1, 2008, Moody's publicly announced the results of the Company's investigation into the issues raised in a May 21, 2008 report by a newspaper concerning a coding error in a model used in the rating process for certain constant-proportion debt obligations. The Company's investigation determined that, in April 2007, members of a European rating surveillance committee engaged in conduct contrary to Moody's Code of Professional Conduct. On March 18, 2010, MIS received a Wells Notice from the Staff of the SEC stating that the Staff was considering recommending that the SEC institute administrative and cease-and-desist proceedings against MIS in connection with MIS's initial June 2007 application on SEC Form NRSRO to register as a nationally recognized statistical rating organization under the CRA Reform Act of 2006. The SEC Staff subsequently informed the Company that the Staff's investigation of the matter had been completed, that a Report of Investigation Pursuant to Section 21(a) of the Exchange Act would be issued and that no enforcement action would be taken by the SEC.

In addition, the Company is facing litigation from market participants relating to the performance of MIS rated securities. Although Moody's in the normal course experiences such litigation, the volume and cost of defending such litigation has significantly increased in the current economic environment.

On June 27, 2008, the Brockton Contributory Retirement System, a purported shareholder of the Company's securities, filed a purported shareholder derivative complaint on behalf of the Company against its directors and certain senior officers, and the Company as nominal defendant, in the Supreme Court of the State of New York, County of New York. The plaintiff asserts various causes of action relating to the named defendants' oversight of MIS's ratings of RMBS and constant-proportion debt obligations, and their participation in the alleged public dissemination of false and misleading information about MIS's ratings practices and/or a failure to implement internal procedures and controls to prevent the alleged wrongdoing. The plaintiff seeks compensatory damages, restitution, disgorgement of profits and other equitable relief. On July 2, 2008, Thomas R. Flynn, a purported shareholder of the Company's securities, filed a similar purported shareholder derivative complaint on behalf of the Company against its directors and certain senior officers, and the Company as nominal defendant, in the Supreme Court of the State of New York, County of New York, asserting similar claims and seeking the same relief. The cases have been consolidated.

Table of Contents**MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****(tabular dollar and share amounts in millions, except per share data)**

and plaintiffs filed an amended consolidated complaint in November 2008. The Company removed the consolidated action to the United States District Court for the Southern District of New York in December 2008. In January 2009, the plaintiffs moved to remand the case to the Supreme Court of the State of New York, which the Company opposed. On February 23, 2010, the court issued an opinion remanding the case to the Supreme Court of New York. On October 30, 2008, the Louisiana Municipal Police Employees Retirement System, a purported shareholder of the Company's securities, also filed a shareholder derivative complaint on behalf of the Company against its directors and certain officers, and the Company as a nominal defendant, in the U.S. District Court for the Southern District of New York. This complaint also asserts various causes of action relating to the Company's ratings of RMBS, CDO and constant-proportion debt obligations, and named defendants participation in the alleged public dissemination of false and misleading information about MIS's ratings practices and/or a failure to implement internal procedures and controls to prevent the alleged wrongdoing. On December 9, 2008, Rena Nadoff, a purported shareholder of the Company, filed a shareholder derivative complaint on behalf of the Company against its directors and its CEO, and the Company as a nominal defendant, in the Supreme Court of the State of New York. The complaint asserts a claim for breach of fiduciary duty in connection with alleged overrating of asset-backed securities and underrating of municipal securities. On October 20, 2009, the Company moved to dismiss or stay the action in favor of related federal litigation. On January 26, 2010, the court entered a stipulation and order, submitted jointly by the parties, staying the Nadoff litigation pending coordination and prosecution of similar claims in the above and below described federal derivative actions. On July 6, 2009, W. A. Sokolowski, a purported shareholder of the Company, filed a purported shareholder derivative complaint on behalf of the Company against its directors and current and former officers, and the Company as a nominal defendant, in the United States District Court for the Southern District of New York. The complaint asserts claims relating to alleged mismanagement of the Company's processes for rating structured finance transactions, alleged insider trading and causing the Company to buy back its own stock at artificially inflated prices.

Two purported class action complaints have been filed by purported purchasers of the Company's securities against the Company and certain of its senior officers, asserting claims under the federal securities laws. The first was filed by Raphael Nach in the U.S. District Court for the Northern District of Illinois on July 19, 2007. The second was filed by Teamsters Local 282 Pension Trust Fund in the U.S. District Court for the Southern District of New York on September 26, 2007. Both actions have been consolidated into a single proceeding entitled *In re Moody's Corporation Securities Litigation* in the U.S. District Court for the Southern District of New York. On June 27, 2008, a consolidated amended complaint was filed, purportedly on behalf of all purchasers of the Company's securities during the period February 3, 2006 through October 24, 2007. Plaintiffs allege that the defendants issued false and/or misleading statements concerning the Company's business conduct, business prospects, business conditions and financial results relating primarily to MIS's ratings of structured finance products including RMBS, CDO and constant-proportion debt obligations. The plaintiffs seek an unspecified amount of compensatory damages and their reasonable costs and expenses incurred in connection with the case. The Company moved for dismissal of the consolidated amended complaint in September 2008. On February 23, 2009, the court issued an opinion dismissing certain claims and sustaining others.

Moody's Wall Street Analytics unit is cooperating with an investigation by the SEC concerning services provided by that unit to certain financial institutions in connection with the valuations used by those institutions with respect to certain financial instruments held by such institutions.

For claims, litigation and proceedings not related to income taxes, where it is both probable that a liability is expected to be incurred and the amount of loss can be reasonably estimated, the Company records liabilities in the consolidated financial statements and periodically adjusts these as appropriate. In other instances, because of uncertainties related to the probable outcome and/or the amount or range of loss, management does not record a liability but discloses the contingency if significant. As additional information becomes available, the Company adjusts its assessments and estimates of such matters accordingly. For income tax matters, the Company employs the prescribed methodology of Topic 740 of the ASC which requires a company to first determine whether it is more-likely-than-not (defined as a likelihood of more than fifty percent) that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more-likely-than-not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority.

The Company cannot predict the ultimate impact that any of the legislative, regulatory, enforcement or litigation matters may have on how its business is conducted and thus its competitive position, financial position or results of operations. Based on its review of the latest information available, in the opinion of management, the ultimate monetary liability of the Company for the pending matters referred to above (other than the Legacy Tax Matters that are discussed below) is not likely to have a material adverse effect on the Company's consolidated financial position, although it is possible that the effect could be material to the Company's consolidated results of operations for an individual reporting period.

Legacy Tax Matters

Moody's continues to have exposure to potential liabilities arising from Legacy Tax Matters. As of September 30, 2010, Moody's has recorded liabilities for Legacy Tax Matters totaling \$58.1 million. This includes liabilities and accrued interest due to New D&B arising from the 2000 Distribution Agreement. It is possible that the ultimate liability for Legacy Tax Matters could be greater than the liabilities recorded by the Company, which could result in additional charges that may be material to Moody's future reported results, financial position and cash flows.

The following summary of the relationships among Moody's, New D&B and their predecessor entities is important in understanding the Company's exposure to the Legacy Tax Matters.

Table of Contents**MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****(tabular dollar and share amounts in millions, except per share data)**

In November 1996, The Dun & Bradstreet Corporation separated into three separate public companies: The Dun & Bradstreet Corporation, ACNielsen Corporation and Cognizant Corporation. In June 1998, The Dun & Bradstreet Corporation separated into two separate public companies: Old D&B and R.H. Donnelley Corporation. During 1998, Cognizant separated into two separate public companies: IMS Health Incorporated and Nielsen Media Research, Inc. In September 2000, Old D&B separated into two separate public companies: New D&B and Moody s.

Old D&B and its predecessors entered into global tax planning initiatives in the normal course of business. These initiatives are subject to normal review by tax authorities. Old D&B and its predecessors also entered into a series of agreements covering the sharing of any liabilities for payment of taxes, penalties and interest resulting from unfavorable IRS determinations on certain tax matters, and certain other potential tax liabilities, all as described in such agreements. Further, in connection with the 2000 Distribution and pursuant to the terms of the 2000 Distribution Agreement, New D&B and Moody s have agreed on the financial responsibility for any potential liabilities related to these Legacy Tax Matters.

Settlement agreements were executed with the IRS in 2005 regarding the Legacy Tax Matters for the years 1989-1990 and 1993-1996. These settlements represent substantially all of the total potential liability to the IRS, including penalties. As of September 30, 2010, the Company continues to carry a liability of \$2.0 million for the remaining potential exposure. In addition, with respect to these settlement agreements, Moody s and New D&B believe that IMS Health and NMR did not pay their full share of the liability to the IRS pursuant to the terms of the applicable separation agreements among the parties. Moody s and New D&B paid these amounts to the IRS on their behalf, and attempted to resolve this dispute with IMS Health and NMR. As a result, Moody s and New D&B commenced arbitration proceedings against IMS Health and NMR in connection with the 1989-1990 matter. This matter was resolved during the third quarter of 2008 in favor of Moody s and New D&B, resulting in IMS Health and NMR having paid a total of \$6.7 million to Moody s. In the second quarter of 2009, Moody s and New D&B reached a settlement with IMS Health and NMR with respect to the 1993-1996 matter, resulting in \$10.8 million of cash proceeds paid to Moody s of which \$6.5 million represents interest and \$4.3 million is a reduction of tax expense.

Amortization Expense Deductions

This Legacy Tax Matter, which was affected by developments in June 2007 and 2008 as further described below, involves a partnership transaction which resulted in amortization expense deductions on the tax returns of Old D&B since 1997. IRS audits of Old D&B s and New D&B s tax returns for the years 1997 through 2002 concluded in June 2007 without any disallowance of the amortization expense deductions, or any other adjustments to income related to this partnership transaction. These audits resulted in the IRS issuing the Notices for other tax issues for the 1997-2000 years aggregating \$9.5 million in tax and penalties, plus statutory interest of approximately \$6 million, which should be apportioned among Moody s, New D&B, IMS Health and NMR pursuant to the terms of the applicable separation agreements. Moody s share of this assessment was \$6.6 million including interest, net of tax. In November 2007, the IRS assessed the tax and penalties and used a portion of the deposit discussed below to satisfy the assessment, together with interest. As noted below, the Company has challenged the IRS s actions and recovered a portion of these amounts. The absence of any tax deficiencies in the Notices for the amortization expense deductions for the years 1997 through 2002, combined with the expiration of the statute of limitations for 1997 through 2002, for issues not assessed, resulted in Moody s recording an earnings benefit of \$52.3 million in the second quarter of 2007. This is comprised of two components, as follows: (i) a reversal of a tax liability of \$27.3 million related to the period from 1997 through the Distribution Date, reducing the provision for income taxes; and (ii) a reduction of accrued interest expense of \$17.5 million (\$10.6 million, net of tax) and an increase in other non-operating income of \$14.4 million, relating to amounts due to New D&B. In June 2008, the statute of limitations for New D&B relating to the 2003 tax year expired. As a result, in the second quarter of 2008, Moody s recorded a reduction of accrued interest expense of \$2.3 million (\$1.4 million, net of tax) and an increase in other non-operating income of \$6.4 million, relating to amounts due to New D&B.

On the Distribution Date, New D&B paid Moody s \$55.0 million for 50% of certain anticipated future tax benefits of New D&B through 2012. It is possible that IRS audits of New D&B for tax years after 2003 could result in income adjustments with respect to the amortization expense deductions of this partnership transaction. In the event that these tax benefits are not claimed or otherwise not realized by New D&B, or there is

an audit adjustment, Moody's would be required, pursuant to the terms of the 2000 Distribution Agreement, to repay to New D&B an amount equal to the discounted value of its share of the related future tax benefits and its share of any tax liability that New D&B incurs. As of September 30, 2010, Moody's liability with respect to this matter totaled \$56.2 million.

In March 2006, New D&B and Moody's each deposited \$39.8 million with the IRS in order to stop the accrual of statutory interest on potential tax deficiencies with respect to the 1997 through 2002 tax years. In July 2007, New D&B and Moody's commenced procedures to recover approximately \$57 million of these deposits (\$24.6 million for New D&B and \$31.9 million for Moody's), which represents the excess of the original deposits over the total of the deficiencies asserted in the Notices. As noted above, in November 2007 the IRS used a portion of Moody's share of the deposit to satisfy an assessment and related interest; it subsequently returned the balance of the deposit with interest. The Company has pursued a refund of a portion of the outstanding amount. In May 2010, the IRS refunded \$5.2 million to the Company for the 1997 tax year, which included interest of approximately \$2.5 million.

Table of Contents

MOODY S CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(tabular dollar and share amounts in millions, except per share data)

NOTE 13. COMPREHENSIVE INCOME AND NONCONTROLLING INTERESTS

The components of total comprehensive income, net of tax, are as follows:

| | Three months ended September 30, | | | | | |
|---|--|-----------------------------|-----------------|--|-----------------------------|-----------------|
| | 2010 | | | 2009 | | |
| | Shareholders of Moody s Corporation | Noncontrolling Interests | Total | Shareholders of Moody s Corporation | Noncontrolling Interests | Total |
| Net income | \$ 136.0 | \$ 1.2 | \$ 137.2 | \$ 100.6 | \$ 1.1 | \$ 101.7 |
| Net realized and unrealized gain/(loss) on cash flow hedges (net of tax of \$0.1 million and \$0.7 million in 2010 and 2009, respectively) | (0.6) | | (0.6) | (2.9) | | (2.9) |
| FX translation (net of tax of \$1.7 million and \$1.0 million in 2010 and 2009, respectively) | 58.8 | 0.7 | 59.5 | 13.2 | 0.5 | 13.7 |
| Amortization and recognition of actuarial losses and prior service costs (net of tax of \$0.4 million and \$0.1 million in 2010 and 2009, respectively) | 0.5 | | 0.5 | 0.1 | | 0.1 |
| Total comprehensive income | \$ 194.7 | \$ 1.9 | \$ 196.6 | \$ 111.0 | \$ 1.6 | \$ 112.6 |

| | Nine months ended September 30, | | | | | |
|---|--|-----------------------------|-----------------|--|-----------------------------|-----------------|
| | 2010 | | | 2009 | | |
| | Shareholders of Moody s Corporation | Noncontrolling Interests | Total | Shareholders of Moody s Corporation | Noncontrolling Interests | Total |
| Net income | \$ 370.4 | \$ 4.1 | \$ 374.5 | \$ 300.1 | \$ 3.7 | \$ 303.8 |
| Net realized and unrealized gain/ (loss) on cash flow hedges (net of tax of \$0.1 million and \$3.4 million in 2010 and 2009, respectively) | (0.3) | | (0.3) | (1.4) | | (1.4) |
| FX translation (net of tax of \$10.3 million and \$10.7 million in 2010 and 2009, respectively) | 11.5 | 0.3 | 11.8 | 30.5 | 0.3 | 30.8 |
| Net actuarial gains and prior service costs (net of tax of \$2.9 million and \$2.1 million in 2010 and 2009, respectively) | 4.1 | | 4.1 | 3.1 | | 3.1 |
| Amortization and recognition of actuarial losses and prior service costs (net of tax of \$1.4 million and \$0.3 million in 2010 and 2009, respectively) | 1.3 | | 1.3 | 0.4 | | 0.4 |
| Total comprehensive income | \$ 387.0 | \$ 4.4 | \$ 391.4 | \$ 332.7 | \$ 4.0 | \$ 336.7 |

Table of Contents**MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

(tabular dollar and share amounts in millions, except per share data)

The following table summarizes the activity in the Company's noncontrolling interests:

| | Nine Months ended September 30, | |
|---|------------------------------------|--------|
| | 2010 | 2009 |
| Beginning Balance | \$ 10.1 | \$ 8.3 |
| Net income attributable to noncontrolling interests | 4.1 | 3.7 |
| Dividends declared to noncontrolling interests | (4.4) | (2.9) |
| FX translation | 0.3 | 0.3 |
| Ending Balance | \$ 10.1 | \$ 9.4 |

NOTE 14. SEGMENT INFORMATION

The Company operates in two reportable segments: MIS and MA.

Revenue for MIS and expenses for MA include an intersegment royalty charged to MA for the rights to use and distribute content, data and products developed by MIS. Additionally, overhead costs and corporate expenses of the Company are allocated to each segment based on a revenue-split methodology. Overhead expenses include costs such as rent and occupancy, information technology and support staff such as finance, human resource, information technology and legal. Eliminations in the table below represent intersegment royalty revenue/expense.

Below is financial information by segment, MIS and MA revenue by line of business and consolidated revenue information by geographic area, each of which is for the three and nine month periods ended September 30, 2010, and total assets by segment as of September 30, 2010 and December 31, 2009.

Financial Information by Segment

| | 2010 | | | | 2009 | | | |
|-------------------------------|----------|----------|--------------|--------------|----------|----------|--------------|--------------|
| | MIS | MA | Eliminations | Consolidated | MIS | MA | Eliminations | Consolidated |
| Revenue | \$ 373.7 | \$ 155.1 | \$ (15.5) | \$ 513.3 | \$ 319.8 | \$ 146.5 | \$ (14.5) | \$ 451.8 |
| Expenses: | | | | | | | | |
| Operating, SG&A | 205.0 | 116.4 | (15.5) | 305.9 | 173.7 | 100.2 | (14.5) | 259.4 |
| Restructuring | 0.2 | 0.2 | | 0.4 | 1.0 | 2.7 | | 3.7 |
| Depreciation and amortization | 9.7 | 8.4 | | 18.1 | 7.9 | 8.3 | | 16.2 |
| Total | 214.9 | 125.0 | (15.5) | 324.4 | 182.6 | 111.2 | (14.5) | 279.3 |
| Operating income | \$ 158.8 | \$ 30.1 | \$ | \$ 188.9 | \$ 137.2 | \$ 35.3 | \$ | \$ 172.5 |

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| | Nine Months Ended September 30, | | | | | | | |
|-------------------------------|---------------------------------|----------|--------------|--------------|----------|----------|--------------|--------------|
| | 2010 | | 2009 | | 2010 | | 2009 | |
| | MIS | MA | Eliminations | Consolidated | MIS | MA | Eliminations | Consolidated |
| Revenue | \$ 1,068.6 | \$ 445.4 | \$ (46.3) | \$ 1,467.7 | \$ 929.4 | \$ 425.6 | \$ (43.6) | \$ 1,311.4 |
| Expenses: | | | | | | | | |
| Operating, SG&A | 562.1 | 326.6 | (46.3) | 842.4 | 489.5 | 290.8 | (43.6) | 736.7 |
| Restructuring | (0.1) | 0.1 | | | 9.1 | 9.5 | | 18.6 |
| Depreciation and amortization | 25.3 | 23.8 | | 49.1 | 23.1 | 24.4 | | 47.5 |
| Total | 587.3 | 350.5 | (46.3) | 891.5 | 521.7 | 324.7 | (43.6) | 802.8 |
| Operating income | \$ 481.3 | \$ 94.9 | \$ | \$ 576.2 | \$ 407.7 | \$ 100.9 | \$ | \$ 508.6 |

The cumulative restructuring charges incurred since the fourth quarter of 2007 through September 30, 2010 for both restructuring plans, which is further described in Note 9 above, are \$48.7 million and \$16.3 million for the MIS and MA operating segments, respectively.

In the fourth quarter of 2009, the MA businesses were realigned and renamed to reflect the reporting unit structure for the MA segment at December 31, 2009. Pursuant to this realignment, the subscriptions business was renamed RD&A and the software business was renamed RMS. The revised groupings classify certain subscription-based risk management software revenue and advisory services relating to software sales to the redefined RMS business.

Table of Contents**MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

(tabular dollar and share amounts in millions, except per share data)

The tables below present revenue by LOB by segment and reflect the aforementioned MA business realignment:

MIS and MA Revenue by Line of Business

The table below presents revenue by LOB within each reportable segment:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-----------------|---------------------------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 |
| MIS: | | | | |
| Corporate finance (CFG) | \$ 144.9 | \$ 101.4 | \$ 399.2 | \$ 293.0 |
| Structured finance (SFG) | 70.1 | 79.2 | 214.7 | 226.2 |
| Financial institutions (FIG) | 73.6 | 62.9 | 213.0 | 186.5 |
| Public, project and infrastructure finance (PPIF) | 69.6 | 61.8 | 195.4 | 180.1 |
| Total external revenue | 358.2 | 305.3 | 1,022.3 | 885.8 |
| Intersegment royalty | 15.5 | 14.5 | 46.3 | 43.6 |
| Total MIS | 373.7 | 319.8 | 1,068.6 | 929.4 |
| MA: | | | | |
| Research, data and analytics (RD&A) | 106.0 | 103.4 | 315.8 | 307.7 |
| Risk management software (RMS) | 42.8 | 36.8 | 115.3 | 102.8 |
| Professional Services | 6.3 | 6.3 | 14.3 | 15.1 |
| Total MA | 155.1 | 146.5 | 445.4 | 425.6 |
| Eliminations | (15.5) | (14.5) | (46.3) | (43.6) |
| Total MCO | \$ 513.3 | \$ 451.8 | \$ 1,467.7 | \$ 1,311.4 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------|----------------------------------|--------------|---------------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| United States | \$ 278.3 | \$ 229.7 | \$ 794.4 | \$ 675.7 |
| International: | | | | |
| EMEA | 155.5 | 156.7 | 453.9 | 453.3 |
| Other | 79.5 | 65.4 | 219.4 | 182.4 |
| Total International | 235.0 | 222.1 | 673.3 | 635.7 |

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Total \$ 513.3 \$ 451.8 \$ 1,467.7 \$ 1,311.4

| | September 30, 2010 | | | | December 31, 2009 | | | |
|---------------------------------|--------------------|-------|----------------------|--------------|-------------------|-------|----------------------|--------------|
| | MIS | MA | Corporate Assets (a) | Consolidated | MIS | MA | Corporate Assets (a) | Consolidated |
| Total Assets by Segment: | | | | | | | | |
| Total Assets | \$ 594.7 | 783.4 | 970.1 | \$ 2,348.2 | \$ 579.4 | 724.9 | 699.0 | \$ 2,003.3 |

(a) Represents common assets that are shared between each segment or utilized by the corporate entity. Such assets primarily include cash and cash equivalents, short-term investments, unallocated property and equipment and deferred taxes.

Table of Contents

MOODY S CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(tabular dollar and share amounts in millions, except per share data)

NOTE 15. RECENTLY ISSUED ACCOUNTING STANDARDS

Adopted:

In June 2009, the FASB issued a new accounting standard related to the consolidation of variable interest entities. This new standard eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This new standard also requires enhanced disclosures regarding an enterprise's involvement in variable interest entities. The Company has adopted this new accounting standard as of January 1, 2010 and the implementation did not impact its consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements (ASU 2009-13). The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence of selling price (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. The Company has elected to early adopt ASU 2009-13 on a prospective basis for applicable transactions originating or materially modified on or after January 1, 2010. The early adoption of this ASU did not have a material impact on the Company's consolidated financial statements. Further information on the early adoption of this standard is set forth in Note 2 to the condensed consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements. The new standard requires disclosure regarding transfers in and out of Level 1 and Level 2 classifications within the fair value hierarchy as well as requiring further detail of activity within the Level 3 category of the fair value hierarchy. The new standard also requires disclosures regarding the fair value for each class of assets and liabilities, which is a subset of assets or liabilities within a line item in a company's balance sheet. Additionally, the standard will require further disclosures surrounding inputs and valuation techniques used in fair value measurements. The new disclosures and clarifications of existing disclosures set forth in this ASU are effective for interim and annual reporting periods beginning after December 15, 2009, except for the additional disclosures regarding Level 3 fair value measurements, for which the effective date is for fiscal years and interim periods within those years beginning after December 15, 2010. The Company has partially adopted the provisions of this ASU as of January 1, 2010 for all new disclosure requirements except for the aforementioned requirements regarding Level 3 fair-value measurements, for which the Company will adopt that portion of the ASU on January 1, 2011. The portion of this ASU that was adopted on January 1, 2010 did not have a material impact on the Company's consolidated financial statements. The Company does not expect the implementation of the portion of this ASU that relates to Level 3 fair value measurements to have a material impact on its consolidated financial statements.

NOTE 16. SUBSEQUENT EVENT

On October 26, 2010, the Board approved the declaration of a quarterly dividend of \$0.105 per share of Moody's common stock, payable on December 10, 2010 to shareholders of record at the close of business on November 20, 2010.

Table of Contents

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis of financial condition and results of operations should be read in conjunction with the Moody's Corporation condensed consolidated financial statements and notes thereto included elsewhere in this quarterly report on Form 10-Q.

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains Forward-Looking Statements. See Forward-Looking Statements commencing on page 55 for a discussion of uncertainties, risks and other factors associated with these statements.

The Company

Moody's is a provider of (i) credit ratings, (ii) credit and economic related research, data and analytical tools, (iii) risk management software and (iv) quantitative credit risk measures, credit portfolio management solutions and training services. Moody's operates in two reportable segments: MIS and MA.

MIS, the credit rating agency, publishes credit ratings on a wide range of debt obligations and the entities that issue such obligations in markets worldwide. Revenue is derived from the originators and issuers of such transactions who use MIS ratings in the distribution of their debt issues to investors.

The MA segment develops a wide range of products and services that support the risk management activities of institutional participants in global financial markets. Within its RD&A business, MA distributes investor-oriented research and data developed by MIS as part of its ratings process, including in-depth research on major debt issuers, industry studies and commentary on topical credit related events. The RD&A business also produces and provides economic research and credit data and analytical tools such as quantitative credit risk scores. Within its RMS business, MA provides both economic and regulatory capital risk management software solutions. Within its professional services business it provides quantitative credit risk measures, credit portfolio management solutions and training services.

Critical Accounting Estimates

Moody's discussion and analysis of its financial condition and results of operations are based on the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Moody's to make estimates and judgments that affect reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the dates of the financial statements and revenue and expenses during the reporting periods. These estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, Moody's evaluates its estimates, including those related to revenue recognition, accounts receivable allowances, contingencies, restructuring, goodwill and acquired intangible assets, pension and other post-retirement benefits, stock-based compensation, and income taxes. Actual results may differ from these estimates under different assumptions or conditions. Item 7, MD&A, in the Company's annual report on Form 10-K for the year ended December 31, 2009, includes descriptions of some of the judgments that Moody's makes in applying its accounting estimates in these areas. Since the date of the annual report on Form 10-K, the Company has updated its accounting policy regarding revenue recognition pursuant to the early adoption of accounting guidance concerning revenue arrangements with multiple deliverables. A discussion of the Company's new accounting policy and related management estimates underlying the policy follows:

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or the services have been provided and accepted by the customer when applicable, fees are determinable and the collection of resulting receivables is considered probable.

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements (ASU 2009-13). The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration based on the relative selling price of each deliverable. The Company has elected to early adopt ASU 2009-13 on a prospective basis for applicable transactions originating or materially modified on or after January 1, 2010. If applied in the same manner to the year ended December 31, 2009, ASU 2009-13 would not have had a material impact on net revenue reported for both its MIS and MA segments in terms of the timing and pattern of revenue recognition. The adoption of ASU 2009-13 did not have a significant effect on the Company's net revenue in the period of adoption and is also not expected to have a significant effect on the Company's net revenue in periods after the initial adoption when applied to multiple element arrangements based on the currently anticipated business volume and pricing.

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For 2010 and future periods, pursuant to the guidance of ASU 2009-13, when a sales arrangement contains multiple deliverables, the Company allocates revenue to each deliverable based on its relative selling price which is determined based on its vendor specific objective evidence (VSOE) if available, third party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available.

Table of Contents

The Company's products and services will generally continue to qualify as separate units of accounting under ASU 2009-13. The Company evaluates each deliverable in an arrangement to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has stand-alone value to the customers and if the arrangement includes a customer refund or return right relative to the delivered item, the delivery and performance of the undelivered item is considered probable and substantially in the Company's control. In instances where the aforementioned criteria are not met, the deliverable is combined with the undelivered items and revenue recognition is determined as one single unit.

The Company determines whether its selling price in a multi-element transaction meets the VSOE criteria by using the price charged for a deliverable when sold separately. In instances where the Company is not able to establish VSOE for all deliverables in a multiple element arrangement, which may be due to the Company infrequently selling each element separately, not selling products within a reasonably narrow price range, or only having a limited sales history, the Company attempts to establish TPE for deliverables. The Company determines whether TPE exists by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. However, due to the difficulty in obtaining third party pricing, possible differences in its market strategy from that of its peers and the potential that products and services offered by the Company may contain a significant level of differentiation and/or customization such that the comparable pricing of products with similar functionality cannot be obtained, the Company generally is unable to reliably determine TPE. Based on the selling price hierarchy established by ASU 2009-13, when the Company is unable to establish selling price using VSOE or TPE, the Company will establish an ESP. ESP is the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. The Company establishes its best estimate of ESP considering internal factors relevant to its pricing practices such as costs and margin objectives, standalone sales prices of similar products, percentage of the fee charged for a primary product or service relative to a related product or service, and customer segment and geography. Additional consideration is also given to market conditions such as competitor pricing strategies and market trend. The Company reviews its determination of VSOE, TPE and ESP on an annual basis or more frequently as needed.

In the MIS segment, revenue attributed to initial ratings of issued securities is recognized when the rating is issued. Revenue attributed to monitoring of issuers or issued securities is recognized ratably over the period in which the monitoring is performed, generally one year. In the case of commercial mortgage-backed securities, derivatives, international residential mortgage-backed and asset-backed securities, issuers can elect to pay the monitoring fees upfront. These fees are deferred and recognized over the future monitoring periods based on the expected lives of the rated securities.

Multiple element revenue arrangements in the MIS segment are generally comprised of an initial rating and the related monitoring service. Beginning January 1, 2010, in instances where monitoring fees are not charged for the first year monitoring effort, fees are allocated to the initial rating and monitoring services based on the relative selling price of each service to the total arrangement fees. The Company generally uses ESP in determining the selling price for its initial ratings as the Company rarely sells initial ratings separately without providing related monitoring services and thus is unable to establish VSOE or TPE for initial ratings. Prior to January 1, 2010 and pursuant to the previous accounting standards, for these types of arrangements the initial rating fee was first allocated to the monitoring service determined based on the estimated fair market value of monitoring services, with the residual amount allocated to the initial rating. Under ASU 2009-13 this practice can no longer be used for non-software deliverables upon the adoption of ASU 2009-13.

In the MA segment, products and services offered by the Company include software licenses and related maintenance, subscriptions, and professional services. Revenue from subscription based products, such as research and data subscriptions and certain software-based credit risk management subscription products, is recognized ratably over the related subscription period, which is principally one year. Revenue from sale of perpetual licenses of credit processing software is generally recognized at the time the product master or first copy is delivered or transferred to and accepted by the customer. Software maintenance revenue is recognized ratably over the annual maintenance period. Revenue from services rendered within the professional services line of business is generally recognized as the services are performed. If uncertainty exists regarding customer acceptance of the product or service, revenue is not recognized until acceptance occurs.

Products and services offered within the MA segment are sold either stand-alone or together in various combinations. In instances where a multiple element arrangement includes software and non-software deliverables, revenue is allocated to the non-software deliverables and to the software deliverables, as a group, using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. Revenue is recognized for each element based upon the conditions for revenue recognition noted above.

If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is allocated to each software deliverable using VSOE. In the instances where the Company is not able to determine VSOE for all of the deliverables of an arrangement, the Company allocates the revenue to the undelivered elements equal to its VSOE and the residual revenue to the delivered elements. If the Company is unable to determine VSOE for an undelivered element, the Company defers all revenue allocated to the software deliverables until the Company has delivered all of the elements or when VSOE has been determined for the undelivered elements.

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Prior to January 1, 2010 and pursuant to the previous accounting standards, the Company allocated revenue in a multiple element arrangement to each deliverable based on its relative fair value, or for software elements, based on VSOE. If the fair value was not available for an undelivered element, the revenue for the entire arrangement was deferred.

Table of Contents

Excluding the change in the revenue recognition policy and the related management estimates discussed above, there have been no material changes to the Company's critical accounting estimates from those discussed in Item 7, MD&A in the Company's annual report on Form 10-K for the year ended December 31, 2009.

Operating Segments

The Company reports in two reportable segments: MIS and MA. The MIS segment is comprised of all of the Company's ratings activities. All of Moody's other non-rating commercial activities are included in the MA segment.

The MIS segment consists of four lines of business—structured finance, corporate finance, financial institutions and public, project and infrastructure finance—that generate revenue principally from fees for the assignment and monitoring of credit ratings on debt obligations and the entities that issue such obligations in markets worldwide.

The MA segment consists of three lines of business—RD&A, RMS and professional services—that develop a wide range of products and services that support the risk management activities of institutional participants in global financial markets. Within its Research, Data and Analytics business, MA distributes investor-oriented research and data developed by MIS as part of its ratings process, including in-depth research on major debt issuers, industry studies and commentary on topical credit related events. RD&A also produces and provides economic research and credit data and analytical tools such as quantitative credit risk scores. Within its Risk Management Software business, MA provides both economic and regulatory capital risk management software and implementation services. Within its professional services business it provides quantitative credit risk measures, credit portfolio management solutions and training services.

In the fourth quarter of 2009, the MA businesses were realigned and renamed to reflect the reporting unit structure for the MA segment at December 31, 2009. Pursuant to this realignment the subscriptions business was renamed RD&A and the software business was renamed RMS. The revised groupings classify license software sales, certain subscription-based risk management software revenue, maintenance and advisory services relating to software sales to the redefined RMS business. The following tables are reconciliations of the revenue groupings previously disclosed to the new groupings for the three and nine months ended September 30, 2009:

| | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2009 |
|--|--|---|
| Revenue reported as per filing in prior year: | | |
| Subscriptions | \$ 118.9 | \$ 353.7 |
| Software | 20.2 | 53.7 |
| Professional Services | 7.4 | 18.2 |
| Total MA | \$ 146.5 | \$ 425.6 |

| | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2009 |
|---|--|---|
| Reclassification for 2009 realignment: | | |
| Subscriptions | \$ (15.5) | \$ (46.0) |
| Software | 16.6 | 49.1 |
| Professional Services | (1.1) | (3.1) |
| Total MA | \$ | \$ |

| | Three Months Ended September 30, 2009 | Nine Months Ended September 30, 2009 |
|--------------------------|--|---|
| Revenue Reported: | | |

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| | | | | |
|-------------------------------------|----|-------|----|-------|
| Research, data and analytics (RD&A) | \$ | 103.4 | \$ | 307.7 |
| Risk management software (RMS) | | 36.8 | | 102.8 |
| Professional Services | | 6.3 | | 15.1 |
| Total MA | \$ | 146.5 | \$ | 425.6 |

The following is a discussion of the results of operations of the Company and these segments, including the intersegment royalty revenue for MIS and expense incurred by MA for the rights to use and distribute content, data and products developed by MIS. Additionally, overhead

Table of Contents

costs and corporate expenses of the Company are allocated to each segment based on a revenue-split methodology. Overhead expenses include costs such as rent and occupancy, information technology and support staff such as finance, human resources, information technology and legal.

In addition to its reported results, Moody's has included in this MD&A certain adjusted results that the SEC defines as non-GAAP financial measures. Management believes that such non-GAAP financial measures, when read in conjunction with the Company's reported results, can provide useful supplemental information for investors analyzing period to period comparisons of the Company's performance. These non-GAAP financial measures relate to adjustments made to the Company's 2007 and 2009 Restructuring Plans and Legacy Tax Matters, further described in Note 9 and Note 12, respectively, to the Company's condensed consolidated financial statements.

Certain prior year amounts have been reclassified to conform to the current presentation.

Results of Operations**Three Months Ended September 30, 2010 compared with Three Months Ended September 30, 2009***Executive Summary*

Moody's revenue for the third quarter of 2010 totaled \$513.3 million, an increase of \$61.5 million compared to the same period in 2009. Total expenses were \$324.4 million, an increase of \$45.1 million compared to the third quarter of 2009. Operating income of \$188.9 million in the third quarter of 2010 increased \$16.4 million compared to the same period in the prior year. Excluding the impact of restructuring related amounts in both periods, the third quarter 2010 operating income of \$189.3 million increased \$13.1 million over the prior year period. Diluted EPS of \$0.58 for the third quarter of 2010 increased \$0.16 over the prior year period and included a tax benefit of \$0.07, recorded in the third quarter of 2010, on foreign earnings that are indefinitely reinvested.

Moody's Corporation

The table below provides a summary of revenue and operating results, followed by further insight and commentary:

| | Three Months Ended September 30, | | % Change |
|-------------------------------|---|-----------------|------------------------------------|
| | 2010 | 2009 | Favorable (Unfavorable) |
| Revenue: | | | |
| United States | \$ 278.3 | \$ 229.7 | 21% |
| International: | | | |
| EMEA | 155.5 | 156.7 | (1)% |
| Other | 79.5 | 65.4 | 22% |
| Total International | 235.0 | 222.1 | 6% |
| Total | 513.3 | 451.8 | 14% |
| Expenses: | | | |
| Operating | 153.7 | 135.1 | (14)% |
| SG&A | 152.2 | 124.3 | (22)% |
| Restructuring | 0.4 | 3.7 | 89% |
| Depreciation and amortization | 18.1 | 16.2 | (12)% |
| Total | 324.4 | 279.3 | (16)% |
| Operating income | \$ 188.9 | \$ 172.5 | 10% |

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| | | | |
|---|-----------|-----------|-------|
| Interest (expense) income, net | \$ (12.8) | \$ (11.5) | (11)% |
| Other non-operating (expense) income, net | \$ 5.3 | \$ 1.7 | 212% |
| Net income attributable to Moody s | \$ 136.0 | \$ 100.6 | 35% |

Table of Contents

Global revenue of \$513.3 million in the third quarter of 2010 increased \$61.5 million compared to the same period in 2009, reflecting growth in both ratings and MA revenue. The ratings revenue growth is primarily due to strong speculative-grade corporate debt and bank loan rated issuance coupled with good growth in banking and public finance rated issuance. The aforementioned ratings revenue growth was partially offset by declines in rated issuance across most asset classes within SFG. The increase in MA revenue reflects growth from within RMS and RD&A. Transaction revenue accounted for 45% of global MCO revenue in the third quarter of 2010 compared to 37% in the same period of the prior year. Transaction revenue in the MIS segment represents the initial rating of a new debt issuance as well as other one-time fees while relationship revenue represents the recurring monitoring of a rated debt obligation and/or entities that issue such obligations, as well as revenue from programs such as commercial paper, medium-term notes and shelf registrations. In the MA segment, relationship revenue represents subscription-based revenues and software maintenance revenue. Transaction revenue in MA represents software license fees and revenue from the professional services line of business which offers credit risk management advisory and training services, which are typically sold on a per-engagement basis.

U.S. revenue increased \$48.6 million over the third quarter of 2009, and reflects growth in both segments. The growth in U.S. ratings revenue reflects strong bank loan and high-yield issuance within CFG as well as good growth in infrastructure and public finance issuance. These increases were partially offset by declines in U.S. derivatives issuance. The MA growth is primarily due to increases in RMS revenue.

International revenue increased \$12.9 million compared to the same period in 2009, reflecting growth in both segments. The increase in ratings revenue reflects growth in high-yield corporate debt and banking related issuance across all non-U.S. regions, coupled with growth in sovereign and sub-sovereign rated issuance in EMEA. These increases were partially offset by declines in rated issuance across most asset classes within SFG as well as declines in infrastructure finance revenue in the EMEA region. Changes in FX translation rates had an approximate \$8 million unfavorable impact on international revenue in the third quarter of 2010.

The table below shows Moody's global staffing by geographic area:

| | September 30, | | % Change |
|---------------|---------------|--------------|-----------|
| | 2010 | 2009 | |
| United States | 2,275 | 2,162 | 5% |
| International | 2,013 | 1,824 | 10% |
| Total | 4,288 | 3,986 | 8% |

Operating expenses were \$153.7 million in the third quarter of 2010, an increase of \$18.6 million from the third quarter of 2009 and was primarily due to higher compensation costs. The increase primarily reflects approximately \$7 million higher incentive compensation resulting from greater achievement against targeted results compared to the prior year period. Additionally, the increase in compensation costs reflects approximately \$9 million higher salaries and related employee benefits primarily due to annual merit increases coupled with headcount increases within both operating segments to support business growth.

SG&A expenses of \$152.2 million for the third quarter of 2010 increased \$27.9 million from the same quarter in 2009. Non-compensation expenses increased approximately \$14 million over the prior year primarily reflecting higher professional service costs relating to ongoing investments in technology infrastructure as well as higher legal and litigation-related costs due to ongoing matters. Compensation costs increased approximately \$14 million primarily due to higher salaries and related benefits expense of approximately \$10 million which reflects annual merit increases and headcount growth in sales personnel within MA as well as in support areas such as compliance and IT. Also driving the increase was higher incentive compensation costs of approximately \$4 million reflecting greater achievement against targeted results compared to the prior period.

Restructuring expense in the third quarter of 2010 reflects minor adjustments to previous estimates associated with the 2007 and 2009 Restructuring Plans. Restructuring expense of \$3.7 million in the third quarter of 2009 reflects costs associated with headcount reductions, divestiture of non-strategic assets and contract termination costs relating to office closures in accordance with the 2009 Restructuring Plan, as well as adjustments to previous estimates for both the 2007 and 2009 Restructuring Plans.

Operating income for the quarter was \$188.9 million, up \$16.4 million from the third quarter of 2009, reflecting the 14% increase in revenue partially offset by the 16% increase in operating expenses. Excluding the impact of the aforementioned restructuring adjustments in both years,

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operating income of \$189.3 million increased \$13.1 million over the third quarter of 2009. Changes in FX translation rates had an approximate \$6 million unfavorable impact on operating income in the third quarter of 2010.

Interest (expense) income, net for the three months ended September 30, 2010 was \$(12.8) million, a \$1.3 million increase compared to the same period in 2009. The increase is primarily due to higher interest on borrowings which reflects the issuance of the \$500 million 2010 Senior Notes issued in August 2010. This was partially offset by lower expense on short-term borrowings reflecting lower average balances in the current year period compared to 2009 and lower interest on UTBs and other tax related liabilities reflecting statute of limitation lapses in the third quarter of 2010.

Table of Contents

Other non-operating (expense) income, net of \$5.3 million in the third quarter of 2010 increased \$3.6 million compared to the prior year. This increase primarily reflects a charge of approximately \$5 million in the third quarter of 2009 relating to an international non-income tax matter that did not recur in 2010.

Moody's ETR was 24.4% for the quarter ended September 30, 2010, down from 37.5% in 2009. The lower ETR for the three months ended September 30, 2010 compared to the same period in 2009 reflected a \$17.6 million tax benefit, recorded in the third quarter of 2010, on foreign earnings that are indefinitely reinvested.

Net Income in the third quarter of 2010, which reflected the aforementioned tax benefit of \$17.6 million, or \$0.07 per diluted share, was \$136.0 million, or \$0.58 per diluted share representing an increase of \$35.4 million, or \$0.16 per diluted share, compared to the prior year. Excluding amounts related to the 2009 restructuring charge and restructuring-related adjustments in both years, Net Income increased \$33.4 million, or 32%, from \$102.9 million in 2009, resulting in a \$0.15, or 35%, increase in diluted EPS compared to the prior year.

Table of Contents**Segment Results***Moody's Investors Service*

The table below provides a summary of revenue and operating results, followed by further insight and commentary:

| | Three Months Ended September 30, | | % Change Favorable (Unfavorable) |
|---|---|-------------|---|
| | 2010 | 2009 | |
| Revenue: | | | |
| Corporate finance (CFG) | \$ 144.9 | \$ 101.4 | 43% |
| Structured finance (SFG) | 70.1 | 79.2 | (11)% |
| Financial institutions (FIG) | 73.6 | 62.9 | 17% |
| Public, project and infrastructure finance (PIIF) | 69.6 | 61.8 | 13% |
| | | | |
| Total external revenue | 358.2 | 305.3 | 17% |
| Intersegment royalty | 15.5 | 14.5 | 7% |
| | | | |
| Total MIS revenue | 373.7 | 319.8 | 17% |
| Expenses: | | | |
| Operating and SG&A | 205.0 | 173.7 | (18)% |
| Restructuring | 0.2 | 1.0 | 80% |
| Depreciation and amortization | 9.7 | 7.9 | (23)% |
| | | | |
| Total | 214.9 | 182.6 | (18)% |
| | | | |
| Operating income | \$ 158.8 | \$ 137.2 | 16% |

The following is a discussion of external MIS revenue as well as operating expenses:

Global MIS revenue of \$358.2 million in the third quarter of 2010 increased \$52.9 million compared to the same period in 2009. The growth is primarily due to strong speculative-grade corporate debt and bank loan rated issuance coupled with good growth in banking and public finance rated issuance. This growth was partially offset by declines in rated issuance across most asset classes within SFG. Transaction revenue for MIS in the third quarter of 2010 was 58% compared to 50% in 2009, with the increase reflecting the aforementioned strong rated issuance in the bank loan and high-yield sectors within CFG.

In the U.S., revenue was \$207.2 million in the third quarter of 2010, an increase of \$42.4 million, or 26%, compared to the third quarter of 2009. The increase relates primarily to strong growth over the prior year in rated issuance for bank loans and high-yield corporate debt coupled with good growth in investment-grade corporate debt as well as infrastructure and public finance related issuance.

Non-U.S. revenue was \$151.0 million in the third quarter of 2010, an increase of \$10.5 million, or 7%, over the prior year. The increase primarily reflects higher speculative-grade and banking rated issuance across all non-U.S. regions partially offset by declines in rated issuance across most asset classes within SFG and declines in infrastructure finance revenue in the EMEA region. Changes in FX translation rates had an approximate \$9 million unfavorable impact on non-U.S. MIS revenue in the third quarter of 2010.

Global CFG revenue of \$144.9 million in the third quarter of 2010 increased \$43.5 million from the prior year. The global increase is primarily due to higher rated issuance for speculative-grade corporate debt and bank loans as well as increases in Corporate Family Ratings. Accordingly, transaction revenue increased to 74% of total CFG revenue in the third quarter of 2010, compared to 64% in the prior year. In the U.S., third quarter 2010 revenue was \$94.8 million, or 51% higher than the same period in 2009. This increase is primarily due to higher bank loan issuance

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reflecting increased volumes of loan refinancing and leveraged buy-out activity compared to the same period in 2009. Additionally, there was an increase in speculative-grade rated issuance volumes which reflected narrowing credit spreads and greater investor appetite for high-yield products as uncertainties in the EU sovereign debt markets began to subside as the third quarter of 2010 progressed. Internationally, revenue of \$50.1 million in the third quarter of 2010 increased 29% compared to the same period in 2009, driven primarily by higher speculative-grade rated issuance volumes across all non-U.S. regions which reflects the aforementioned increase in investor confidence in the high-yield markets as uncertainties in the EU sovereign debt markets began to subside in the third quarter of 2010 coupled with growth in Corporate Family Ratings in the EMEA and Asia regions.

Table of Contents

Global SFG revenue of \$70.1 million in the third quarter of 2010 decreased \$9.1 million compared to the same period in 2009, reflecting lower revenue from rating derivatives and asset-backed securities partially offset by increased rated issuance for covered bonds. In the third quarter of 2010, transaction-based revenue accounted for 47% of total SFG revenue, up from 43% in 2009. In the U.S., revenue of \$34.0 million in the third quarter of 2010 decreased \$2.9 million compared to the prior year and primarily related to declines in derivatives transactions reflecting continued reduced investor appetite coupled with ongoing economic and regulatory uncertainties. Non-U.S. revenue of \$36.1 million in the third quarter of 2010 decreased \$6.2 million compared to the prior year, reflecting rated issuance declines across most asset classes within the EMEA region due to continued high interest rate spreads and a lack of investor appetite for structured finance securities. The aforementioned declines were partially offset by higher covered bond issuance in EMEA as investors were attracted to these instruments amidst the economic and market uncertainties that were present in the EU region for a portion of the third quarter of 2010. Changes in FX translation rates had an approximate \$5 million unfavorable impact on non-U.S. SFG revenue in the third quarter of 2010.

Global FIG revenue of \$73.6 million in the third quarter of 2010 increased \$10.7 million from the prior year, primarily reflecting higher banking related issuance across all regions coupled with higher insurance related issuance in the U.S. Transaction revenue was 37% of global FIG revenue, an increase from 27% in the third quarter of 2009. In the U.S., revenue of \$29.7 million in the third quarter of 2010 increased \$3.7 million compared to the prior year driven by higher insurance related issuance which reflects insurers opportunistically issuing debt in the current low interest rate environment. Outside the U.S., revenue in the third quarter of 2010 was \$43.9 million, or 19% higher than in the prior year, primarily due to stronger banking related issuance volumes across all non-U.S. regions, most notably from within the Latin America and EMEA regions. The growth in the Latin American banking sector reflects an increase in demand for securities in the region due to Brazil's relative economic strength coupled with banks taking advantage of the current low interest rate environment. Changes in FX translation rates had an approximate \$2 million unfavorable impact on third quarter 2010 international FIG revenue.

Global PPIF revenue was \$69.6 million in the third quarter of 2010, an increase of \$7.8 million compared to the same period in 2009, primarily reflecting increases in public finance revenue across all regions and higher rated issuance volumes in infrastructure finance in the U.S. These increases were partially offset by lower rated issuance volumes in infrastructure finance within the EMEA region primarily due to strong comparable results in the third quarter of 2009. Revenue generated from new transactions was 60% of total PPIF revenue in the third quarter of 2010, up from 57% in the prior year period. In the U.S., third quarter 2010 PPIF revenue increased 24% over the prior year primarily due to higher U.S. infrastructure finance issuance reflecting robust issuance due to rising capital expenditure needs. Additionally, growth in the U.S. reflects increases in public finance revenue due to higher issuance related to the Build America Bond Program which was implemented as part of the American Recovery and Reinvestment Act of 2009. Outside the U.S., PPIF revenue decreased \$1.6 million over the prior year, primarily due to lower infrastructure finance issuance in EMEA which reflected strong issuance volumes in the prior year period. These declines were partially offset by higher public finance rated issuance, generated primarily from within the EMEA region, as uncertainties relating to the sovereign debt markets in the EU began to subside as the third quarter of 2010 progressed.

Operating and SG&A expenses in the third quarter of 2010 increased \$31.3 million compared to the prior year and reflected increases in non-compensation and compensation expenses of approximately \$17 million and \$14 million, respectively. The increase in compensation expenses relates to higher incentive compensation due to greater achievement against targeted results in the third quarter of 2010 compared to the prior year. Additionally, there were higher salaries reflecting annual merit increases coupled with headcount growth within the ratings LOBs as well as in support areas such as compliance and IT. The increase in non-compensation expenses primarily reflects higher legal and litigation-related costs relating to ongoing matters and higher IT consulting costs relating to investments in technology infrastructure, most of which are allocated to MIS as part of the allocation of overhead and corporate expenses which is based on a revenue-split methodology.

Operating income in the third quarter of 2010 of \$158.8 million, which includes the intersegment royalty revenue, increased \$21.6 million from the prior year and reflects the \$53.9 million increase in total MIS revenue exceeding the 18% increase in operating expenses. Excluding minor restructuring-related adjustments in 2010 and 2009, operating income in the third quarter of 2010 was \$159.0 million, an increase of \$20.8 million from the same period in 2009.

Table of Contents*Moody's Analytics*

The table below provides a summary of revenue and operating results, followed by further insight and commentary:

| | Three Months Ended September 30, | | % Change Favorable (Unfavorable) |
|---|-------------------------------------|----------------|--|
| | 2010 | 2009 | |
| Revenue: | | | |
| Research, data and analytics (RD&A) | \$ 106.0 | \$ 103.4 | 3% |
| Risk management software (RMS) | 42.8 | 36.8 | 16% |
| Professional services | 6.3 | 6.3 | % |
| Total | 155.1 | 146.5 | 6% |
| Expenses: | | | |
| Operating and SG&A (including intersegment royalty) | 116.4 | 100.2 | (16)% |
| Restructuring | 0.2 | 2.7 | 93% |
| Depreciation and amortization | 8.4 | 8.3 | (1)% |
| Total | 125.0 | 111.2 | (12)% |
| Operating income | \$ 30.1 | \$ 35.3 | (15)% |

Global MA revenue in the third quarter of 2010 increased \$8.6 million over the prior year, reflecting growth in RMS and RD&A. Recurring revenue, which includes subscriptions and software maintenance fees, comprised 86% of third quarter 2010 MA revenue, slightly lower than 88% in the same period of 2009.

Revenue in the U.S. increased \$6.2 million, or 10%, over the prior year with increases in RMS comprising 77% of the growth. International revenue, which represented 54% and 56% of global MA revenue the quarters ended September 30, 2010 and 2009, respectively, increased 3% over the prior year reflecting growth in RMS and RD&A.

Global RD&A revenue, which comprised over 68% of total MA revenue in both quarters, increased \$2.6 million, or 3%, over the prior year. The increase reflects greater demand for products that support analysis for investment and commercial credit applications and also the gradual stabilization among capital markets customers as disruption from the global financial crisis recedes. Global RMS revenue in the third quarter of 2010 increased \$6.0 million over the prior year primarily due to the final delivery and client acceptance of software licenses and implementations. Revenue from professional services was flat compared to the prior year. Revenue in the RMS and professional services LOBs are subject to quarterly volatility resulting from the variable nature of project timing and the concentration of revenue in a relatively small number of engagements.

Operating and SG&A expenses in the third quarter of 2010, which include the intersegment royalty for the right to use and distribute content, data and products developed by MIS, increased \$16.2 million compared to 2009 reflecting both higher compensation and non-compensation costs of approximately \$12 million and \$4 million, respectively. The increase in compensation costs is primarily due to higher incentive compensation reflecting greater achievement against targeted results compared to the prior year, an increase in commissions expense and higher salaries reflecting headcount increases to support business growth. The increase in non-compensation costs primarily reflects higher legal and litigation-related costs relating to ongoing matters and higher IT consulting costs relating to investments in technology infrastructure, most of which are allocated to MA as part of the allocation of overhead and corporate expenses which is based on a revenue-split methodology.

The restructuring expense in the third quarter of 2009 reflects costs associated with the divestiture of non-strategic assets and contract termination costs for office closures in accordance with the 2009 Restructuring Plan.

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Operating income of \$30.1 million in the third quarter of 2010, which includes the intersegment royalty expense, declined \$5.2 million compared to the same period in 2009, reflecting the 12% increase in operating expenses exceeding the 6% increase in revenue. Excluding the 2009 restructuring charge and minor restructuring-related adjustments in 2010, operating income totaled \$30.3 million in the third quarter of 2010, a decrease of \$7.7 million from the same quarter in 2009.

Table of Contents*Nine Months Ended September 30, 2010 compared with Nine Months Ended September 30, 2009**Executive Summary*

Moody's revenue for the nine months ended September 30, 2010 totaled \$1,467.7 million, an increase of \$156.3 million compared to the same period in 2009. Total expenses were \$891.5 million, an increase of \$88.7 million compared to the first nine months of 2009. Operating income of \$576.2 million in the first nine months of 2010 increased \$67.6 million compared to the same period in the prior year. Excluding the restructuring charge and minor related adjustments in 2009, operating income increased \$49.0 million from \$527.2 million in the prior year period. Diluted EPS of \$1.56 for the nine months ended September 30, 2010 increased \$0.30 over the prior year period and included a tax benefit of \$0.07, recorded in the third quarter of 2010, on foreign earnings that are indefinitely reinvested as well as a \$0.02 favorable impact relating to the resolution of a Legacy Tax Matter. Excluding the aforementioned Legacy Tax Matter in 2010, diluted EPS of \$1.54 increased \$0.26, or 20%, from \$1.28 in 2009, which excludes a prior year favorable impact of \$0.03 related to the resolution of a Legacy Tax Matter and an unfavorable \$0.05 impact for restructuring.

Moody's Corporation

The table below provides a summary of revenue and operating results, followed by further insight and commentary:

| | Nine Months Ended September 30, | | % Change Favorable (Unfavorable) |
|---|------------------------------------|-----------|--|
| | 2010 | 2009 | |
| Revenue: | | | |
| United States | \$ 794.4 | \$ 675.7 | 18% |
| International: | | | |
| EMEA | 453.9 | 453.3 | % |
| Other | 219.4 | 182.4 | 20% |
| Total International | 673.3 | 635.7 | 6% |
| Total | 1,467.7 | 1,311.4 | 12% |
| Expenses: | | | |
| Operating | 423.9 | 385.5 | (10)% |
| SG&A | 418.5 | 351.2 | (19)% |
| Restructuring | | 18.6 | 100% |
| Depreciation and amortization | 49.1 | 47.5 | (3)% |
| Total | 891.5 | 802.8 | (11)% |
| Operating income | \$ 576.2 | \$ 508.6 | 13% |
| Interest (expense) income, net | \$ (35.1) | \$ (20.9) | (68)% |
| Other non-operating (expense) income, net | \$ 0.7 | \$ (8.8) | 108% |
| Net income attributable to Moody's | \$ 370.4 | \$ 300.1 | 23% |

Global revenue of \$1,467.7 million in the nine months ended September 30, 2010 increased \$156.3 million compared to the same period in 2009, reflecting good growth in ratings revenue and modest growth within MA. The growth in ratings revenue is primarily due to strong issuance activity in 2010 within the corporate and financial institution debt markets. Transaction revenue accounted for 42% of global MCO revenue in the first nine months of 2010 compared to 37% in the same period of the prior year.

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U.S. revenue increased \$118.7 million over the first nine months of 2009 reflecting growth in all ratings LOBs, most notably in rated issuance for bank loans coupled with higher rated issuance for high-yield corporate bonds in the first and third quarters of 2010. Partially offsetting these increases were declines in revenue from rating investment-grade corporate debt compared to a strong prior year comparative period. Additionally, there was growth in all LOBs within the MA segment, most notably in RMS.

International revenue increased \$37.6 million compared to the same period in 2009 primarily reflecting growth in CFG revenue, particularly in speculative-grade ratings in EMEA, coupled with higher banking related revenue across all non-U.S. regions. Additionally, the growth reflects higher RD&A and RMS revenue from within MA. These increases were partially offset by declines in most asset classes within SFG as well as declines in investment-grade issuance within the EMEA region.

Operating expenses were \$423.9 million in the first nine months of 2010, an increase of \$38.4 million from the same period in 2009 and was primarily due to higher compensation costs reflecting approximately \$19 million higher incentive compensation resulting from greater achievement against targeted results compared to the prior year period. Additionally, the increase in compensation costs reflects approximately \$18 million higher salaries and related employee benefits primarily due to annual merit increases coupled with higher headcount in both operating segments to support business growth.

Table of Contents

SG&A expenses of \$418.5 million for the first nine months of 2010 increased \$67.3 million from the same period in 2009. The increase is due to both higher compensation and non-compensation costs compared to 2009. Non-compensation expenses increased approximately \$41 million over the prior year primarily reflecting higher professional service costs relating to ongoing investments in technology infrastructure as well as higher legal and litigation-related costs related to ongoing matters. Compensation costs increased approximately \$26 million primarily due to higher salaries and related employee benefits which reflects annual merit increases and headcount growth in sales personnel within MA as well as in support areas such as compliance and IT coupled with approximately \$6 million higher incentive compensation costs reflecting greater achievement against targeted results compared to the prior period.

Restructuring expense in 2009 reflects severance costs associated with the 2009 Restructuring Plan approved on March 27, 2009 and adjustments to the previous estimates for both the 2007 and 2009 Restructuring Plans.

Operating income for the nine months ended September 30, 2010 was \$576.2 million, up \$67.6 million from the same period in 2009, reflecting the 12% increase in revenue being partially offset by the 11% increase in operating expenses. Excluding the restructuring charge and minor restructuring-related adjustments in 2009, operating income increased \$49.0 million over the first nine months of 2009.

Interest (expense) income, net for the nine months ended September 30, 2010 was \$(35.1) million, a \$14.2 million increase compared to the same period in 2009. The increase relates primarily to an interest expense reduction of approximately \$12 million in the first quarter of 2009 for UTBs and other tax-related liabilities that did not recur in 2010. Additionally, there was interest income related to the favorable settlement of Legacy Tax Matters of \$2.5 million and \$6.5 million in the nine months ended September 30, 2010 and 2009, respectively.

Other non-operating (expense) income, net of \$0.7 million in the first nine months of 2010 increased \$9.5 million compared to the prior year. This increase reflects an approximate \$5 million charge in 2009 for an international non-income tax matter that did not recur in 2010. Additionally, the increase reflects FX losses of approximately \$(4) million in 2010 compared to losses of approximately \$(7) million in 2009. The FX losses in both periods reflect the weakening of the euro to the British pound over both of the nine month periods ended September 30, 2010 and 2009.

Moody's ETR was 30.9% for the first nine months of 2010, down from 36.6% in 2009. The lower ETR in 2010 includes a \$17.6 million tax benefit, recorded in the third quarter of 2010, on foreign earnings that are indefinitely reinvested as well as a reduction in the state ETR compared to the prior year. The 2010 and 2009 tax expense included benefits of \$2.1 million and \$1.7 million, respectively, relating to the favorable resolution of Legacy Tax Matters (see Contingencies Legacy Tax Matters below for further information). Also, the 2010 ETR was favorably impacted by the settlement of a non-U.S. tax audit resulting in a reduction of UTBs related to that tax jurisdiction. Additionally, the 2009 ETR reflects a non-taxable \$12 million interest expense reduction related to UTBs and other tax-related liabilities. Excluding the Legacy Tax Matters in both years, the ETR in 2010 of 31.4% decreased 600 Bps from 2009.

Net Income in the nine month period ended September 30, 2010, which reflected the aforementioned tax benefit of \$17.6 million, or \$0.07 per diluted share, was \$370.4 million, or \$1.56 per diluted share, and increased \$70.3 million, or \$0.30 per diluted share, compared to the prior year. Excluding benefits for favorable resolutions of Legacy Tax Matters as well as restructuring charges and related adjustments in 2009, Net Income increased \$62.3 million, or 21%, to \$365.8 million, resulting in a \$0.26, or 20%, increase in diluted EPS compared to the prior year.

Table of Contents**Segment Results***Moody's Investors Service*

The table below provides a summary of revenue and operating results, followed by further insight and commentary:

| | Nine Months Ended September 30, | | % Change Favorable (Unfavorable) |
|---|------------------------------------|----------|--|
| | 2010 | 2009 | |
| Revenue: | | | |
| Corporate finance (CFG) | \$ 399.2 | \$ 293.0 | 36% |
| Structured finance (SFG) | 214.7 | 226.2 | (5)% |
| Financial institutions (FIG) | 213.0 | 186.5 | 14% |
| Public, project and infrastructure finance (PPIF) | 195.4 | 180.1 | 8% |
| | | | |
| Total external revenue | 1,022.3 | 885.8 | 15% |
| Intersegment royalty | 46.3 | 43.6 | 6% |
| | | | |
| Total MIS revenue | 1,068.6 | 929.4 | 15% |
| Expenses: | | | |
| Operating and SG&A | 562.1 | 489.5 | (15)% |
| Restructuring | (0.1) | 9.1 | 101% |
| Depreciation and amortization | 25.3 | 23.1 | (10)% |
| | | | |
| Total | 587.3 | 521.7 | (13)% |
| | | | |
| Operating income | \$ 481.3 | \$ 407.7 | 18% |

The following is a discussion of external MIS revenue as well as operating expenses:

Global MIS revenue of \$1,022.3 million in the first nine months of 2010 increased \$136.5 million compared to the same period in 2009. The increase reflects strong growth in rated issuance for speculative-grade corporate debt and bank loans within CFG as well as good growth from banking related issuance within FIG. These increases were partially offset by declines in investment-grade issuance within CFG. Transaction revenue for MIS in the first nine months of 2010 was 56% compared to 49% in 2009, with the increase primarily reflecting the aforementioned strong rated issuance in the high-yield and bank loan sectors within CFG as well as higher banking related issuance within FIG.

In the U.S., revenue was \$590.9 million in the first nine months of 2010, an increase of \$107.0 million, or 22%, compared to the same period in 2009. The increase relates primarily to strong rated issuance volumes in bank loans and high-yield corporate debt within CFG, higher issuance in the CREF sector within SFG and good growth in public finance and banking issuance within PPIF and FIG, respectively. These increases were partially offset by declines in U.S. investment-grade rated issuance compared to a strong prior year comparative period as well as declines in derivatives rated issuance within SFG.

Non-U.S. revenue was \$431.4 million in the nine months ended September 30, 2010, an increase of \$29.5 million, or 7%, over the prior year. The increase reflects growth in banking related revenue across all non-U.S. regions as well as higher speculative-grade corporate debt issuance in the EMEA region. These increases were partially offset by declines within the EMEA region in most asset classes in SFG coupled with lower rated issuance for investment-grade corporate debt.

Global CFG revenue of \$399.2 million in the nine months ended September 30, 2010 increased \$106.2 million from the prior year primarily due to higher rated issuance volumes in the high-yield corporate debt sector, coupled with higher bank loan issuance and an increase in Indicative

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Ratings and Corporate Family Ratings. The aforementioned growth was partially offset by declines in rated issuance for investment-grade debt. Transaction revenue represented 71% of total CFG revenue in the first nine months of 2010, compared to 65% in the prior year. In the U.S., revenue in the first nine months of 2010 was \$261.0 million, or 43% higher than the same period in 2009. This increase is primarily due to higher bank loan issuance which reflects the narrowing of credit spreads which has resulted in a high volume of refinancing activity coupled with increased issuance related to leveraged buy-out activity. Additionally, there was higher speculative-grade corporate debt issuance reflecting increased investor appetite for high-yield instruments as stability returned to the corporate credit markets. These increases were partially offset by lower rated issuance for investment-grade corporate debt compared to a strong prior year period where many companies were refinancing their debt ahead of expected maturities. Internationally, revenue of \$138.2 million in the first nine months of 2010

Table of Contents

increased 26% compared to the same period in 2009, driven primarily by growth in rated issuance for speculative-grade corporate debt across all regions which reflects the aforementioned increased investor confidence in the high-yield markets coupled with higher revenue from Indicative Ratings and Corporate Family Ratings in the EMEA region. These increases were partially offset by declines in investment-grade rated issuance reflecting a strong comparative prior year period.

Global SFG revenue of \$214.7 million in the first nine months of 2010 decreased \$11.5 million compared to the same period in 2009 reflecting lower revenue in the derivatives sector partially offset by increased issuance activity in U.S. CREF and structured covered bonds in EMEA. In the U.S., revenue of \$107.3 million in the first nine months of 2010 increased \$1.7 million compared to the prior year and primarily related to growth in CREF issuance, partially offset by continued declines in the derivatives sector. The increase in U.S. CREF revenue is primarily due to higher real estate investment trust related issuance reflecting the low interest rate environment and narrowing credit spreads in this sector. Non-U.S. revenue of \$107.4 million in the first nine months of 2010 decreased \$13.2 million compared to the prior year, reflecting declines in most asset classes within the EMEA region as reduced investor demand for structured products resulting from uncertainties surrounding the EU sovereign debt markets has driven down issuance. These decreases were partially offset by higher revenue from rating covered bonds in the EMEA region as investors were attracted to these instruments amidst economic and market uncertainties within the EU region.

Global FIG revenue of \$213.0 million in the first nine months of 2010 increased \$26.5 million from the prior year, primarily reflecting higher banking related revenue. Transaction revenue increased to 38% of global FIG revenue, up from 28% in the prior year period. In the U.S., revenue of \$87.6 million in the first nine months of 2010 increased \$10.1 million compared to the prior year. The growth over the prior year was driven by higher banking related revenue compared to a challenging prior year period due to an increase in issuance from smaller banks whose access to the credit markets was limited in the prior year period. Outside the U.S., revenue in the first half of 2010 was \$125.4 million, or 15% higher than in the prior year, and was primarily due to growth in banking revenue across all non-U.S. regions compared to a challenging prior year period.

Global PPIF revenue was \$195.4 million in the first nine months of 2010, an increase of \$15.3 million compared to the same period in 2009, primarily reflecting increases in public and project finance revenue. Revenue generated from new transactions was 58% of total PPIF revenue in the first nine months of 2010, down slightly from 59% in the prior year period. In the U.S., revenue for the nine month period ended September 30, 2010 increased 15% over the prior year primarily due to growth in public finance revenue which reflects modest price increases compared to the prior year coupled with issuance relating to the Build America Bond Program which was implemented in the U.S. as part of the American Recovery and Reinvestment Act of 2009. Additionally, there was higher infrastructure finance revenue relating to issuers rising capital expenditure needs. Outside the U.S., PPIF revenue decreased 3% compared to prior year reflecting declines in infrastructure and project finance revenue within the EMEA region due to a strong comparative prior year period, partially offset by higher project finance rated issuance in the Asia and Americas regions.

Operating and SG&A expenses in the first nine months of 2010 increased \$72.6 million compared to the prior year and reflected increases in compensation and non-compensation expenses of approximately \$34 million and \$38 million, respectively. The increase in compensation expenses relates to higher incentive compensation due to greater achievement against targeted results in the first nine months of 2010 compared to the prior year. Additionally, there were higher salaries reflecting annual merit increases, headcount growth within the ratings LOBs as well as support areas such as compliance and IT for which the costs are allocated to each segment based on a revenue-split methodology. The increase in non-compensation expenses reflects higher legal and litigation-related costs relating to ongoing matters and higher IT consulting costs relating to investments in technology infrastructure.

The restructuring charge of \$9.1 million in the prior year period reflects costs associated with the 2009 Restructuring Plan approved in the first quarter of 2009 as well as minor adjustments made to both the 2009 and 2007 restructuring plans.

Operating income in the first nine months of 2010 of \$481.3 million, which includes the intersegment royalty revenue, increased \$73.6 million from the prior year and reflects the 15% increase in total MIS revenue exceeding the 13% increase in operating expenses. Excluding the restructuring-related amounts in both periods, operating income in the first nine months of 2010 was \$481.2 million, an increase of \$64.4 million from the same period in 2009.

Table of Contents*Moody's Analytics*

The table below provides a summary of revenue and operating results, followed by further insight and commentary:

| | Nine Months Ended September 30, | | % Change Favorable (Unfavorable) |
|---|------------------------------------|----------|--|
| | 2010 | 2009 | |
| Revenue: | | | |
| Research, data and analytics (RD&A) | \$ 315.8 | \$ 307.7 | 3% |
| Risk management software (RMS) | 115.3 | 102.8 | 12% |
| Professional services | 14.3 | 15.1 | (5)% |
| Total | 445.4 | 425.6 | 5% |
| Expenses: | | | |
| Operating and SG&A (including intersegment royalty) | 326.6 | 290.8 | (12)% |
| Restructuring | 0.1 | 9.5 | 99% |
| Depreciation and amortization | 23.8 | 24.4 | 2% |
| Total | 350.5 | 324.7 | (8)% |
| Operating income | \$ 94.9 | \$ 100.9 | (6)% |

Global MA revenue in the first nine months of 2010 increased \$19.8 million over the prior year primarily reflecting growth in RMS and RD&A. Recurring revenue, which includes subscriptions and software maintenance fees, comprised 88% of MA revenue in the first nine months of 2010, slightly lower than 90% in the same period of 2009.

Revenue in the U.S. increased \$11.7 million, or 6%, over the prior year and reflected growth across all LOBs. International revenue, which represented 54% and 55% of global MA revenue in each of the nine month periods ended September 30, 2010 and 2009, respectively, increased 3% over the prior year with growth in RD&A and RMS being partially offset by declines in professional services.

Global RD&A revenue, which comprised over 70% of total MA revenue in both 2010 and 2009, increased \$8.1 million, or 3%, over the prior year, with 73% of the growth occurring internationally. The increase reflects greater demand for products that support analysis for investment and commercial credit applications and also the gradual stabilization among capital markets customers as disruption from the global financial crisis recedes. Global RMS revenue in the first nine months of 2010 increased \$12.5 million over the prior year due to the final delivery and client acceptance of software licenses and implementations. Revenue from professional services decreased \$0.8 million compared to 2009. Revenue in the RMS and professional services LOBs are subject to quarterly volatility resulting from the variable nature of project timing and the concentration of revenue in a relatively small number of engagements.

Operating and SG&A expenses in the nine months of 2010, which include the intersegment royalty for the right to use and distribute content, data and products developed by MIS, increased \$35.8 million compared to 2009 reflecting both higher compensation and non-compensation costs of approximately \$26 million and \$10 million, respectively. The increase in compensation costs is primarily due to higher incentive compensation reflecting greater achievement against targeted results in the first nine months of 2010 compared to the prior year as well as higher salaries reflecting annual merit increases and headcount increases to support business growth. Additionally, there was an increase in commissions expense compared to the prior year reflecting higher MA sales. The increase in non-compensation costs reflects higher legal and litigation-related costs relating to ongoing matters and higher IT consulting costs relating to investments in technology infrastructure, most of which are allocated to MA as part of the allocation of overhead and corporate expenses which is based on a revenue-split methodology.

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The restructuring charge of \$9.5 million in the prior year period reflects severance costs associated with the 2009 Restructuring Plan approved in the first quarter of 2009, which includes costs related to the divestiture of non-strategic assets and contract termination costs for office closures as well as minor adjustments made to original estimates for the 2007 Restructuring Plan.

Operating income of \$94.9 million in the first nine months of 2010, which includes the intersegment royalty expense, decreased \$6.0 million compared to the prior year, reflecting the \$25.8 million increase in total expenses exceeding the \$19.8 million increase in revenue. Excluding the 2009 restructuring charge and minor restructuring-related adjustments for both restructuring plans in 2010 and 2009, operating income totaled \$95.0 million in nine months ended September 30, 2010, a decrease of \$15.4 million from the same period in 2009.

Table of Contents**Liquidity and Capital Resources*****Cash Flow***

The Company is currently financing its operations, capital expenditures and share repurchases through cash flow from operations and from financing activities. The Company had net repayments on short-term borrowings of \$428.7 million during the nine months ended September 30, 2010 and issued \$496.9 million in long-term debt as more fully discussed below.

The following is a summary of the changes in the Company's cash flows followed by a brief discussion of these changes:

| | Nine Months Ended September 30, | | \$ Change Favorable (Unfavorable) |
|---|------------------------------------|------------|---|
| | 2010 | 2009 | |
| Net cash provided by operating activities | \$ 474.7 | \$ 456.6 | \$ 18.1 |
| Net cash used in investing activities | \$ (55.0) | \$ (64.4) | \$ 9.4 |
| Net cash used in financing activities | \$ (104.7) | \$ (243.6) | \$ 138.9 |

Table of Contents

Net cash provided by operating activities

The \$18.1 million increase in net cash flows provided by operating activities resulted from an increase in net income of \$70.7 million, which was partially offset by the following changes in assets and liabilities:

A \$20.2 million reduction in cash flow due to changes in year-to-date accounts receivable balances from December 31, 2008 to September 30, 2009 compared to the same period in 2010;

An approximate \$76 million reduction in cash flows from operations due to an increase in net deferred tax assets;

A reduction in cash flows of approximately \$13 million related to higher payments in 2010 to settle the 2009 Restructuring Plan obligations compared to 2009;

An increase in cash flows of approximately \$28 million due to changes in other liabilities primarily reflecting a \$17 million payment made in 2009 for interest to settle a tax audit for the 2001-2007 tax years and a \$12 million reduction of accrued interest in the prior year, both of which did not recur in 2010;

A \$48.6 million increase from UTB's primarily related to a \$51 million payment in 2009 for the settlement of a tax audit for the 2001-2007 tax years.

Net cash used in investing activities

Net cash used in investing activities for the first nine months of 2010 decreased \$9.4 million compared to the prior year period. The \$9.7 million reduction in capital expenditures compared to 2009 reflects less costs relating to the build-out the Canary Wharf leased facility in London, England in the current year as the project nears completion partially offset by higher cash outlays relating to the Company's continued investment in IT infrastructure.

Net cash used in financing activities

The \$138.9 million decrease in cash used in financing activities was primarily attributed to:

Proceeds received of \$496.9 million relating to the issuance of the 2010 Senior Notes in August 2010;
Partially offset by:

A \$119.6 million increase in treasury shares repurchased. There were no share repurchases in 2009 as the Company instead utilized its operating cash flow to repay outstanding borrowings;

A \$242.1 million increase in net repayments in short-term borrowings under the Company's CP program and revolving credit facility.

Table of Contents

Future Cash Requirements

The Company believes that it has the financial resources needed to meet its cash requirements and expects to have positive operating cash flow for the next twelve months. Cash requirements for periods beyond the next twelve months will depend, among other things, on the Company's profitability and its ability to manage working capital requirements. The Company may also borrow from various sources.

The Company remains committed to using its strong cash flow to create value for shareholders in a manner consistent with maintaining sufficient liquidity by investing in growing areas of the business, reinvesting in ratings quality initiatives, making selective acquisitions in related businesses, repurchasing stock and paying a dividend. In the near-term, Moody's intends to maintain its dividend and has commenced a share repurchase program, the continuation of which is dependent on Moody's liquidity and market conditions. As of September 30, 2010, Moody's had \$1.3 billion of share repurchase authority remaining under its current program, which does not have an established expiration.

During the third quarter of 2010, the Company issued \$500 million of 2010 Senior Notes due in September 2020, the proceeds of which were or will be used for general corporate purposes, including the redemption and repayment of short-term or long-term borrowings; working capital needs; capital expenditures; acquisitions of or investments in businesses or assets; and purchases of the Company's common stock under its authorized stock repurchase program. At September 30, 2010 the Company had total borrowings outstanding from its CP Program of \$15 million. At September 30, 2010, Moody's had \$1.3 billion of outstanding debt with approximately \$985 million of additional capacity available. Principal payments on the 2008 Term Loan have commenced in September 2010 and will continue through its maturity in accordance with the schedule of payments outlined in the *Indebtedness* section of this MD&A below.

On February 6, 2008, the Company entered into a 17.5 year operating lease agreement to occupy six floors of an office tower located in the Canary Wharf district of London, England. The total base rent of the Canary Wharf Lease over its 17.5-year term is approximately 134 million GBP, and the Company will begin making base rent payments in 2011. In addition to the base rent payments the Company will be obligated to pay certain customary amounts for its share of operating expenses and tax obligations.

On October 20, 2006, the Company entered into an operating lease agreement with 7 World Trade Center, LLC for 589,945 square-feet of an office building located at 7WTC at 250 Greenwich Street, New York, New York, which is serving as Moody's headquarters. The 7WTC Lease has an initial term of approximately 21 years with a total of 20 years of renewal options. The total base rent of the 7WTC Lease over its initial 21-year term is approximately \$536 million including rent credits from the World Trade Center Rent Reduction Program promulgated by the Empire State Development Corporation. On March 28, 2007, the 7WTC lease agreement was amended for the Company to lease an additional 78,568 square feet at 7WTC. The additional base rent is approximately \$106 million over a 20-year term. The total remaining lease payments as of September 30, 2010, including the aforementioned rent credits, are approximately \$565 million.

The Company also intends to use a portion of its cash flow to pay dividends. On October 26, 2010, the Board approved the declaration of a quarterly dividend of 10.5 cents per share of Moody's common stock, payable on December 10, 2010 to shareholders of record at the close of business on November 20, 2010. The continued payment of dividends at this rate, or at all, is subject to the discretion of the Board.

Table of Contents**Indebtedness**

The following table summarizes total indebtedness:

| | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| 2007 Facility | \$ | \$ |
| Commercial paper, net of unamortized discount of nil and \$0.1 million at 2010 and 2009, respectively. | 15.0 | 443.7 |
| Notes payable: | | |
| Series 2005-1 Notes due 2015 | 300.0 | 300.0 |
| Series 2007-1 Notes due 2017 | 300.0 | 300.0 |
| 2010 Senior Notes, net of unamortized discount of \$3.1 million in 2010, due 2020 | 496.9 | |
| 2008 Term Loan, various payments through 2013 | 148.1 | 150.0 |
| Total Debt | 1,260.0 | 1,193.7 |
| Current portion | (24.4) | (447.5) |
| Total long-term debt | \$ 1,235.6 | \$ 746.2 |

2007 Facility

On September 28, 2007, the Company entered into a \$1.0 billion five-year senior, unsecured revolving credit facility, expiring in September 2012. The 2007 Facility will serve, in part, to support the Company's CP Program described below. Interest on borrowings is payable at rates that are based on LIBOR plus a premium that can range from 16.0 to 40.0 basis points of the outstanding borrowing amount depending on the Debt/EBITDA ratio. The Company also pays quarterly facility fees, regardless of borrowing activity under the 2007 Facility. The quarterly fees for the 2007 Facility can range from 4.0 to 10.0 basis points per annum of the facility amount, depending on the Company's Debt/EBITDA ratio. The Company also pays a utilization fee of 5.0 basis points on borrowings outstanding when the aggregate amount outstanding exceeds 50% of the total facility. The 2007 Facility contains certain covenants that, among other things, restrict the ability of the Company and certain of its subsidiaries, without the approval of the lenders, to engage in mergers, consolidations, asset sales, transactions with affiliates and sale-leaseback transactions or to incur liens, as defined in the related agreement. The 2007 Facility also contains financial covenants that, among other things, require the Company to maintain a Debt/EBITDA ratio of not more than 4.0 to 1.0 at the end of any fiscal quarter.

Commercial Paper

On October 3, 2007, the Company entered into a private placement commercial paper program under which the Company may issue CP notes up to a maximum amount of \$1.0 billion. Amounts available under the CP Program may be re-borrowed. The CP Program is supported by the Company's 2007 Facility. The maturities of the CP Notes will vary, but may not exceed 397 days from the date of issue. The CP Notes are sold at a discount from par or, alternatively, sold at par and bear interest at rates that will vary based upon market conditions at the time of issuance. The rates of interest will depend on whether the CP Notes will be a fixed or floating rate. The interest on a floating rate may be based on the following: (a) certificate of deposit rate; (b) commercial paper rate; (c) federal funds rate; (d) LIBOR; (e) prime rate; (f) Treasury rate; or (g) such other base rate as may be specified in a supplement to the private placement agreement. The weighted average interest rate on CP borrowings outstanding was 0.1% and 0.3% as of September 30, 2010 and December 31, 2009, respectively. The CP Program contains certain events of default including, among other things: non-payment of principal, interest or fees; entrance into any form of moratorium; and bankruptcy and insolvency events, subject in certain instances to cure periods.

Notes Payable

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On August 19, 2010, the Company issued \$500 million aggregate principal amount of unsecured notes in a public offering. The 2010 Senior Notes bear interest at a fixed rate of 5.50% and mature on September 1, 2020. Interest on the 2010 Senior Notes will be due semi-annually on September 1 and March 1 of each year, commencing March 1, 2011. The Company may prepay the 2010 Senior Notes, in whole or in part, at any time at a price equal to 100% of the principal amount being prepaid, plus accrued and unpaid interest and a Make-Whole Amount. Additionally, at the option of the holders of the notes, the Company may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event, as defined in the Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The Indenture contains covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur or create liens and enter into a sale and leaseback transactions. In addition, the Indenture contains a covenant that limits the ability of the Company to

Table of Contents

consolidate or merge with another entity or to sell all or substantially all of its assets to another entity. The Indenture contains customary default provisions. In addition, an event of default will occur if the Company or certain of its subsidiaries fail to pay the principal of any Indebtedness (as defined in the Indenture) when due at maturity in an aggregate amount of \$50 million or more, or a default occurs that results in the acceleration of the maturity of the Company's or certain of its subsidiaries' Indebtedness in an aggregate amount of \$50 million or more. Upon the occurrence and during the continuation of an event of default under the Indenture, the notes may become immediately due and payable either automatically or by the vote of the holders of more than 25% of the aggregate principal amount of all of the notes then outstanding.

On September 7, 2007, the Company issued and sold through a private placement transaction, \$300.0 million aggregate principal amount of its 6.06% Series 2007-1 Senior Unsecured Notes due 2017 pursuant to the 2007 Agreement. The Series 2007-1 Notes have a ten-year term and bear interest at an annual rate of 6.06%, payable semi-annually on March 7 and September 7. Under the terms of the 2007 Agreement, the Company may, from time to time within five years, in its sole discretion, issue additional series of senior notes in an aggregate principal amount of up to \$500.0 million pursuant to one or more supplements to the 2007 Agreement. The Company may prepay the Series 2007-1 Notes, in whole or in part, at any time at a price equal to 100% of the principal amount being prepaid, plus accrued and unpaid interest and a Make Whole Amount. The 2007 Agreement contains covenants that limit the ability of the Company, and certain of its subsidiaries to, among other things: enter into transactions with affiliates, dispose of assets, incur or create liens, enter into any sale-leaseback transactions, or merge with any other corporation or convey, transfer or lease substantially all of its assets. The Company must also not permit its Debt/EBITDA ratio to exceed 4.0 to 1.0 at the end of any fiscal quarter.

On September 30, 2005, the Company issued and sold through a private placement transaction, \$300.0 million aggregate principal amount of its Series 2005-1 Senior Unsecured Notes due 2015 pursuant to the 2005 Agreement. The Series 2005-1 Notes have a ten-year term and bear interest at an annual rate of 4.98%, payable semi-annually on March 30 and September 30. Proceeds from the sale of the Series 2005-1 Notes were used to refinance \$300.0 million aggregate principal amount of the Company's outstanding 7.61% senior notes which matured on September 30, 2005. In the event that Moody's pays all, or part, of the Series 2005-1 Notes in advance of their maturity, such prepayment will be subject to a Make Whole Amount. The Series 2005-1 Notes are subject to certain covenants that, among other things, restrict the ability of the Company and certain of its subsidiaries, without the approval of the lenders, to engage in mergers, consolidations, asset sales, transactions with affiliates and sale-leaseback transactions or to incur liens, as defined in the related agreements.

2008 Term Loan

On May 7, 2008, Moody's entered into a five-year, \$150.0 million senior unsecured term loan with several lenders. Proceeds from the loan were used to pay off a portion of the CP outstanding. Interest on borrowings under the 2008 Term Loan is payable quarterly at rates that are based on LIBOR plus a margin that can range from 125 basis points to 175 basis points depending on the Company's Debt/EBITDA ratio. The outstanding borrowings shall amortize beginning in 2010 in accordance with the schedule of payments set forth in the 2008 Term Loan outlined in the table below.

The 2008 Term Loan contains restrictive covenants that, among other things, restrict the ability of the Company to engage or to permit its subsidiaries to engage in mergers, consolidations, asset sales, transactions with affiliates and sale-leaseback transactions or to incur, or permit its subsidiaries to incur, liens, in each case, subject to certain exceptions and limitations. The 2008 Term Loan also limits the amount of debt that subsidiaries of the Company may incur. In addition, the 2008 Term Loan contains a financial covenant that requires the Company to maintain a Debt/EBITDA ratio of not more than 4.0 to 1.0 at the end of any fiscal quarter.

The principal payments due on the 2008 Term Loan through its maturity are as follows:

| | |
|---------------------------------|-----------------|
| Year Ending December 31, | |
| 2010 (after September 30) | \$ 1.9 |
| 2011 | 11.3 |
| 2012 | 71.2 |
| 2013 | 63.7 |
| Total | \$ 148.1 |

At September 30, 2010, the Company was in compliance with all covenants contained within all of the debt agreements. In addition to the covenants described above, the 2007 Facility, the 2005 Agreement, the 2007 Agreement, the 2010 Senior Notes and the 2008 Term Loan contain cross default provisions. These provisions state that default under one of the aforementioned debt instruments could in turn permit lenders under

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other debt instruments to declare borrowings outstanding under those instruments to be immediately due and payable. As of September 30, 2010, there were no such cross defaults.

Table of Contents**Interest (expense) income, net**

The following table summarizes the components of interest as presented in the consolidated statements of operations:

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2010 | September 30, 2009 | September 30, 2010 | September 30, 2009 |
| Expense on borrowings | \$ (14.0) | \$ (10.4) | \$ (35.4) | \$ (34.8) |
| Income | 0.8 | 0.6 | 1.9 | 2.0 |
| Expense on UTBs and other tax related liabilities | (0.2) | (2.4) | (5.3) | 4.3 |
| Capitalized | 0.6 | 0.7 | 1.2 | 1.1 |
| Legacy Tax (a) | | | 2.5 | 6.5 |
| Total interest expense, net | \$ (12.8) | \$ (11.5) | \$ (35.1) | \$ (20.9) |

(a) The amounts in both years represent interest income related to the favorable settlement of Legacy Tax Matters, as further discussed below. Net interest expense of \$20.9 million for the first nine months of 2009 reflects a reduction of approximately \$12 million related to tax and tax-related liabilities.

The Company's long-term debt, including the current portion, is recorded at cost. The fair value and carrying value of the Company's long-term debt as of September 30, 2010 and December 31, 2009 is as follows:

| | September 30, 2010 | | December 31, 2009 | |
|---------------------|--------------------|----------------------|-------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Series 2005-1 Notes | \$ 300.0 | \$ 314.4 | \$ 300.0 | \$ 291.1 |
| Series 2007-1 Notes | 300.0 | 327.8 | 300.0 | 298.6 |
| 2010 Senior Notes | 496.9 | 515.0 | | |
| 2008 Term Loan | 148.1 | 148.1 | 150.0 | 150.0 |
| Total | \$ 1,245.0 | \$ 1,305.3 | \$ 750.0 | \$ 739.7 |

The fair value of the Company's 2010 Senior Notes is based on quoted market prices. The fair value of the remaining long-term debt, which is not publicly traded, is estimated using discounted cash flows with inputs based on prevailing interest rates available to the Company for borrowings with similar maturities.

Management may consider pursuing additional long-term financing when it is appropriate in light of cash requirements for operations, share repurchases and other strategic opportunities, which would result in higher financing costs.

Off-Balance Sheet Arrangements

At September 30, 2010, Moody's did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as special purpose or variable interest entities where Moody's is the primary beneficiary, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, Moody's is not exposed to any financing, liquidity, market or credit risk that could arise if it had engaged in such relationships.

Contractual Obligations

The following table presents payments due under the Company's contractual obligations as of September 30, 2010:

| | Total | Payments Due by Period | | | |
|-----------------------------|----------------|------------------------|--------------|--------------|----------------|
| | | Less Than 1 Year | 1-3 Years | 3-5 Years | Over 5 Years |
| Indebtedness (1) | \$ 1,753.7 | \$ 91.2 | \$ 267.3 | \$ 421.2 | \$ 974.0 |
| Operating lease obligations | 879.5 | 56.4 | 122.2 | 108.8 | 592.1 |
| Purchase obligations (2) | 120.0 | 62.8 | 47.5 | 9.7 | |
| Pension obligations (3) | 74.2 | 8.8 | 11.5 | 7.4 | 46.5 |
| Capital lease obligations | 0.3 | 0.3 | | | |
| Total (4) | \$ 2,827.7 | \$ 219.5 | \$ 448.5 | \$ 547.1 | \$ 1,612.6 |

- (1) Reflects principal payments, related interest and applicable fees on the 2008 Term Loan, the Series 2005-1 Notes, the Series 2007-1 Notes, the 2010 Senior Notes, borrowings under the CP Program and the 2007 Facility, as described in Note 11 to the condensed consolidated financial statements.
- (2) Includes amounts contractually committed to for the build-out of the Canary Wharf Lease.
- (3) Reflects projected benefit payments for the next ten years relating to the Company's unfunded Post-Retirement Benefit Plans described in Note 10 to the condensed consolidated financial statements.

Table of Contents

- (4) The table above does not include the Company's net long-term tax liabilities of \$227.4 million relating to UTBs and Legacy Tax Matters since the expected cash outflow of such amounts by period cannot be reasonably estimated.

Dividends

On October 26, 2010, the Board approved the declaration of a quarterly dividend of \$0.105 per share of Moody's common stock, payable on December 10, 2010 to shareholders of record at the close of business on November 20, 2010.

2010 Outlook

Moody's outlook for 2010 is based on assumptions about many macroeconomic and capital market factors, including interest rates, corporate profitability, business investment spending, merger and acquisition activity, consumer borrowing and securitization, and the eventual withdrawal of government-sponsored economic stabilization initiatives. There is an important degree of uncertainty surrounding these assumptions and, if actual conditions differ from these assumptions, Moody's results for the year may differ materially from the current outlook. The Company's guidance assumes foreign currency translation at end-of-quarter exchange rates.

Moody's is raising its guidance for diluted earnings per share for full-year 2010 to a range of \$1.90 to \$1.96. Certain components of 2010 guidance have been modified to reflect Moody's current view of credit market conditions and implications for the Company. For Moody's overall, the Company now expects full-year 2010 revenue to increase in the high-single to low-double-digit percent range and expenses to increase in the low-double-digit percent range. The Company continues to estimate incremental costs related to new regulation of approximately \$15 million for this year and \$15 to 25 million for next year. The Company still projects the full-year 2010 operating margin in the high-thirties percent range and now expects the 2010 effective tax rate in the range of 33 to 34 percent. Share repurchase is expected to continue in 2010, subject to available cash flow and other capital allocation decisions.

For the global MIS business, full-year 2010 revenue is now expected to increase in the low-double-digit percent range. The Company now projects MIS revenue growth in the high-teens percent range within the U.S. and in the low- to mid-single-digit percent range outside the U.S. Corporate finance revenue is now expected to increase in the low-thirties percent range. The Company now expects structured finance revenue to decline in the mid-single-digit percent range and revenue from financial institutions to grow in the mid-single-digit percent range. Public, project and infrastructure finance revenue is still projected to increase in the mid-single-digit percent range.

For Moody's Analytics, the Company continues to expect full-year 2010 revenue to increase in the mid-single-digit percent range. The Company still projects revenue growth in the low-single-digit percent range for research, data and analytics, while revenue in both the risk management software and professional services businesses is now expected to increase in the mid-teens percent range. Moody's still expects MA revenue both in the U.S. and outside the U.S. to grow in the mid-single-digit percent range.

Recently Issued Accounting Pronouncements

In June 2009, the FASB issued a new accounting standard related to the consolidation of variable interest entities. This new standard eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This new standard also requires enhanced disclosures regarding an enterprise's involvement in variable interest entities. The Company has adopted this new accounting standard as of January 1, 2010 and the implementation did not impact its consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13). The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence of selling price (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. The Company has elected to early adopt ASU 2009-13 on a prospective basis for applicable transactions originating or materially modified on or after January 1, 2010. Further information on the early adoption of this standard is set forth in Item 2. *Critical Accounting Estimates* of this MD&A.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. The new standard requires disclosure regarding transfers in and out of Level 1 and Level 2 classifications within the fair value hierarchy as well as requiring further detail of activity within the Level 3 category of the fair value hierarchy. The new standard also requires disclosures regarding the fair value for each class of assets and liabilities, which is a subset of assets or liabilities within a line item in a company's balance sheet. Additionally, the standard will require further disclosures surrounding inputs and valuation techniques used in fair value measurements. The new disclosures and clarifications of existing disclosures set forth in this ASU are effective for interim and annual reporting periods beginning after December 15,

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2009, except for the additional disclosures regarding Level 3 fair value measurements, for which the effective date is for fiscal years and interim periods within those years beginning after December 15, 2010. The Company has partially adopted the provisions of this ASU as of January 1, 2010 for all new disclosure requirements except for the aforementioned requirements regarding Level 3 fair-value measurements, for which the Company will adopt that portion of the ASU on January 1, 2011. The portion of this ASU that was adopted on January 1, 2010 did not have a material impact on the Company's consolidated financial statements. The Company does not expect the implementation of the portion of this ASU that relates to Level 3 fair value measurements to have a material impact on its consolidated financial statements.

Table of Contents
Contingencies

From time to time, Moody's is involved in legal and tax proceedings, governmental investigations, claims and litigation that are incidental to the Company's business, including claims based on ratings assigned by MIS. Moody's is also subject to ongoing tax audits in the normal course of business. Management periodically assesses the Company's liabilities and contingencies in connection with these matters based upon the latest information available. Moody's discloses material pending legal proceedings pursuant to SEC rules and other pending matters as it may determine to be appropriate.

Following the events in the U.S. subprime residential mortgage sector and the credit markets more broadly over the last several years, MIS and other credit rating agencies are the subject of intense scrutiny, increased regulation, ongoing investigation, and civil litigation. Legislative, regulatory and enforcement entities around the world are considering additional legislation, regulation and enforcement actions, including with respect to MIS's compliance with newly imposed regulatory standards. Moody's has received subpoenas and inquiries from states attorneys general and other governmental authorities and is responding to such investigations and inquiries.

On July 1, 2008, Moody's publicly announced the results of the Company's investigation into the issues raised in a May 21, 2008 report by a newspaper concerning a coding error in a model used in the rating process for certain constant-proportion debt obligations. The Company's investigation determined that, in April 2007, members of a European rating surveillance committee engaged in conduct contrary to Moody's Code of Professional Conduct. On March 18, 2010, MIS received a Wells Notice from the Staff of the SEC stating that the Staff was considering recommending that the SEC institute administrative and cease-and-desist proceedings against MIS in connection with MIS's initial June 2007 application on SEC Form NRSRO to register as a nationally recognized statistical rating organization under the CRA Reform Act of 2006. The SEC Staff subsequently informed the Company that the Staff's investigation of the matter had been completed, that a Report of Investigation Pursuant to Section 21(a) of the Exchange Act would be issued and that no enforcement action would be taken by the SEC.

In addition, the Company is facing litigation from market participants relating to the performance of MIS rated securities. Although Moody's in the normal course experiences such litigation, the volume and cost of defending such litigation has significantly increased in the current economic environment.

On June 27, 2008, the Brockton Contributory Retirement System, a purported shareholder of the Company's securities, filed a purported shareholder derivative complaint on behalf of the Company against its directors and certain senior officers, and the Company as nominal defendant, in the Supreme Court of the State of New York, County of New York. The plaintiff asserts various causes of action relating to the named defendants' oversight of MIS's ratings of RMBS and constant-proportion debt obligations, and their participation in the alleged public dissemination of false and misleading information about MIS's ratings practices and/or a failure to implement internal procedures and controls to prevent the alleged wrongdoing. The plaintiff seeks compensatory damages, restitution, disgorgement of profits and other equitable relief. On July 2, 2008, Thomas R. Flynn, a purported shareholder of the Company's securities, filed a similar purported shareholder derivative complaint on behalf of the Company against its directors and certain senior officers, and the Company as nominal defendant, in the Supreme Court of the State of New York, County of New York, asserting similar claims and seeking the same relief. The cases have been consolidated and plaintiffs filed an amended consolidated complaint in November 2008. The Company removed the consolidated action to the United States District Court for the Southern District of New York in December 2008. In January 2009, the plaintiffs moved to remand the case to the Supreme Court of the State of New York, which the Company opposed. On February 23, 2010, the court issued an opinion remanding the case to the Supreme Court of New York. On October 30, 2008, the Louisiana Municipal Police Employees Retirement System, a purported shareholder of the Company's securities, also filed a shareholder derivative complaint on behalf of the Company against its directors and certain officers, and the Company as a nominal defendant, in the U.S. District Court for the Southern District of New York. This complaint also asserts various causes of action relating to the Company's ratings of RMBS, CDO and constant-proportion debt obligations, and named defendants' participation in the alleged public dissemination of false and misleading information about MIS's ratings practices and/or a failure to implement internal procedures and controls to prevent the alleged wrongdoing. On December 9, 2008, Rena Nadoff, a purported shareholder of the Company, filed a shareholder derivative complaint on behalf of the Company against its directors and its CEO, and the Company as a nominal defendant, in the Supreme Court of the State of New York. The complaint asserts a claim for breach of fiduciary duty in connection with alleged overrating of asset-backed securities and underrating of municipal securities. On October 20, 2009, the Company moved to dismiss or stay the action in favor of related federal litigation. On January 26, 2010, the court entered a stipulation and order, submitted jointly by the parties, staying the Nadoff litigation pending coordination and prosecution of similar claims in the above and below described federal derivative actions. On July 6, 2009, W. A. Sokolowski, a purported shareholder of the Company, filed a purported shareholder derivative complaint on behalf of the Company against its directors and current and former officers, and the Company as a nominal defendant, in the United States District Court for the Southern District of New York. The complaint asserts claims relating to alleged mismanagement of the Company's processes for rating structured finance transactions, alleged insider trading and causing the Company to buy back its own stock at artificially inflated prices.

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Two purported class action complaints have been filed by purported purchasers of the Company's securities against the Company and certain of its senior officers, asserting claims under the federal securities laws. The first was filed by Raphael Nach in the U.S. District Court for the Northern District of Illinois on July 19, 2007. The second was filed by Teamsters Local 282 Pension Trust Fund in the U.S. District Court for the Southern District of New York on September 26, 2007. Both actions have been consolidated into a single proceeding entitled In

Table of Contents

re Moody's Corporation Securities Litigation in the U.S. District Court for the Southern District of New York. On June 27, 2008, a consolidated amended complaint was filed, purportedly on behalf of all purchasers of the Company's securities during the period February 3, 2006 through October 24, 2007. Plaintiffs allege that the defendants issued false and/or misleading statements concerning the Company's business conduct, business prospects, business conditions and financial results relating primarily to MIS's ratings of structured finance products including RMBS, CDO and constant-proportion debt obligations. The plaintiffs seek an unspecified amount of compensatory damages and their reasonable costs and expenses incurred in connection with the case. The Company moved for dismissal of the consolidated amended complaint in September 2008. On February 23, 2009, the court issued an opinion dismissing certain claims and sustaining others.

Moody's Wall Street Analytics unit is cooperating with an investigation by the SEC concerning services provided by that unit to certain financial institutions in connection with the valuations used by those institutions with respect to certain financial instruments held by such institutions.

For claims, litigation and proceedings not related to income taxes, where it is both probable that a liability is expected to be incurred and the amount of loss can be reasonably estimated, the Company records liabilities in the consolidated financial statements and periodically adjusts these as appropriate. In other instances, because of uncertainties related to the probable outcome and/or the amount or range of loss, management does not record a liability but discloses the contingency if significant. As additional information becomes available, the Company adjusts its assessments and estimates of such matters accordingly. For income tax matters, the Company employs the prescribed methodology of Topic 740 of the ASC which requires a company to first determine whether it is more-likely-than-not (defined as a likelihood of more than fifty percent) that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more-likely-than-not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority.

The Company cannot predict the ultimate impact that any of the legislative, regulatory, enforcement or litigation matters may have on how its business is conducted and thus its competitive position, financial position or results of operations. Based on its review of the latest information available, in the opinion of management, the ultimate monetary liability of the Company for the pending matters referred to above (other than the Legacy Tax Matters that are discussed below) is not likely to have a material adverse effect on the Company's consolidated financial position, although it is possible that the effect could be material to the Company's consolidated results of operations for an individual reporting period.

Legacy Tax Matters

Moody's continues to have exposure to potential liabilities arising from Legacy Tax Matters. As of September 30, 2010, Moody's has recorded liabilities for Legacy Tax Matters totaling \$58.1 million. This includes liabilities and accrued interest due to New D&B arising from the 2000 Distribution Agreement. It is possible that the ultimate liability for Legacy Tax Matters could be greater than the liabilities recorded by the Company, which could result in additional charges that may be material to Moody's future reported results, financial position and cash flows.

The following summary of the relationships among Moody's, New D&B and their predecessor entities is important in understanding the Company's exposure to the Legacy Tax Matters.

In November 1996, The Dun & Bradstreet Corporation separated into three separate public companies: The Dun & Bradstreet Corporation, ACNielsen Corporation and Cognizant Corporation. In June 1998, The Dun & Bradstreet Corporation separated into two separate public companies: Old D&B and R.H. Donnelley Corporation. During 1998, Cognizant separated into two separate public companies: IMS Health Incorporated and Nielsen Media Research, Inc. In September 2000, Old D&B separated into two separate public companies: New D&B and Moody's.

Old D&B and its predecessors entered into global tax planning initiatives in the normal course of business. These initiatives are subject to normal review by tax authorities. Old D&B and its predecessors also entered into a series of agreements covering the sharing of any liabilities for payment of taxes, penalties and interest resulting from unfavorable IRS determinations on certain tax matters, and certain other potential tax liabilities, all as described in such agreements. Further, in connection with the 2000 Distribution and pursuant to the terms of the 2000 Distribution Agreement, New D&B and Moody's have agreed on the financial responsibility for any potential liabilities related to these Legacy Tax Matters.

Settlement agreements were executed with the IRS in 2005 regarding the Legacy Tax Matters for the years 1989-1990 and 1993-1996. These settlements represent substantially all of the total potential liability to the IRS, including penalties. As of September 30, 2010, the Company continues to carry a liability of \$2.0 million for the remaining potential exposure. In addition, with respect to these settlement agreements, Moody's and New D&B believe that IMS Health and NMR did not pay their full share of the liability to the IRS pursuant to the terms of the applicable separation agreements among the parties. Moody's and New D&B paid these amounts to the IRS on their behalf, and attempted to resolve this dispute with IMS Health and NMR. As a result, Moody's and New D&B commenced arbitration proceedings against IMS Health and

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NMR in connection with the 1989-1990 matter. This matter was resolved during the third quarter of 2008 in favor of Moody's and New D&B, resulting in IMS Health and NMR having paid a total of \$6.7 million to Moody's. In the second quarter of 2009, Moody's and New D&B reached a settlement with IMS Health and NMR with respect to the 1993-1996 matter, resulting in \$10.8 million of cash proceeds paid to Moody's of which \$6.5 million represents interest and \$4.3 million is a reduction of tax expense.

Table of Contents*Amortization Expense Deductions*

This Legacy Tax Matter, which was affected by developments in June 2007 and 2008 as further described below, involves a partnership transaction which resulted in amortization expense deductions on the tax returns of Old D&B since 1997. IRS audits of Old D&B's and New D&B's tax returns for the years 1997 through 2002 concluded in June 2007 without any disallowance of the amortization expense deductions, or any other adjustments to income related to this partnership transaction. These audits resulted in the IRS issuing the Notices for other tax issues for the 1997-2000 years aggregating \$9.5 million in tax and penalties, plus statutory interest of approximately \$6 million, which should be apportioned among Moody's, New D&B, IMS Health and NMR pursuant to the terms of the applicable separation agreements. Moody's share of this assessment was \$6.6 million including interest, net of tax. In November 2007, the IRS assessed the tax and penalties and used a portion of the deposit discussed below to satisfy the assessment, together with interest. As noted below, the Company has challenged the IRS's actions and recovered a portion of these amounts. The absence of any tax deficiencies in the Notices for the amortization expense deductions for the years 1997 through 2002, combined with the expiration of the statute of limitations for 1997 through 2002, for issues not assessed, resulted in Moody's recording an earnings benefit of \$52.3 million in the second quarter of 2007. This is comprised of two components, as follows: (i) a reversal of a tax liability of \$27.3 million related to the period from 1997 through the Distribution Date, reducing the provision for income taxes; and (ii) a reduction of accrued interest expense of \$17.5 million (\$10.6 million, net of tax) and an increase in other non-operating income of \$14.4 million, relating to amounts due to New D&B. In June 2008, the statute of limitations for New D&B relating to the 2003 tax year expired. As a result, in the second quarter of 2008, Moody's recorded a reduction of accrued interest expense of \$2.3 million (\$1.4 million, net of tax) and an increase in other non-operating income of \$6.4 million, relating to amounts due to New D&B.

On the Distribution Date, New D&B paid Moody's \$55.0 million for 50% of certain anticipated future tax benefits of New D&B through 2012. It is possible that IRS audits of New D&B for tax years after 2003 could result in income adjustments with respect to the amortization expense deductions of this partnership transaction. In the event that these tax benefits are not claimed or otherwise not realized by New D&B, or there is an audit adjustment, Moody's would be required, pursuant to the terms of the 2000 Distribution Agreement, to repay to New D&B an amount equal to the discounted value of its share of the related future tax benefits and its share of any tax liability that New D&B incurs. As of September 30, 2010, Moody's liability with respect to this matter totaled \$56.2 million.

In March 2006, New D&B and Moody's each deposited \$39.8 million with the IRS in order to stop the accrual of statutory interest on potential tax deficiencies with respect to the 1997 through 2002 tax years. In July 2007, New D&B and Moody's commenced procedures to recover approximately \$57 million of these deposits (\$24.6 million for New D&B and \$31.9 million for Moody's), which represents the excess of the original deposits over the total of the deficiencies asserted in the Notices. As noted above, in November 2007 the IRS used a portion of Moody's share of the deposit to satisfy an assessment and related interest; it subsequently returned the balance of the deposit with interest. The Company has pursued a refund of a portion of the outstanding amount. In May 2010, the IRS refunded \$5.2 million to the Company for the 1997 tax year, which included interest of approximately \$2.5 million.

Regulation

In the U.S., since 1975, MIS has been designated as an NRSRO by the SEC. The SEC first applied the NRSRO designation in that year to companies whose credit ratings could be used by broker-dealers for purposes of determining their net capital requirements. Since that time, Congress, the SEC and other governmental and private bodies have used the ratings of NRSROs to distinguish between investment-grade and non-investment-grade securities, among other purposes.

In September 2006, the Credit Rating Agency Reform Act of 2006 was passed, which created a voluntary registration process for rating agencies wishing to be designated as NRSROs. The CRA Reform Act provided the SEC with authority to oversee NRSROs, while prohibiting the SEC from regulating the substance of credit ratings or the procedures and methodologies by which any NRSRO determines credit ratings. In June 2007, the SEC published its first set of rules implementing the CRA Reform Act. These rules address the NRSRO application and registration process, as well as oversight rules related to recordkeeping, financial reporting, prevention of misuse of material non-public information, conflicts of interest, and prohibited acts and practices. In February 2009, the SEC published a second set of rules applicable to NRSROs, the majority of which provide requirements for managing conflicts of interest, enhancing record keeping requirements, and improving transparency of ratings performance and methodologies. In November 2009, the SEC published a third set of final rules for NRSROs. These rules, which came into force in June 2010, require additional disclosure of rating histories and prohibit NRSROs from rating structured finance products unless the issuer makes the same information accessible to all NRSROs that it provides to an NRSRO hired to determine the rating. In 2009, the SEC also determined to eliminate references to NRSRO ratings in certain regulations, retain some references and seek additional comments on other references.

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MIS has been registered as an NRSRO with the SEC under the Exchange Act as of September 2007, and as of that time MIS has been subject to the SEC's oversight rules described above. As required by the rules, MIS has made its Form NRSRO Initial Application, its Annual Certification of Form NRSRO, and any associated updates publicly available by posting it on the Regulatory Affairs page of the Company's website.

Table of Contents

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Financial Reform Act) was signed into law on July 21, 2010. The Financial Reform Act will impact a number of institutions and industries that operate in the U.S. market, including CRAs. The subtitle of the Financial Reform Act that addresses the CRA industry is Title IX, Subtitle C. This subtitle, among other things, seeks to enhance transparency and accountability in the credit rating agency industry, and to reduce the regulatory reliance on credit ratings. The majority of the provisions of Subtitle C of Title IX of the Financial Reform Act seek to regulate the activities of those CRAs that are registered under the SEC's regulatory framework for NRSROs. Therefore, these provisions will apply to any CRAs in MIS's corporate family that fall under the NRSRO regime.

Provisions of the Financial Reform Act applicable to NRSROs include, among others:

heightened compliance standards, including the adoption of enhanced corporate governance and conflicts of interest policies and procedures, implementation of professional standards for credit analysts and periodic compliance examinations;

increased public disclosures, including disclosure of the ratings process and methodology, factors relied upon in formulating ratings, results of third-party due diligence and accuracy of prior ratings;

replacement of references to credit ratings in certain federal laws with broader references to the credit-worthiness of a security;

removal of a special exemption from Regulation FD for information provided by issuers to CRAs for the purpose of developing a rating;

a mandate that the SEC study the feasibility of establishing a system in which a utility or a self-regulatory organization assigns NRSROs to determine the credit ratings of structured finance products to address so-called rating-shopping by issuers and underwriters of structured financial products;

rescission of Rule 436(g) under the Securities Act of 1933 (the Securities Act), which provided NRSROs with an exemption from expert liability under the Securities Act for ratings information included in registration statements; and

changes to the pleading standards applicable to claims brought against CRAs under Section 10(b) of the Exchange Act and adoption of an exclusion for credit ratings from the safe harbor provisions for forward-looking statements in the Private Securities Litigation Reform Act of 1995.

Certain of the above mentioned provisions are effective immediately. These include provisions that potentially impact CRAs' liability environment. The enhanced regulatory regime for CRAs could potentially increase the costs associated with the operation of a CRA and increase the legal risk associated with the issuance of credit ratings. Moreover, it is possible that the number of legal proceedings, especially as related to future ratings, may increase materially and the potential exposure of CRAs thereunder may also increase. It is possible that implementing changes to the Company's operations to address the changed liability environment may result in lower revenues and/or increased expenses and may significantly change the manner in which the Company conducts its credit rating business.

Table of Contents

The majority of the provisions in the Financial Reform Act as it pertains to CRAs are to be implemented through rule-making by the SEC and other regulatory authorities. The SEC has published a schedule for its rule making activity over the coming year, and it appears that the majority of the rule-making as it pertains to the CRA industry will be conducted and completed in the first half of 2011. One provision that the SEC has already implemented, in accordance with the mandated time-line under the Financial Reform Act, is the elimination of the specific exemption for credit ratings under Regulation Fair Disclosure. In addition, the SEC has several pending rule proposals on CRAs, including: 1) a rule proposal to require disclosure about credit ratings when ratings are used in connection with the sale of registered securities; 2) a rule proposal regarding the NRSRO compliance function and disclosure about revenues received for credit rating services; 3) rule proposals regarding use of ratings in mutual fund and structured finance regulations; and 4) a rule proposal regarding disclosure by NRSROs of the representations and warranties of the structured finance securities that they rate. The bank regulators also have begun their rule making activities, and in October they closed a comment period requesting views from market participants on alternatives to credit ratings that could be incorporated into banking supervision. Moody's Investors Service and Moody's Analytics both provided comments, and these can be found on the Company's website.

Finally, as part of the ongoing debate surrounding the financial crisis, MIS participated in a hearing held by the Financial Crisis Inquiry Commission on June 2, 2010.

Internationally, several regulatory developments have occurred:

The G-8 and the G-20 In November 2008, the Heads of State of the G-20 reached agreement on a wide-ranging set of proposals to better regulate financial systems. Among other things, the G-20 committed to implement oversight of the CRAs, consistent with the strengthened International Organization of Securities Commissions Code of Conduct (see below) and agreed that, in the medium term, the countries should implement a registration system for CRAs. The G-20 also committed to formulate their regulations and other measures in a consistent manner and recommended that IOSCO review CRAs' adoption of the standards and mechanisms for monitoring compliance.

On April 2, 2009, the G-20 Heads of State meeting was held in London, where the G-20 provided a six-part action plan to address the financial crisis: (1) to restore confidence, growth, and jobs; (2) to repair the financial system to restore lending; (3) to strengthen financial regulation and rebuild trust; (4) to fund and reform international financial institutions to overcome the current crisis and prevent future ones; (5) to promote global trade and investment and reject protectionism; and (6) to build an inclusive, green, and sustainable recovery. The G-20's plan also contains a number of provisions that are specific to CRAs. In particular, the G-20 member states agreed to extend regulatory oversight to and require registration of CRAs in order to ensure that they adhere to the international code of good practice. On July 10, 2009, the G-8 restated its commitment to implement the G-20's statement.

Table of Contents

In September 2009, the G-20 met in Pittsburgh and developed a progress report on actions to promote global financial regulatory reform. With respect to CRAs, the G-20 acknowledged that stronger oversight regimes for CRAs have been developed in the EU, the U.S. and Japan, and recognized that the development of good practices for due diligence by asset managers investing in structured finance products will result in reduced reliance on credit ratings. The G-20 also expressed concern about the creation of globally inconsistent regulations.

More recently, on October 23, 2010, the G-20 Finance Ministers and Central Bank Governors met in Seoul, Korea, in preparation for the meeting of the G-20 Heads of State meeting that is scheduled to take place during the second week of November. Broadly, the Finance Ministers and Central Bank Governors have agreed to continue to work in cooperation with one another. In advance of this meeting, the International Monetary Fund (IMF) and the Financial Stability Board (FSB) published a report and a statement, respectively. The FSB published a more detailed report on October 27th. As pertaining to CRAs, both institutions advocate that governments reduce their reliance on credit ratings in regulation. While both entities acknowledge that the process will take time, they believe that the mechanistic use of ratings by governments should over time be discontinued.

IOSCO In December 2004, the Technical Committee of IOSCO published its Code of Conduct Fundamentals for Credit Rating Agencies. In May 2008, IOSCO published the revised IOSCO Code. The changes made to the IOSCO Code broadly address greater transparency of methodologies and processes by CRAs. In July 2008, IOSCO also announced that it will monitor the CRAs implementation of the IOSCO Code changes and it will explore the means by which IOSCO members might work together to verify the proper and complete disclosure by CRAs of information required by the IOSCO Code.

On March 12, 2009, IOSCO published its second review of the CRAs implementation of the IOSCO Code. The report noted that seven out of the 21 CRAs reviewed had implemented the IOSCO Code in their own codes of conduct. In particular, MIS was found to have substantially implemented the 2008 revisions to the IOSCO Code. IOSCO also published and sent a note to the G-20 and Financial Stability Forum regarding the use of the IOSCO Code as the basis for international oversight of CRAs and mechanisms by which regulators can help assure adequate cross-border supervision of globally active CRAs. In addition, IOSCO announced the establishment of a new standing committee that will address global issues regarding the CRA industry.

In November 2008, MIS revised its Code of Professional Conduct (fashioned on the IOSCO Code) to reflect the changes made to the IOSCO Code. Beginning in 2006, MIS has annually published a report that describes its implementation of its Code.

Finally, IOSCO is exploring the possibility of supervisory colleges and/or bilateral cooperation arrangements for the oversight of CRAs to address concerns relating to globally fragmented regulations and in order to promote greater interaction between CRAs and regulators, as well as greater coordination among regulators overseeing international CRAs.

EU In late April 2009, the European Parliament voted and passed a new regulation (EU Regulation) that establishes an oversight regime for the CRA industry in the European Union. The framework for the EU Regulation requires the registration, formal regulation and periodic inspection of CRAs operating in the EU. The EU Regulation also sets out specific requirements for the use of ratings that are produced outside of the EU and used for regulatory purposes in the EU. Among these is a requirement for the relevant competent authority in the EU and the competent authority of the non-EU jurisdiction where that rating has been produced to enter into a cooperation agreement containing provisions related to the exchange of information and the coordination of supervisory activities. At this time it is too early to give a more precise assessment of the impact of the EU Regulation on MIS. We expect that there will be associated increases in our operational and compliance costs on a one-time and recurring basis. In addition, the European Commission has published a proposal that seeks to transfer the oversight of CRAs to the European Securities and Market Authority (ESMA) and to require issuers of structured finance instruments to disclose the same information about such instruments to all registered CRAs. ESMA has not yet been established and this proposal is presently being debated by the European Parliament and the Council of European Ministers. In addition, the regulatory framework of the CRA industry continues to be discussed in the European Union, and among the issues being debated are the issuer-pay business model and the use of ratings in regulation. It is expected that in the near future the European Commission will publish a consultation paper that will consider the potential for additional regulation for the CRA industry in the EU.

The Basel Committee In June 2004, the Basel Committee on Banking Supervision published a bank capital adequacy framework, called Basel II, to replace its initial 1988 framework. Under Basel II, ratings assigned by recognized CRAs or ECAIs, can be used by banks in determining credit risk weights for many of their institutional credit exposures. Recognized ECAIs could be subject to a broader range of oversight. National authorities have begun the ECAI recognition process. MIS has been recognized as an ECAI in several jurisdictions and the recognition process is ongoing in many others. As a result of the recent developments in the financial markets, the banking authorities of the Basel Committee have been reconsidering the overall framework. Work on the new framework, Basel III, substantially has been completed. It is to be implemented in

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stages, beginning in 2010 and concluding in 2018. Basel III continues to use credit ratings as a tool in bank supervision.

Other legislation and regulation relating to credit rating and research services is being considered by local, national and multinational bodies and this type of activity is likely to continue in the future. In addition, in certain countries, governments may provide financial or other support to locally-based rating agencies. For example, governments may from time to time establish official rating agencies or credit ratings criteria or procedures for evaluating local issuers. If enacted, any such legislation and regulation could change the competitive landscape in which MIS operates. The legal status of rating agencies has been addressed by courts in various decisions and is likely to be considered and addressed in legal proceedings from time to time in the future. Management of MIS cannot predict whether these or any other proposals will be enacted, the outcome of any pending or possible future legal proceedings, or regulatory or legislative actions, or the ultimate impact of any such matters on the competitive position, financial position or results of operations of Moody's.

Table of Contents**Forward-Looking Statements**

Certain statements contained in this quarterly report on Form 10-Q are forward-looking statements and are based on future expectations, plans and prospects for the Company's business and operations that involve a number of risks and uncertainties. Such statements involve estimates, projections, goals, forecasts, assumptions and uncertainties that could cause actual results or outcomes to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements. Those statements appear at various places throughout this quarterly report on Form 10-Q, including in the sections entitled Outlook and Contingencies under Item 2. MD&A, commencing on page 28 of this quarterly report on Form 10-Q, under Legal Proceedings in Part II, Item 1, of this Form 10-Q, and elsewhere in the context of statements containing the words believe, expect, anticipate, intend, plan, will, predict, potential, continue, strategy, aspire, project, estimate, should, could, may and similar expressions or words and variations thereof relating to the Company's views on future events, trends and contingencies. Stockholders and investors are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements and other information are made as of the date of this quarterly report on Form 10-Q, and the Company undertakes no obligation (nor does it intend) to publicly supplement, update or revise such statements on a going-forward basis, whether as a result of subsequent developments, changed expectations or otherwise. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company is identifying examples of factors, risks and uncertainties that could cause actual results to differ, perhaps materially, from those indicated by these forward-looking statements. Those factors, risks and uncertainties include, but are not limited to, the current world-wide credit market disruptions and economic slowdown, which is affecting and could continue to affect the volume of debt and other securities issued in domestic and/or global capital markets; other matters that could affect the volume of debt and other securities issued in domestic and/or global capital markets, including credit quality concerns, changes in interest rates and other volatility in the financial markets; the uncertain effectiveness and possible collateral consequences of U.S. and foreign government initiatives to respond to the economic slowdown; concerns in the marketplace affecting our credibility or otherwise affecting market perceptions of the integrity or utility of independent agency ratings; the introduction of competing products or technologies by other companies; pricing pressure from competitors and/or customers; the impact of regulation as an NRSRO, the potential for new U.S., state and local legislation and regulations, including provisions in the recently enacted Financial Reform Act and anticipated regulations resulting from that law; the potential for increased competition and regulation in foreign jurisdictions; exposure to litigation related to our rating opinions, as well as any other litigation to which the Company may be subject from time to time; provisions in the Financial Reform Act legislation modifying the pleading and liability standards applicable to credit rating agencies in a manner adverse to rating agencies; the possible loss of key employees; failures or malfunctions of our operations and infrastructure; the outcome of any review by controlling tax authorities of the Company's global tax planning initiatives; the outcome of those Legacy Tax Matters and legal contingencies that relate to the Company, its predecessors and their affiliated companies for which Moody's has assumed portions of the financial responsibility; the ability of the Company to successfully integrate acquired businesses; and a decline in the demand for credit risk management tools by financial institutions. These factors, risks and uncertainties as well as other risks and uncertainties that could cause Moody's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements are described in greater detail under Risk Factors in Part I, Item 1A of the Company's annual report on Form 10-K, elsewhere in this Form 10-Q and in other filings made by the Company from time to time with the SEC or in materials incorporated herein or therein. Stockholders and investors are cautioned that the occurrence of any of these factors, risks and uncertainties may cause the Company's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements, which could have a material and adverse effect on the Company's business, results of operations and financial condition. New factors may emerge from time to time, and it is not possible for the Company to predict new factors, nor can the Company assess the potential effect of any new factors on it.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There was no material change in the Company's exposure to market risk since December 31, 2009. For a discussion of the Company's exposure to market risk, refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk, contained in the Company's annual report on Form 10-K for the year ended December 31, 2009.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures: The Company carried out an evaluation, as required by Rule 13a-15(b) under the Exchange Act, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this report (the Evaluation Date). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In addition, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has determined that there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, these internal controls over financial reporting during the period covered by this report.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See the discussion of legal matters under Part I, Item 2. MD&A Contingencies , commencing on page 49 of this quarterly report on Form 10-Q, which is incorporated into this Item 1 by reference.

Item 1A. Risk Factors

In addition to the risk factors addressed under Item 1A. Risk Factors , contained in the Company s annual report on Form 10-K for the year ended December 31, 2009, the following risk factors should be carefully considered. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known to the Company or that the Company s management currently deems minor or insignificant also may impair its business operations. If any of such risks occur, Moody s business, financial condition, operating results and cash flows could be materially adversely affected.

Regulations Affecting the Credit Rating Industry are Rapidly Evolving and it is Difficult to Predict the Effect New and Proposed Legislation and Regulations will have on the Company s Business

Credit rating agencies are regulated in both the U.S. and in other countries (including by state and local authorities). Currently, Moody s is designated as an NRSRO pursuant to SEC regulations enacted in response to the adoption of the CRA Reform Act. One of the central promises of the CRA Reform Act was to encourage competition among rating agencies. Given its comparatively recent adoption and the number of additional reforms that have been or will be adopted under the legislative and regulatory initiatives discussed below, Moody s is unable to accurately assess the future impact of any regulatory changes that may result or the impact on Moody s competitive position or its current practices. Possible consequences of recent legislative developments and pending legislative and regulatory initiatives will affect all entities engaged in the rating agency business and may affect Moody s in a disproportionate manner. Any of these changes could negatively impact Moody s operations or profitability, the Company s ability to compete, or the demand or markets for its products and services in ways that Moody s presently is unable to predict.

In the U.S., the recently enacted Financial Reform Act amends a number of laws and regulations, requires the SEC to adopt a number of rules and authorizes a number of studies relating to the operations and legal standards applicable to CRAs. The Financial Reform Act and the rules to be adopted by the SEC in response to the Financial Reform Act may require significant changes to the Company s business practices, reduce demand for ratings or otherwise affect the Company s competitive environment and potentially increase the Company s exposure to litigation. Provisions of the Financial Reform Act and rules that may be adopted by the SEC in furtherance of the Financial Reform Act that pose risks to the Company s business include, among others:

heightened compliance standards;

increased disclosure obligations;

provisions seeking to diminish investor reliance on credit ratings;

the possibility of rules that would mandate disclosure of sensitive issuer information provided to CRAs for the purpose of developing a rating;

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a mandate that the SEC study the feasibility of establishing a system in which a utility or a self-regulatory organization assigns NRSROs to determine the credit ratings of structured finance products to address so-called rating-shopping by issuers and underwriters of structured financial products;

rescission of an exemption from expert liability under the Securities Act for ratings information included in registration statements; and

changes to the pleading standards and, by repealing Rule 436(g) of the Securities Act, the liability standards under the federal securities laws if a CRA consents to have a rating included in a registration statement or prospectus.

In addition, in October 2009, the SEC proposed a rule providing that, if credit ratings are used in connection with a securities offering that is registered under the Securities Act (which as proposed would include use of a credit rating for certain unregistered securities offerings that are subsequently subject to a registered exchange offer), the ratings must be included in the registration statement. If adopted, this proposal, coupled with the Financial Reform Act's rescission of Rule 436(g), would mean that common practices used in the U.S. to market and sell securities in such offerings would have to be altered unless CRAs consented to subject themselves to expert liability provisions of the Securities Act with respect to their credit ratings. Adoption of this or a similar rule could impact the volume of securities sold in such offerings, demand for Moody's ratings, the pricing structure for ratings issued by Moody's and/or Moody's exposure to liability and could have other effects that Moody's is not able to predict, any of which could have a material adverse effect on the Company's business.

The Financial Reform Act and other initiatives are likely to increase the Company's cost structure and could alter the Company's communications with issuers as part of the rating assignment process, alter the manner in which the Company's ratings are developed,

Table of Contents

assigned and communicated, and affect the demand for and manner in which the Company's ratings are used and communicated in connection with securities offerings. Each of these effects could alter the Company's cost and pricing structure (and thus profitability), ability to compete, and the volume of and demand for ratings issued by Moody's. New pleading and liability standards and other provisions potentially subject CRAs to increased liability, which could increase the costs and legal risk associated with the issuance of credit ratings and may result in changes in the demand for credit ratings, in the manner in which ratings are utilized and in the manner in which Moody's operates in ways that cannot presently be predicted.

Further, over the past year, both the G-8 and the G-20 have sought to analyze and arrive at a consistent approach for addressing the various areas of the financial market and have made a variety of recommendations as to regulation of rating agencies and the markets for ratings. Finance ministers have also agreed to register rating agencies in their home jurisdiction. As a result of the internationally coordinated activity, individual countries have begun implementing registration regimes for the oversight of CRAs in the coming years. In particular, the European Union adopted a new regulatory framework for rating agencies operating in the EU. The regulation seeks to introduce a common EU regulatory approach to the oversight of CRAs. Its primary objective is to enhance the integrity, transparency, responsibility, governance and reliability of credit rating activities, by establishing conditions for the issuance of credit ratings and rules on the organization and conduct of credit rating agencies. The regulation became fully effective on September 6, 2010. Moody's applied for registration in last August 2010. These initiatives could negatively impact Moody's operations or profitability, ability to compete, or the markets for its products and services in ways that Moody's presently is unable to predict.

In addition to the foregoing, in the wake of the credit crisis, legislative and regulatory bodies in both the U.S. and in other countries have adopted or are studying or pursuing new laws and regulations addressing CRAs and the use of credit ratings, particularly in the area of structured finance securities, and the role of CRAs leading up to the credit crisis. Given the statement the G-20 made in November 2008, it is likely that other jurisdictions will adopt additional laws or regulations affecting Moody's operations or the markets for its products and services. This could include adopting regulations that affect the need for debt securities to be rated, establish criteria for credit ratings or authorize only certain entities to provide credit ratings.

As new laws and regulations applicable to credit ratings and rating agencies rapidly evolve, the costs of compliance can be expected to increase, and Moody's may not be able to pass on these costs through the pricing of its products. In addition, increased regulatory uncertainty over the scope, interpretation and administration of laws and regulations may increase costs, decrease demand or affect the manner in which Moody's or its customers or users of credit ratings operate, or alter the economics of the credit ratings business by restricting or mandating the business models under which a CRA is permitted to operate. Moody's stock price may also be affected by speculation regarding legislative and regulatory initiatives and their potential impact on Moody's business.

A description of several of the more recent regulatory initiatives in the U.S. and other countries is described above under the section entitled Regulation in Part I, Item 2 of the MD&A of this Form 10-Q.

Exposure to Litigation Related to Moody's Rating Opinions

Currently, Moody's has received subpoenas and inquiries from states attorneys general and governmental authorities, as part of ongoing investigations, and is responding to those inquiries. In addition, Moody's faces litigation from parties claiming damages relating to ratings actions, as well as other related business practices. Due to the difficult economic times and turbulent markets which the Company has experienced over the last several years, the market value of credit-dependent instruments has declined and defaults have increased, significantly increasing the number of investigations and legal proceedings Moody's is currently facing. These proceedings impose additional expenses on the Company, which may increase over time as these matters progress procedurally, require the attention of senior management to an extent that may significantly reduce their ability to devote time addressing other business issues, and, given the number of these proceedings and lawsuits, present a greater risk that Moody's may be subject to fines or damages, which would be the case if Moody's is deemed to have violated any laws or regulations. As Moody's international business expands, these types of claims may increase or become more costly because foreign jurisdictions may not have legal protections or liability standards comparable to those that currently exist in the U.S. (such as protections for the expression of credit opinions as provided by the First Amendment) and may pose criminal rather than civil penalties for non-compliance. These risks often are and may continue to be difficult to assess or quantify and we may not have adequate insurance or reserves to cover them, and their existence and magnitude often remains unknown for substantial periods of time.

In addition, the recently adopted Financial Reform Act revises pleading and liability standards and other provisions potentially subjecting CRAs to increased liability under securities law claims. This legislation and regulations that will be adopted in light of the Financial Reform Act may result in a material increase in the number of legal proceedings, especially as related to future ratings, and, together with judicial decisions under the Financial Reform Act and under pre-existing legal standards, may increase the potential legal exposure of CRAs. The Company believes that adoption of these provisions could negatively impact credit markets, including causing CRAs to cease to issue ratings on certain securities or issuers, increasing the cost of ratings, delaying issuances of ratings and restricting the public availability of ratings, which changes could

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materially negatively impact the Company's business and prospects. It is possible that implementing changes to the Company's operations to address the changed liability standards may result in lower revenues and/or increased expenses that the Company may not be able to recoup or offset, which could be material, and may not be successful in avoiding or mitigating the impact of the changed liability standard.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**
MOODY S PURCHASES OF EQUITY SECURITIES**For the Three Months Ended September 30, 2010**

| Period | Total Number of Shares Purchased(1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares That May Yet be Purchased Under the Program (2) |
|----------------|--|---|---|---|
| July 1-31 | | \$ | | \$ 1,331.3 million |
| August 1-31 | | \$ | | \$ 1,331.3 million |
| September 1-30 | 812,123 | \$ 24.25 | 811,762 | \$ 1,311.6 million |
| Total | 812,123 | | 811,762 | |

- (1) Includes the surrender to the Company of 361 shares of common stock in September to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.
- (2) As of the last day of each of the months. On July 30, 2007, the Company's Board authorized a \$2.0 billion share repurchase program which the Company began utilizing in January 2008 upon completion of the June 2006 authorization. There is no established expiration date for the remaining authorization.

During the third quarter of 2010, Moody's repurchased 0.8 million shares of its common stock, at an aggregate cost of \$19.7 million and issued 0.8 million shares under employee stock-based compensation plans.

Item 5. Other Information

None.

Table of Contents**Item 6. Exhibits**

| Exhibit | |
|----------------|---|
| No. | Description |
| 3 | ARTICLES OF INCORPORATION AND BY-LAWS |
| .1 | Restated Certificate of Incorporation of the Registrant dated June 15, 1998, as amended effective June 30, 1998, as amended effective October 1, 2000, and as further amended effective April 26, 2005 (incorporated by reference to Exhibit 3.1 to the Report on Form 8-K of the Registrant file number 1-14037, filed October 4, 2000, and Exhibit 3.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed April 27, 2005). |
| .2 | Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3 of the Report on Form 8-K of the Registrant, file number 1-14037, filed February 25, 2008). |
| 31 | CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 |
| .1* | Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| .2* | Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | CERTIFICATIONS PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 |
| .1* | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (The Company has furnished this certification and does not intend for it to be considered filed under the Securities Exchange Act of 1934 or incorporated by reference into future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934.) |
| .2* | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (The Company has furnished this certification and does not intend for it to be considered filed under the Securities Exchange Act of 1934 or incorporated by reference into future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934.) |
| 101.DEF** | XBRL Definitions Linkbase Document |
| 101.INS** | XBRL Instance Document |
| 101.SCH** | XBRL Taxonomy Extension Schema Document |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB** | XBRL Taxonomy Extension Labels Linkbase Document |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith.

** Furnished with the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2010

Table of Contents

SIGNATURES

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

MOODY S CORPORATION

By: */s/ LINDA S. HUBER*
Linda S. Huber
Executive Vice President and Chief Financial Officer
(principal financial officer)

Date: November 2, 2010

By: */s/ JOSEPH McCABE*
Joseph McCabe
Senior Vice President and Corporate Controller
(principal accounting officer)

61