MOODYS CORP /DE/
Form 10-Q
November 06, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2012

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)

Delaware	**13-3998945**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
7 World Trade Center at	
250 Greenwich Street, New York, N.Y.	**10007**
(Address of Principal Executive Offices)	**(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 x 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 x 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 x	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 x

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, 2012**
Common Stock, par value $0.01 per share	222.9 million

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MOODY S CORPORATION

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Exhibits Filed Herewith

31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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
Adjusted Operating Income	Operating income excluding restructuring and depreciation and amortization expense
Adjusted Operating Margin	Adjusted operating income divided by revenue
Analytics	Moody s Analytics a 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 Update 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
B&H	Barrie & Hibbert Limited, an acquisition completed in December 2011; part of the MA segment, a leading provider of risk management modeling tools for insurance companies worldwide
Basel II	Capital adequacy framework published in June 2004 by the Basel Committee on Banking Supervision
Basel III	A new global regulatory standard on bank capital adequacy and liquidity agreed by the members of the Basel Committee on Banking Supervision. Basel III was developed in a response to the deficiencies in financial regulation revealed by the global financial crisis. Basel III strengthens bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage.
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
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
Copal	Copal Partners; an acquisition completed in November 2011; part of the MA segment; leading provider of outsourced research and analytical services to institutional investors
CP	Commercial paper
CP Notes	Unsecured commercial paper notes

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TERM	DEFINITION
CP Program	The Company s commercial paper program entered into on October 3, 2007
CRAs	Credit rating agencies
CREF	Commercial real estate finance which includes REITs, commercial real estate CDOs and mortgage-backed securities; part of SFG
CSI	CSI Global Education, Inc.; an acquisition completed in November 2010; part of the MA segment; a provider of financial learning, credentials, and certification in Canada
D&B Business	Old D&B s Dun & Bradstreet operating company
DBPP	Defined benefit pension plans
Debt/EBITDA	Ratio of Total Debt to EBITDA
EBITDA	Earnings before interest, taxes, depreciation and amortization
ECAIs	External Credit Assessment Institutions
ECB	European Central Bank
EMEA	Represents countries within Europe, the Middle East and Africa
EPS	Earnings per share
ERS	The enterprise risk solutions LOB within MA (formerly RMS); which offers risk management software products as well as software implementation services and related risk management advisory engagements
ESMA	European Securities and Market Authority
ESPP	The 1999 Moody s Corporation Employee Stock Purchase Plan
ETR	Effective tax rate
EU	European Union
EUR	Euros
Eurosystem	The monetary authority of the Eurozone, the collective of European Union member states that have adopted the euro as their sole official currency. The Eurosystem consists of the European Central Bank and the central banks of the member states that belong to the Eurozone
Excess Tax Benefits	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 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
Financial Reform Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Free Cash Flow	Net cash provided by operating activities less cash paid for capital additions
FSTC	Financial Services Training and Certifications; a reporting unit within the MA segment that includes classroom-based training services and CSI
FX	Foreign exchange
GAAP	U.S. Generally Accepted Accounting Principles
GBP	British pounds

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TERM	DEFINITION
G-8	The finance minister 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 ECB
IMS Health	A spin-off of Cognizant; provides services to the pharmaceutical and healthcare industries
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
KIS	Korea Investors Service, Inc.; a leading Korean rating agency and consolidated subsidiary of the Company
KIS Pricing	Korea Investors Service Pricing, Inc.; a Korean provider of fixed income securities pricing and consolidated subsidiary of the Company
Legacy Tax Matter(s)	Exposures to certain potential tax liabilities assumed in connection with the 2000 Distribution
LIBOR	London Interbank Offered Rate
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, 2010 Senior Notes and 2012 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

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TERM	DEFINITION
NMR	Nielsen Media Research, Inc.; a spin-off of Cognizant; a leading source of television audience measurement services
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
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
PS	Professional Services, an LOB within MA that provides outsourced research and analytical services as well as financial training and certification programs
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
Redeemable Noncontrolling Interest	Represents minority shareholders interest in entities which are controlled but not wholly-owned by Moody s and for which Moody s obligation to redeem the minority shareholders interest is in the control of the minority shareholders
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. Now referred to as ERS
Retirement Plans	Moody s funded and unfunded pension plans, the retirement healthcare plans and retirement life insurance plans
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 million, 4.98% senior unsecured notes due in September 2015 pursuant to the 2005 Agreement
Series 2007-1 Notes	Principal amount of $300 million, 6.06% senior unsecured notes due in September 2017 pursuant to the 2007 Agreement
SFG	Structured finance group; an LOB of MIS
SG&A	Selling, general and administrative expenses
T&E	Travel and entertainment expenses
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

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TERM	DEFINITION
UTBs	Unrecognized tax benefits
UTPs	Uncertain tax positions
2000 Distribution	The distribution by Old D&B to its shareholders of all 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
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
2008 Term Loan	Five-year $150 million senior unsecured term loan entered into by the Company on May 7, 2008
2010 Senior Notes	Principal amount of $500 million, 5.50% senior unsecured notes due in September 2020 pursuant to the 2010 Indenture
2010 Indenture	Agreements dated August 19, 2010, relating to the 2010 Senior Notes
2012 Indenture	Agreements dated August 18, 2012, relating to the 2012 Senior Notes
2012 Senior Notes	Principal amount of $500 million, 4.50% senior unsecured notes due in September 2022 pursuant to the 2012 Indenture
2012 Facility	Revolving credit facility of $1 billion entered into on April 18, 2012, expiring in 2017
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

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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,	
	2012	2011	2012	2011
Revenue	**$ 688.5**	**$ 531.3**	**$ 1,976.1**	**$ 1,713.6**
Expenses				
Operating	207.3	171.0	573.4	502.3
Selling, general and administrative	187.4	145.0	515.8	436.4
Depreciation and amortization	24.1	19.0	69.7	58.5
Restructuring		0.2		0.1
Total expenses	**418.8**	**335.2**	**1,158.9**	**997.3**
Operating income	**269.7**	**196.1**	**817.2**	**716.3**
Non-operating (expense) income, net				
Interest expense, net	(15.3)	(12.9)	(42.2)	(45.2)
Other non-operating income (expense), net	10.0	1.6	12.6	13.1
Total non-operating (expense) income, net	**(5.3)**	**(11.3)**	**(29.6)**	**(32.1)**
Income before provisions for income taxes	**264.4**	**184.8**	**787.6**	**684.2**
Provision for income taxes	77.9	52.7	249.9	204.3
Net income	186.5	132.1	537.7	479.9
Less: Net income attributable to noncontrolling interests	2.6	1.4	7.8	4.7
Net income attributable to Moody s	**$ 183.9**	**$ 130.7**	**$ 529.9**	**$ 475.2**
Earnings per share attributable to Moody s common shareholders				
Basic	$ 0.83	$ 0.58	$ 2.37	$ 2.09
Diluted	$ 0.81	$ 0.57	$ 2.34	$ 2.06
Weighted average number of shares outstanding				
Basic	222.5	226.0	223.3	227.7

Diluted	226.1	229.0	226.7	230.7
Dividends declared per share attributable to Moody s common shareholders	$ 0.16	$ 0.14	$ 0.32	$ 0.28

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

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MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in millions)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Net income		**$ 186.5**		$ 132.1		**$ 537.7**		$ 479.9
Foreign currency translation adjustments		**32.8**		(74.4)		**23.5**		(38.2)
Cash flow and net investment hedges, net of tax:								
Net unrealized losses on cash flow and net investment hedges (1)	**0.1**		(0.1)		**(1.5)**		(0.5)	
Reclassification of losses included in net income (2)	**0.6**	**0.7**	0.8	0.7	**1.9**	**0.4**	2.3	1.8
Pension and Other Post-Retirement Benefits, net of tax:								
Amortization of actuarial losses and prior service costs included in net income (3)	**1.5**		0.6		**4.5**		2.3	
Net actuarial losses and prior service costs (4)		**1.5**		0.6	**(5.6)**	**(1.1)**	(3.3)	(1.0)
Comprehensive income		**221.5**		59.0		**560.5**		442.5
Less: comprehensive income attributable to noncontrolling interests		**2.5**		0.3		**8.8**		4.4
Comprehensive income attributable to Moody s		**$ 219.0**		$ 58.7		**$ 551.7**		$ 438.1

(1) Amounts are net of income taxes of $0.1 million for both the three months ended September 30, 2012 and 2011 and $1.0 million and $0.2 million for the nine months ended September 30, 2012 and 2011 respectively.

(2) Amounts are net of income taxes of $0.4 million and $0.6 million for the three months ended September 30, 2012 and 2011, respectively, and $1.3 million and $1.6 million for the nine months ended September 30, 2012 and 2011 respectively.

(3) Amounts are net of income taxes of $1.1 million and $0.5 million for the three months ended September 30, 2012 and 2011, respectively, and $3.1 million and $1.7 million for the nine months ended September 30, 2012 and 2011 respectively.

(4) Amounts are net of income taxes of $3.9 million and $2.4 million for the nine months ended September 30, 2012 and 2011 respectively.

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

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MOODY S CORPORATION

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Amounts in millions, except share and per share data)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,518.5	$ 760.0
Short-term investments	22.7	14.8
Accounts receivable, net of allowances of $30.0 in 2012 and $28.0 in 2011	549.6	489.8
Deferred tax assets, net	46.1	82.2
Other current assets	68.9	77.6
Total current assets	2,205.8	1,424.4
Property and equipment, net of accumulated depreciation of $297.9 in 2012 and $258.2 in 2011	315.6	326.8
Goodwill	646.3	642.9
Intangible assets, net	233.3	253.6
Deferred tax assets, net	156.8	146.4
Other assets	104.5	82.0
Total assets	**$ 3,662.3**	**$ 2,876.1**
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS EQUITY(DEFICIT)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 362.8	$ 452.3
Unrecognized tax benefits		90.0
Current portion of long-term debt	95.6	71.3
Deferred revenue	524.5	520.4
Total current liabilities	982.9	1,134.0
Non-current portion of deferred revenue	92.9	97.7
Long-term debt	1,611.9	1,172.5
Deferred tax liabilities, net	52.5	49.6
Unrecognized tax benefits	144.6	115.4
Other liabilities	386.2	404.8
Total liabilities	3,271.0	2,974.0
Contingencies (Note 14)		
Redeemable noncontrolling interest	69.2	60.5
Shareholders equity (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, 2012 and December 31, 2011, respectively.	3.4	3.4
Capital surplus	375.5	394.5
Retained earnings	4,634.1	4,176.1

Treasury stock, at cost; 120,028,264 and 120,462,232 shares of common stock at September 30, 2012 and December 31, 2011, respectively	(4,615.6)	(4,635.5)
Accumulated other comprehensive loss	(85.8)	(107.5)
Total Moody s shareholders equity (deficit)	311.6	(169.0)
Noncontrolling interests	10.5	10.6
Total shareholders equity (deficit)	322.1	(158.4)
Total liabilities, redeemable noncontrolling interest and shareholders equity (deficit)	**$ 3,662.3**	**$ 2,876.1**

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

MOODY S CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in millions)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows from operating activities		
Net income	$ 537.7	$ 479.9
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	69.7	58.5
Stock-based compensation expense	46.3	43.2
Deferred income taxes	29.8	12.8
Excess tax benefits from stock-based compensation plans	(11.8)	(6.0)
Legacy Tax Matters	(12.8)	(6.4)
Changes in assets and liabilities:		
Accounts receivable	(57.0)	97.5
Other current assets	8.9	77.5
Other assets	2.5	8.7
Accounts payable and accrued liabilities	(48.5)	(71.0)
Restructuring	(0.1)	(0.1)
Deferred revenue	(2.7)	(26.3)
Unrecognized tax benefits	(61.5)	(0.1)
Other liabilities	(4.5)	(1.9)
Net cash provided by operating activities	**496.0**	**666.3**
Cash flows from investing activities		
Capital additions	(35.2)	(53.6)
Purchases of short-term investments	(47.8)	(28.9)
Sales and maturities of short-term investments	40.4	27.3
Acquisitions	(3.5)	(10.1)
Net cash used in investing activities	**(46.1)**	**(65.3)**
Cash flows from financing activities		
Issuance of notes	496.1	
Repayments of notes	(39.4)	(7.5)
Net proceeds from stock-based compensation plans	71.9	37.6
Cost of treasury shares repurchased	(125.1)	(333.8)
Excess tax benefits from stock-based compensation plans	11.8	6.0
Payment of dividends	(107.3)	(89.9)
Payment of dividends to noncontrolling interests	(6.8)	(4.8)
Contingent consideration paid	(0.5)	
Debt issuance costs and related fees	(6.3)	
Net cash provided by (used in) financing activities	**294.4**	**(392.4)**
Effect of exchange rate changes on cash and cash equivalents	**14.2**	**(14.0)**

Net increase in cash and cash equivalents	**758.5**	**194.6**
Cash and cash equivalents, beginning of the period	760.0	659.6
Cash and cash equivalents, end of the period	**$ 1,518.5**	**$ 854.2**

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

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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, capital markets and economic research, data and analytical tools, (iii) software solutions and related risk management services, (iv) quantitative credit risk measures, financial services training and certification services and (v) outsourced research and analytical services to institutional customers. Moody s has 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, which includes all of the Company s non-rating commercial activities, develops a wide range of products and services that support financial analysis and risk management activities of institutional participants in global financial markets. Within its Research, Data and Analytics business, MA distributes 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 economic research as well as data and analytical tools such as quantitative credit risk scores. Within its Enterprise Risk Solutions business (formerly referred to as RMS), MA provides software solutions as well as related risk management services. The Professional Services business provides outsourced research and analytical services along with financial training and certification programs.

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 2011 annual report on Form 10-K filed with the SEC on February 27, 2012. 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

The following outlines changes to the Company s accounting policy regarding long-lived assets, including goodwill and other acquired intangible assets since the Company s last Form 10K filed with the SEC for the year ended December 31, 2011. All other provisions as outlined in the summary of significant accounting policies for this policy and all other significant accounting policies described in the Form 10-K for the year ended December 31, 2011 remain unchanged.

Long-Lived Assets, Including Goodwill and Other Acquired Intangible Assets

Moody s evaluated its goodwill for impairment at the reporting unit level, defined as an operating segment or one level below an operating segment, annually as of November 30 or more frequently if impairment indicators arose in accordance with ASC Topic 350. In the second quarter of 2012, the Company changed the date of its annual assessment of goodwill impairment to July 31 of each year. This is a change in method of applying an accounting principle which management believes is a preferable alternative as the new date of the assessment is more closely aligned with the Company s strategic planning process. The change in the assessment date does not delay, accelerate or avoid a potential impairment charge. The Company has determined that it is impracticable to objectively determine projected cash

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flows and related valuation estimates that would have been used as of each July 31 of prior reporting periods without the use of hindsight. As such, the Company has prospectively applied the change in annual goodwill impairment testing date beginning in the second quarter of 2012.

At July 31, 2012, the Company had five primary reporting units: one in MIS that encompasses all of Moody s ratings operations and four reporting units within MA: RD&A, ERS, Financial Services Training and Certifications and Copal Partners. The RD&A reporting unit encompasses the distribution of investor-oriented research and data developed by MIS as part of its ratings process, in-depth research on major debt issuers, industry studies, economic research and commentary on topical events and credit analytic tools. The ERS reporting unit consists of credit risk management and compliance software that is sold on a license or subscription basis as well as related advisory services for implementation and maintenance. In the first quarter of 2012, a division formerly in the RD&A reporting unit which provided various financial modeling services was transferred to the ERS reporting unit. Additionally, in the second quarter of 2012, the CSI reporting unit, which consisted of all operations relating to CSI which was acquired in November 2010, was integrated into MA s training reporting unit to form the FSTC reporting unit. The new FSTC reporting unit consists of the portion of the MA business that offers both credit training as well as other professional development training and certification services. In the fourth quarter of 2011, the Company acquired Copal which is deemed to be separate reporting unit at September 30, 2012. Also, in December 2011, the Company acquired B&H which is part of the ERS reporting unit.

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,	
	2012	**2011**	**2012**	**2011**
Stock-based compensation cost	**$ 16.4**	$ 12.9	**$ 46.3**	$ 43.2
Tax benefit	**$ 5.9**	$ 5.0	**$ 16.7**	$ 16.2

During the first nine months of 2012, the Company granted 0.5 million employee stock options, which had a weighted average grant date fair value of $15.19 per share based on the Black-Scholes option-pricing model. The Company also granted 1.3 million shares of restricted stock in the first nine months of 2012, which had a weighted average grant date fair value of $38.61 per share and generally vest ratably over a four-year period. Additionally, the Company granted approximately 0.3 million shares of restricted stock that contain 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 weighted average grant date fair value of these awards was $36.78 per share.

The following weighted average assumptions were used in determining the fair value for options granted in 2012:

Expected dividend yield	**1.66%**
Expected stock volatility	**44%**
Risk-free interest rate	**1.55%**
Expected holding period	**7.4 yrs**
Grant date fair value	**$ 15.19**

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Unrecognized compensation expense at September 30, 2012 was $15.6 million and $66.2 million for stock options and nonvested restricted stock, respectively, which is expected to be recognized over a weighted average period of 1.3 years and 1.7 years, respectively. Additionally, there was $16.2 million of unrecognized compensation expense relating to the aforementioned non-market based performance awards which is expected to be recognized over a weighted average period of 0.9 years.

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

	Nine Months Ended September 30,	
Stock option exercises:	**2012**	**2011**
Proceeds from stock option exercises	**$ 83.2**	$ 41.5
Aggregate intrinsic value	**$ 41.4**	$ 20.4
Tax benefit realized upon exercise	**$ 15.7**	$ 8.0

	Nine Months Ended September 30,	
Restricted stock vesting:	**2012**	**2011**
Fair value of shares vested	**$ 37.7**	$ 18.8
Tax benefit realized upon vesting	**$ 13.3**	$ 7.0

NOTE 4. INCOME TAXES

Moody s effective tax rate was 29.5% and 28.5% for the three months ended September 30, 2012 and 2011, respectively and 31.7% and 29.9% for the nine months ended September 30, 2012 and 2011, respectively. The increase in the ETR compared to the third quarter of 2011 was primarily due to tax benefits from the settlement of state tax audits in the prior period, partially offset by the favorable impact of foreign tax planning initiatives in 2012. The increase in the ETR compared to the nine months ended September 30, 2011 was primarily due to a reversal of UTPs in 2011 resulting from a foreign tax ruling and tax benefits from the settlement of state tax audits in 2011 partially offset by the aforementioned foreign tax planning.

The Company classifies interest related to UTPs in interest expense, net in its consolidated statements of operations. Penalties, if incurred, would be recognized in other non-operating (expense) income, net. The Company had an overall increase in its UTPs of $14.6 million ($12.1 million net of federal tax benefit) during the third quarter of 2012 and an overall decrease in its UTPs during the first nine months of 2012 of $60.8 million ($33.5 million net of federal benefits). The decrease in UTPs from December 31, 2011 is due to the settlement of income tax audits in the period.

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. The Company s U.S. federal income tax returns for the years 2008 through 2010 are under examination and its 2011 return remains open to examination. Tax filings in the U.K. remain open to examination for tax years 2007 through 2010.

For ongoing audits, 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 relating to all open tax years by tax jurisdiction in accordance with the applicable provisions of Topic 740 of the ASC regarding UTBs.

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The following table shows the amount the Company paid for income taxes:

	Nine Months Ended September 30,	
	2012	**2011**
Income Taxes Paid*	**$ 271.9**	$ 166.9

* Includes approximately $92 million in payments for tax audit settlements in the first quarter of 2012.

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,	
	2012	**2011**	**2012**	**2011**
Basic	**222.5**	226.0	**223.3**	227.7
Dilutive effect of shares issuable under stock-based compensation plans	**3.6**	3.0	**3.4**	3.0
Diluted	**226.1**	229.0	**226.7**	230.7
Anti-dilutive options to purchase common shares and restricted stock excluded from the table above	**6.6**	10.7	**6.6**	10.8

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, 2012 and 2011. These assumed proceeds include Excess Tax Benefits and any unrecognized compensation of 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 six months and one month to seven months as of September 30, 2012 and December 31, 2011, respectively. Interest and dividends are recorded into income when earned.

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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.

Interest Rate Swaps

In the fourth quarter of 2010, the Company entered into interest rate swaps with a total notional amount of $300 million to convert the fixed interest rate on the Series 2005-1 Notes to a floating interest rate based on the 3-month

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LIBOR. The purpose of this hedge was to mitigate the risk associated with changes in the fair value of the Series 2005-1 Notes, thus the Company has designated these swaps as fair value hedges. The fair value of the swaps is reported in other assets at September 30, 2012 and December 31, 2011 in the Company s consolidated balance sheets with a corresponding adjustment to the carrying value of the Series 2005-1 Notes. The changes in the fair value of the hedges and the underlying hedged item generally offset and the net cash settlements on the swaps are recorded each period within interest expense, net, in the Company s consolidated statement of operations.

In May 2008, the Company entered into interest rate swaps with a total notional amount of $150 million to protect against fluctuations in the LIBOR-based variable interest rate on the 2008 Term Loan, further described in Note 13. These interest rate swaps are designated as cash flow hedges. Accordingly, changes in the fair value of these swaps are recorded to other comprehensive income or loss, to the extent that the hedge is effective, and such amounts are reclassified to earnings in the same period during which the hedged transaction affects income. The fair value of the swaps is reported in other liabilities in the Company s consolidated balance sheets at September 30, 2012 and December 31, 2011.

Foreign Exchange Forwards and Options

The Company engaged in hedging activities to protect against FX risks from forecasted billings and related revenue denominated in the euro and the GBP. FX options and forward exchange contracts were utilized to hedge exposures related to changes in FX rates. As of December 31, 2011, these FX options and forward exchange contracts have matured and all realized gains and losses have been reclassified from AOCI into earnings. FX options and forward exchange contracts were designated as cash flow hedges.

The Company also enters into foreign exchange forwards to mitigate the change in fair value on certain assets and liabilities denominated in currencies other than the entity 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 assets and liabilities denominated in a currency other than the entity s functional currency. These contracts have expiration dates at various times through December 2012.

The following table summarizes the notional amounts of the Company s outstanding foreign exchange forwards:

	September 30, 2012	**December 31, 2011**
Notional amount of Currency Pair:		
Contracts to purchase USD with euros	**$ 34.6**	$ 27.5
Contracts to sell USD for euros	**$ 47.1**	$ 47.7
Contracts to purchase USD with GBP	**$ 4.2**	$ 2.4
Contracts to sell USD for GBP	**$ 4.2**	$ 17.6
Contracts to purchase USD with other foreign currencies	**$ 8.7**	$ 3.2
Contracts to sell USD for other foreign currencies	**$ 6.5**	$ 7.6
Contracts to purchase euros with other foreign currencies	**20.7**	13.6
Contracts to purchase euros with GBP	**8.7**	1.6
Contracts to sell euros for GBP	**9.9**	7.2

Net Investment Hedges

The Company enters into foreign currency forward contracts to hedge the exposure related to non-U.S. dollar net investments in certain foreign subsidiaries against adverse changes in foreign exchange rates. These forward contracts are designated as hedging instruments under the applicable sections of Topic 815 of the ASC. Hedge effectiveness is assessed based on the overall changes in the fair value of the forward contracts on a pre-tax basis. Any change in the fair value of

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these hedges that is the result of ineffectiveness would be recognized immediately in other non-operating (expense) income in the Company s consolidated statement of operations. As of September 30, 2012 the Company does not expect to incur any ineffectiveness. Accordingly, all gains and losses on these derivatives designated as net investment hedges are recognized in the currency translation adjustment component of AOCI. These outstanding contracts expire on December 3, 2012.

The following table summarizes the notional amounts of the Company s outstanding foreign exchange forward contracts that are designated as net investment hedges:

	September 30, 2012	December 31, 2011
Notional amount of Currency Pair:		
Contracts to sell euros for USD	**50.0**	N/A

The table below shows the classification between assets and liabilities on the Company s consolidated balance sheets for the fair value of the derivative instruments:

	Fair Value of Derivative Instruments		
	Balance Sheet Location	September 30, 2012	December 31, 2011
Assets:			
Derivatives designated as accounting hedges:			
Interest rate swaps	Other assets	**$ 18.4**	$ 11.5
Total derivatives designated as accounting hedges		**18.4**	11.5
Derivatives not designated as accounting hedges:			
FX forwards on certain assets and liabilities	Other current assets	**2.0**	1.1
Total		**$ 20.4**	$ 12.6
Liabilities:			
Derivatives designated as accounting hedges:			
Interest rate swaps	Accounts payable and accrued liabilities	**$ 1.5**	$ 4.5
FX forwards on net investment in certain foreign subsidiaries	Accounts payable and accrued liabilities	**1.8**	
Total derivatives designated as accounting hedges		**3.3**	4.5
Derivatives not designated as accounting hedges:			
FX forwards on certain assets and liabilities	Accounts payable and accrued liabilities	**0.6**	2.3
Total		**$ 3.9**	$ 6.8

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The following table summarizes the net gain (loss) on the Company s foreign exchange forwards which are not designated as hedging instruments as well as the gain (loss) on the interest rate swaps designated as fair value hedge:

		Amount of Gain (Loss) Recognized in consolidated statements of operations			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives designated as accounting hedges	**Location on Consolidated Statements of Operations**	**2012**	**2011**	**2012**	**2011**
Interest rate swaps	Interest expense, net	**$ 0.9**	$ 1.0	**$ 2.6**	$ 3.1
Derivatives not designated as accounting hedges					
Foreign exchange forwards	Other non-operating (expense) income	**$ 0.4**	$ (3.1)	**$**	$ (0.6)

The following table provides information on gains/(losses) on the Company s cash flow hedges:

Derivatives in Cash Flow Hedging Relationships	**Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion)**		**Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)**	**Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)**		**Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**	**Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**	
	Three Months Ended September 30,			**Three Months Ended September 30,**			**Three Months Ended September 30,**	
	2012	**2011**		**2012**	**2011**		**2012**	**2011**
FX options	**$**	$	Revenue	**$**	$	Revenue	**$**	$
Interest rate swaps		(0.1)	Interest Expense	**(0.6)**	(0.9)	N/A		
Total	**$**	$ (0.1)		**$ (0.6)**	$ (0.9)		**$**	$
	Nine Months Ended September 30,			**Nine Months Ended September 30,**			**Nine Months Ended September 30,**	
	2012	**2011**		**2012**	**2011**		**2012**	**2011**
FX options	**$**	$	Revenue	**$**	$ (0.2)	Revenue	**$**	$
Interest rate swaps	**(0.1)**	(0.5)	Interest Expense					