MOODYS CORP /DE/
Form 10-Q
October 31, 2013

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, 2013

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, 2013**
Common Stock, par value $0.01 per share	215.1 million

Table of Contents

MOODY S CORPORATION

INDEX TO FORM 10-Q

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
Adjusted Operating Income	Operating income excluding restructuring and depreciation and amortization
Adjusted Operating Margin	Operating margin excluding restructuring and depreciation and amortization
Americas	Represents countries within North and South America, excluding the U.S.
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
Asia-Pacific	Represents countries in Asia also including but not limited to: Australia and its proximate islands, China, India, Indonesia, Japan, Korea, Malaysia, Singapore and Thailand
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
CFG	Corporate finance group; an LOB of MIS
CLO	Collateralized loan obligation
CMBS	Commercial mortgage-backed securities; part of CREF
Company	Moody s Corporation and its subsidiaries; MCO; Moody s

Table of Contents

TERM	DEFINITION
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 Program	The Company s commercial paper program entered into on October 3, 2007
CRAs	Credit rating agencies
CRA1	Regulation (EC) No 1060/2009 of the European Parliament and of the Council, establishing an oversight regime for the CRA industry in the EU
CRA2	Regulation (EU) No 513/2011 of the European Parliament and of the Council, which transferred direct supervisory responsibility for the registered CRA industry in the EU to ESMA
CRA3	Regulation (EU) No 462/2013 of the European Parliament and of the Council, which updated the regulatory regimes imposing additional procedural requirements on CRAs
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
DCF	Discounted cash flow; a fair value calculation methodology whereby future projected cash flows are discounted back to their present value using a discount rate
Debt/EBITDA	Ratio of Total Debt to EBITDA
EBITDA	Earnings before interest, taxes, depreciation and amortization
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 Markets Authority
ETR	Effective tax rate
EU	European Union
EUR	Euros
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
FDIC	Federal Deposit Insurance Corporation
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

4

Table of Contents

TERM	DEFINITION
FSTC	Financial Services Training and Certifications; a reporting unit within the MA segment that includes on-line and classroom-based training services and CSI
FX	Foreign exchange
GAAP	U.S. Generally Accepted Accounting Principles
GBP	British pounds
GDP	Gross domestic product
IRS	Internal Revenue Service
IT	Information technology
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
M&A	Mergers and acquisitions
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
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
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

Table of Contents

TERM	DEFINITION
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
REIT	Real Estate Investment Trust
RMBS	Residential mortgage-backed security; part of SFG
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 McGraw Hill Financial, 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
U.K.	United Kingdom
U.S.	United States
USD	U.S. dollar
UTBs	Unrecognized tax benefits
UTPs	Uncertain tax positions
WACC	Weighted average cost of capital
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

Table of Contents

TERM	DEFINITION
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 Indenture	Supplemental indenture and related agreements dated August 19, 2010, relating to the 2010 Senior Notes
2010 Senior Notes	Principal amount of $500 million, 5.50% senior unsecured notes due in September 2020 pursuant to the 2010 Indenture
2012 Indenture	Supplemental indenture and related 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
2013 Indenture	Supplemental indenture and related agreements dated August 12, 2013, relating to the 2013 Senior Notes
2013 Senior Notes	Principal amount of $500 million, 4.875% senior unsecured notes due in February 2024 pursuant to the 2013 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,	
	2013	2012	2013	2012
Revenue	**$ 705.5**	**$ 688.5**	**$ 2,193.3**	**$ 1,976.1**
Expenses				
Operating	203.5	207.3	601.4	573.4
Selling, general and administrative	187.1	187.4	599.1	515.8
Depreciation and amortization	23.4	24.1	70.1	69.7
Total expenses	**414.0**	**418.8**	**1,270.6**	**1,158.9**
Operating income	**291.5**	**269.7**	**922.7**	**817.2**
Non-operating (expense) income, net				
Interest income (expense), net	(24.4)	(15.3)	(68.1)	(42.2)
Other non-operating income (expense), net	(3.6)	10.0	12.9	12.6
Total non-operating (expense) income, net	**(28.0)**	**(5.3)**	**(55.2)**	**(29.6)**
Income before provisions for income taxes	**263.5**	**264.4**	**867.5**	**787.6**
Provision for income taxes	76.7	77.9	261.2	249.9
Net income	186.8	186.5	606.3	537.7
Less: Net income attributable to noncontrolling interests	2.9	2.6	8.5	7.8
Net income attributable to Moody s	**$ 183.9**	**$ 183.9**	**$ 597.8**	**$ 529.9**
Earnings per share attributable to Moody s common shareholders				
Basic	$ 0.84	$ 0.83	$ 2.70	$ 2.37
Diluted	$ 0.83	$ 0.81	$ 2.66	$ 2.34
Weighted average number of shares outstanding				
Basic	217.8	222.5	221.1	223.3
Diluted	222.0	226.1	225.1	226.7

Dividends declared per share attributable to Moody s common shareholders	$ 0.25	$ 0.16	$ 0.45	$ 0.32

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

Table of Contents

MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in millions)

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Pre-tax amounts	**Tax amounts**	**After-tax amounts**	**Pre-tax amounts**	**Tax amounts**	**After-tax amounts**
Net income			**$ 186.8**			$ 186.5
Other comprehensive income (loss):						
Foreign currency adjustment:						
Foreign currency translation adjustments	**$ 48.1**	**$**	**48.1**	$ 32.8	$	32.8
Foreign currency translation adjustments - reclassification of losses included in net income due to liquidation of a foreign subsidiary	**1.3**		**1.3**			
Cash flow and net investment hedges:						
Net realized and unrealized (loss) gain on cash flow and net investment hedges	**(2.7)**	**1.2**	**(1.5)**	0.2	(0.1)	0.1
Reclassification of losses included in net income				1.0	(0.4)	0.6
Pension and Other Retirement Benefits:						
Amortization of actuarial losses and prior service costs included in net income	**3.1**	**(1.3)**	**1.8**	2.6	(1.1)	1.5
Total other comprehensive income (loss)	**$ 49.8**	**$ (0.1)**	**49.7**	$ 36.6	$ (1.6)	35.0
Comprehensive income			**236.5**			221.5
Less: comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest			**2.9**			2.5
Comprehensive income attributable to Moody s			**$ 233.6**			$ 219.0

	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Pre-tax amounts	**Tax amounts**	**After-tax amounts**	**Pre-tax amounts**	**Tax amounts**	**After-tax amounts**
Net income			**$ 606.3**			$ 537.7
Other comprehensive income (loss):						
Foreign currency adjustment:						
Foreign currency translation adjustments	**$ (24.7)**	**$**	**(24.7)**	$ 23.5	$	23.5
Foreign currency translation adjustments - reclassification of losses included in net income due to liquidation of a foreign subsidiary	**1.3**		**1.3**			
Cash flow and net investment hedges:						
Net realized and unrealized (loss) gain on cash flow and net investment hedges	**(1.7)**	**0.7**	**(1.0)**	(2.5)	1.0	(1.5)
Reclassification of losses included in net income	**0.7**	**(0.2)**	**0.5**	3.2	(1.3)	1.9

Pension and Other Retirement Benefits:						
Amortization of actuarial losses and prior service costs included in net income	**9.0**	**(3.7)**	**5.3**	7.6	(3.1)	4.5
Net actuarial losses and prior service costs	**0.9**	**(0.4)**	**0.5**	(9.5)	3.9	(5.6)
Total other comprehensive income (loss)	**$ (14.5)**	**$ (3.6)**	**(18.1)**	$ 22.3	$ 0.5	22.8
Comprehensive income			**588.2**			560.5
Less: comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest			**8.5**			8.8
Comprehensive income attributable to Moody s			**$ 579.7**			$ 551.7

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

9

Table of Contents

MOODY S CORPORATION

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

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

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,835.1	$ 1,755.4
Short-term investments	209.6	17.9
Accounts receivable, net of allowances of $29.8 in 2013 and $29.1 in 2012	592.0	621.8
Deferred tax assets, net	46.7	38.7
Other current assets	98.8	91.9
Total current assets	2,782.2	2,525.7
Property and equipment, net of accumulated depreciation of $359.0 in 2013 and $314.3 in 2012	284.3	307.1
Goodwill	630.8	637.1
Intangible assets, net	198.2	226.5
Deferred tax assets, net	165.1	168.5
Other assets	93.9	96.0
Total assets	**$ 4,154.5**	**$ 3,960.9**
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 337.9	$ 555.3
Current portion of long-term debt		63.8
Deferred revenue	559.3	545.8
Total current liabilities	897.2	1,164.9
Non-current portion of deferred revenue	105.2	94.9
Long-term debt	2,098.6	1,607.4
Deferred tax liabilities, net	54.5	58.1
Unrecognized tax benefits	199.2	156.6
Other liabilities	426.4	410.1
Total liabilities	3,781.1	3,492.0
Contingencies (Note 13)		
Redeemable noncontrolling interest	81.5	72.3
Shareholders equity:		
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, 2013 and December 31, 2012, respectively.	3.4	3.4
Capital surplus	377.1	365.1
Retained earnings	5,210.6	4,713.3
	(5,209.4)	(4,614.5)

Treasury stock, at cost; 127,780,434 and 119,650,254 shares of common stock at September 30, 2013 and December 31, 2012, respectively		
Accumulated other comprehensive loss	(100.2)	(82.1)
Total Moody s shareholders equity	281.5	385.2
Noncontrolling interests	10.4	11.4
Total shareholders equity	291.9	396.6
Total liabilities, redeemable noncontrolling interest and shareholders equity	**$ 4,154.5**	**$ 3,960.9**

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, 2013	Nine months ended September 30, 2012
Cash flows from operating activities		
Net income	$ 606.3	$ 537.7
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	70.1	69.7
Stock-based compensation expense	49.3	46.3
Deferred income taxes	(13.0)	29.8
Excess tax benefits from stock-based compensation plans	(32.4)	(11.8)
Legacy Tax Matters		(12.8)
Changes in assets and liabilities:		
Accounts receivable	26.8	(57.0)
Other current assets	(7.0)	8.9
Other assets	(6.0)	2.5
Accounts payable and accrued liabilities	(138.6)	(48.5)
Restructuring liability		(0.1)
Deferred revenue	25.6	(2.7)
Unrecognized tax benefits and other non-current tax liabilities	44.8	(61.5)
Other liabilities	27.6	(4.5)
Net cash provided by operating activities	**653.5**	**496.0**
Cash flows from investing activities		
Capital additions	(31.0)	(35.2)
Purchases of short-term investments	(215.2)	(47.8)
Sales and maturities of short-term investments	23.4	40.4
Cash paid for acquisitions		(3.5)
Net cash used in investing activities	**(222.8)**	**(46.1)**
Cash flows from financing activities		
Issuance of notes	497.2	496.1
Repayments of notes	(63.8)	(39.4)
Net proceeds from stock-based compensation plans	96.6	71.9
Cost of treasury shares repurchased	(747.6)	(125.1)
Excess tax benefits from settlement of stock-based compensation plans	32.4	11.8
Payment of dividends	(143.7)	(107.3)
Payment of dividends to noncontrolling interests	(9.9)	(6.8)
Contingent consideration paid	(0.3)	(0.5)
Debt issuance costs and related fees	(4.1)	(6.3)
Net cash (used in) provided by financing activities	**(343.2)**	**294.4**
Effect of exchange rate changes on cash and cash equivalents	**(7.8)**	**14.2**

Net increase in cash and cash equivalents	**79.7**	**758.5**
Cash and cash equivalents, beginning of the period	1,755.4	760.0
Cash and cash equivalents, end of the period	**$ 1,835.1**	**$ 1,518.5**

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, 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. It also provides fixed income pricing in the Asia-Pacific region. Within its Enterprise Risk Solutions business, 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 2012 annual report on Form 10-K filed with the SEC on February 26, 2013. 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. 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,	
	2013	**2012**	**2013**	**2012**
Stock-based compensation cost	**$ 16.0**	$ 16.4	**$ 49.3**	$ 46.3
Tax benefit	**$ 5.9**	$ 5.9	**$ 17.9**	$ 16.7

During the first nine months of 2013, the Company granted 0.5 million employee stock options, which had a weighted average grant date fair value of $17.58 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 2013, which had a weighted average grant date fair value of $46.52 per share and generally vest ratably over a four-year period. Additionally, the Company granted approximately 0.3 million shares of performance-based awards 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 $44.07 per share.

The following weighted average assumptions were used in determining the fair value for options granted in 2013:

Expected dividend yield	**1.72%**
Expected stock volatility	**42.6%**
Risk-free interest rate	**1.53%**
Expected holding period	**7.2 years**
Grant date fair value	**$ 17.58**

Unrecognized compensation expense at September 30, 2013 was $10.9 million and $83.1 million for stock options and unvested 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 $15.1 million of unrecognized compensation expense relating to the aforementioned non-market based performance-based 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, restricted stock vesting and the delivery of performance-based awards:

	Nine Months Ended September 30,	
Exercise of stock options:	**2013**	**2012**
Proceeds from stock option exercises	**$ 124.4**	$ 83.2
Aggregate intrinsic value	**$ 89.0**	$ 41.4
Tax benefit realized upon exercise	**$ 32.6**	$ 15.7
Number of shares exercised	**3.5**	3.1

	Nine Months Ended September 30,	
Vesting of restricted stock:	**2013**	**2012**
Fair value of shares vested	**$ 54.0**	$ 37.7
Tax benefit realized upon vesting	**$ 19.2**	$ 13.3
Number of shares vested	**1.1**	1.0

	Nine Months Ended September 30,	
Delivery of performance-based restricted stock:	**2013**	**2012**
Fair value of shares delivered	**$ 25.5**	$
Tax benefit realized upon delivery	**$ 9.7**	$
Number of shares delivered	**0.5**	

NOTE 3. INCOME TAXES

Moody s effective tax rate was 29.1% and 29.5% for the three months ended September 30, 2013 and 2012, respectively and 30.1% and 31.7% for the nine months ended September 30, 2013 and 2012, respectively. The decrease

Table of Contents

in the effective tax rate for the nine months ended September 30, 2013 is primarily due to U.S. tax legislation enacted in the first quarter of 2013 which retroactively extended certain favorable tax benefits to the 2012 tax year and prospectively extended these benefits to the 2013 tax year. Additionally, the tax effect of the litigation settlement in the first quarter of 2013 favorably impacted the 2013 ETR.

The Company classifies interest related to UTBs 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 UTBs of $14.6 million ($11.8 million net of federal tax benefit) during the third quarter of 2013 and an overall increase in its UTBs during the first nine months of 2013 of $42.6 million ($34.8 million net of federal tax benefits).

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. Tax returns remain subject to examination by the various tax authorities until the relevant statutes of limitations have expired. The Company s U.S. federal income tax returns for the years 2008 through 2010 are under examination and its 2011 and 2012 returns remain open to examination. The Company s New York State and New York City income tax returns for 2011 and 2012 remain open to examination. Income tax filings in the U.K. for 2007 through 2010 are under examination and 2011 and 2012 remain open to examination.

For ongoing audits, it is possible the balance of UTBs could decrease in the next twelve months as a result of the settlement of various 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 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.

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

	Nine Months Ended September 30,	
	2013	**2012**
Income Taxes Paid*	**$ 267.3**	$ 271.9

* Includes approximately $92 million for tax audit settlements paid in the first quarter of 2012. Payments in 2013 include $50 million of 2012 estimated federal taxes paid in the first quarter of 2013 pursuant to IRS relief due to Hurricane Sandy.

NOTE 4. WEIGHTED AVERAGE SHARES OUTSTANDING

Below is a reconciliation of basic to diluted shares outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Basic	**217.8**	222.5	**221.1**	223.3
Dilutive effect of shares issuable under stock-based compensation plans	**4.2**	3.6	**4.0**	3.4
Diluted	**222.0**	226.1	**225.1**	226.7
Anti-dilutive options to purchase common shares and restricted stock as well as contingently issuable restricted stock which are excluded from the table above	**2.6**	6.6	**4.3**	6.6

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, 2013 and 2012. These assumed proceeds include Excess Tax Benefits and any unrecognized compensation of the awards.

NOTE 5. 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 11 months as of September 30, 2013 and December 31, 2012. Interest and dividends are recorded into income when earned.

NOTE 6. 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 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 adjusted quarterly 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 income (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. These interest rate swaps were designated as cash flow hedges. Accordingly, changes in the fair value of these swaps were recorded to other comprehensive income or loss, to the extent that the hedge is effective, and such amounts were reclassified to earnings in the same period during which the hedged transaction affects income. The 2008 Term Loan has been repaid in full in accordance with the payment terms set forth in Note 12 and the interest rate swaps have matured. Accordingly, all amounts in accumulated other comprehensive income have been reclassified to interest income (expense), net in the Company s consolidated statements of operations.

Foreign Exchange Forwards

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 a subsidiary s functional currency. These forward contracts are not designated as accounting hedges 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 subsidiary s functional currency. These contracts have expiration dates at various times through December 2013.

Table of Contents

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

	September 30, 2013	December 31, 2012
Notional amount of currency pair:		
Contracts to purchase USD with euros	**$ 23.5**	$ 34.3
Contracts to sell USD for euros	**$ 53.0**	$ 48.4
Contracts to purchase USD with GBP	**$ 4.2**	$ 2.1
Contracts to sell USD for GBP	**$ 7.7**	$ 1.7
Contracts to purchase USD with other foreign currencies	**$ 8.0**	$ 6.7
Contracts to sell USD for other foreign currencies	**$ 10.9**	$ 5.1
Contracts to purchase euros with other foreign currencies	**13.5**	14.4
Contracts to purchase euros with GBP	**6.4**	
Contracts to sell euros for GBP	**16.4**	8.9

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 accounting hedges 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. For hedges that meet the effectiveness requirements, any change in the fair value for the hedge is recorded in the currency translation adjustment component of AOCI. Any change in the fair value of 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. These outstanding contracts expire in December 2013.

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, 2013	December 31, 2012
Notional amount of currency pair:		
Contracts to sell euros for USD	**50.0**	50.0

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	
Derivatives Instruments	**Balance Sheet Location**	**September 30, 2013**	**December 31, 2012**
Assets:			
Derivatives designated as accounting hedges:			
Interest rate swaps	Other assets	**$ 7.3**	$ 13.8
Total derivatives designated as accounting hedges		**7.3**	13.8
Derivatives not designated as accounting hedges:			
FX forwards on certain assets and liabilities	Other current assets	**1.1**	1.4
Total assets		**$ 8.4**	$ 15.2
Liabilities:			
Derivatives designated as accounting hedges:			

Interest rate swaps	Accounts payable and accrued liabilities	**$**	$ 0.7
FX forwards on net investment in certain foreign subsidiaries	Accounts payable and accrued liabilities	**1.5**	1.0
Total derivatives designated as accounting hedges		**1.5**	1.7
Derivatives not designated as accounting hedges:			
FX forwards on certain assets and liabilities	Accounts payable and accrued liabilities	**0.5**	0.7
Total liabilities		**$ 2.0**	$ 2.4

16

Table of Contents

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 hedges:

		Amount of gain (loss) recognized in the consolidated statements of operations			
		Three Months Ended September 30,		Nine months ended September 30,	
Derivatives designated as accounting hedges	**Location on Statements of Operations**	**2013**	**2012**	**2013**	**2012**
Interest rate swaps	Interest income(expense), net	**$ 1.0**	$ 0.9	**$ 3.1**	$ 2.6
Derivatives not designated as accounting hedges					
Foreign exchange forwards	Other non-operating income (expense), net	**$ 2.1**	$ 0.4	**$ 2.0**	$

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) Three Months Ended September 30,		Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) Three Months Ended September 30,		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,	
	2013	**2012**		**2013**	**2012**		**2013**	**2012**
Interest rate swaps			Interest income (expense), net		(0.6)	N/A		
Total	**$**	$		**$**	$ (0.6)		**$**	$
	Nine Months Ended September 30,			Nine Months Ended September 30,			Nine Months Ended September 30,	
	2013	**2012**		**2013**	**2012**		**2013**	**2012**
Interest rate swaps		(0.1)	Interest income (expense), net	**(0.5)**	(1.9)	N/A		
Total	**$**	$ (0.1)		**$ (0.5)**	$ (1.9)		**$**	$

All gains and losses on interest rate swaps designated as cash flow hedges are initially recognized through AOCI. Realized gains and losses reported in AOCI are reclassified into interest income (expense), net as the underlying transaction is recognized.

Table of Contents

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

Derivatives in Net Investment 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,	
	2013	2012		2013	2012		2013	2012
FX forwards	**$ (1.5)**	$ 0.1	N/A	**$**	$	N/A	**$**	$
Total	**$ (1.5)**	$ 0.1		**$**	$		**$**	$
	Nine Months Ended September 30,			Nine Months Ended September 30,			Nine Months Ended September 30,	
	2013	2012		2013	2012		2013	2012
FX forwards	**$ (1.0)**	$ (1.4)	N/A	**$**	$	N/A	**$**	$
Total	**$ (1.0)**	$ (1.4)		**$**	$		**$**	$

All gains and losses on derivatives designated as net investment hedges are recognized in the currency translation adjustment component of AOCI.

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

	Losses, net of tax	
	September 30, 2013	December 31, 2012
FX forwards on net investment hedges	**$ (3.2)**	$ (2.2)
Interest rate swaps	**(0.2)**	(0.7)
Total	**$ (3.4)**	$ (2.9)

NOTE 7. GOODWILL AND OTHER ACQUIRED INTANGIBLE ASSETS

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

	Nine Months Ended September 30, 2013								
	MIS			MA			Consolidated		
	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill
Balance at beginning of year	$ 11.5	$	$ 11.5	$ 637.8	$ (12.2)	$ 625.6	$ 649.3	$ (12.2)	$ 637.1
Additions/adjustments									
Foreign currency translation adjustments	(0.1)		(0.1)	(6.2)		(6.2)	(6.3)		(6.3)
Ending balance	$ 11.4	$	$ 11.4	$ 631.6	$ (12.2)	$ 619.4	$ 643.0	$ (12.2)	$ 630.8

Table of Contents

	Year ended December 31, 2012								
	MIS			MA			Consolidated		
	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill
Balance at beginning of year	$ 11.0	$	$ 11.0	$ 631.9	$	$ 631.9	$ 642.9	$	$ 642.9
Additions/adjustments				(4.4)		(4.4)	(4.4)		(4.4)
Impairment charge					(12.2)	(12.2)		(12.2)	(12.2)
Foreign currency translation adjustments	0.5		0.5	10.3		10.3	10.8		10.8
Ending balance	$ 11.5	$	$ 11.5	$ 637.8	$ (12.2)	$ 625.6	$ 649.3	$ (12.2)	$ 637.1

The 2012 additions/adjustments for the MA segment in the table above relate to the acquisitions of Copal and B&H in the fourth quarter of 2011.

The 2012 impairment charge in the table above relates to goodwill in the FSTC reporting unit within MA. The Company evaluates its goodwill for potential impairment annually on July 31 or more frequently if impairment indicators arise throughout the year. Projected operating results for the FSTC reporting unit at December 31, 2012 were lower than projections utilized for the annual impairment analysis performed at July 31, 2012 reflecting a contraction in spending for training and certification services for many individuals and global financial institutions amidst macroeconomic uncertainties. Based on this trend and overall macroeconomic uncertainties at the time, the Company lowered its cash flow forecasts for this reporting unit in the fourth quarter of 2012. Accordingly, the Company performed another goodwill impairment assessment as of December 31, 2012 which resulted in an impairment charge of $12.2 million. The fair value of the FSTC reporting unit utilized in the impairment assessment was estimated using a discounted cash flow methodology and comparable public company and precedent transaction multiples. There were no impairments to goodwill in the three and nine months ended September 30, 2013 and 2012. However, a failure of the FSTC reporting unit to meet its current financial projections could result in further goodwill impairment.

Acquired intangible assets and related amortization consisted of:

	September 30, 2013	December 31, 2012
Customer relationships	**$ 212.2**	$ 219.6
Accumulated amortization	**(83.3)**	(74.0)
Net customer relationships	**128.9**	145.6
Trade secrets	**31.2**	31.4
Accumulated amortization	**(17.9)**	(16.0)
Net trade secrets	**13.3**	15.4
Software	**70.2**	73.2
Accumulated amortization	**(36.4)**	(33.7)
Net software	**33.8**	39.5
Trade names	**28.1**	28.3
Accumulated amortization	**(11.3)**	(10.3)
Net trade names	**16.8**	18.0

Other		**24.4**		24.9
Accumulated amortization		**(19.0)**		(16.9)
Net other		**5.4**		8.0
Total acquired intangible assets, net	**$**	**198.2**	$	226.5

Table of Contents

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

Amortization expense relating to acquired intangible assets is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Amortization expense	**$ 7.0**	$ 8.1	**$ 21.0**	$ 22.5

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

Year Ending December 31,	
2013 (after September 30,)	**$ 6.5**
2014	**22.0**
2015	**19.1**
2016	**18.2**
2017	**13.3**
Thereafter	**119.1**

Amortizable intangible assets are reviewed for recoverability whenever events or changes in 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. There were no impairments to intangible assets during the three and nine months ended September 30, 2013 and 2012.

Table of Contents

NOTE 8. FAIR VALUE

The table below presents information about items, which are carried at fair value on a recurring basis at September 30, 2013 and December 31, 2012:

	Fair Value Measurement as of September 30, 2013			
Description	Balance	Level 1	Level 2	Level 3
Assets:				
Derivatives [(a)]	$ 8.4	$	$ 8.4	$
Total	$ 8.4	$	$ 8.4	$
Liabilities:				
Derivatives [(a)]	$ 2.0	$	$ 2.0	$
Contingent consideration arising from acquisitions [(b)]	12.4			12.4
Total	$ 14.4	$	$ 2.0	$ 12.4

	Fair Value Measurement as of December 31, 2012			
Description	Balance	Level 1	Level 2	Level 3
Assets:				
Derivatives [(a)]	$ 15.2	$	$ 15.2	$
Total	$ 15.2	$	$ 15.2	$
Liabilities:				
Derivatives [(a)]	$ 2.4	$	$ 2.4	$
Contingent consideration arising from acquisitions [(b)]	9.0			9.0
Total	$ 11.4	$	$ 2.4	$ 9.0

(a) Represents interest rate swaps and FX forwards on certain assets and liabilities as well as on certain non-U.S. dollar net investments in certain foreign subsidiaries as more fully described in Note 6 to the financial statements

(b) Represents contingent consideration liabilities pursuant to the agreements for certain MA acquisitions.

The following table summarizes the changes in the fair value of the Company s Level 3 liabilities:

	Contingent Consideration Nine months ended September 30,	
	2013	2012
Balance as of January 1	$ 9.0	$ 9.1
Settlements	(2.5)	(0.5)
Total losses (realized and unrealized):		
Included in earnings	6.0	(2.2)
Foreign currency translation adjustments	(0.1)	0.4

Balance as of September 30	**$ 12.4**	$ 6.8

The losses included in earnings in the table above are recorded within SG&A expenses in the Company s consolidated statements of operations. These losses relate to contingent consideration obligations outstanding at September 30, 2013.

Table of Contents

The $12.4 million of contingent consideration obligations as of September 30, 2013 is classified in other liabilities within the Company s consolidated balance sheet.

The following are descriptions of the methodologies utilized by the Company to estimate the fair value of its derivative contracts and contingent consideration obligations:

Derivatives:

In determining the fair value of the derivative contracts in the table above, the Company utilizes industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using spot rates, forward points, currency volatilities, interest rates as well as the risk of non-performance of the Company and the counterparties with whom it has derivative contracts. The Company 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.

Contingent consideration:

At September 30, 2013, the Company has contingent consideration obligations related to the acquisitions of CSI and Copal which are based on certain financial and non-financial metrics set forth in the acquisition agreements. These obligations are measured using Level 3 inputs as defined in the ASC. The Company recorded the obligations for these contingent consideration arrangements on the date of each respective acquisition based on management s best estimates of the achievement of the metrics and the value of the obligations are adjusted quarterly.

The contingent consideration obligation for CSI is based on the achievement of a certain contractual milestone by January 2016. The Company utilizes a discounted cash flow methodology to value this obligation. The future expected cash flow for this obligation is discounted using an interest rate available to borrowers with similar credit risk profiles to that of the Company. The most significant unobservable input involved in the measurement of this obligation is the probability that the milestone will be reached by January 2016. At September 30, 2013, the Company expects that this milestone will be reached by the aforementioned date.

There are several contingent consideration obligations relating to the acquisition of Copal. A portion of the contingent cash payments are based on revenue and EBITDA growth for certain of the Copal entities. This growth is calculated by comparing revenue and EBITDA in the year immediately prior to the exercise of the put/call option to acquire the remaining 33% ownership interest of Copal Partners Limited which the Company does not currently own, to revenue and EBITDA in Copal s fiscal year ended March 31, 2011. There are no limitations set forth in the acquisition agreement relating to the amount payable under this contingent consideration arrangement. Payments under this arrangement, if any, would be made upon the exercise of the aforementioned put/call option, which expires in November 2017. Other contingent cash payments were based on the achievement of revenue targets for Copal s fiscal year ended March 31, 2012 and 2013, with certain limits on the amount of revenue that can be applied to the calculation of these contingent payments. Each of these contingent payments had a maximum payout of $2.5 million and have been settled as of September 30, 2013. The Company utilizes discounted cash flow methodologies to value these obligations. The expected future cash flows for these obligations are discounted using a risk-free interest rate plus a credit spread based on the option adjusted spread of the Company s publicly traded debt as of the valuation date. The most significant unobservable input involved in the measurement of these obligations is the projected future financial results of the applicable Copal entities. Also, the remaining obligations are dependent upon the exercise of the call/put option and the Company has utilized a Monte Carlo simulation model to estimate when the option will be exercised, thus triggering the payment of contingent consideration.

A significant increase or decrease in any of the aforementioned significant unobservable inputs related to the fair value measurement of the Company s contingent consideration obligations would result in a significantly higher or lower reported fair value for these obligations.

Table of Contents

NOTE 9. OTHER BALANCE SHEET AND STATEMENT OF OPERATIONS INFORMATION

The following tables contain additional detail related to certain balance sheet captions:

	September 30, 2013	December 31, 2012
Other current assets:		
Prepaid taxes	$ **46.6**	$ 31.8
Prepaid expenses	**39.4**	47.3
Other	**12.8**	12.8
Total other current assets	$ **98.8**	$ 91.9

	September 30, 2013	December 31, 2012
Other assets:		
Investments in joint ventures	$ **35.9**	$ 38.3
Deposits for real-estate leases	**9.1**	10.0
Other	**48.9**	47.7
Total other assets	$ **93.9**	$ 96.0

	September 30, 2013	December 31, 2012
Accounts payable and accrued liabilities:		
Salaries and benefits	$ **62.4**	$ 79.2
Incentive compensation	**94.2**	162.6
Profit sharing contribution		12.6
Customer credits, advanced payments and advanced billings	**24.6**	21.5
Self-insurance reserves	**28.4**	55.8
Dividends	**3.9**	47.7
Professional service fees	**37.9**	30.2
Interest accrued on debt	**9.6**	23.4
Accounts payable	**10.0**	14.3
Income taxes	**3.6**	56.1
Deferred rent-current portion	**1.0**	1.1
Pension and other retirement employee benefits	**4.4**	4.4
Other	**57.9**	46.4
Total accounts payable and accrued liabilities	$ **337.9**	$ 555.3

	September 30, 2013	December 31, 2012
Other liabilities:		
Pension and other retirement employee benefits	$ **212.5**	$ 213.3
Deferred rent-non-current portion	**106.6**	110.2
Interest accrued on UTPs	**16.2**	10.6

Legacy and other tax matters	**38.4**	37.1
Other	**52.7**	38.9
Total other liabilities	**$ 426.4**	$ 410.1

Redeemable Noncontrolling Interest:

In connection with the acquisition of Copal, the Company and the non-controlling shareholders entered into a put/call option agreement whereby the Company has the option to purchase from the non-controlling shareholders and the

Table of Contents

non-controlling shareholders have the option to sell to the Company the remaining 33% ownership interest of Copal Partners Limited based on a strike price to be calculated on pre-determined formulas using a combination of revenue and EBITDA multiples when exercised. The value of the estimated put/call option strike price on the date of acquisition was based on a Monte Carlo simulation model. This model contemplated multiple scenarios which simulated certain of Copal s revenue, EBITDA margins and equity values to estimate the present value of the expected strike price of the option. The option is subject to a minimum exercise price of $46 million. There is no limit as to the maximum amount of the strike price on the put/call option.

The following table shows changes in the redeemable noncontrolling interest related to the acquisition of Copal:

(in millions)	Nine months ended September 30, 2013	Year Ended December 31, 2012
	Redeemable Noncontrolling Interest	
Balance January 1,	**$ 72.3**	$ 60.5
Adjustment due to right of offset for UTPs*		6.8
Net earnings	**3.9**	3.6
Dividends	**(4.3)**	(3.6)
FX translation		1.6
Adjustment to redemption value	**9.6**	3.4
Balance	**$ 81.5**	$ 72.3

* Relates to an adjustment for the right of offset pursuant to the Copal acquisition agreement whereby the amount due to the sellers under the put/call arrangement is reduced by the amount of UTPs that the Company may be required to pay.

Noncontrolling Interests:

The following table summarizes the changes in the Company s noncontrolling interests:

(in millions)	Nine months ended September 30, 2013	Year Ended December 31, 2012
	Noncontrolling Interests	
Balance January 1,	**$ 11.4**	$ 10.6
Net earnings	**4.6**	6.1
Dividends	**(5.6)**	(4.7)
FX translation		(0.6)
Balance	**$ 10.4**	$ 11.4

Table of Contents

Other Non-Operating (Expense) Income:

The following table summarizes the components of other non-operating (expense) income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
FX gain/(loss)	**$ (5.8)**	$ (4.8)	**$ 6.9**	$ (6.0)
Legacy Tax		12.8		12.8
Joint venture income	**2.5**	2.3	**7.4**	6.9
Other	**(0.3)**	(0.3)	**(1.4)**	(1.1)
Total	**$ (3.6)**	$ 10.0	**$ 12.9**	$ 12.6

Changes in the Company s self-insurance reserves are as follows:

(in millions)	Nine Months Ended September 30, 2013	Year Ended December 31, 2012
Beginning balance	**$ 55.8**	$ 27.1
Accruals (reversals), net	**(7.4)**	38.1
Payments	**(20.0)**	(9.4)
Ending balance*	**$ 28.4**	$ 55.8

* These reserves primarily relate to legal defense costs for claims from prior years.

NOTE 10. COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table provides details about the reclassifications out of AOCI:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013	Affected line in the consolidated statement of operations
Gains/(losses) on foreign translation adjustments			
Liquidation of foreign subsidiary	**$ (1.3)**	**$ (1.3)**	Other non-operating income (expense), net
Total gains/(losses) on foreign translation adjustments	**(1.3)**	**(1.3)**	
Gains/(losses) on cash flow hedges			
Interest rate swap derivative contracts		(0.7)	Interest income (expense),net

Income tax effect of item above				0.2	Provision for income taxes
Total gains (losses) on cash flow hedges				(0.5)	
Pension and other retirement benefits					
Amortization of actuarial losses and prior service costs included in net income		(2.0)		(5.9)	Operating expense
Amortization of actuarial losses and prior service costs included in net income		(1.1)		(3.1)	SG&A expense
Total before income taxes		(3.1)		(9.0)	
Income tax effect of item above		1.3		3.7	Provision for income taxes
Total pension and other retirement benefits		(1.8)		(5.3)	
Total losses included in Net Income attributable to reclassifications out of AOCI	$	(3.1)	$	(7.1)	

25

Table of Contents

Changes in AOCI by component (net of tax) for the period ended September 30, 2013:

	Nine Months Ended September 30, 2013			
	Gains/(Losses) on Cash Flow and Net Investment Hedges	Pension and Other Retirement Benefits	Foreign Currency Translation Adjustments	Total
Balance December 31, 2012	$ (2.9)	$ (90.1)	$ 10.9	$ (82.1)
Other comprehensive income/(loss) before reclassifications	(1.0)	0.5	(24.7)	(25.2)
Amounts reclassified from AOCI	0.5	5.3	1.3	7.1
Other comprehensive income/(loss)	(0.5)	5.8	(23.4)	(18.1)
Balance September 30, 2013	$ (3.4)	$ (84.3)	$ (12.5)	$ (100.2)

NOTE 11. PENSION AND OTHER RETIREMENT BENEFITS

Moody s maintains funded and unfunded noncontributory Defined Benefit Pension Plans. The U.S. DBPPs provide defined benefits using a cash balance formula based on years of service and career average salary for its employees or final average pay for selected executives. The Company also provides certain healthcare and life insurance benefits for retired U.S. employees. The retirement healthcare plans are contributory; the life insurance plans are noncontributory. Moody s funded and unfunded U.S. pension plans, the U.S. retirement healthcare plans and the U.S. retirement life insurance plans are collectively referred to herein as the Retirement Plans . The U.S. retirement healthcare plans and the U.S. retirement life insurance plans are collectively referred to herein as the Other 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 DBPPs continue to accrue benefits based on existing plan formulas.

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

	Three Months Ended September 30,			
	Pension Plans		Other Retirement Plans	
	2013	2012	2013	2012
Components of net periodic expense				
Service cost	**$ 4.9**	$ 4.7	**$ 0.5**	$ 0.4
Interest cost	**3.4**	3.3	**0.2**	0.1
Expected return on plan assets	**(3.3)**	(3.1)		
Amortization of net actuarial loss from earlier periods	**2.8**	2.2		
Amortization of net prior service costs from earlier periods	**0.2**	0.2		0.1
Net periodic expense	**$ 8.0**	$ 7.3	**$ 0.7**	$ 0.6

	Nine Months Ended September 30,			
	Pension Plans		Other Retirement Plans	
	2013	2012	2013	2012
Components of net periodic expense				
Service cost	**$ 14.8**	$ 14.2	**$ 1.3**	$ 1.1

Interest cost	**10.1**	9.8	**0.6**	0.5
Expected return on plan assets	**(9.7)**	(9.3)		
Amortization of net actuarial loss from earlier periods	**8.2**	6.8		
Amortization of net prior service costs from earlier periods	**0.5**	0.5	**0.2**	0.2
Net periodic expense	**$ 23.9**	$ 22.0	**$ 2.1**	$ 1.8

Table of Contents

The Company contributed $16.8 million to its U.S. funded pension plan and made payments of $2.6 million related to its unfunded U.S. DBPPs and $0.4 million to its U.S. other retirement plans, respectively during the nine months ended September 30, 2013. The Company presently anticipates making additional payments of $1.0 million related to its unfunded U.S. DBPPs and $0.3 million to its U.S. other retirement plans during the remainder of 2013.

NOTE 12. INDEBTEDNESS

The following table summarizes total indebtedness:

	September 30, 2013	December 31, 2012
2012 Facility	**$**	$
Commercial paper		
Notes Payable:		
Series 2005-1 Notes, due 2015; which includes the fair value of interest rate swap of $7.3 million at 2013 and $13.8 million at 2012	**307.3**	313.8
Series 2007-1 Notes due 2017	**300.0**	300.0
2010 Senior Notes, due 2020, net of unamortized discount of $2.3 million in 2013 and $2.6 million in 2012	**497.7**	497.4
2012 Senior Notes, due 2022, net of unamortized discount of $3.6 million in 2013 and $3.8 million in 2012	**496.4**	496.2
2013 Senior Notes, due 2024, net of unamortized discount of $2.8 million in 2013	**497.2**	
2008 Term Loan		63.8
Total debt	**2,098.6**	1,671.2
Current portion		(63.8)
Total long-term debt	**$ 2,098.6**	$ 1,607.4

2012 Facility

On April 18, 2012, the Company and certain of its subsidiaries entered into a $1 billion five-year senior, unsecured revolving credit facility in an aggregate principal amount of $1 billion that expires in April 2017. The 2012 Facility replaced the $1 billion 2007 Facility that was scheduled to expire in September 2012. The proceeds from the 2012 Facility will be used for general corporate purposes, including, without limitation, support for the Company s $1 billion commercial paper program, share repurchases and acquisition financings. Interest on borrowings under the facility is payable at rates that are based on LIBOR plus a premium that can range from 77.5 basis points to 120 basis points per annum of the outstanding amount, depending on the Company s Debt/EBITDA ratio. The Company also pays quarterly facility fees, regardless of borrowing activity under the 2012 Facility. These quarterly fees can range from 10 basis points of the facility amount to 17.5 basis points, depending on the Company s Debt/ EBITDA Ratio.

The 2012 Facility contains covenants that, among other things, restrict the ability of the Company and 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 set forth in the facility agreement. The 2012 Facility also contains a financial covenant that requires the Company to maintain a Debt to EBITDA Ratio of not more than 4 to 1 at the end of any fiscal quarter. Upon the occurrence of certain financial or economic events, significant corporate events or certain other events constituting an event of default under the 2012 Facility, all loans outstanding under the facility (including accrued interest and fees payable thereunder) may be declared immediately due and payable and all commitments under the facility may be terminated.

Table of Contents

Commercial Paper

On October 3, 2007, the Company entered into a private placement commercial paper program under which the Company could issue CP notes up to a maximum amount of $1.0 billion. In October 2013, the Company terminated its CP program.

Notes Payable

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.

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 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 2010 Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The 2010 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 2010 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 2010 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 2010 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 November 4, 2011, in connection with the acquisition of Copal, a subsidiary of the Company issued a $14.2 million non-interest bearing note to the sellers which represented a portion of the consideration transferred to acquire the Copal entities. If a seller subsequently transfers to the Company all of its shares, the Company must repay the seller its proportion of the principal on the later of (i) the fourth anniversary date of the note or (ii) within a time frame set forth in the acquisition agreement relating to the resolution of certain income tax uncertainties pertaining to the transaction. Otherwise, the Company must repay any amount outstanding on the earlier of (i) two business days subsequent to the exercise of the put/call option to acquire the remaining shares of Copal or (ii) the tenth anniversary date of the issuance of the note. The Company has the right to offset payment of the note against certain indemnification assets associated with UTPs related to the acquisition. Accordingly, the Company has offset the liability for this note against the indemnification asset, thus no balance for this note is carried on the Company s consolidated balance sheet at September 30, 2013 and December 31, 2012. In the event that the Company would not be required to settle amounts related to the UTPs, the Company would be required to pay the sellers the principal in accordance with the note agreement. The Company may prepay the note in accordance with certain terms set forth in the acquisition agreement.

On August 20, 2012, the Company issued $500 million aggregate principal amount of unsecured notes in a public offering. The 2012 Senior Notes bear interest at a fixed rate of 4.50% and mature on September 1, 2022. Interest on the 2012 Senior Notes will be due semi-annually on September 1 and March 1 of each year, commencing March 1, 2013. The Company may prepay the 2012 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 2012 Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The 2012 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 2012 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 2012 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 2012 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 2012 Senior 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 August 12, 2013, the Company issued $500 million aggregate principal amount of senior unsecured notes in a public offering. The 2013 Senior Notes bear interest at a fixed rate of 4.875% and mature on February 15, 2024. Interest on the 2013 Senior Notes will be due semi-annually on February 15 and August 15 of each year, commencing February 15, 2014. The Company may prepay the 2013 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. Notwithstanding the immediately preceding sentence, the Company may redeem the 2013 Senior Notes, in whole or in part, at any time or from time to time on or after November 15, 2023 (three months prior to their maturity), at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding the redemption date. 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 2013 Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The 2013 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 2013 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 2013 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 2013 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 2013 Indenture, the 2013 Senior 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.

2008 Term Loan

On May 7, 2008, Moody s entered into a five-year, $150.0 million senior unsecured term loan with several lenders due at various times through May 7, 2013. Proceeds from the loan were used to pay off a portion of the CP outstanding. Interest on borrowings under the 2008 Term Loan was payable quarterly at rates that were 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 2008 Term Loan contained restrictive covenants that, among other things, restricted 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 limited the amount of debt that subsidiaries of the Company may incur. In addition, the 2008 Term Loan contained 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 2008 Term Loan was repaid in full in May 2013.

The principal payments due on the Company s long-term borrowings for each of the next five years are presented in the table below:

Year Ended December 31,	**Series 2005-1 Notes**	**Series 2007-1 Notes**	**2010 Senior Notes**	**2012 Senior Notes**	**2013 Senior Notes**	**Total**
2013 (after September 30,)	$	$	$	$	$	$
2014						
2015	300.0					300.0
2016						
2017		300.0				300.0
Thereafter			500.0	500.0	500.0	1,500.0
Total	$ 300.0	$ 300.0	$ 500.0	$ 500.0	$ 500.0	$ 2,100.0

In the fourth quarter of 2010, the Company entered into interest rate swaps with a total notional amount of $300 million which converted the fixed rate of interest on the Series 2005-1 Notes to a floating LIBOR-based interest rate. Also, on May 7, 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. Both of these interest rate swaps are more fully discussed in Note 6 above.

At September 30, 2013, the Company was in compliance with all covenants contained within all of the debt agreements. In addition to the covenants described above, the 2012 Facility, the 2005 Agreement, the 2007 Agreement, the 2010 Senior Notes, the 2012 Senior Notes and the 2013 Senior Notes 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, 2013, there were no such cross defaults.

Table of Contents

Interest expense, net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Income	**$ 1.6**	$ 1.2	**$ 4.0**	$ 3.7
Expense on borrowings	**(23.9)**	(19.3)	**(65.4)**	(52.1)
(Expense) income on UTPs and other tax related liabilities (a)	**(2.1)**	(1.7)	**(6.7)**	1.8
Legacy Tax (b)		4.4		4.4
Capitalized		0.1		
Total	**$ (24.4)**	$ (15.3)	**$ (68.1)**	$ (42.2)

(a) The amount in the nine months ended September 30, 2012 contains a benefit of approximately $7 million related to the settlement of state and local income tax audits.

(b) The 2012 amounts represent a reversal of $4.4 million of accrued interest relating to the favorable resolution of a Legacy Tax Matter.

The following table shows the cash paid for interest:

	Nine Months Ended September 30,	
	2013	**2012**
Interest paid*	**$ 78.7**	$ 97.1

* Interest paid includes payments of interest relating to the settlement of income tax audits in the first quarter of 2012 as well as net settlements on interest rate swaps more fully discussed in Note 6.

The Company s long-term debt, including the current portion, is recorded at cost except for the Series 2005-1 Notes which are carried at cost adjusted for the fair value of an interest rate swap used to hedge the fair value of the note. The fair value and carrying value of the Company s long-term debt as of September 30, 2013 and December 31, 2012 are as follows:

	September 30, 2013		December 31, 2012	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Series 2005-1 Notes*	**$ 307.3**	**$ 320.8**	$ 313.8	$ 326.1
Series 2007-1 Notes	**300.0**	**337.0**	300.0	348.3
2010 Senior Notes	**497.7**	**544.1**	497.4	562.8
2012 Senior Notes	**496.4**	**498.9**	496.2	528.8
2013 Senior Notes	**497.2**	**502.0**		
2008 Term Loan			63.8	63.8
Total	**$ 2,098.6**	**$ 2,202.8**	$ 1,671.2	$ 1,829.8

* The carrying amount includes an $7.3 million and $13.8 million fair value adjustment on an interest rate hedge at September 30, 2013 and December 31, 2012, respectively.

The fair value of the Company s long-term debt is estimated using discounted cash flows with inputs based on prevailing interest rates available to the Company for borrowings with similar maturities.

NOTE 13. CONTINGENCIES

From time to time, Moody s is involved in legal and tax proceedings, governmental investigations and inquiries, 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 global credit crisis of 2008, MIS and other credit rating agencies have been the subject of intense scrutiny, increased regulation, ongoing inquiry and governmental investigations, 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 domestic and foreign governmental authorities and is responding to such investigations and inquiries.

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 following the events in the U.S. subprime residential mortgage sector and global credit markets more broadly over the last several years.

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 United States 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. On January 22, 2010, plaintiffs moved to certify a class of individuals who purchased Moody s Corporation common stock between February 3, 2006 and October 24, 2007, which the Company opposed. On March 31, 2011, the court issued an opinion denying plaintiffs motion to certify the proposed class. On April 14, 2011, plaintiffs filed a petition in the United States Court of Appeals for the Second Circuit seeking discretionary permission to appeal the decision. The Company filed its response to the petition on April 25, 2011. On July 20, 2011, the Second Circuit issued an order denying plaintiffs petition for leave to appeal. On September 14, 2012, the Company filed a motion for summary judgment, which was fully briefed on December 21, 2012. On August 23, 2013, the court issued an opinion granting defendants motion for summary judgment. Judgment was entered in Moody s favor on August 26, 2013. On September 23, 2013, plaintiffs filed a notice of appeal from the judgment and from the March 2011 decision denying class certification.

On August 25, 2008, Abu Dhabi Commercial Bank filed a purported class action in the United States District Court for the Southern District of New York asserting numerous common-law causes of action against two subsidiaries of the Company, another rating agency, and Morgan Stanley & Co. The action related to securities issued by a structured investment vehicle called Cheyne Finance (the Cheyne SIV) and sought, among other things, compensatory and punitive damages. The central allegation against the rating agency defendants was that the credit ratings assigned to the securities issued by the Cheyne SIV were false and misleading. In early proceedings, the court dismissed all claims against the rating agency defendants except those for fraud and aiding and abetting fraud. In June 2010, the court denied plaintiff s motion for class certification, and additional plaintiffs were subsequently added to the complaint. In January 2012, the rating agency defendants moved for summary judgment with respect to the fraud and aiding and abetting fraud claims. Also in January 2012, in light of new New York state case law, the court permitted the plaintiffs to file an amended complaint that reasserted previously dismissed claims against all defendants for breach of fiduciary duty, negligence, negligent misrepresentation, and related aiding and abetting claims. In May 2012, the court, ruling on the rating agency defendants motion to dismiss, dismissed all of the reasserted claims except for the negligent misrepresentation claim, and on September 19, 2012, after further proceedings, the court also dismissed the negligent misrepresentation claim. On August 17, 2012, the court ruled on the rating agencies motion for summary judgment on the plaintiffs remaining claims for fraud and aiding and abetting fraud. The court dismissed, in whole or in part, the fraud claims of four plaintiffs as against Moody s but allowed the fraud claims to proceed with respect to certain claims of one of those plaintiffs and the claims of the remaining 11 plaintiffs. The court also dismissed all claims against Moody s for aiding and abetting fraud. Three of the plaintiffs whose claims were dismissed filed motions for reconsideration, and on November 7, 2012, the court granted two of these motions, reinstating the claims of two plaintiffs that were previously dismissed. On February 1, 2013, the court dismissed the claims of one additional plaintiff on jurisdictional grounds. Trial on the remaining fraud claims against the rating agencies, and on claims against Morgan Stanley for aiding and abetting fraud and for negligent misrepresentation, was scheduled for May 2013. On April 24, 2013, pursuant to confidential settlement agreements, the 14 plaintiffs with claims that had been ordered to trial stipulated to the voluntary dismissal, with prejudice, of these claims as against all defendants, and the Court so ordered that stipulation on April 26, 2013. The settlement did not cover certain claims of two plaintiffs that were previously dismissed by the Court. On May 23, 2013, these two plaintiffs filed a Notice of Appeal to the Second Circuit, seeking reversal of the dismissal of their claims and also seeking reversal of the Court s denial of class certification. According to pleadings filed by plaintiffs in earlier proceedings, they seek approximately $76 million in total compensatory damages in connection with the two claims at issue on the appeal.

In October 2009, plaintiffs King County, Washington and Iowa Student Loan Liquidity Corporation each filed substantially identical putative class actions in the Southern District of New York against two subsidiaries of the Company and several other defendants, including two other rating agencies and IKB Deutsche Industriebank AG. These actions arose out of investments in securities issued by a structured investment vehicle called Rhinebridge Plc (the Rhinebridge SIV) and sought, among other things, compensatory and punitive damages. Each complaint asserted a claim for common law fraud against the rating agency defendants, alleging, among other things, that the credit ratings assigned to the securities issued by the Rhinebridge SIV were false and misleading. The case was assigned to the same judge presiding over the litigation concerning the Cheyne SIV, described above. In April 2010, the court denied the rating agency defendants motion to dismiss. In June 2010, the court consolidated the two cases and the plaintiffs filed an amended complaint that, among other things, added Morgan Stanley & Co. as a defendant. In January 2012, in light of new New York state case law, the court permitted the plaintiffs to file an amended complaint that asserted claims against the rating agency defendants for breach of fiduciary duty, negligence, negligent misrepresentation, and aiding and abetting claims. In May 2012, the court, ruling on the rating agency defendants motion to dismiss, dismissed all of the new claims except for the negligent misrepresentation claim and a claim for aiding and abetting fraud; on September 28, 2012, after further proceedings, the court also dismissed the negligent misrepresentation claim. Plaintiffs did not seek class certification. On September 7, 2012 the rating agencies filed a motion for summary judgment dismissing the remaining claims against them. On January 3, 2013, the Court issued an order dismissing the claim for aiding and abetting fraud against the rating agencies but allowing the claim for fraud to proceed to trial. In June 2012 and March 2013, respectively, defendants IKB Deutsche Industriebank AG (and a related entity) and Fitch, Inc. informed the court that they had executed confidential settlement agreements with the plaintiffs. On April 24, 2013, pursuant to a confidential settlement agreement, the plaintiffs stipulated to the voluntary dismissal, with prejudice, of all remaining claims as against the remaining defendants, including Moody s, and the Court so ordered that stipulation on April 26, 2013.

Table of Contents

For claims, litigation and proceedings and governmental investigations and inquires 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. When the reasonable estimate of the loss is within a range of amounts, the minimum amount of the range is accrued unless some higher amount within the range is a better estimate than another amount within the range. 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. In view of the inherent difficulty of predicting the outcome of litigation, regulatory, governmental investigations and inquiries, enforcement and similar matters and contingencies, particularly where the claimants seek large or indeterminate damages or where the parties assert novel legal theories or the matters involve a large number of parties, the Company cannot predict what the eventual outcome of the pending matters will be or the timing of any resolution of such matters. The Company also cannot predict the impact (if any) that any such matters may have on how its business is conducted, on its competitive position or on its financial position, results of operations or cash flows. As the process to resolve any pending matters progresses, management will continue to review the latest information available and assess its ability to predict the outcome of such matters and the effects, if any, on its operations and financial condition. However, in light of the large or indeterminate damages sought in some of them, the absence of similar court rulings on the theories of law asserted and uncertainties regarding apportionment of any potential damages, an estimate of the range of possible losses cannot be made at this time.

Legacy Tax Matters

Moody s continues to have exposure to potential Legacy Tax liabilities arising from the 2000 Distribution. As of September 30, 2013, Moody s has recorded liabilities for Legacy Tax Matters totaling $40.1 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.

In the third quarter of 2012, certain Legacy Tax Matters were resolved resulting in a $12.8 million reduction of Legacy Tax liabilities and $4.4 million of related accrued interest expense.

NOTE 14. SEGMENT INFORMATION

The Company is organized into two reportable segments: (i) MIS and (ii) 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 corporate finance, structured finance, financial institutions and public, project and infrastructure finance that generate revenue principally from fees for the assignment and ongoing monitoring of credit ratings on debt obligations and the entities that issue such obligations in markets worldwide.

The MA segment, which includes all of the Company s non-rating commercial activities, develops a wide range of products and services that support the risk management activities of institutional participants in global financial markets. The MA segment consists of three lines of business RD&A, ERS and PS.

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. The royalty rate charged by MIS approximates the fair value of the aforementioned content, data and products and is generally based on comparable market transactions. Also, revenue for MA and expenses for MIS include an intersegment fee charged to MIS from MA for certain MA products and services utilized in MIS s ratings process. These fees charged by MA are generally equal to the costs incurred by MA to produce these products and services. Additionally, overhead costs and corporate expenses of the Company which exclusively benefit only one segment, are fully charged to that segment. Overhead costs and corporate expenses of the Company which benefit both segments 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 and information technology. Beginning on January 1, 2013, the Company refined its methodology for allocating certain overhead departments to its segments to better align the costs allocated based on each segment s usage of the overhead service. The refined methodology is reflected in the segment results for the three and nine months ended September 30, 2013 and accordingly, the segment results for the three and nine months ended September 30, 2012 have been reclassified to conform to the new presentation. Eliminations in the table below represent intersegment revenue/expense.

Financial Information by Segment

The table below shows revenue, Adjusted Operating Income and operating income by reportable segment. Adjusted Operating Income is a financial metric utilized by the Company s chief operating decision maker to assess the profitability of each reportable segment.

	Three Months Ended September 30,							
	2013				2012			
	MIS	MA	Eliminations	Consolidated	MIS	MA	Eliminations	Consolidated
Revenue	**$ 497.7**	**$ 230.4**	**$ (22.6)**	**$ 705.5**	$ 491.3	$ 218.1	$ (20.9)	$ 688.5
Operating, SG&A	**235.6**	**177.6**	**(22.6)**	**390.6**	252.1	163.5	(20.9)	394.7
Adjusted Operating Income	**262.1**	**52.8**		**314.9**	239.2	54.6		293.8
Less:								
Depreciation and amortization	**12.1**	**11.3**		**23.4**	11.1	13.0		24.1
Operating income	**$ 250.0**	**$ 41.5**	**$**	**$ 291.5**	$ 228.1	$ 41.6	$	$ 269.7

	Nine Months Ended September 30,							
	2013				2012			
	MIS	MA	Eliminations	Consolidated	MIS	MA	Eliminations	Consolidated
Revenue	**$ 1,594.1**	**$ 665.2**	**$ (66.0)**	**$ 2,193.3**	$ 1,419.8	$ 617.7	$ (61.4)	$ 1,976.1
Operating, SG&A	**756.1**	**510.4**	**(66.0)**	**1,200.5**	684.5	466.1	(61.4)	1,089.2
Adjusted Operating Income	**838.0**	**154.8**		**992.8**	735.3	151.6		886.9
Less:								
Depreciation and amortization	**34.9**	**35.2**		**70.1**	33.0	36.7		69.7
Operating income	**$ 803.1**	**$ 119.6**	**$**	**$ 922.7**	$ 702.3	$ 114.9	$	$ 817.2

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,	
	2013	2012	2013	2012
MIS:				
Corporate finance (CFG)	**$ 233.0**	$ 220.7	**$ 754.2**	$ 612.7

Structured finance (SFG)	**83.5**	93.1	**273.7**	278.1
Financial institutions (FIG)	**78.9**	82.7	**249.9**	239.3
Public, project and infrastructure finance (PPIF)	**82.7**	77.0	**258.8**	237.3
Total external revenue	**478.1**	473.5	**1,536.6**	1,367.4
Intersegment royalty	**19.6**	17.8	**57.5**	52.4
Total	**497.7**	491.3	**1,594.1**	1,419.8
MA:				
Research, data and analytics (RD&A)	**133.7**	124.3	**393.6**	365.9
Enterprise risk solutions (ERS)	**64.4**	64.0	**177.6**	163.6
Professional services (PS)	**29.3**	26.7	**85.5**	79.2
Total external revenue	**227.4**	215.0	**656.7**	608.7
Intersegment revenue	**3.0**	3.1	**8.5**	9.0
Total	**230.4**	218.1	**665.2**	617.7
Eliminations	**(22.6)**	(20.9)	**(66.0)**	(61.4)
Total MCO	**$ 705.5**	$ 688.5	**$ 2,193.3**	$ 1,976.1

Table of Contents

Consolidated Revenue Information by Geographic Area:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
United States	**$ 391.0**	$ 377.9	**$ 1,209.3**	$ 1,069.1
International:				
EMEA	**207.4**	198.2	**637.0**	575.3
Asia-Pacific	**62.1**	64.1	**205.8**	191.3
Americas	**45.0**	48.3	**141.2**	140.4
Total International	**314.5**	310.6	**984.0**	907.0
Total	**$ 705.5**	$ 688.5	**$ 2,193.3**	$ 1,976.1

Total Assets by Segment:

	September 30, 2013				December 31, 2012			
	MIS	MA	Corporate Assets (a)	Consolidated	MIS	MA	Corporate Assets (a)	Consolidated
Total Assets	**$ 947.9**	**1,231.4**	**1,975.2**	**$ 4,154.5**	$ 884.9	1,386.7	1,689.3	$ 3,960.9

(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.

NOTE 15. RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income . The objective of this ASU is to improve reporting by requiring entities to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in the statement of operations. The amendments in this ASU are required to be applied prospectively and are effective for reporting periods beginning after December 15, 2012. The Company has fully adopted all provisions of this ASU as of January 1, 2013 and the implementation did not have any impact on the Company s consolidated financial statements other than to provide additional footnote disclosure which is included in Note 10.

NOTE 16. SUBSEQUENT EVENTS

On October 22, 2013, the Board approved the declaration of a quarterly dividend of $ 0.25 per share of Moody s common stock, payable on December 10, 2013 to shareholders of record at the close of business on November 20, 2013.

On October 21, 2013 the Company entered into a fourteen-year lease for three additional floors at its 7WTC headquarters. The total net commitment for this lease is approximately $101 million, including capital expenditures to build-out the space. The lease will not be effective until certain closing conditions are met which is expected to occur by the end of December 2013.

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 68 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) 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 primarily support financial analysis and risk management activities of institutional participants in global financial markets. Within its RD&A 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. It also provides fixed income pricing services in the Asia-Pacific region. The RD&A business also produces economic research as well as data and analytical tools such as quantitative credit risk scores. Within its ERS business, MA provides software solutions as well as related risk management services. The PS business provides outsourced research and analytical services and financial training and certification programs.

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 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, 2012, 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, there have been no material changes to the Company s critical accounting estimates, except for updates to estimates utilized in the Company s annual goodwill impairment assessment which is performed as of July 31 of each year.

Table of Contents

Goodwill and Other Acquired Intangible Assets

On July 31 of each year, Moody s evaluates its goodwill for impairment at the reporting unit level, defined as an operating segment or one level below an operating segment.

At July 31, 2013, 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, FSTC and Copal. 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 licenses and related maintenance and implementation services. The 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. Copal, which was acquired in the fourth quarter of 2011, provides outsourced research and analytical services and has been a separate reporting unit since its acquisition.

The Company evaluates the recoverability of goodwill using a three-step impairment test approach at the reporting unit level. In the first step, the Company assesses various qualitative factors to determine whether the fair value of a reporting unit may be less than its carrying amount. If a determination is made that, based on the qualitative factors, an impairment does not exist, the Company is not required to perform further testing. If the aforementioned qualitative assessment results in the Company concluding that it is more likely than not that the fair value of a reporting unit may be less than its carrying amount, the fair value of the reporting unit will be determined and compared to its carrying value including goodwill. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and the Company is not required to perform further testing. If the fair value of the reporting unit is less than the carrying value, the Company must perform a third step of the impairment test to determine the implied fair value of the reporting unit s goodwill. The implied fair value of the goodwill is determined based on the difference between the fair value of the reporting unit and the net fair value of the identifiable assets and liabilities of the reporting unit. If the implied fair value of the goodwill is less than its carrying value, the difference is recognized as an impairment charge. For the reporting units where the Company is consistently able to conclude on impairment using only a qualitative approach, the Company s accounting policy is to perform the second step of the aforementioned goodwill impairment assessment at least once every three years. At July 31, 2013, the Company performed the second step of the goodwill impairment test on all reporting units, which resulted in no impairment of goodwill.

Determining the fair value of a reporting unit or an indefinite-lived acquired intangible asset involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and appropriate comparable market metrics. The Company bases its fair value estimates on reasonable assumptions. However, as these estimates and assumptions are unpredictable and inherently uncertain, actual future results may differ from these estimates. In addition, the Company also makes certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of its reporting units.

Goodwill is assigned to a reporting unit at the date when an acquisition is integrated into one of the established reporting units, and is based on which reporting unit is expected to benefit from the synergies of the acquisition. Other assets and liabilities, including applicable corporate assets, are allocated to the extent they are related to the operation of respective reporting units.

Sensitivity Analyses and Key Assumptions for Deriving the Fair Value of a Reporting Unit

The following table identifies the amount of goodwill allocated to each reporting unit as of September 30, 2013 as well as the amount by which the net assets of each reporting unit would exceed the fair value under Step 2 of the goodwill impairment test as prescribed in ASC Topic 350 as of July 31, 2013, assuming hypothetical reductions in their fair values.

Table of Contents

		Sensitivity Analysis Deficit Caused by a Hypothetical Reduction to Fair Value			
	Goodwill	10%	20%	30%	40%
MIS	$ 11.8	$	$	$	$
RD&A	162.8				
ERS	218.1			(43.7)	(92.3)
FSTC	110.2	(11.6)	(28.7)	(45.9)	(63.0)
Copal	127.9				
Totals	$ 630.8	$ (11.6)	$ (28.7)	$ (89.6)	$ (155.3)

As can be seen from the table above, the reporting unit most at risk for potential impairment is the FSTC reporting unit and failure to meet its financial projections could result in further goodwill impairment (there was a goodwill impairment charge of $12.2 million for this reporting unit in the fourth quarter of 2012). This business is, in part, sensitive to the staffing levels and profitability of the global financial services industry, particularly in Canada and EMEA.

The ERS reporting unit also carries some risk of potential impairment. Management of the ERS reporting unit is currently focused on expanding market penetration for its products and services. While the business continues to expand its customer footprint, operating margins are expected to remain lower than previously anticipated.

There could be a future goodwill impairment charge if FSTC fails or ERS significantly fails to meet its current financial projections.

Methodologies and significant estimates utilized in determining the fair value of reporting units:

The following is a discussion regarding the Company s methodology for determining the fair value of its reporting units as of July 31, 2013.

The fair value of each reporting unit was estimated using a discounted cash flow methodology and comparable public company and precedent transaction multiples. The DCF analysis requires significant estimates, including projections of future operating results and cash flows of each reporting unit, which is based on internal budgets and strategic plans, expected long-term growth rates, terminal values, weighted average cost of capital and the effects of external factors and market conditions. Changes in these estimates and assumptions could materially affect the estimated fair value of each reporting unit which could result in an impairment charge to reduce the carrying value of goodwill, which could be material to the Company s financial position and results of operations. Moody s allocates newly acquired goodwill to reporting units based on the reporting unit expected to benefit from the acquisition. The Company evaluates its reporting units on an annual basis, or more frequently if there are changes in the reporting structure of the Company due to acquisitions or realignments.

The sensitivity analyses on the future cash flows and WACC assumptions described below are as of July 31, 2013. The following discusses the key assumptions utilized in the discounted cash flow valuation methodology which requires significant management judgment:

Future cash flow assumptions The projections for future cash flows utilized in the models are derived from historical experience and assumptions regarding future growth and profitability of each reporting unit. These projections are consistent with the Company s operating and strategic plan. Cash flows for the five years

Table of Contents

subsequent to the date of the quantitative goodwill impairment analysis were utilized in the determination of fair value for each reporting unit. The growth rates utilized in the projections assumed a gradual increase in revenue from financial service customers based on a continued improvement in the global economy and capital markets, new customer acquisition and new products. Beyond five years a terminal value was determined using a perpetuity growth rate based on inflation and real GDP growth rates. A sensitivity analysis of the growth rates was performed on all reporting units. For all reporting units, a 10% decrease in the growth rates used would not have resulted in the carrying value of the reporting unit exceeding its respective estimated fair value.

WACC The WACC is the rate used to discount each reporting unit s estimated future cash flows. The WACC is calculated based on the proportionate weighting of the cost of debt and equity. The cost of equity is based on a risk-free interest rate, an equity risk factor which is derived from public companies similar to the reporting unit and which captures the perceived risks and uncertainties associated with the reporting unit s cash flows. The cost of debt component is calculated as the weighted average cost associated with all of the Company s outstanding borrowings as of the date of the impairment test and was immaterial to the computation of the WACC. The cost of debt and equity is weighted based on the debt to market capitalization ratio of publicly traded companies with similarities to the reporting unit being tested. The WACC for all reporting units ranged from 10% to 11.5% as of July 31, 2013. Differences in the WACC used between reporting units is primarily due to distinct risks and uncertainties regarding the cash flows of the different reporting units. A sensitivity analysis of the WACC was performed on all reporting units as of July 31, 2013. For the FSTC reporting unit, an increase in the WACC of one percentage point would have resulted in the carrying value of the reporting unit exceeding its estimated fair value by approximately $5 million under step one of the goodwill impairment test as prescribed in ASC Topic 350. For the remaining reporting units, an increase in the WACC of one percentage point would not result in the carrying value of the reporting unit exceeding its fair value

Amortizable intangible assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There were no such events or changes during the first nine months of 2013 that would indicate that the carrying amount of amortizable intangible assets in any of the Company s reporting units may not be recoverable. This determination was made based on improving market conditions for the reporting unit where the intangible asset resides and an assessment of projected cash flows for all reporting units. Additionally, there were no events or circumstances during the first nine months of 2013 that would indicate the need for an adjustment of the remaining useful lives of these amortizable intangible assets.

Operating Segments

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

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. The MA segment consists of three lines of business RD&A, ERS and PS.

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

MIS. The royalty rate charged by MIS approximates the fair value of the aforementioned content, data and products developed by MIS. The discussion also includes intersegment fees charged to MIS from MA for the use of certain MA products and services in MIS s ratings process. These fees charged by MA are generally equal to the costs incurred by MA to provide these products and services. Overhead charges and corporate expenses which exclusively benefit one segment are fully charged to that segment. Additionally, overhead costs and corporate expenses of the Company which benefit both segments are generally 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 and information technology.

Beginning on January 1, 2013, the Company refined its methodology for allocating certain overhead departments to its segments to better align the costs allocated based on each segment s usage of the overhead service. The refined methodology is reflected in the segment results for the three and nine months ended September 30, 2013 and accordingly, the segment results for the prior year comparative periods have been reclassified to conform to the new presentation. These reclassifications were not material.

RESULTS OF OPERATIONS

Three months ended September 30, 2013 compared with three months ended September 30, 2012

Executive Summary

Moody s revenue in the third quarter of 2013 totaled $705.5 million, an increase of $17.0 million compared to 2012 and reflected growth in both reportable segments. Total expenses were $414.0 million, a decrease of $4.8 million compared to the prior year primarily due to lower incentive compensation costs partially offset by higher costs relating to headcount growth and annual compensation increases. Additionally, there were higher non-compensation expenses which reflected an increase in costs for IT consulting partially offset by lower legal and litigation-related costs. Operating income of $291.5 million increased $21.8 million compared to 2012 and resulted in an operating margin of 41.3% in 2013 compared to 39.2% in the prior year period. Adjusted Operating Income of $314.9 million in the third quarter of 2013 increased $21.1 million compared to 2012 resulting in an Adjusted Operating Margin of 44.6% compared to 42.7% in the prior year period. Diluted EPS of $0.83 in the third quarter of 2013 increased $0.02 over the prior year period which included a $0.06 benefit related to the favorable resolution of a Legacy Tax Matter. Excluding the aforementioned impact relating to the resolution of a Legacy Tax Matter in 2012, Diluted EPS increased $0.08 compared to the prior year.

	Three months ended September 30,		% Change Favorable
	2013	**2012**	**(Unfavorable)**
Revenue:			
United States	**$ 391.0**	$ 377.9	3%
International:			
EMEA	**207.4**	198.2	5%
Asia-Pacific	**62.1**	64.1	(3%)
Americas	**45.0**	48.3	(7%)
Total International	**314.5**	310.6	1%
Total	**705.5**	688.5	2%
Expenses:			
Operating	**203.5**	207.3	2%
SG&A	**187.1**	187.4	
Depreciation and amortization	**23.4**	24.1	3%
Total	**414.0**	418.8	1%
Operating income	**$ 291.5**	$ 269.7	8%

Adjusted Operating Income [1]	**$ 314.9**	$ 293.8	7%
Interest income (expense), net	**$ (24.4)**	$ (15.3)	(59%)
Other non-operating income (expense), net	**$ (3.6)**	$ 10.0	(136%)
Net income attributable to Moody s	**$ 183.9**	$ 183.9	
Diluted EPS attributable to Moody s common shareholders	**$ 0.83**	$ 0.81	2%
Non-GAAP EPS attributable to Moody s common shareholders [1]	**$ 0.83**	$ 0.75	11%
Operating margin	**41.3%**	39.2%	
Adjusted Operating Margin[1]	**44.6%**	42.7%	

(1) Adjusted Operating Income, Adjusted Operating Margin and Non-GAAP EPS attributable to Moody s common shareholders are non-GAAP financial measures. Refer to the section entitled Non-GAAP Financial Measures of this Management Discussion and Analysis for further information regarding these measures.

41

Table of Contents

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

	September 30,		% Change
	2013	**2012**	
United States	**2,798**	2,592	8%
International	**4,412**	4,079	8%
Total	**7,210**	6,671	8%

Global revenue of $705.5 million in the third quarter of 2013 increased $17.0 million compared to 2012 reflecting growth in both reportable segments. The growth in the ratings segment reflected benefits from changes in the mix of fee type, new fee initiatives and certain pricing increases, primarily in the U.S. coupled with higher rated issuance volumes for bank loans. These increases were partially offset by declines in rated issuance volumes across most asset classes in SFG outside the U.S. as well as declines in banking issuance in FIG and investment-grade corporate debt volumes in CFG. The growth in MA reflects higher revenue across all LOBs, most notably in RD&A and PS. Transaction revenue accounted for 47% and 50% of global MCO revenue in the third quarter of 2013 and 2012, respectively.

U.S. revenue of $391.0 million increased $13.1 million over 2012, and primarily reflected the aforementioned benefits from changes in the mix of fee type, new fee initiatives and certain pricing increases in MIS coupled with growth across all LOBs in MA. Also contributing to the increase were higher rated issuance volumes for bank loans. These increases were partially offset by a decline in rated issuance volumes for investment-grade corporate debt (excluding a $49 billion offering by an issuer in the telecommunications sector) as well as declines in volumes for speculative-grade corporate debt and municipal bonds.

Non-U.S. revenue increased $3.9 million compared to 2012, primarily reflecting higher CFG and PPIF revenue in EMEA partially offset by declines in most asset classes in SFG across all non-U.S. regions.

Operating expenses were $203.5 million in the third quarter of 2013, a decrease of $3.8 million from 2012 and reflected a decline in compensation costs partially offset by higher non-compensation costs. The decrease in compensation costs of approximately $12 million reflects lower incentive compensation due to lower projected achievement against full-year targeted results through the third quarter of 2013 compared to the same period in 2012 partially offset by higher salaries and related employee benefit costs due to headcount growth and annual compensation increases. The increase in non-compensation costs of approximately $8 million is primarily due to higher IT consulting costs for ongoing initiatives.

Table of Contents

SG&A expenses of $187.1 million in the third quarter of 2013 were flat compared to 2012 and reflected a decline in compensation costs offset by higher non-compensation costs. The decrease in compensation costs of $2 million reflects lower incentive compensation due to lower projected achievement against full-year targeted results through the third quarter of 2013 compared to the same period in 2012. Partially offsetting this decrease were higher salaries and related employee benefits due to annual compensation increases and headcount growth in sales personnel within MA as well as in support areas. The increase in non-compensation expenses of approximately $2 million is primarily due to higher costs for ongoing IT initiatives coupled with higher contingent consideration costs relating to the acquisition of Copal. These increases were partially offset by lower legal and litigation-related expenses.

Operating income of $291.5 million increased $21.8 million from 2012. Adjusted Operating Income was $314.9 million in the third quarter of 2013 and increased $21.1 million compared to 2012. Operating margin and Adjusted Operating Margin in the third quarter of 2013 of 41.3% and 44.6%, respectively, increased 210bps and 190bps, respectively, compared to the prior year, reflecting revenue growth coupled with a slight decrease in operating expenses.

Interest income (expense), net in the third quarter of 2013 was ($24.4) million, a $9.1 million increase in expense compared to 2012. This increase is primarily due to interest on borrowings for both the 2013 Senior Notes and 2012 Senior Notes which were issued in August 2013 and 2012, respectively. Also contributing to the increase in net expense was a reduction in accrued interest expense of $4.4 million in the third quarter of 2012 relating to the favorable resolution of a Legacy Tax Matter.

Other non-operating income (expense), net was ($3.6) million in the third quarter of 2013, a $13.6 million increase in expense compared to 2012 as 2012 reflected a $12.8 million reversal of a liability related to the favorable resolution of a Legacy Tax Matter.

The Company s ETR was 29.1% in the third quarter of 2013, down slightly from 29.5% in 2012.

Net Income in the third quarter of 2013 was $183.9 million, or $0.83 per diluted share. This is an increase of $0.02 per diluted share, compared to the third quarter of 2012. Excluding a $0.06 benefit related to the resolution of a Legacy Tax Matter in 2012, diluted EPS increased $0.08 compared to the prior year.

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
	2013	**2012**	**(Unfavorable)**
Revenue:			
Corporate finance (CFG)	**$ 233.0**	$ 220.7	6%
Structured finance (SFG)	**83.5**	93.1	(10%)
Financial institutions (FIG)	**78.9**	82.7	(5%)
Public, project and infrastructure finance (PPIF)	**82.7**	77.0	7%
Total external revenue	**478.1**	473.5	1%