

MOODYS CORP /DE/  
Form 10-Q  
November 06, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark one)

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

For the quarterly period ended September 30, 2012

Or

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

For the transition period from            to

Commission file number 1-14037

**Moody's Corporation**

(Exact name of registrant as specified in its charter)

Edgar Filing: MOODYS CORP /DE/ - Form 10-Q

**Delaware**  
(State of Incorporation)

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

**7 World Trade Center at**

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

**10007**  
(Zip Code)

**Registrant's telephone number, including area code:**

**(212) 553-0300**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months, or for such shorter period that the registrant was required to submit and post such files. Yes  No

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

Large accelerated filer  Accelerated filer

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

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

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

<b>Title of Each Class</b>	<b>Shares Outstanding at September 30, 2012</b>
Common Stock, par value \$0.01 per share	222.9 million

**Table of Contents****MOODY S CORPORATION****INDEX TO FORM 10-Q**

	<b>Page(s)</b>
<u>Glossary of Terms and Abbreviations</u>	3-7
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b>Item 1. <u>Financial Statements</u></b>	8
<u>Consolidated Statements of Operations (Unaudited) for the Three and Nine Months Ended September 30, 2012 and 2011</u>	8
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended September 30, 2012 and 2011</u>	9
<u>Consolidated Balance Sheets (Unaudited) at September 30, 2012 and December 31, 2011</u>	10
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2012 and 2011</u>	11
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	12-42
<b>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	43
<u>The Company</u>	43
<u>Critical Accounting Estimates</u>	43-47
<u>Operating Segments</u>	47-48
<u>Results of Operations</u>	48-63
<u>Liquidity and Capital Resources</u>	64-73
<u>2012 Outlook</u>	73
<u>Recently Issued Accounting Pronouncements</u>	73-74
<u>Contingencies</u>	74-78
<u>Regulation</u>	78-79
<u>Forward-Looking Statements</u>	79-80
<b>Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u></b>	80
<b>Item 4. <u>Controls and Procedures</u></b>	80
<b><u>PART II. OTHER INFORMATION</u></b>	
<b>Item 1. <u>Legal Proceedings</u></b>	81
<b>Item 1A. <u>Risk Factors</u></b>	81
<b>Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	81
<b>Item 5. <u>Other Information</u></b>	81
<b>Item 6. <u>Exhibits</u></b>	82
<b><u>SIGNATURES</u></b>	<b>83</b>
<u>Exhibits Filed Herewith</u>	
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

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

<b>TERM</b>	<b>DEFINITION</b>
ACNielsen	ACNielsen Corporation a former affiliate of Old D&B
Adjusted Operating Income	Operating income excluding restructuring and depreciation and amortization expense
Adjusted Operating Margin	Adjusted operating income divided by revenue
Analytics	Moody s Analytics a reportable segment of MCO formed in January 2008, which includes the non-rating commercial activities of MCO
AOCI	Accumulated other comprehensive income (loss); a separate component of shareholders equity (deficit)
ASC	The FASB Accounting Standards Codification; the sole source of authoritative GAAP as of July 1, 2009 except for rules and interpretive releases of the SEC, which are also sources of authoritative GAAP for SEC registrants
ASU	The FASB Accounting Standards Update to the ASC. It also provides background information for accounting guidance and the bases for conclusions on the changes in the ASC. ASUs are not considered authoritative until codified into the ASC
B&H	Barrie & Hibbert Limited, an acquisition completed in December 2011; part of the MA segment, a leading provider of risk management modeling tools for insurance companies worldwide
Basel II	Capital adequacy framework published in June 2004 by the Basel Committee on Banking Supervision
Basel III	A new global regulatory standard on bank capital adequacy and liquidity agreed by the members of the Basel Committee on Banking Supervision. Basel III was developed in a response to the deficiencies in financial regulation revealed by the global financial crisis. Basel III strengthens bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage.
Board	The board of directors of the Company
Bps	Basis points
Canary Wharf Lease	Operating lease agreement entered into on February 6, 2008 for office space in London, England, occupied by the Company in the second half of 2009
CDOs	Collateralized debt obligations
CFG	Corporate finance group; an LOB of MIS
CMBS	Commercial mortgage-backed securities; part of CREF
Cognizant	Cognizant Corporation a former affiliate of Old D&B; comprised the IMS Health and NMR businesses
Commission	European Commission
Company	Moody s Corporation and its subsidiaries; MCO; Moody s
Copal	Copal Partners; an acquisition completed in November 2011; part of the MA segment; leading provider of outsourced research and analytical services to institutional investors
CP	Commercial paper
CP Notes	Unsecured commercial paper notes

**Table of Contents**

TERM	DEFINITION
CP Program	The Company's commercial paper program entered into on October 3, 2007
CRAs	Credit rating agencies
CREF	Commercial real estate finance which includes REITs, commercial real estate CDOs and mortgage-backed securities; part of SFG
CSI	CSI Global Education, Inc.; an acquisition completed in November 2010; part of the MA segment; a provider of financial learning, credentials, and certification in Canada
D&B Business	Old D&B's Dun & Bradstreet operating company
DBPP	Defined benefit pension plans
Debt/EBITDA	Ratio of Total Debt to EBITDA
EBITDA	Earnings before interest, taxes, depreciation and amortization
ECAIs	External Credit Assessment Institutions
ECB	European Central Bank
EMEA	Represents countries within Europe, the Middle East and Africa
EPS	Earnings per share
ERS	The enterprise risk solutions LOB within MA (formerly RMS); which offers risk management software products as well as software implementation services and related risk management advisory engagements
ESMA	European Securities and Market Authority
ESPP	The 1999 Moody's Corporation Employee Stock Purchase Plan
ETR	Effective tax rate
EU	European Union
EUR	Euros
Eurosystem	The monetary authority of the Eurozone, the collective of European Union member states that have adopted the euro as their sole official currency. The Eurosystem consists of the European Central Bank and the central banks of the member states that belong to the Eurozone
Excess Tax Benefits	The difference between the tax benefit realized at exercise of an option or delivery of a restricted share and the tax benefit recorded at the time the option or restricted share is expensed under GAAP
Exchange Act	The Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FIG	Financial institutions group; an LOB of MIS
Financial Reform Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Free Cash Flow	Net cash provided by operating activities less cash paid for capital additions
FSTC	Financial Services Training and Certifications; a reporting unit within the MA segment that includes classroom-based training services and CSI
FX	Foreign exchange
GAAP	U.S. Generally Accepted Accounting Principles
GBP	British pounds

**Table of Contents**

TERM	DEFINITION
G-8	The finance minister and central bank governors of the group of eight countries consisting of Canada, France, Germany, Italy, Japan, Russia, U.S. and U.K., that meet annually
G-20	The G-20 is an informal forum of industrial and emerging-market countries on key issues related to global economic stability. The G-20 is comprised of: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the U.K. and the U.S. and The EU who is represented by the rotating Council presidency and ECB
IMS Health	A spin-off of Cognizant; provides services to the pharmaceutical and healthcare industries
Indicative Ratings	These are ratings which are provided as of a point in time, and not published or monitored. They are primarily provided to potential or current issuers to indicate what a rating may be based on business fundamentals and financial conditions as well as based on proposed financings
IOSCO	International Organization of Securities Commissions
IOSCO Code	Code of Conduct Fundamentals for Credit Rating Agencies
IRS	Internal Revenue Service
KIS	Korea Investors Service, Inc.; a leading Korean rating agency and consolidated subsidiary of the Company
KIS Pricing	Korea Investors Service Pricing, Inc.; a Korean provider of fixed income securities pricing and consolidated subsidiary of the Company
Legacy Tax Matter(s)	Exposures to certain potential tax liabilities assumed in connection with the 2000 Distribution
LIBOR	London Interbank Offered Rate
LOB	Line of business
MA	Moody's Analytics – a reportable segment of MCO formed in January 2008, which includes the non-rating commercial activities of MCO
Make Whole Amount	The prepayment penalty amount relating to the Series 2005-1 Notes, Series 2007-1 Notes, 2010 Senior Notes and 2012 Senior Notes which is a premium based on the excess, if any, of the discounted value of the remaining scheduled payments over the prepaid principal
MCO	Moody's Corporation and its subsidiaries; the Company; Moody's
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MIS	Moody's Investors Service – a reportable segment of MCO; consists of four LOBs – SFG, CFG, FIG and PPIF
MIS Code	Moody's Investors Service Code of Professional Conduct
Moody's	Moody's Corporation and its subsidiaries; MCO; the Company
Net Income	Net income attributable to Moody's Corporation, which excludes net income from consolidated noncontrolling interests belonging to the minority interest holder
New D&B	The New D&B Corporation – which comprises the D&B business
NM	Percentage change is not meaningful

**Table of Contents**

TERM	DEFINITION
NMR	Nielsen Media Research, Inc.; a spin-off of Cognizant; a leading source of television audience measurement services
NRSRO	Nationally Recognized Statistical Rating Organization
Old D&B	The former Dun and Bradstreet Company which distributed New D&B shares on September 30, 2000, and was renamed Moody's Corporation
PPIF	Public, project and infrastructure finance; an LOB of MIS
Profit Participation Plan	Defined contribution profit participation plan that covers substantially all U.S. employees of the Company
PS	Professional Services, an LOB within MA that provides outsourced research and analytical services as well as financial training and certification programs
RD&A	Research, Data and Analytics; an LOB within MA that produces, sells and distributes research, data and related content. Includes products generated by MIS, such as analyses on major debt issuers, industry studies, and commentary on topical credit events, as well as economic research, data, quantitative risk scores, and other analytical tools that are produced within MA
Redeemable Noncontrolling Interest	Represents minority shareholders' interest in entities which are controlled but not wholly-owned by Moody's and for which Moody's obligation to redeem the minority shareholders' interest is in the control of the minority shareholders
Reform Act	Credit Rating Agency Reform Act of 2006
REITs	Real estate investment trusts
RMBS	Residential mortgage-backed security; part of SFG
RMS	The Risk Management Software LOB within MA, which provides both economic and regulatory capital risk management software and implementation services. Now referred to as ERS
Retirement Plans	Moody's funded and unfunded pension plans, the retirement healthcare plans and retirement life insurance plans
S&P	Standard & Poor's Ratings Services; a division of The McGraw-Hill Companies, Inc.
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933
Series 2005-1 Notes	Principal amount of \$300 million, 4.98% senior unsecured notes due in September 2015 pursuant to the 2005 Agreement
Series 2007-1 Notes	Principal amount of \$300 million, 6.06% senior unsecured notes due in September 2017 pursuant to the 2007 Agreement
SFG	Structured finance group; an LOB of MIS
SG&A	Selling, general and administrative expenses
T&E	Travel and entertainment expenses
Total Debt	All indebtedness of the Company as reflected on the consolidated balance sheets, excluding current accounts payable and deferred revenue incurred in the ordinary course of business
U.K.	United Kingdom
U.S.	United States
USD	U.S. dollar

**Table of Contents**

<b>TERM</b>	<b>DEFINITION</b>
UTBs	Unrecognized tax benefits
UTPs	Uncertain tax positions
2000 Distribution	The distribution by Old D&B to its shareholders of all the outstanding shares of New D&B common stock on September 30, 2000
2000 Distribution Agreement	Agreement governing certain ongoing relationships between the Company and New D&B after the 2000 Distribution including the sharing of any liabilities for the payment of taxes, penalties and interest resulting from unfavorable IRS rulings on certain tax matters and certain other potential tax liabilities
2005 Agreement	Note purchase agreement dated September 30, 2005, relating to the Series 2005-1 Notes
2007 Agreement	Note purchase agreement dated September 7, 2007, relating to the Series 2007-1 Notes
2007 Facility	Revolving credit facility of \$1 billion entered into on September 28, 2007, expiring in 2012
2008 Term Loan	Five-year \$150 million senior unsecured term loan entered into by the Company on May 7, 2008
2010 Senior Notes	Principal amount of \$500 million, 5.50% senior unsecured notes due in September 2020 pursuant to the 2010 Indenture
2010 Indenture	Agreements dated August 19, 2010, relating to the 2010 Senior Notes
2012 Indenture	Agreements dated August 18, 2012, relating to the 2012 Senior Notes
2012 Senior Notes	Principal amount of \$500 million, 4.50% senior unsecured notes due in September 2022 pursuant to the 2012 Indenture
2012 Facility	Revolving credit facility of \$1 billion entered into on April 18, 2012, expiring in 2017
7WTC	The Company's corporate headquarters located at 7 World Trade Center in New York, NY
7WTC Lease	Operating lease agreement entered into on October 20, 2006



**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,	
	2012	2011	2012	2011
<b>Revenue</b>	<b>\$ 688.5</b>	<b>\$ 531.3</b>	<b>\$ 1,976.1</b>	<b>\$ 1,713.6</b>
Expenses				
Operating	207.3	171.0	573.4	502.3
Selling, general and administrative	187.4	145.0	515.8	436.4
Depreciation and amortization	24.1	19.0	69.7	58.5
Restructuring		0.2		0.1
<b>Total expenses</b>	<b>418.8</b>	<b>335.2</b>	<b>1,158.9</b>	<b>997.3</b>
<b>Operating income</b>	<b>269.7</b>	<b>196.1</b>	<b>817.2</b>	<b>716.3</b>
Non-operating (expense) income, net				
Interest expense, net	(15.3)	(12.9)	(42.2)	(45.2)
Other non-operating income (expense), net	10.0	1.6	12.6	13.1
<b>Total non-operating (expense) income, net</b>	<b>(5.3)</b>	<b>(11.3)</b>	<b>(29.6)</b>	<b>(32.1)</b>
<b>Income before provisions for income taxes</b>	<b>264.4</b>	<b>184.8</b>	<b>787.6</b>	<b>684.2</b>
Provision for income taxes	77.9	52.7	249.9	204.3
Net income	186.5	132.1	537.7	479.9
Less: Net income attributable to noncontrolling interests	2.6	1.4	7.8	4.7
<b>Net income attributable to Moody s</b>	<b>\$ 183.9</b>	<b>\$ 130.7</b>	<b>\$ 529.9</b>	<b>\$ 475.2</b>

Earnings per share attributable to Moody s common shareholders