

MOODYS CORP /DE/  
Form 10-Q  
July 31, 2014  
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**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 June 30, 2014

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

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(State of Incorporation)

(I.R.S. Employer Identification No.)

7 World Trade Center at

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

10007  
(Zip Code)

Registrant's telephone number, including area code:

(212) 553-0300

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

| Title of Each Class                      |
|--|
| Common Stock, par value \$0.01 per share |

| Shares Outstanding at June 30, 2014 |
|-------------------------------------|
| 211.2 million                       |

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| 10.1            | Seventh Amendment to the Profit Participation Plan of Moody's Corporation  |       |
| 10.2            | Second Amendment to Career Transition Plan   |       |
| 10.3            | First Amendment to Moody's Cafeteria Plan  |       |
| 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                              |       |
| 101.DEF         | XBRL Definitions Linkbase Document   |       |
| 101.INS         | XBRL Instance Document   |       |
| 101.SCH         | XBRL Taxonomy Extension Schema Document  |       |
| 101.CAL         | XBRL Taxonomy Extension Calculation Linkbase Document  |       |
| 101.LAB         | XBRL Taxonomy Extension Labels Linkbase Document   |       |
| 101.PRE         | XBRL Taxonomy Extension Presentation Linkbase Document   |       |

**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>   |
|---------------------------|---|
| Adjusted Operating Income | Operating income excluding depreciation and amortization  |
| Adjusted Operating Margin | Operating margin excluding depreciation and amortization  |
| Amba                      | Amba Investment Services; a provider of outsourced investment research and quantitative analytics for global financial institutions; a majority owned subsidiary of the Company acquired 100% of Amba in December 2013                                      |
| 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   |
| 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 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                 |
| 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  |
| CDO                       | Collateralized debt obligation  |
| CFG                       | Corporate finance group; an LOB of MIS  |
| CLO                       | Collateralized loan obligation  |
| CMBS                      | Commercial mortgage-backed securities; part of CREF   |
| 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   |
| Copal Amba                | Operating segment created in January 2014 that consists of all operations from Copal as well as the operations of Amba. The Copal Amba operating segment provides outsourced research and analytical services to the global financial and corporate sectors |
| Council                   | Council of the European Union   |
| CRAs                      | Credit rating agencies  |

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| TERM                      | DEFINITION  |
|---------------------------|---|
| 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 services primarily 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  |
| EMEA                      | Represents countries within Europe, the Middle East and Africa  |
| EPS                       | Earnings per share  |
| ERS                       | The enterprise risk solutions LOB within MA 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  |
| EU Parliament             | European Parliament   |
| EUR                       | Euros   |
| European Ratings Platform | Central credit ratings website administered by ESMA   |
| 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 on-line and classroom-based training services and CSI  |

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| TERM                 | DEFINITION   |
|----------------------|--|
| FX                   | Foreign exchange   |
| GAAP                 | U.S. Generally Accepted Accounting Principles  |
| GBP                  | British pounds   |
| ICRA                 | ICRA Limited.; a leading provider of credit ratings and research in India. The Company previously held 28.5% equity ownership and in June 2014, increased that ownership stake to 50.06% through the acquisition of additional shares  |
| ICRA Gain            | Gain relating to the step-acquisition of ICRA; U.S. GAAP requires the remeasurement to fair value of the previously held non-controlling shares upon obtaining a controlling interest in a step-acquisition. This remeasurement of the Company's equity investment in ICRA to fair value resulted in a pre-tax gain of \$102.8 million (\$78.5 million after tax) in the second quarter of 2014. |
| 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, 2012 Senior Notes and 2013 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  |

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| 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   |
| REIT                               | Real Estate Investment Trust  |
| Relationship Revenue               | In MIS, relationship revenue represents the recurring monitoring of a rated debt obligation and/or entities that issue such obligations, as well as revenue from programs such as commercial paper, medium-term notes and shelf registrations. For MA, revenue represents subscription-based revenue and maintenance revenue  |
| Retirement Plans                   | Moody's funded and unfunded pension plans, the retirement healthcare plans and retirement life insurance plans  |
| 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  |
| Total Debt                         | All indebtedness of the Company as reflected on the consolidated balance sheets   |
| Transaction Revenue                | For MIS, revenue representing the initial rating of a new debt issuance as well as other one-time fees. For MA, revenue represents software license fees and revenue from risk management advisory projects, training and certification services, and knowledge outsourcing engagements   |
| U.K.                               | United Kingdom  |
| U.S.                               | United States   |
| USD                                | U.S. dollar   |
| UTBs                               | Unrecognized tax benefits   |
| UTPs                               | Uncertain tax positions   |

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| <b>TERM</b>                 | <b>DEFINITION</b>   |
|-----------------------------|---|
| 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  |
| 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  |
| 2014 Senior Notes (5-Year)  | Principal amount of \$450 million, 2.750% senior unsecured notes due in July 2019   |
| 2014 Senior Notes (30-Year) | Principal amount of \$300 million, 5.250% senior unsecured notes due in July 2044   |
| 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<br>June 30, |                 | Six Months Ended<br>June 30, |                   |
|--|--------------------------------|-----------------|------------------------------|-------------------|
|  | 2014                           | 2013            | 2014                         | 2013              |
| <b>Revenue</b>   | <b>\$ 873.5</b>                | <b>\$ 756.0</b> | <b>\$ 1,640.7</b>            | <b>\$ 1,487.8</b> |
| Expenses   |                                |                 |                              |                   |
| Operating  | 222.1                          | 197.1           | 438.1                        | 397.9             |
| Selling, general and administrative                            | 217.4                          | 185.0           | 412.5                        | 412.0             |
| Depreciation and amortization                                  | 22.3                           | 23.1            | 45.4                         | 46.7              |
| <b>Total expenses</b>  | <b>461.8</b>                   | <b>405.2</b>    | <b>896.0</b>                 | <b>856.6</b>      |
| <b>Operating income</b>  | <b>411.7</b>                   | <b>350.8</b>    | <b>744.7</b>                 | <b>631.2</b>      |
| Non-operating (expense) income, net                            |                                |                 |                              |                   |
| Interest income (expense), net                                 | (26.0)                         | (21.7)          | (49.8)                       | (43.7)            |
| Other non-operating income (expense), net                      | (3.3)                          | 7.7             | (0.9)                        | 16.5              |
| ICRA Gain  | 102.8                          |                 | 102.8                        |                   |
| <b>Total non-operating (expense) income, net</b>               | <b>73.5</b>                    | <b>(14.0)</b>   | <b>52.1</b>                  | <b>(27.2)</b>     |
| <b>Income before provisions for income taxes</b>               | <b>485.2</b>                   | <b>336.8</b>    | <b>796.8</b>                 | <b>604.0</b>      |
| Provision for income taxes                                     | 160.8                          | 108.4           | 250.7                        | 184.5             |
| Net income   | 324.4                          | 228.4           | 546.1                        | 419.5             |
| Less: Net income attributable to noncontrolling interests      | 5.2                            | 2.9             | 8.9                          | 5.6               |
| <b>Net income attributable to Moody s</b>                      | <b>\$ 319.2</b>                | <b>\$ 225.5</b> | <b>\$ 537.2</b>              | <b>\$ 413.9</b>   |
| Earnings per share attributable to Moody s common shareholders |                                |                 |                              |                   |
| Basic  | \$ 1.51                        | \$ 1.01         | \$ 2.52                      | \$ 1.86           |
| Diluted  | \$ 1.48                        | \$ 1.00         | \$ 2.47                      | \$ 1.83           |
| Weighted average number of shares outstanding                  |                                |                 |                              |                   |
| Basic  | 212.0                          | 222.3           | 213.0                        | 222.8             |

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Diluted  | 215.7   | 226.2   | 217.1   | 226.7   |
| Dividends declared per share attributable to Moody's common shareholders | \$ 0.28 | \$ 0.20 | \$ 0.28 | \$ 0.20 |

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<br>June 30, 2014 |                |                      | Three Months Ended<br>June 30, 2013 |                |                      |
|---|-------------------------------------|----------------|----------------------|-------------------------------------|----------------|----------------------|
|   | Pre-tax<br>amounts                  | Tax<br>amounts | After-tax<br>amounts | Pre-tax<br>amounts                  | Tax<br>amounts | After-tax<br>amounts |
| Net income  |                                     |                | \$ 324.4             |                                     |                | \$ 228.4             |
| <b>Other comprehensive income (loss):</b>   |                                     |                |                      |                                     |                |                      |
| <b>Foreign currency translation:</b>  |                                     |                |                      |                                     |                |                      |
| Foreign currency translation adjustments  | \$ 14.1                             | \$             | 14.1                 | \$ (13.0)                           | \$             | (13.0)               |
| Foreign currency translation adjustments reclassification of losses to net income pursuant to ICRA step-acquisition | 4.4                                 |                | 4.4                  |                                     |                |                      |
| <b>Cash flow and net investment hedges:</b>   |                                     |                |                      |                                     |                |                      |
| Net realized and unrealized (loss) gain on cash flow and net investment hedges                                      | (2.7)                               | 1.1            | (1.6)                | (0.4)                               | 0.1            | (0.3)                |
| Reclassification of losses included in net income   |                                     |                |                      | 0.1                                 |                | 0.1                  |
| <b>Pension and Other Retirement Benefits:</b>   |                                     |                |                      |                                     |                |                      |
| Amortization of actuarial losses and prior service costs included in net income                                     | 2.0                                 | (0.8)          | 1.2                  | 2.8                                 | (1.2)          | 1.6                  |
| Net actuarial losses and prior service costs  | (6.9)                               | 2.8            | (4.1)                | 0.9                                 | (0.4)          | 0.5                  |
| Total other comprehensive loss  | \$ 10.9                             | \$ 3.1         | 14.0                 | \$ (9.6)                            | \$ (1.5)       | (11.1)               |
| Comprehensive income  |                                     |                | 338.4                |                                     |                | 217.3                |
| Less: comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest          |                                     |                | 5.2                  |                                     |                | 2.9                  |
| <b>Comprehensive income attributable to Moody s</b>   |                                     |                | <b>\$ 333.2</b>      |                                     |                | <b>\$ 214.4</b>      |

|   | Six Months Ended<br>June 30, 2014 |                |                      | Six Months Ended<br>June 30, 2013 |                |                      |
|---|-----------------------------------|----------------|----------------------|-----------------------------------|----------------|----------------------|
|   | Pre-tax<br>amounts                | Tax<br>amounts | After-tax<br>amounts | Pre-tax<br>amounts                | Tax<br>amounts | After-tax<br>amounts |
| Net income  |                                   |                | \$ 546.1             |                                   |                | \$ 419.5             |
| <b>Other comprehensive income (loss):</b>   |                                   |                |                      |                                   |                |                      |
| <b>Foreign currency translation:</b>  |                                   |                |                      |                                   |                |                      |
| Foreign currency translation adjustments  | \$ 9.3                            | \$             | 9.3                  | \$ (72.8)                         | \$             | (72.8)               |
| Foreign currency translation adjustments reclassification of losses to net income pursuant to ICRA step-acquisition | 4.4                               |                | 4.4                  |                                   |                |                      |
| <b>Cash flow and net investment hedges:</b>   |                                   |                |                      |                                   |                |                      |
| Net realized and unrealized (loss) gain on cash flow and net investment hedges                                      | (6.3)                             | 2.6            | (3.7)                | 1.0                               | (0.5)          | 0.5                  |
| Reclassification of losses included in net income   |                                   |                |                      | 0.7                               | (0.2)          | 0.5                  |

**Pension and Other Retirement Benefits:**

|  |        |        |                 |           |          |                 |
|--|--------|--------|-----------------|-----------|----------|-----------------|
| Amortization of actuarial losses and prior service costs included in net income                            | 3.7    | (2.3)  | 1.4             | 5.9       | (2.4)    | 3.5             |
| Net actuarial losses and prior service costs   | (6.9)  | 2.8    | (4.1)           | 0.9       | (0.4)    | 0.5             |
| Total other comprehensive income (loss)  | \$ 4.2 | \$ 3.1 | 7.3             | \$ (64.3) | \$ (3.5) | (67.8)          |
| Comprehensive income   |        |        | 553.4           |           |          | 351.7           |
| Less: comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest |        |        | 8.9             |           |          | 5.6             |
| <b>Comprehensive income attributable to Moody's</b>  |        |        | <b>\$ 544.5</b> |           |          | <b>\$ 346.1</b> |

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

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**MOODY S CORPORATION**  
**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

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

| ASSETS   | June 30,<br>2014  | December 31,<br>2013 |
|--|-------------------|----------------------|
| Current assets:  |                   |                      |
| Cash and cash equivalents  | \$ 1,777.3        | \$ 1,919.5           |
| Short-term investments   | 182.0             | 186.8                |
| Accounts receivable, net of allowances of \$30.6 in 2014 and \$28.9 in 2013                    | 758.3             | 694.2                |
| Deferred tax assets, net   | 49.7              | 53.9                 |
| Other current assets   | 177.0             | 114.4                |
| <b>Total current assets</b>  | <b>2,944.3</b>    | <b>2,968.8</b>       |
| Property and equipment, net of accumulated depreciation of \$414.9 in 2014 and \$375.7 in 2013 | 298.3             | 278.7                |
| Goodwill   | 955.2             | 665.2                |
| Intangible assets, net   | 310.5             | 221.6                |
| Deferred tax assets, net   | 130.9             | 148.7                |
| Other assets   | 147.4             | 112.1                |
| <b>Total assets</b>  | <b>\$ 4,786.6</b> | <b>\$ 4,395.1</b>    |

**LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS EQUITY**

|   |                |                |
|---|----------------|----------------|
| Current liabilities:  |                |                |
| Accounts payable and accrued liabilities  | \$ 430.8       | \$ 538.9       |
| Deferred tax liabilities, net   | 1.6            | 4.0            |
| Deferred revenue  | 661.0          | 598.4          |
| <b>Total current liabilities</b>  | <b>1,093.4</b> | <b>1,141.3</b> |
| Non-current portion of deferred revenue   | 120.8          | 109.2          |
| Long-term debt  | 2,104.5        | 2,101.8        |
| Deferred tax liabilities, net   | 112.2          | 59.1           |
| Unrecognized tax benefits   | 204.5          | 195.6          |
| Other liabilities   | 354.7          | 360.2          |
| <b>Total liabilities</b>  | <b>3,990.1</b> | <b>3,967.2</b> |
| Contingencies (Note 14)   |                |                |
| Redeemable noncontrolling interest  | 122.6          | 80.0           |
| 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 June 30, 2014 and December 31, 2013, respectively. | 3.4            | 3.4            |
| Capital surplus   | 385.0          | 405.8          |
| Retained earnings   | 5,780.7        | 5,302.1        |
| Treasury stock, at cost; 131,693,425 and 128,941,621 shares of common stock at June 30, 2014 and December 31, 2013, respectively                          | (5,676.4)      | (5,319.7)      |

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|  |                   |                   |
|--|-------------------|-------------------|
| Accumulated other comprehensive loss   | (47.3)            | (54.6)            |
| Total Moody's shareholders' equity   | 445.4             | 337.0             |
| Noncontrolling interests   | 228.5             | 10.9              |
| Total shareholders' equity   | 673.9             | 347.9             |
| Total liabilities, redeemable noncontrolling interest and shareholders' equity | <b>\$ 4,786.6</b> | <b>\$ 4,395.1</b> |

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

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

(Amounts in millions)

|  | <b>Six Months Ended<br/>June 30,</b> |                |
|--|--------------------------------------|----------------|
|  | <b>2014</b>                          | <b>2013</b>    |
| <b>Cash flows from operating activities</b>                                |                                      |                |
| Net income   | \$ 546.1                             | \$ 419.5       |
| Reconciliation of net income to net cash provided by operating activities: |                                      |                |
| Depreciation and amortization  | 45.4                                 | 46.7           |
| Stock-based compensation expense   | 40.6                                 | 33.3           |
| Deferred income taxes  | 46.2                                 | 10.8           |
| Excess tax benefits from stock-based compensation plans                    | (45.2)                               | (27.0)         |
| ICRA Gain  | (102.8)                              |                |
| Changes in assets and liabilities:   |                                      |                |
| Accounts receivable  | (45.8)                               | 2.4            |
| Other current assets   | (56.1)                               | (56.6)         |
| Other assets   | 3.3                                  | (0.8)          |
| Accounts payable and accrued liabilities                                   | (26.6)                               | (168.4)        |
| Deferred revenue   | 62.2                                 | 59.6           |
| Unrecognized tax benefits and other non-current tax liabilities            | 5.8                                  | 34.5           |
| Other liabilities  | (15.1)                               | 15.1           |
| <b>Net cash provided by operating activities</b>                           | <b>458.0</b>                         | <b>369.1</b>   |
| <b>Cash flows from investing activities</b>                                |                                      |                |
| Capital additions  | (38.8)                               | (18.1)         |
| Purchases of short-term investments  | (39.8)                               | (17.5)         |
| Sales and maturities of short-term investments                             | 45.7                                 | 16.6           |
| Cash paid for acquisitions, net of cash acquired                           | (80.5)                               |                |
| <b>Net cash used in investing activities</b>                               | <b>(113.4)</b>                       | <b>(19.0)</b>  |
| <b>Cash flows from financing activities</b>                                |                                      |                |
| Repayments of notes  |                                      | (63.8)         |
| Net proceeds from stock-based compensation plans                           | 40.2                                 | 60.8           |
| Cost of treasury shares repurchased  | (459.7)                              | (350.4)        |
| Excess tax benefits from settlement of stock-based compensation plans      | 45.2                                 | 27.0           |
| Payment of dividends   | (119.2)                              | (89.1)         |
| Payment of dividends to noncontrolling interests                           | (7.7)                                | (8.2)          |
| Contingent consideration paid  |                                      | (2.5)          |
| <b>Net cash used in financing activities</b>                               | <b>(501.2)</b>                       | <b>(426.2)</b> |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>        | <b>14.4</b>                          | <b>(46.3)</b>  |
| <b>Net decrease in cash and cash equivalents</b>                           | <b>(142.2)</b>                       | <b>(122.4)</b> |
| Cash and cash equivalents, beginning of the period                         | 1,919.5                              | 1,755.4        |

|   |                   |                   |
|---|-------------------|-------------------|
| <b>Cash and cash equivalents, end of the period</b> | <b>\$ 1,777.3</b> | <b>\$ 1,633.0</b> |
|---|-------------------|-------------------|

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 2013 annual report on Form 10-K filed with the SEC on February 27, 2014. 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 (including 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.

**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 |         | Six Months Ended |         |
|-------------------------------|--------------------|---------|------------------|---------|
|                               | June 30,           |         | June 30,         |         |
|                               | 2014               | 2013    | 2014             | 2013    |
| Stock-based compensation cost | \$ 20.3            | \$ 16.1 | \$ 40.6          | \$ 33.3 |
| Tax benefit                   | \$ 6.5             | \$ 5.8  | \$ 12.8          | \$ 12.0 |

During the first six months of 2014, the Company granted 0.3 million employee stock options, which had a weighted average grant date fair value of \$31.49 per share based on the Black-Scholes option-pricing model. The Company also granted 0.9 million shares of restricted stock in the first six months of 2014, which had a weighted

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average grant date fair value of \$79.55 per share and generally vest ratably over a four-year period. Additionally, the Company granted approximately 0.2 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 \$76.24 per share.

The following weighted average assumptions were used in determining the fair value for options granted in 2014:

|                           |           |
|---------------------------|-----------|
| Expected dividend yield   | 1.41%     |
| Expected stock volatility | 41.2%     |
| Risk-free interest rate   | 2.30%     |
| Expected holding period   | 7.2 years |
| Grant date fair value     | \$ 31.49  |

Unrecognized compensation expense at June 30, 2014 was \$12.3 million and \$111.2 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 1.8 years, respectively. Additionally, there was \$20.9 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 1.1 years.

The following tables summarize information relating to stock option exercises, restricted stock vesting and the delivery of performance-based awards:

|   | Six Months Ended<br>June 30, |         |
|---|------------------------------|---------|
|   | 2014                         | 2013    |
| <b>Exercise of stock options:</b>                     |                              |         |
| Proceeds from stock option exercises                  | \$ 89.0                      | \$ 89.2 |
| Aggregate intrinsic value                             | \$ 69.2                      | \$ 66.7 |
| Tax benefit realized upon exercise                    | \$ 25.3                      | \$ 24.4 |
| Number of shares exercised                            | 2.0                          | 2.7     |
|   |                              |         |
|   | Six Months Ended<br>June 30, |         |
|   | 2014                         | 2013    |
| <b>Vesting of restricted stock:</b>                   |                              |         |
| Fair value of shares vested                           | \$ 91.9                      | \$ 53.8 |
| Tax benefit realized upon vesting                     | \$ 32.0                      | \$ 19.1 |
| Number of shares vested                               | 1.2                          | 1.1     |
|   |                              |         |
|   | Six Months Ended<br>June 30, |         |
|   | 2014                         | 2013    |
| <b>Vesting of performance-based restricted stock:</b> |                              |         |
| Fair value of shares vested                           | \$ 38.0                      | \$ 25.5 |
| Tax benefit realized upon vesting                     | \$ 14.8                      | \$ 9.7  |
| Number of shares vested                               | 0.5                          | 0.5     |

**Table of Contents****NOTE 3. INCOME TAXES**

Moody's effective tax rate was 33.1% and 32.2% for the three months ended June 30, 2014 and 2013, respectively and 31.5% and 30.5% for the six month periods ended June 30, 2014 and 2013, respectively. The increase in the ETR compared to the second quarter of 2013 was primarily due to higher taxes on foreign income. The six months ended June 30, 2013 ETR included a tax benefit related to U.S. tax legislation enacted in early 2013 which retroactively extended certain tax benefits to the 2012 tax year, as well as tax benefits on a litigation settlement in the first quarter of 2013. The ETR for the six month period ended June 30, 2014 includes a benefit related to the reversal of UTPs resulting from the favorable resolution of certain international tax matters.

The Company classifies interest related to UTPs in interest expense, net in its consolidated statements of operations. Penalties, if incurred, would be recognized in other non-operating (expense) income, net. The Company had an increase in its UTPs of \$13.7 million (\$12.1 million net of federal tax benefit) during the second quarter of 2014 and an overall increase in its UTPs during the first six months of 2014 of \$8.9 million (\$4.3 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 states, local and foreign jurisdictions. The Company's U.S. federal income tax returns for the years 2008 through 2010 are under examination and its returns for 2011 and 2012 remain open to examination. The Company's New York State tax returns for 2011 and 2012 remain open to examination. Income tax filings in the U.K. for 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 these audits, which might involve the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also possible that new issues might be raised by tax authorities which could necessitate increases to the balance of UTBs. As the Company is unable to predict the timing or outcome of these audits, it is therefore unable to estimate the amount of changes to the balance of UTBs at this time. However, the Company believes that it has adequately provided for its financial exposure relating to all open tax years by tax jurisdiction in accordance with the applicable provisions of Topic 740 of the ASC regarding UTBs.

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

|                    | <b>Six Months Ended</b> |             |
|--------------------|-------------------------|-------------|
|                    | <b>June 30,</b>         |             |
|                    | <b>2014</b>             | <b>2013</b> |
| Income Taxes Paid* | \$ 216.7                | \$ 231.6    |

\* 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.

**Table of Contents****NOTE 4. WEIGHTED AVERAGE SHARES OUTSTANDING**

Below is a reconciliation of basic to diluted shares outstanding:

|  | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |              |
|--|--------------------------------|--------------|------------------------------|--------------|
|  | 2014                           | 2013         | 2014                         | 2013         |
| Basic  | 212.0                          | 222.3        | 213.0                        | 222.8        |
| Dilutive effect of shares issuable under stock-based compensation plans  | 3.7                            | 3.9          | 4.1                          | 3.9          |
| <b>Diluted</b>   | <b>215.7</b>                   | <b>226.2</b> | <b>217.1</b>                 | <b>226.7</b> |
| Anti-dilutive options to purchase common shares and restricted stock as well as contingently issuable restricted stock which are excluded from the table above | 0.7                            | 4.4          | 0.7                          | 4.7          |

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 June 30, 2014 and 2013. 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 12 months and one month to nine months as of June 30, 2014 and December 31, 2013, respectively. 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.

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In the second quarter of 2014, the Company entered into interest rate swaps with a total notional amount of \$250 million to convert the fixed interest rate on the 2010 Senior 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 2010 Senior 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 2010 Senior 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.

**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 February 2015.

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

|   | June 30,<br>2014 | December 31,<br>2013 |
|---|------------------|----------------------|
| <b>Notional amount of currency pair:</b>                  |                  |                      |
| Contracts to purchase USD with euros                      | \$ 71.1          | \$ 14.2              |
| Contracts to sell USD for euros                           | \$ 54.7          | \$ 53.2              |
| Contracts to purchase USD with GBP                        | \$ 0.7           | \$                   |
| Contracts to purchase USD with other foreign currencies   | \$ 1.9           | \$                   |
| Contracts to sell USD for other foreign currencies        | \$ 20.1          | \$                   |
| Contracts to purchase euros with other foreign currencies | 53.8             | 13.1                 |
| Contracts to purchase euros with GBP                      | 24.1             | 22.1                 |
| Contracts to sell euros for GBP                           | 67.3             |                      |

**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 September 2014 for contracts to sell euros for USD and in November 2014 for contracts to sell Japanese yen for USD.

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

|  | June 30,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
| <b>Notional amount of currency pair:</b> |                  |                      |
| Contracts to sell euros for USD          | 50.0             | 50.0                 |
| Contracts to sell Japanese yen for USD   | ¥ 19,700         | ¥ 19,700             |

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:

| Derivatives Instruments                                       | Balance Sheet<br>Location                | Fair Value of Derivative Instruments |                      |
|---|--|--------------------------------------|----------------------|
|   |  | June 30,<br>2014                     | December 31,<br>2013 |
| <b>Assets:</b>  |  |                                      |                      |
| <i>Derivatives designated as accounting hedges:</i>           |  |                                      |                      |
| Interest rate swaps   | Other assets                             | \$ 12.6                              | \$ 10.3              |
| FX forwards on net investment in certain foreign subsidiaries | Other current assets                     | 2.5                                  | 9.3                  |
| Total derivatives designated as accounting hedges             |  | 15.1                                 | 19.6                 |
| <i>Derivatives not designated as accounting hedges:</i>       |  |                                      |                      |
| FX forwards on certain assets and liabilities                 | Other current assets                     | 3.4                                  | 0.9                  |
| Total assets  |  | \$ 18.5                              | \$ 20.5              |
| <b>Liabilities:</b>   |  |                                      |                      |
| <i>Derivatives designated as accounting hedges:</i>           |  |                                      |                      |
| FX forwards on net investment in certain foreign subsidiaries | Accounts payable and accrued liabilities | \$ 0.5                               | \$ 1.0               |
| <i>Derivatives not designated as accounting hedges:</i>       |  |                                      |                      |
| FX forwards on certain assets and liabilities                 | Accounts payable and accrued liabilities | 0.2                                  | 0.7                  |
| Total liabilities   |  | \$ 0.7                               | \$ 1.7               |

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:

| Derivatives designated as fair value accounting hedges | Location on Statement of Operations | Amount of gain (loss)<br>recognized in the consolidated<br>statements of operations |        |                  |        |
|--|-------------------------------------|---|--------|------------------|--------|
|  |                                     | Three Months Ended  |        | Six Months Ended |        |
|  |                                     | June 30,<br>2014  | 2013   | June 30,<br>2014 | 2013   |
| Interest rate swaps                                    | Interest income(expense), net       | \$ 2.0  | \$ 1.0 | \$ 0.5           | \$ 2.1 |

**Derivatives not designated as accounting hedges**

|                           |   |               |        |               |          |
|---------------------------|---|---------------|--------|---------------|----------|
| Foreign exchange forwards | Other non-operating income (expense), net | <b>\$ 1.3</b> | \$ 1.0 | <b>\$ 0.9</b> | \$ (0.1) |
|---------------------------|---|---------------|--------|---------------|----------|

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All gains and losses on interest rate swaps designated as cash flow hedges were initially recognized through AOCI. Realized gains and losses reported in AOCI were reclassified into interest income (expense), net as the underlying transaction was recognized. There were no cash flow hedges outstanding at both June 30, 2014 and 2013. Accordingly, there were no gains or losses recorded in AOCI in the three and six months ended June 30, 2014. The amount of losses reclassified from AOCI into net income in the three and six months ended June 30, 2013 was immaterial.

All gains and losses on derivatives designated as net investment hedges are recognized in the currency translation adjustment component of AOCI. The losses recognized in OCI in the three and six months ended June 30, 2014 and 2013 were immaterial. Additionally, the cumulative amount of unrecognized hedge losses recorded in AOCI at June 30, 2014 and December 31, 2013 were not material.

## **NOTE 7. ACQUISITIONS**

The acquisitions described below are accounted for using the acquisition method of accounting whereby assets acquired and liabilities assumed were recognized at their acquisition date fair value. Any excess of the purchase price over the fair value of the assets acquired and liabilities assumed was recorded to goodwill. For the acquisitions described below, the Company has not presented proforma combined results because the impact on previously reported statements of operations would not have been material. These acquisitions are discussed below in more detail.

### **ICRA Limited**

On June 26, 2014, a subsidiary of the Company acquired 2,154,722 additional shares of ICRA Limited, a publicly traded company in India, pursuant to a conditional open tender offer which was initiated in February 2014. ICRA is a leading provider of credit ratings and research in India and will extend Moody's reach in the growing domestic debt market in India as well as other emerging markets in the region. The acquisition of the additional shares increased Moody's ownership stake in ICRA from 28.5% to 50.06%, resulting in a controlling interest in ICRA. Accordingly, the Company will consolidate ICRA's financial statements and as of June 30, 2014, ICRA's balance sheet was consolidated. Subsequent to June 30, 2014, Moody's will consolidate ICRA's financial statements on a three month lag. Thus in 2014, Moody's will consolidate only one quarter of ICRA's operating results.

Prior to the acquisition of the additional shares, Moody's accounted for its investment in ICRA on an equity basis whereby the Company recorded its proportional share of the investment's net income or loss as part of other non-operating income (expense), net and any dividends received would reduce the carrying amount of the investment. The acquisition of the additional shares has resulted in the Company consolidating ICRA into its financial statements. As a result of this consolidation and in accordance with ASC 805, the carrying value of the Company's equity investment in ICRA was remeasured to fair value as of the acquisition date which resulted in a pre-tax gain of \$102.8 million (\$78.5 million after-tax) in the three and six months ended June 30, 2014. The fair value of the Company's equity investment was based on ICRA's quoted market price.

The Company incurred approximately \$2 million of costs directly related to the acquisition of ICRA during the six months ended June 30, 2014, which are recorded within selling, general and administrative expenses in the Company's consolidated statements of operations.



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The table below details the total consideration relating to the ICRA step-acquisition:

|   |                 |
|---|-----------------|
| Cash paid   | \$ 86.0         |
| Fair value of equity interest in ICRA prior to obtaining a controlling interest | 124.9           |
| <b>Total consideration</b>  | <b>\$ 210.9</b> |

The cash paid in the table above was funded by using Moody's non-U.S. cash on hand.

Shown below is the purchase price allocation, which summarizes the fair value of the assets and liabilities assumed, at the date of acquisition:

|  |                 |
|--|-----------------|
| Current assets                                 | \$ 24.8         |
| Property and equipment, net                    | 7.3             |
| Intangible assets:                             |                 |
| Trade name                                     | \$ 50.1         |
| Client relationships                           | 33.8            |
| Other  | 17.5            |
| <b>Total intangible assets</b>                 | <b>101.4</b>    |
| Goodwill                                       | 294.6           |
| Other assets                                   | 56.3            |
| Liabilities                                    | (54.7)          |
| Fair value of non-controlling interest assumed | (218.8)         |
| <b>Net assets acquired</b>                     | <b>\$ 210.9</b> |

Due to the proximity of the acquisition date to the issuance date of these interim financial statements, the purchase price allocation above as well as the estimated useful lives of the acquired intangible assets are not finalized.

Current assets include acquired cash of approximately \$5 million. Additionally, current assets includes gross accounts receivable of approximately \$14 million, of which an immaterial amount is not expected to be collectible. Goodwill, which has been assigned to the MIS segment, is not deductible for tax.

The fair value of the non-controlling interest was determined based on the quoted market price per share of ICRA, on the date that the Company acquired the controlling stake.

Subsequent to the second quarter of 2014, ICRA will operate as its own reporting unit.

**Table of Contents****Amba Investment Services**

On December 10, 2013, Copal Partners Limited, a majority-owned subsidiary of the Company, acquired 100% of Amba Investment Services, a provider of outsourced investment research and quantitative analytics for global financial institutions. Amba currently operates within the PS LOB of MA and will bolster the research and analytical capabilities offered by MA through Copal, a majority owned subsidiary which was acquired in December 2011.

The table below details the total consideration transferred to the sellers of Amba:

|  |             |
|--|-------------|
| Cash paid  | \$ 67.2     |
| Contingent consideration liability assumed   | 4.3         |
| Additional purchase price to be paid in 2014 based on final working capital acquired | 0.1         |
| <br>Total fair value of consideration transferred                                    | <br>\$ 71.6 |

The cash payment to the sellers was funded by using Moody's non-U.S. cash.

The purchase agreement contains a provision for a contingent cash payment to the sellers valued at \$4.3 million at the acquisition date. This contingent cash payment was dependent on Amba achieving certain revenue targets for the period from the acquisition date through March 31, 2014. This contingent consideration payment will be made to the sellers in 2014.

Shown below is the purchase price allocation, which summarizes the fair value of the assets acquired and the liabilities assumed, at the date of acquisition:

|   |             |
|---|-------------|
| Current assets  | \$ 23.7     |
| Property and equipment, net                                 | 0.4         |
| Intangible assets:  |             |
| Trade name (7 year weighted average life)                   | \$ 3.3      |
| Client relationships (12 year weighted average life)        | 26.7        |
| Other (3 year weighted average life)                        | 1.6         |
| <br>Total intangible assets (11 year weighted average life) | <br>31.6    |
| Goodwill  | 29.2        |
| Indemnification asset                                       | 10.4        |
| Other assets  | 2.0         |
| Liabilities assumed   | (25.7)      |
| <br>Net assets acquired                                     | <br>\$ 71.6 |

Current assets include acquired cash of approximately \$16 million. Additionally, current assets includes gross accounts receivable of approximately \$6 million, of which an immaterial amount is not expected to be collectible. The acquired goodwill, which has been assigned to the MA segment, will not be deductible for tax.

In connection with the acquisition, the Company assumed liabilities relating to certain UTPs. These UTPs are included in the liabilities assumed in the table above. The sellers have contractually indemnified the Company against any potential payments that may have to be made regarding these UTPs. Accordingly, the Company carries an indemnification asset on its consolidated balance sheet at March 31, 2014 and December 31, 2013.

As of the date of the acquisition, Amba was integrated with Copal to form the Copal Amba reporting unit.



**Table of Contents****NOTE 8. GOODWILL AND OTHER ACQUIRED INTANGIBLE ASSETS**

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

|  | <b>Six Months Ended June 30, 2014</b> |                               |              |                |                               |              |                     |                               |              |
|--|---------------------------------------|-------------------------------|--------------|----------------|-------------------------------|--------------|---------------------|-------------------------------|--------------|
|  | <b>MIS</b>                            |                               |              | <b>MA</b>      |                               |              | <b>Consolidated</b> |                               |              |
|  | 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             | \$ 11.4                               | \$                            | \$ 11.4      | \$ 666.0       | \$ (12.2)                     | \$ 653.8     | \$ 677.4            | \$ (12.2)                     | \$ 665.2     |
| Additions/adjustments                    | 294.6                                 |                               | 294.6        | (5.3)          |                               | (5.3)        | 289.3               |                               | 289.3        |
| Foreign currency translation adjustments | 0.2                                   |                               | 0.2          | 0.5            |                               | 0.5          | 0.7                 |                               | 0.7          |
| Ending balance                           | \$ 306.2                              | \$                            | \$ 306.2     | \$ 661.2       | \$ (12.2)                     | \$ 649.0     | \$ 967.4            | \$ (12.2)                     | \$ 955.2     |

|  | <b>Year ended December 31, 2013</b> |                               |              |                |                               |              |                     |                               |              |
|--|-------------------------------------|-------------------------------|--------------|----------------|-------------------------------|--------------|---------------------|-------------------------------|--------------|
|  | <b>MIS</b>                          |                               |              | <b>MA</b>      |                               |              | <b>Consolidated</b> |                               |              |
|  | 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                                |                                     |                               |              | 34.5           |                               | 34.5         | 34.5                |                               | 34.5         |
| Foreign currency translation adjustments | (0.1)                               |                               | (0.1)        | (6.3)          |                               | (6.3)        | (6.4)               |                               | (6.4)        |
| Ending balance                           | \$ 11.4                             | \$                            | \$ 11.4      | \$ 666.0       | \$ (12.2)                     | \$ 653.8     | \$ 677.4            | \$ (12.2)                     | \$ 665.2     |

The 2014 additions/adjustments for the MIS segment in the table above relate to the ICRA acquisition in the second quarter of 2014 as further discussed in Note 7. The 2014 and 2013 additions/adjustments for the MA segment in the table above relate to the acquisition of Amba in the fourth quarter of 2013. There were no impairments to goodwill in the six months ended June 30, 2014 and year ended December 31, 2013.

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Acquired intangible assets and related amortization consisted of:

|  | June 30,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
| Customer relationships                       | \$ 272.0         | \$ 237.4             |
| Accumulated amortization                     | (93.5)           | (86.6)               |
| <b>Net customer relationships</b>            | <b>178.5</b>     | <b>150.8</b>         |
| Trade secrets                                | 31.0             | 31.1                 |
| Accumulated amortization                     | (19.7)           | (18.5)               |
| <b>Net trade secrets</b>                     | <b>11.3</b>      | <b>12.6</b>          |
| Software                                     | 72.5             | 71.0                 |
| Accumulated amortization                     | (42.7)           | (38.8)               |
| <b>Net software</b>                          | <b>29.8</b>      | <b>32.2</b>          |
| Trade names                                  | 81.3             | 31.3                 |
| Accumulated amortization                     | (12.5)           | (11.7)               |
| <b>Net trade names</b>                       | <b>68.8</b>      | <b>19.6</b>          |
| Other  | 42.9             | 26.1                 |
| Accumulated amortization                     | (20.8)           | (19.7)               |
| <b>Net other</b>                             | <b>22.1</b>      | <b>6.4</b>           |
| <b>Total acquired intangible assets, net</b> | <b>\$ 310.5</b>  | <b>\$ 221.6</b>      |

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<br>June 30, |        | Six Months Ended<br>June 30, |         |
|----------------------|--------------------------------|--------|------------------------------|---------|
|                      | 2014                           | 2013   | 2014                         | 2013    |
| Amortization expense | \$ 6.3                         | \$ 6.9 | \$ 13.6                      | \$ 14.0 |

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

| <b>Year Ending December 31,</b> |                |
|---------------------------------|----------------|
| 2014 (after June 30,)           | <b>\$ 12.3</b> |
| 2015                            | <b>24.2</b>    |
| 2016                            | <b>23.5</b>    |
| 2017                            | <b>19.9</b>    |
| 2018                            | <b>15.1</b>    |
| Thereafter                      | <b>114.1</b>   |

Due to the proximity of the acquisition date to the filing of this Form 10Q, the above table does not include future amortization for intangible assets from the ICRA acquisition as more fully discussed in Note 7 as the Company is still in the process of determining the estimated useful lives of these assets.

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 six months ended June 30, 2014 and 2013.

**Table of Contents****NOTE 9. FAIR VALUE**

The table below presents information about items which are carried at fair value on a recurring basis at June 30, 2014 and December 31, 2013:

| Description   | Fair Value Measurement as of June 30, 2014     |         |         |         |
|---|--|---------|---------|---------|
|   | Balance  | Level 1 | Level 2 | Level 3 |
| <b>Assets:</b>  |  |         |         |         |
| Derivatives <sup>(a)</sup>  | \$ 18.5  | \$      | \$ 18.5 | \$      |
| Fixed maturity and open ended mutual funds <sup>(b)</sup>         | 44.6   | 44.6    |         |         |
| Total   | \$ 63.1  | \$ 44.6 | \$ 18.5 | \$      |
| <b>Liabilities:</b>   |  |         |         |         |
| Derivatives <sup>(a)</sup>  | \$ 0.7   | \$      | \$ 0.7  | \$      |
| Contingent consideration arising from acquisitions <sup>(c)</sup> | 17.2   |         |         | 17.2    |
| Total   | \$ 17.9  | \$      | \$ 0.7  | \$ 17.2 |
| <br>  |  |         |         |         |
| Description   | Fair Value Measurement as of December 31, 2013 |         |         |         |
|   | Balance  | Level 1 | Level 2 | Level 3 |
| <b>Assets:</b>  |  |         |         |         |
| Derivatives <sup>(a)</sup>  | \$ 20.5  | \$      | \$ 20.5 | \$      |
| Total   | \$ 20.5  | \$      | \$ 20.5 | \$      |
| <b>Liabilities:</b>   |  |         |         |         |
| Derivatives <sup>(a)</sup>  | \$ 1.7   | \$      | \$ 1.7  | \$      |
| Contingent consideration arising from acquisitions <sup>(c)</sup> | 17.5   |         |         | 17.5    |
| Total   | \$ 19.2  | \$      | \$ 1.7  | \$ 17.5 |

(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 investments in fixed maturity mutual funds and open ended mutual funds. These investments were acquired pursuant to the ICRA step-acquisition, more fully discussed in Note 7 to the financial statements. The remaining contractual maturities for the fixed maturity instruments range from one month to 11 months.

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

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

|   | <b>Contingent Consideration</b> |             |
|---|---------------------------------|-------------|
|   | <b>Six</b>                      |             |
|   | <b>Months Ended June 30,</b>    |             |
|   | <b>2014</b>                     | <b>2013</b> |
| Balance as of January 1                         | <b>\$ 17.5</b>                  | \$ 9.0      |
| Contingent consideration payments               |                                 | (2.5)       |
| Total losses (gains) (realized and unrealized): |                                 |             |
| Included in earnings                            | <b>(0.2)</b>                    | 4.1         |
| Foreign currency translation adjustments        | <b>(0.1)</b>                    | (0.1)       |
| Balance as of June 30                           | <b>\$ 17.2</b>                  | \$ 10.5     |

The gains and losses included in earnings in the table above are recorded within SG&A expenses in the Company's consolidated statements of operations. The gains in the six months ended June 30, 2014 relate to contingent consideration obligations outstanding at June 30, 2014.

Of the \$17.2 million of contingent consideration obligations as of June 30, 2014, \$14.9 million is classified in accounts payable and accrued liabilities and \$2.3 million 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, fixed maturity plans and contingent consideration obligations:

**Derivatives:**

In determining the fair value of the derivative contracts, 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.

**Fixed maturity and open ended mutual funds:**

The fixed maturity mutual funds and open ended mutual funds primarily represent exchange traded funds in India which were acquired as part of the ICRA step-acquisition and are classified as securities available-for-sale. Accordingly, any unrealized gains and losses in future quarters will be recognized through other comprehensive income until the instruments mature. The cost basis of these investments is \$42.3 million at June 30, 2014.

**Contingent consideration:**

At June 30, 2014, the Company has contingent consideration obligations related to the acquisitions of CSI, Copal and Amba which are carried at estimated fair value, and 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.



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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 June 30, 2014, 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. 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 plus sovereign and size risk premiums. The most significant unobservable input involved in the measurement of these obligations is the projected future financial results of the applicable Copal entities. These obligations will be settled upon the exercise of the call/put option. 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 December 31, 2013.

For the contingent consideration obligations relating to the acquisition of Amba, the payment is based on the acquired entity achieving a revenue target for its fiscal year ended March 31, 2014. The Company has utilized a discounted cash flow methodology to value this obligation. At March 31, 2014, Amba has met this revenue target and a \$4.3 million contingent consideration payment will be made in 2014.

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 10. OTHER BALANCE SHEET AND STATEMENT OF OPERATIONS INFORMATION**

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

|                                   | June 30,<br>2014 | December 31,<br>2013 |
|-----------------------------------|------------------|----------------------|
| Other current assets:             |                  |                      |
| Prepaid taxes                     | \$ 100.3         | \$ 40.0              |
| Prepaid expenses                  | 48.3             | 48.1                 |
| Other                             | 28.4             | 26.3                 |
| <b>Total other current assets</b> | <b>\$ 177.0</b>  | <b>\$ 114.4</b>      |

|  | June 30,<br>2014 | December<br>31,<br>2013 |
|--|------------------|-------------------------|
| Other assets:                                  |                  |                         |
| Investments in joint ventures                  | \$ 17.3          | \$ 37.5                 |
| Deposits for real-estate leases                | 11.5             | 10.3                    |
| Indemnification assets related to acquisitions | 26.1             | 27.0                    |
| Fixed maturity and open ended mutual funds     | 44.6             |                         |
| Other  | 47.9             | 37.3                    |
| <b>Total other assets</b>                      | <b>\$ 147.4</b>  | <b>\$ 112.1</b>         |

|   | June 30,<br>2014 | December<br>31,<br>2013 |
|---|------------------|-------------------------|
| Accounts payable and accrued liabilities:                 |                  |                         |
| Salaries and benefits                                     | \$ 69.5          | \$ 77.1                 |
| Incentive compensation                                    | 73.2             | 135.9                   |
| Customer credits, advanced payments and advanced billings | 23.2             | 21.7                    |
| Self-insurance reserves                                   | 26.6             | 27.6                    |
| Dividends   | 4.4              | 65.5                    |
| Professional service fees                                 | 49.3             | 32.9                    |
| Interest accrued on debt                                  | 36.1             | 36.3                    |
| Accounts payable  | 20.4             | 16.4                    |
| Income taxes  | 33.2             | 47.5                    |
| Pension and other retirement employee benefits            | 7.1              | 7.0                     |
| Other   | 87.8             | 71.0                    |
| <b>Total accounts payable and accrued liabilities</b>     | <b>\$ 430.8</b>  | <b>\$ 538.9</b>         |

|  | June 30,<br>2014 | December<br>31,<br>2013 |
|--|------------------|-------------------------|
| Other liabilities:                             |                  |                         |
| Pension and other retirement employee benefits | \$ 161.7         | \$ 164.0                |
| Deferred rent-non-current portion              | 108.5            | 106.3                   |
| Interest accrued on UTPs                       | 16.2             | 18.0                    |

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|                                |                 |                 |
|--------------------------------|-----------------|-----------------|
| Legacy and other tax matters   | <b>15.6</b>     | 15.4            |
| Other                          | <b>52.7</b>     | 56.5            |
| <b>Total other liabilities</b> | <b>\$ 354.7</b> | <b>\$ 360.2</b> |

**Table of Contents****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 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. In connection with the acquisition of Amba in December 2013, which was combined with Copal to form the Copal Amba reporting unit, the aforementioned revenue and EBITDA multiples set forth in the put/call option were modified to include the results of Amba. 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)                    | Six Months Ended<br>June 30,<br>2014  | Year Ended<br>December 31,<br>2013 |
|----------------------------------|---------------------------------------|------------------------------------|
|                                  | Redeemable Noncontrolling<br>Interest |                                    |
| <b>Balance January 1,</b>        | <b>\$ 80.0</b>                        | <b>\$ 72.3</b>                     |
| Net earnings                     | 5.4                                   | 5.8                                |
| Dividends                        | (3.7)                                 | (6.0)                              |
| Adjustment to redemption value * | 40.9                                  | 7.9                                |
| <b>Balance</b>                   | <b>\$ 122.6</b>                       | <b>\$ 80.0</b>                     |

\* The adjustment to the redemption value in the six months ended June 30, 2014 reflects the aforementioned revisions to the revenue and EBITDA multiples pursuant to the amendment of the put/call agreement which occurred contemporaneously with the acquisition of Amba coupled with growth in the Copal Amba reporting unit.

**Noncontrolling Interests:**

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

| (in millions)                 | Six Months<br>Ended June 30,<br>2014 | Year Ended<br>December<br>31,<br>2013 |
|-------------------------------|--------------------------------------|---------------------------------------|
|                               | Noncontrolling Interests             |                                       |
| <b>Balance January 1,</b>     | <b>\$ 10.9</b>                       | <b>\$ 11.4</b>                        |
| Net earnings                  | 3.5                                  | 5.7                                   |
| Dividends                     | (4.7)                                | (6.2)                                 |
| ICRA noncontrolling interest* | 218.8                                |                                       |
| <b>Balance</b>                | <b>\$ 228.5</b>                      | <b>\$ 10.9</b>                        |

\* Represents the fair value of the ICRA noncontrolling interest as of the day majority control was acquired.



**Table of Contents****Other Non-Operating (Expense) Income:**

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

|                      | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |         |
|----------------------|--------------------------------|--------|------------------------------|---------|
|                      | 2014                           | 2013   | 2014                         | 2013    |
| FX gain/(loss)       | \$ (7.1)                       | \$ 5.3 | \$ (6.1)                     | \$ 12.7 |
| Joint venture income | 3.5                            | 3.2    | 5.3                          | 4.9     |
| Other                | 0.3                            | (0.8)  | (0.1)                        | (1.1)   |
| Total                | \$ (3.3)                       | \$ 7.7 | \$ (0.9)                     | \$ 16.5 |

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

| (in millions)             | Six Months Ended<br>June 30,<br>2014 | Year Ended<br>December 31,<br>2013 |
|---------------------------|--------------------------------------|------------------------------------|
| <b>Balance January 1,</b> | \$ 27.6                              | \$ 55.8                            |
| Accruals (reversals), net | 13.7                                 | (0.9)                              |
| Payments                  | (14.7)                               | (27.3)                             |
| <b>Balance*</b>           | \$ 26.6                              | \$ 27.6                            |

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

**Table of Contents****NOTE 11. COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME**

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

|  | Three Months<br>Ended<br>June 30,<br>2014 | Six Months<br>Ended<br>June<br>30, 2014 | Affected line in the<br>consolidated statement of<br>operations |
|--|---|---|---|
| <b>Gains/(losses) on foreign currency translation adjustments</b>                        |   |   |   |
| Loss on foreign currency translation adjustment pursuant to ICRA step-acquisition        | \$ (4.4)                                  | \$ (4.4)                                | ICRA gain   |
| <b>Total gains/(losses) on foreign currency translation adjustments</b>                  | <b>(4.4)</b>                              | <b>(4.4)</b>                            |   |
| <b>Pension and other retirement benefits</b>   |   |   |   |
| Amortization of actuarial losses and prior service costs included in net income          | (1.2)                                     | (2.5)                                   | Operating expense   |
| Amortization of actuarial losses and prior service costs included in net income          | (0.8)                                     | (1.2)                                   | SG&A expense  |
| <b>Total before income taxes</b>   | <b>(2.0)</b>                              | <b>(3.7)</b>                            |   |
| Income tax effect of item above  | 0.8                                       | 2.3                                     | Provision for income taxes                                      |
| <b>Total pension and other retirement benefits</b>                                       | <b>(1.2)</b>                              | <b>(1.4)</b>                            |   |
| <b>Total losses included in Net Income attributable to reclassifications out of AOCI</b> | <b>\$ (5.6)</b>                           | <b>\$ (5.8)</b>                         |   |

|   | Three Months<br>Ended<br>June 30,<br>2013 | Six Months<br>Ended<br>June 30, 2013 | Affected line in the<br>consolidated statement of<br>operations |
|---|---|--------------------------------------|---|
| <b>Gains/(losses) on cash flow hedges</b>                                       |   |                                      |   |
| Interest rate swap derivative contracts   | \$ (0.1)                                  | \$ (0.7)                             | Interest income (expense), net                                  |
| Income tax effect of item above   |   | 0.2                                  | Provision for income taxes                                      |
| <b>Total losses on cash flow hedges</b>   | <b>(0.1)</b>                              | <b>(0.5)</b>                         |   |
| <b>Pension and other retirement benefits</b>                                    |   |                                      |   |
| Amortization of actuarial losses and prior service costs included in net income | (1.8)                                     | (3.9)                                | Operating expense   |
| Amortization of actuarial losses and prior service costs included in net income | (1.0)                                     | (2.0)                                | SG&A expense  |

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|  |          |          |                            |
|--|----------|----------|----------------------------|
| Total before income taxes  | (2.8)    | (5.9)    |                            |
| Income tax effect of item above  | 1.2      | 2.4      | Provision for income taxes |
| <b>Total pension and other retirement benefits</b>                                       | (1.6)    | (3.5)    |                            |
| <b>Total losses included in Net Income attributable to reclassifications out of AOCI</b> | \$ (1.7) | \$ (4.0) |                            |



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The following table shows changes in AOCI by component (net of tax):

|  | June 30, 2014  |             |             | Three Months Ended |             |             | June 30, 2013 |            |  |
|--|----------------|-------------|-------------|--------------------|-------------|-------------|---------------|------------|--|
|  | Gains/(Losses) |             |             | Gains/(Losses)     |             |             |               |            |  |
|  | on             | Pension and | Foreign     | on                 | Pension and | Foreign     |               |            |  |
|  | Net            | Other       | Currency    | Net                | Other       | Currency    |               |            |  |
|  | Investment     | Retirement  | Translation | Investment         | Retirement  | Translation |               |            |  |
|  | Hedges         | Benefits    | Adjustments | Hedges             | Benefits    | Adjustments |               |            |  |
|  | Total          |             |             | Total              |             |             |               |            |  |
| Balance March 31,  | \$ (0.6)       | \$ (53.0)   | \$ (7.7)    | \$ (61.3)          | \$ (1.7)    | \$ (88.2)   | \$ (48.9)     | \$ (138.8) |  |
| Other comprehensive income/(loss) before reclassifications | (1.6)          | (4.1)       | 14.1        | 8.4                | (0.3)       | 0.5         | (13.0)        | (12.8)     |  |
| Amounts reclassified from AOCI                             |                | 1.2         | 4.4         | 5.6                | 0.1         | 1.6         |               | 1.7        |  |
| Other comprehensive income/(loss)                          | (1.6)          | (2.9)       | 18.5        | 14.0               | (0.2)       | 2.1         | (13.0)        | (11.1)     |  |
| Balance June 30,   | \$ (2.2)       | \$ (55.9)   | \$ 10.8     | \$ (47.3)          | \$ (1.9)    | \$ (86.1)   | \$ (61.9)     | \$ (149.9) |  |

|  | June 30, 2014  |             |             | Six Months Ended |             |             | June 30, 2013 |            |  |
|--|----------------|-------------|-------------|------------------|-------------|-------------|---------------|------------|--|
|  | Gains/(Losses) |             |             | Gains/(Losses)   |             |             |               |            |  |
|  | on             | Pension and | Foreign     | on               | Pension and | Foreign     |               |            |  |
|  | Net            | Other       | Currency    | Net              | Other       | Currency    |               |            |  |
|  | Investment     | Retirement  | Translation | Investment       | Retirement  | Translation |               |            |  |
|  | Hedges         | Benefits    | Adjustments | Hedges           | Benefits    | Adjustments |               |            |  |
|  | Total          |             |             | Total            |             |             |               |            |  |
| Balance December 31,                                       | \$ 1.5         | \$ (53.2)   | \$ (2.9)    | \$ (54.6)        | \$ (2.9)    | \$ (90.1)   | \$ 10.9       | \$ (82.1)  |  |
| Other comprehensive income/(loss) before reclassifications | (3.7)          | (4.1)       | 9.3         | 1.5              | 0.5         | 0.5         | (72.8)        | (71.8)     |  |
| Amounts reclassified from AOCI                             |                | 1.4         | 4.4         | 5.8              | 0.5         | 3.5         |               | 4.0        |  |
| Net current period other comprehensive income/(loss)       | (3.7)          | (2.7)       | 13.7        | 7.3              | 1.0         | 4.0         | (72.8)        | (67.8)     |  |
| Balance June 30,   | \$ (2.2)       | \$ (55.9)   | \$ 10.8     | \$ (47.3)        | \$ (1.9)    | \$ (86.1)   | \$ (61.9)     | \$ (149.9) |  |

**NOTE 12. 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 funded and unfunded U.S. pension plans are referred to herein as Pension 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.

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

|  | Three Months Ended June 30, |               |                        |               |
|--|-----------------------------|---------------|------------------------|---------------|
|  | Pension Plans               |               | Other Retirement Plans |               |
|  | 2014                        | 2013          | 2014                   | 2013          |
| <b>Components of net periodic expense</b>                    |                             |               |                        |               |
| Service cost   | \$ 4.6                      | \$ 4.7        | \$ 0.4                 | \$ 0.4        |
| Interest cost  | 4.2                         | 3.3           | 0.3                    | 0.2           |
| Expected return on plan assets                               | (3.5)                       | (3.1)         |                        |               |
| Amortization of net actuarial loss from earlier periods      | 1.8                         | 2.6           |                        | 0.1           |
| Amortization of net prior service costs from earlier periods | 0.1                         | 0.1           |                        |               |
| <b>Net periodic expense</b>                                  | <b>\$ 7.2</b>               | <b>\$ 7.6</b> | <b>\$ 0.7</b>          | <b>\$ 0.7</b> |

|  | Six Months Ended June 30, |                |                        |               |
|--|---------------------------|----------------|------------------------|---------------|
|  | Pension Plans             |                | Other Retirement Plans |               |
|  | 2014                      | 2013           | 2014                   | 2013          |
| <b>Components of net periodic expense</b>                    |                           |                |                        |               |
| Service cost   | \$ 9.2                    | \$ 9.9         | \$ 0.8                 | \$ 0.8        |
| Interest cost  | 8.2                       | 6.7            | 0.5                    | 0.4           |
| Expected return on plan assets                               | (7.0)                     | (6.4)          |                        |               |
| Amortization of net actuarial loss from earlier periods      | 3.3                       | 5.4            |                        | 0.2           |
| Amortization of net prior service costs from earlier periods | 0.3                       | 0.3            |                        |               |
| <b>Net periodic expense</b>                                  | <b>\$ 14.0</b>            | <b>\$ 15.9</b> | <b>\$ 1.3</b>          | <b>\$ 1.4</b> |

The Company contributed \$20.7 million to its U.S. funded pension plan and made payments of \$1.2 million related to its unfunded U.S. DBPPs and \$0.2 million to its U.S. other retirement plans, respectively during the six months ended June 30, 2014. The Company presently anticipates making additional payments of \$3.1 million related to its unfunded U.S. DBPPs and \$0.4 million to its U.S. other retirement plans during the remainder of 2014.

**NOTE 13. INDEBTEDNESS**

The following table summarizes total indebtedness:

|  | June 30,<br>2014  | December 31,<br>2013 |
|--|-------------------|----------------------|
| 2012 Facility  | \$                | \$                   |
| Notes Payable:   |                   |                      |
| 4.98% Series 2005-1 Notes, due 2015; includes the fair value of interest rate swap of \$8.7 million at 2014 and \$10.3 million at 2013   | 308.7             | 310.3                |
| 6.06% Series 2007-1 Notes due 2017   | 300.0             | 300.0                |
| 5.50% 2010 Senior Notes, due 2020, net of unamortized discount of \$2.1 million in 2014 and \$2.2 million in 2013; also includes the fair value of interest rate swap of \$3.9 million in 2014 | 501.8             | 497.8                |
| 4.50% 2012 Senior Notes, due 2022, net of unamortized discount of \$3.4 million in 2014 and \$3.5 million in 2013  | 496.6             | 496.5                |
| 4.875% 2013 Senior Notes, due 2024, net of unamortized discount of \$2.6 million in 2014 and \$2.8 million in 2013   | 497.4             | 497.2                |
| <b>Total long-term debt</b>  | <b>\$ 2,104.5</b> | <b>\$ 2,101.8</b>    |



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The Company has the capacity to borrow up to \$1 billion under its unsecured revolving credit facility which expires in April 2017. Any future borrowings under this facility would accrue interest at LIBOR plus a premium that can range from 77.5 bps to 120 bps per annum based on the Company's debt/EBITDA ratio.

The Company has entered into interest rate swaps on the Series 2005-1 Notes and the 2010 Senior Notes which are more fully discussed in Note 6 above.

At June 30, 2014, 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 June 30, 2014, there were no such cross defaults.

**Interest expense, net**

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

|   | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                  |
|---|--------------------------------|------------------|------------------------------|------------------|
|   | 2014                           | 2013             | 2014                         | 2013             |
| Income                                  | \$ 1.7                         | \$ 1.2           | \$ 3.3                       | \$ 2.4           |
| Expense on borrowings                   | (25.6)                         | (20.5)           | (51.7)                       | (41.5)           |
| UTPs and other tax related liabilities* | (2.1)                          | (2.4)            | (1.5)                        | (4.6)            |
| Capitalized                             |                                |                  | 0.1                          |                  |
| <b>Total</b>                            | <b>\$ (26.0)</b>               | <b>\$ (21.7)</b> | <b>\$ (49.8)</b>             | <b>\$ (43.7)</b> |

\* The six months ended June 30, 2014 amount includes \$2.0 million reversal of an interest accrual relating to the favorable resolution of an international tax matter.

The following table shows the cash paid for interest:

|               | Six Months Ended<br>June 30, |         |
|---------------|------------------------------|---------|
|               | 2014                         | 2013    |
| Interest paid | \$ 60.5                      | \$ 41.4 |

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The Company's long-term debt is recorded at its carrying amount, which represents the issuance amount plus or minus any issuance premium or discount, except for the Series 2005-1 Notes and the 2010 Senior Notes which are recorded at the carrying amount 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 June 30, 2014 and December 31, 2013 are as follows:

|                                    | June 30, 2014   |                      | December 31, 2013 |                      |
|------------------------------------|-----------------|----------------------|-------------------|----------------------|
|                                    | Carrying Amount | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| Series 2005-1 Notes <sup>(1)</sup> | \$ 308.7        | \$ 314.5             | \$ 310.3          | \$ 319.2             |
| Series 2007-1 Notes                | 300.0           | 338.9                | 300.0             | 334.7                |
| 2010 Senior Notes <sup>(2)</sup>   | 501.8           | 565.7                | 497.8             | 536.6                |
| 2012 Senior Notes                  | 496.6           | 524.5                | 496.5             | 497.0                |
| 2013 Senior Notes                  | 497.4           | 537.5                | 497.2             | 501.2                |
| Total                              | \$ 2,104.5      | \$ 2,281.1           | \$ 2,101.8        | \$ 2,188.7           |

<sup>(1)</sup> The carrying amount for the Series 2005-1 Notes includes an \$8.7 million and \$10.3 million fair value adjustment on an interest rate hedge at June 30, 2014 and December 31, 2013, respectively.

<sup>(2)</sup> The carrying amount for the 2010 Senior Notes includes the unamortized discount of \$2.1 million and \$2.2 million in 2014 and 2013, respectively, and a \$3.9 million fair value adjustment on an interest rate hedge at June 30, 2014.

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 14. 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.

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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

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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.

For claims, litigation and proceedings and governmental investigations and inquiries 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 liabilities arising from Legacy Tax Matters. As of June 30, 2014, Moody's has recorded liabilities for Legacy Tax Matters totaling \$17.8 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.

**NOTE 15. SEGMENT INFORMATION**

Beginning in January 2014, pursuant to certain management realignment, the Company revised its operating segments. Accordingly, the Company is now organized into four operating segments: (i) MIS, (ii) MA, (iii) Copal Amba and (iv) an immaterial operating segment that provides fixed income pricing services and research in the Asia-Pacific region. The Copal Amba and the immaterial operating segment have been aggregated with the MA operating segment to form the MA reportable segment based on the determination that all of the operating segments demonstrate similar economic characteristics. Accordingly, the Company continues to be 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 reportable segment. Revenue from the Copal Amba operating segment continues to be reported within the PS LOB while revenue from the immaterial operating segment that provides fixed income pricing services and research in the Asia-Pacific region continues to be reported within RD&A.

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.

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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. 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 June 30, |          |              |              |          |          |              |              |
|-------------------------------|-----------------------------|----------|--------------|--------------|----------|----------|--------------|--------------|
|                               | 2014                        |          |              |              | 2013     |          |              |              |
|                               | MIS                         | MA       | Eliminations | Consolidated | MIS      | MA       | Eliminations | Consolidated |
| Revenue                       | \$ 643.6                    | \$ 255.1 | \$ (25.2)    | \$ 873.5     | \$ 556.3 | \$ 221.4 | \$ (21.7)    | \$ 756.0     |
| Operating, SG&A               | 268.9                       | 195.8    | (25.2)       | 439.5        | 236.2    | 167.6    | (21.7)       | 382.1        |
| Adjusted Operating Income     | 374.7                       | 59.3     |              | 434.0        | 320.1    | 53.8     |              | 373.9        |
| Less:                         |                             |          |              |              |          |          |              |              |
| Depreciation and amortization | 11.4                        | 10.9     |              | 22.3         | 11.5     | 11.6     |              | 23.1         |
| Operating income              | \$ 363.3                    | \$ 48.4  | \$           | \$ 411.7     | \$ 308.6 | \$ 42.2  | \$           | \$ 350.8     |

|                               | Six Months Ended June 30, |          |              |              |            |          |              |              |
|-------------------------------|---------------------------|----------|--------------|--------------|------------|----------|--------------|--------------|
|                               | 2014                      |          |              |              | 2013       |          |              |              |
|                               | MIS                       | MA       | Eliminations | Consolidated | MIS        | MA       | Eliminations | Consolidated |
| Revenue                       | \$ 1,190.9                | \$ 499.8 | \$ (50.0)    | \$ 1,640.7   | \$ 1,096.4 | \$ 434.8 | \$ (43.4)    | \$ 1,487.8   |
| Operating, SG&A               | 514.6                     | 386.0    | (50.0)       | 850.6        | 520.5      | 332.8    | (43.4)       | 809.9        |
| Adjusted Operating Income     | 676.3                     | 113.8    |              | 790.1        | 575.9      | 102.0    |              | 677.9        |
| Less:                         |                           |          |              |              |            |          |              |              |
| Depreciation and amortization | 22.8                      | 22.6     |              | 45.4         | 22.8       | 23.9     |              | 46.7         |
| Operating income              | \$ 653.5                  | \$ 91.2  | \$           | \$ 744.7     | \$ 553.1   | \$ 78.1  | \$           | \$ 631.2     |



**Table of Contents****MIS and MA Revenue by Line of Business**

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

|   | Three Months Ended June 30, |          | Six Months Ended June 30, |            |
|---|-----------------------------|----------|---------------------------|------------|
|   | 2014                        | 2013     | 2014                      | 2013       |
| <b>MIS:</b>                                       |                             |          |                           |            |
| Corporate finance (CFG)                           | \$ 320.9                    | \$ 262.9 | \$ 585.3                  | \$ 521.2   |
| Structured finance (SFG)                          | 110.6                       | 97.2     | 205.9                     | 190.2      |
| Financial institutions (FIG)                      | 92.2                        | 84.5     | 177.6                     | 171.0      |
| Public, project and infrastructure finance (PPIF) | 98.0                        | 92.7     | 178.7                     | 176.1      |
| Total external revenue                            | 621.7                       | 537.3    | 1,147.5                   | 1,058.5    |
| Intersegment royalty                              | 21.9                        | 19.0     | 43.4                      | 37.9       |
| Total   | 643.6                       | 556.3    | 1,190.9                   | 1,096.4    |
| <b>MA:</b>  |                             |          |                           |            |
| Research, data and analytics (RD&A)               | 144.7                       | 130.3    | 285.6                     | 259.9      |
| Enterprise risk solutions (ERS)                   | 67.2                        | 60.2     | 127.0                     | 113.2      |
| Professional services (PS)                        | 39.9                        | 28.2     | 80.6                      | 56.2       |
| Total external revenue                            | 251.8                       | 218.7    | 493.2                     | 429.3      |
| Intersegment revenue                              | 3.3                         | 2.7      | 6.6                       | 5.5        |
| Total   | 255.1                       | 221.4    | 499.8                     | 434.8      |
| Eliminations                                      | (25.2)                      | (21.7)   | (50.0)                    | (43.4)     |
| Total MCO   | \$ 873.5                    | \$ 756.0 | \$ 1,640.7                | \$ 1,487.8 |

Consolidated Revenue Information by Geographic Area:

|                     | Three Months Ended June 30, |          | Six Months Ended June 30, |            |
|---------------------|-----------------------------|----------|---------------------------|------------|
|                     | 2014                        | 2013     | 2014                      | 2013       |
| United States       | \$ 461.1                    | \$ 408.4 | \$ 886.7                  | \$ 818.3   |
| International:      |                             |          |                           |            |
| EMEA                | 263.3                       | 222.5    | 483.9                     | 429.6      |
| Asia-Pacific        | 88.6                        | 75.5     | 158.5                     | 143.7      |
| Americas            | 60.5                        | 49.6     | 111.6                     | 96.2       |
| Total International | 412.4                       | 347.6    | 754.0                     | 669.5      |
| Total               | \$ 873.5                    | \$ 756.0 | \$ 1,640.7                | \$ 1,487.8 |

**NOTE 16. RECENTLY ISSUED ACCOUNTING STANDARDS**

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In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU outlines a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU is effective for annual and interim reporting periods beginning after December 15, 2016 and early adoption is not permitted. Companies may either use a full retrospective or modified retrospective approach to adopt this ASU. The Company is currently evaluating both adoption options and the impact that adoption of this update will have on its consolidated financial statements.

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In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The objective of this ASU is to change the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. In accordance with this ASU, only those disposals of components of an entity that represent a strategic shift which has or will have a material effect on an entity's operations and financial results will be reported as discontinued operations. The amendments in this ASU are required to be applied prospectively for any disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014 and interim periods within those years. Early adoption is permitted, for disposals (or classifications as held for sale) that have not been previously reported in an entity's financial statements. The adoption of this ASU will not have any impact on the Company's consolidated financial statements other than changing the classification criteria and related disclosures for any potential future disposals (or classifications as held for sale).

**NOTE 17. SUBSEQUENT EVENTS**

On July 16, 2014, the Company issued \$450 million aggregate principal amount of unsecured notes in a public offering. The notes bear interest at 2.750% and mature on July 15, 2019. Also on July 16, 2014, the Company issued \$300 million aggregate principal amount of unsecured notes in a public offering. The \$300 million notes bear interest at 5.250% and mature on July 15, 2044. The Company intends to use the proceeds of these notes to retire the Series 2005-1 Notes, for which the Company has issued a notice to the bondholders calling the notes, as well as for general corporate purposes. The Company entered into interest rate swaps in July 2014 with a total notional amount of \$250 million to convert the fixed interest rate on a portion of the \$450 million unsecured 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 a portion of the \$450 million unsecured notes.

On July 14, 2014, the Board approved the declaration of a quarterly dividend of \$0.28 per share of Moody's common stock, payable on September 10, 2014 to shareholders of record at the close of business on August 20, 2014.

On July 17, 2014, a subsidiary of the Company acquired 100% of WebEquity Solutions, LLC, a leading provider of cloud-based loan origination solutions for financial institutions. The Company does not anticipate that this acquisition will have a material impact on its consolidated financial statements subsequent to the acquisition date. Due to the proximity of the acquisition date to the filing of this Form 10Q, the Company has not yet completed its assessment of WebEquity's balance sheet as of the date of acquisition nor has an initial purchase price allocation been completed. These and all other required disclosures related to this acquisition will appear in the Company's Form 10Q for the three and nine months ended September 30, 2014.

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### **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 64 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 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, 2013, 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.

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### **Reportable Segments**

The Company is organized into two reportable segments at June 30, 2014: MIS and MA. The MIS segment is comprised of all of the Company's ratings activities. All of Moody's other non-rating commercial activities are included in the MA segment.

The MIS segment consists of four lines of business—CFG, SFG, FIG and PPIF—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.

In December 2013, a subsidiary of the Company acquired Amba, a provider of investment research and quantitative analytics for global financial institutions. Amba is part of the MA reportable segment and its revenue is included in the PS LOB.

The following is a discussion of the results of operations of the Company and its reportable segments. Total MIS revenue and total MA expenses include 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. Total MA revenue and total MIS expenses include 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.

**Table of Contents****RESULTS OF OPERATIONS***Three months ended June 30, 2014 compared with three months ended June 30, 2013**Executive Summary*

Moody's revenue in the second quarter of 2014 totaled \$873.5 million, an increase of \$117.5 million compared to 2013 and reflected strong growth in both MIS and MA. Total expenses increased \$56.6 million compared to the second quarter of 2013 reflecting higher compensation and non-compensation costs of approximately \$42 million and \$15 million, respectively. Operating income of \$411.7 million in the second quarter of 2014 increased \$60.9 million compared to 2013 and resulted in an operating margin of 47.1%, compared to 46.4% in the prior year. Adjusted Operating Income of \$434.0 million in the second quarter of 2014 increased \$60.1 million compared to 2013, resulting in an Adjusted Operating Margin of 49.7% compared to 49.5% in the prior year period. Diluted EPS of \$1.48 in the second quarter of 2014 increased \$0.48 over 2013, and included \$0.36 for the ICRA Gain. Excluding this gain in the second quarter of 2014, Diluted EPS in the second quarter of 2014 was \$0.12 higher than the second quarter 2013 Diluted EPS of \$1.00.

|  | Three months ended June 30, |           | % Change                   |
|--|-----------------------------|-----------|----------------------------|
|  | 2014                        | 2013      | Favorable<br>(Unfavorable) |
| <b>Revenue:</b>  |                             |           |                            |
| United States  | <b>\$ 461.1</b>             | \$ 408.4  | 13%                        |
| <b>International:</b>                                    |                             |           |                            |
| EMEA   | <b>263.3</b>                | 222.5     | 18%                        |
| Asia-Pacific   | <b>88.6</b>                 | 75.5      | 17%                        |
| Americas   | <b>60.5</b>                 | 49.6      | 22%                        |
| <b>Total International</b>                               | <b>412.4</b>                | 347.6     | 19%                        |
| <b>Total</b>   | <b>873.5</b>                | 756.0     | 16%                        |
| <b>Expenses:</b>   |                             |           |                            |
| Operating  | <b>222.1</b>                | 197.1     | (13%)                      |
| SG&A   | <b>217.4</b>                | 185.0     | (18%)                      |
| Depreciation and amortization                            | <b>22.3</b>                 | 23.1      | 3%                         |
| <b>Total</b>   | <b>461.8</b>                | 405.2     | (14%)                      |
| Operating income   | <b>\$ 411.7</b>             | \$ 350.8  | 17%                        |
| Adjusted Operating Income <sup>(1)</sup>                 | <b>\$ 434.0</b>             | \$ 373.9  | 16%                        |
| Interest income (expense), net                           | <b>\$ (26.0)</b>            | \$ (21.7) | (20%)                      |
| Other non-operating income (expense), net                | <b>\$ (3.3)</b>             | \$ 7.7    | (143%)                     |
| ICRA Gain  | <b>\$ 102.8</b>             | \$        | NM                         |
| Net income attributable to Moody's                       | <b>\$ 319.2</b>             | \$ 225.5  | 42%                        |
| Diluted EPS attributable to Moody's common shareholders  | <b>\$ 1.48</b>              | \$ 1.00   | 48%                        |
| Non-GAAP EPS attributable to Moody's common shareholders | <b>\$ 1.12</b>              | \$ 1.00   | 12%                        |
| Operating margin   | <b>47.1%</b>                | 46.4%     |                            |
| Adjusted Operating Margin <sup>(1)</sup>                 | <b>49.7%</b>                | 49.5%     |                            |

(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.

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

|               | June 30,     |              | %<br>Change |
|---------------|--------------|--------------|-------------|
|               | 2014         | 2013         |             |
| United States | 2,888        | 2,686        | 8%          |
| International | 6,904*       | 4,284        | 61%         |
| <b>Total</b>  | <b>9,792</b> | <b>6,970</b> | <b>40%</b>  |

\* Total as of June 30, 2014 includes approximately 2,200 staff from the acquisitions of ICRA and Amba which occurred on June 26, 2014 and December 10, 2013, respectively, and for which a majority are located in low cost jurisdictions.

Global revenue of \$873.5 million in the second quarter of 2014 increased \$117.5 million compared to 2013 reflecting strong growth in both reportable segments. The increase in ratings revenue reflects strong growth in high-yield corporate debt and bank loan revenue as well as changes in the mix of fee type, new fee initiatives and certain pricing increases, primarily in the U.S. The growth also reflects higher rated issuance volumes in CLOs and infrastructure finance. The growth in MA reflects higher revenue across all LOBs. The growth in RD&A resulted from solid demand for credit research and content licensing while the growth in ERS was driven by higher software subscription and related service revenue as well as higher software maintenance fees. The growth in PS included revenue from the fourth quarter 2013 acquisition of Amba as well as growth from the FSTC business. Transaction revenue accounted for 53% of global MCO revenue in the second quarter of 2014 compared to 51% in the second quarter of 2013.

U.S. revenue of \$461.1 million in the second quarter of 2014 increased \$52.7 million over the prior year, reflecting strong growth in CFG and SFG revenue within MIS coupled with growth in all LOBs within MA.

Non-U.S. revenue increased \$64.8 million compared to the second quarter of 2013, reflecting strong growth in MIS revenue across all regions coupled with strong growth in MA revenue in the EMEA and Americas regions.

Operating expenses were \$222.1 million in the second quarter of 2014 and increased \$25.0 million from 2013 primarily due to growth in compensation costs reflecting higher salaries and related employee benefits primarily resulting from increases in headcount as well as the impact of annual compensation increases. Also contributing to the increase in compensation expenses were costs related to the acquisition of Amba in the fourth quarter of 2013.

SG&A expenses of \$217.4 million in the second quarter of 2014 increased \$32.4 million from the prior year period due to approximately \$17 million in higher compensation costs primarily reflecting higher salaries and related employee benefits resulting from annual compensation increases, headcount growth in MIS and MA as well as in overhead support areas coupled with higher headcount from the Amba acquisition. Additionally, there were higher rent and occupancy costs of approximately \$4 million reflecting additional floors leased at the Company's 7WTC headquarters coupled with various other real estate expansion projects worldwide. Also, there were incremental legal expenses as well as expenses from the Amba business acquired in the fourth quarter of 2013.

Operating income of \$411.7 million increased \$60.9 million from the second quarter of 2013. Adjusted Operating Income was \$434.0 million in the second quarter of 2014 and increased \$60.1 million compared to 2013. Operating margin increased 70bps compared to the second quarter of 2013. Adjusted Operating Margin in the second quarter of 2014 of 49.7% increased 20bps compared to the prior year.

Interest income (expense), net in the second quarter of 2014 was (\$26.0) million, a \$4.3 million increase in expense compared to 2013. This increase is due to approximately \$5 million of higher interest primarily reflecting the issuance of the 2013 Senior Notes in August 2013.



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Other non-operating income (expense), net was (\$3.3) million in the second quarter of 2014, an \$11.0 million increase in expense compared to 2013. The increase in expense is primarily due to approximately \$12 million in FX losses in the second quarter of 2014 compared to FX gains of approximately \$6 million in the prior year. The FX losses in the second quarter of 2014 were primarily due to the decline of the euro relative to the British pound.

The \$102.8 million ICRA Gain related to a fair value remeasurement of the Company's previously held equity investment in ICRA which occurred in connection with Moody's acquiring a controlling stake in ICRA on June 26, 2014.

The Company's ETR was 33.1% in the second quarter of 2014, up slightly from 32.2% in 2013 with the increase primarily due to higher taxes on foreign income.

Net Income in the second quarter of 2014, which included the ICRA Gain of \$78.5 million, was \$319.2 million, or \$1.48 per diluted share. This is an increase of \$93.7 million, or \$0.48 per diluted share, compared to 2013. Excluding the aforementioned ICRA Gain, Non-GAAP Diluted EPS of \$1.12 in the second quarter of 2014 was \$0.12 higher than Diluted EPS of \$1.00 in the same period of 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 June 30, |          | % Change<br>Favorable<br>(Unfavorable) |
|---|-----------------------------|----------|--|
|   | 2014                        | 2013     |  |
| <b>Revenue:</b>                                   |                             |          |  |
| Corporate finance (CFG)                           | \$ 320.9                    | \$ 262.9 | 22%                                    |
| Structured finance (SFG)                          | 110.6                       | 97.2     | 14%                                    |
| Financial institutions (FIG)                      | 92.2                        | 84.5     | 9%                                     |
| Public, project and infrastructure finance (PPIF) | 98.0                        | 92.7     | 6%                                     |
| Total external revenue                            | 621.7                       | 537.3    | 16%                                    |
| Intersegment royalty                              | 21.9                        | 19.0     | 15%                                    |
| Total MIS Revenue                                 | 643.6                       | 556.3    | 16%                                    |
| <b>Expenses:</b>                                  |                             |          |  |
| Operating and SG&A (external)                     | 265.6                       | 233.5    | (14%)                                  |
| Operating and SG&A (intersegment)                 | 3.3                         | 2.7      | (22%)                                  |
| Adjusted Operating Income                         | 374.7                       | 320.1    | 17%                                    |
| Depreciation and amortization                     | 11.4                        | 11.5     | 1%                                     |
| Operating income                                  | \$ 363.3                    | \$ 308.6 | 18%                                    |
| Adjusted Operating Margin                         | 58.2%                       | 57.5%    |  |
| Operating margin                                  | 56.4%                       | 55.5%    |  |

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

Global MIS revenue of \$621.7 million in the second quarter of 2014 increased \$84.4 million compared to 2013 reflecting growth across all LOBs. The growth reflects higher rated issuance volumes for high-yield corporate debt and bank loans as well as higher CLO, infrastructure finance and banking-related rated issuance volumes. Also contributing to the growth were benefits from the mix of fee type, new fee initiatives and certain pricing increases, primarily in the U.S. These increases were partially offset by declines in rated issuance volumes for U.S. public finance. Transaction revenue for MIS was 65% and 64% in the second quarter of 2014 and 2013, respectively.

In the U.S., revenue was \$352.5 million in the second quarter of 2014, an increase of \$39.3 million compared to 2013 and reflected growth in rated issuance volumes for high-yield corporate debt and bank loans as well as growth in volumes for CLOs and infrastructure finance. Also contributing to the increase were changes in the mix of fee type, new fee initiatives and certain pricing increases coupled with higher monitoring fees in CFG. These increases were partially offset by lower refunding volumes in the public finance sector.

Non-U.S. revenue was \$269.2 million in the second quarter of 2014, an increase of \$45.1 million compared to 2013 reflecting growth in rated issuance volumes for high-yield corporate debt and bank loans coupled with increases in banking revenue across all regions and CLO revenue in EMEA. Also contributing to the growth were changes in the mix of fee type, new fee initiatives and certain pricing increases as well as higher monitoring fees in CFG.

Global CFG revenue of \$320.9 million in the second quarter of 2014 increased \$58.0 million from 2013 primarily due to higher rated issuance volumes in the U.S. and EMEA for high-yield corporate debt and bank loans reflecting continued refinancing activity resulting from favorable market conditions as well as issuance to fund M&A activity. The growth over the prior year also reflects changes in the mix of fee type, new fee initiatives and certain pricing increases. Monitoring fee revenue also increased across all regions due to growth in the number of outstanding rated entities. Transaction revenue represented 74% of total CFG revenue in both the second quarter of 2014 and 2013. In the U.S., revenue in the second quarter of 2014 was \$183.2 million, or \$31.0 million higher than the prior year. Internationally, revenue of \$137.7 million in the second quarter of 2014 increased \$27.0 million compared to the prior year.

Global SFG revenue of \$110.6 million in the second quarter of 2014 increased \$13.4 million compared to 2013 primarily reflecting higher rated issuance volumes for CLOs in the U.S. and EMEA. This growth in rated issuance volumes for CLOs over the prior year reflects attractive spreads in this asset class as well as continued investor demand for these instruments. The growth over 2013 also reflects changes in the mix of fee type, new fee initiatives and certain pricing increases. Partially offsetting these increases were declines in asset-backed commercial paper revenue in the U.S. and EMEA. Transaction revenue was 63% of total SFG revenue in the second quarter of 2014 compared to 61% in the prior year. In the U.S., revenue of \$72.8 million increased \$10.7 million compared to the second quarter of 2013. Non-U.S. revenue in the second quarter of 2014 of \$37.8 million increased \$2.7 million compared to the prior year.

Global FIG revenue of \$92.2 million in the second quarter of 2014 was \$7.7 million higher compared to 2013 due to changes in the mix of fee type, new fee initiatives and pricing increases coupled with higher banking revenue primarily reflecting robust cross-border issuance from the financial sector in the Asia-Pacific region. These increases were partially offset by a decline in U.S. banking revenue which reflects an unfavorable shift in issuance mix. Transaction revenue was 35% of total FIG revenue in the second quarter of 2014 compared to 36% in the same period in 2013. In the U.S. revenue was \$34.7 million, or 4% lower than the prior year. Internationally, revenue was \$57.5 million in the second quarter of 2014, or \$9.0 million higher compared to 2013.

Global PPIF revenue was \$98.0 million in the second quarter of 2014 and increased \$5.3 million compared to 2013. The growth is primarily due to changes in the mix of fee type, new fee initiatives and pricing increases coupled with higher rated issuance volumes in infrastructure finance in the U.S. and Asia-Pacific reflecting favorable market

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conditions. These increases were partially offset by lower U.S. public finance revenue due to a decrease in refunding volumes which resulted from higher benchmark interest rates. Transaction revenue was 63% of total PPIF revenue in both the second quarter of 2014 and 2013. In the U.S., revenue in the second quarter of 2014 was \$61.8 million, a decrease of \$1.1 million compared to 2013. Outside the U.S., PPIF revenue increased \$6.4 million compared to 2013.

Operating and SG&A expenses in the second quarter of 2014 increased \$32.1 million compared to 2013 primarily reflecting higher compensation costs of approximately \$25 million resulting from annual compensation increases, headcount growth in the ratings LOBs as well as in support areas such as IT, finance and human resources for which the costs are allocated to each segment based on a revenue-split methodology. Also, there were higher costs in the second quarter of 2014 to support the Company's IT systems and infrastructure and incremental legal expenses. Furthermore, there were higher rent and occupancy costs for additional leased floors at 7WTC coupled with various other global real estate expansion projects.

Adjusted Operating Income in the second quarter of 2014, which includes intersegment royalty revenue and intersegment expenses, was \$374.7 million and increased \$54.6 million compared to 2013. Operating income in the second quarter of 2014 was \$363.3 million and increased \$54.7 million compared to the prior year. Adjusted Operating Margin and operating margin were 58.2% and 56.4%, respectively, or 70bps and 90bps higher compared to the second quarter of 2013. The increase in both margins compared to the prior year reflects strong revenue growth outpacing growth in total operating expenses.

**Moody's Analytics**

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

|                                     | Three months ended June 30, |                | % Change<br>Favorable<br>(Unfavorable) |
|-------------------------------------|-----------------------------|----------------|--|
|                                     | 2014                        | 2013           |  |
| <b>Revenue:</b>                     |                             |                |  |
| Research, data and analytics (RD&A) | \$ 144.7                    | 130.3          | 11%                                    |
| Enterprise risk solutions (ERS)     | 67.2                        | 60.2           | 12%                                    |
| Professional services (PS)          | 39.9                        | 28.2           | 41%                                    |
| <b>Total external revenue</b>       | <b>251.8</b>                | <b>218.7</b>   | <b>15%</b>                             |
| Intersegment revenue                | 3.3                         | 2.7            | 22%                                    |
| <b>Total MA Revenue</b>             | <b>255.1</b>                | <b>221.4</b>   | <b>15%</b>                             |
| <b>Expenses:</b>                    |                             |                |  |
| Operating and SG&A (external)       | 173.9                       | 148.6          | (17%)                                  |
| Operating and SG&A (intersegment)   | 21.9                        | 19.0           | (15%)                                  |
| <b>Adjusted Operating Income</b>    | <b>59.3</b>                 | <b>53.8</b>    | <b>10%</b>                             |
| Depreciation and amortization       | 10.9                        | 11.6           | 6%                                     |
| <b>Operating income</b>             | <b>\$ 48.4</b>              | <b>\$ 42.2</b> | <b>15%</b>                             |
| Adjusted Operating Margin           | 23.2%                       | 24.3%          |  |
| Operating margin                    | 19.0%                       | 19.1%          |  |

The following is a discussion of external MA revenue and operating expenses:

Global MA revenue increased \$33.1 million compared to the second quarter of 2013, with growth across all LOBs. Recurring revenue comprised 77% and 79% of total MA revenue in the second quarter of 2014 and 2013, respectively.



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In the U.S., revenue of \$108.6 million in the second quarter of 2014 increased \$13.4 million, and reflected growth across all LOBs. International revenue of \$143.2 million in the second quarter of 2014 was \$19.7 million higher than in 2013 also with growth across all LOBs.

Global RD&A revenue, which comprised 57% and 60% of total external MA revenue in the second quarter of 2014 and 2013, respectively, increased \$14.4 million over the prior year period. The growth, which was most notable in the U.S. and EMEA, was primarily due to strength in credit research and content licensing, general market price increases and the favorable impact of changes in FX translation rates.

Global ERS revenue in the second quarter of 2014 increased \$7.0 million over 2013, primarily due to growth in software subscriptions and related services as well as higher software maintenance fees resulting from growing demand for ERS products and services in the banking and insurance industries. Revenue in ERS is subject to quarterly volatility resulting from the variable nature of project timing and the concentration of software implementation and license revenue in a relatively small number of engagements.

Revenue from PS increased \$11.7 million compared to the second quarter of 2013 with a substantial portion of the growth relating to the acquisition of Amba in the fourth quarter of 2013 coupled with higher revenue from the FSTC business.

Operating and SG&A expenses in the second quarter of 2014 increased \$25.3 million compared to 2013. The expense growth reflects an approximate \$18 million increase in compensation costs primarily due to higher headcount to support business growth and from the acquisition of Amba as well as higher headcount in support areas for which the costs are allocated to each segment based on a revenue-split methodology. Additionally, annual merit increases contributed to the growth in compensation costs. The increase also reflects an approximate \$8 million increase in non-compensation expenses reflecting higher consulting costs due to product delivery in ERS coupled with higher variable costs to support business growth. Furthermore, there was an increase in rent and occupancy costs reflecting additional floors at 7WTC as well as various other real estate expansion projects worldwide.

Adjusted Operating Income was \$59.3 million in the second quarter of 2014 and increased \$5.5 million compared to the same period in 2013. Operating income of \$48.4 million in the second quarter of 2014 increased \$6.2 million compared to the same period in 2013. Adjusted Operating Margin for the second quarter of 2014 was 23.2%, compared to 24.3% in 2013. Operating margin was 19.0%, or flat compared to the prior year. Adjusted operating income and operating income both include intersegment revenue and expense.

***Six months ended June 30, 2014 compared with six months ended June 30, 2013******Executive Summary***

Moody's revenue in the first half of 2014 totaled \$1,640.7 million, an increase of \$152.9 million compared to 2013 and reflected growth in both MIS and MA. Total expenses increased \$39.4 million compared to the first half of 2013 reflecting higher compensation costs of approximately \$76 million primarily relating to headcount growth and annual compensation increases. The expense growth also reflects a \$7 million increase in costs to support ongoing IT initiatives as well as an \$8 million increase in rent and occupancy costs. These increases in expenses were partially offset by a charge for the settlement of the Abu Dhabi and Rhinebridge litigation matters in the prior year more fully discussed in Note 14 to the condensed consolidated financial statements. Operating income of \$744.7 million in the first half of 2014 increased \$113.5 million compared to 2013 and resulted in an operating margin of 45.4%, compared to 42.4% in the prior year. Adjusted Operating Income of \$790.1 million in the first half of 2014 increased \$112.2 million compared to 2013, resulting in an Adjusted Operating Margin of 48.2% compared to 45.6% in the prior year period. Both the operating margin and Adjusted Operating Margin in 2013 included the aforementioned litigation settlement charge. Diluted EPS of \$2.47 in the first half of 2014, which included \$0.36 for the ICRA Gain, increased \$0.64 over 2013, which included a \$0.14 charge related to the aforementioned litigation settlement. Excluding both the ICRA Gain in 2014 and the litigation

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settlement charge in 2013, Non-GAAP Diluted EPS in the first half of 2014 of \$2.11 was \$0.14 higher than first half 2013 Non-GAAP Diluted EPS of \$1.97.

|  | Six months ended June 30 |                | % Change<br>Favorable<br>(Unfavorable) |
|--|--------------------------|----------------|--|
|  | 2014                     | 2013           |  |
| <b>Revenue:</b>  |                          |                |  |
| United States  | \$ 886.7                 | \$ 818.3       | 8%                                     |
| <b>International:</b>                                    |                          |                |  |
| EMEA   | 483.9                    | 429.6          | 13%                                    |
| Asia-Pacific   | 158.5                    | 143.7          | 10%                                    |
| Americas   | 111.6                    | 96.2           | 16%                                    |
| <b>Total International</b>                               | <b>754.0</b>             | <b>669.5</b>   | <b>13%</b>                             |
| <b>Total</b>   | <b>1,640.7</b>           | <b>1,487.8</b> | <b>10%</b>                             |
| <b>Expenses:</b>   |                          |                |  |
| Operating  | 438.1                    | 397.9          | (10%)                                  |
| SG&A   | 412.5                    | 412.0          |  |
| Depreciation and amortization                            | 45.4                     | 46.7           | 3%                                     |
| <b>Total</b>   | <b>896.0</b>             | <b>856.6</b>   | <b>(5%)</b>                            |
| Operating income   | \$ 744.7                 | \$ 631.2       | 18%                                    |
| Adjusted Operating Income <sup>(1)</sup>                 | \$ 790.1                 | \$ 677.9       | 17%                                    |
| Interest income (expense), net                           | \$ (49.8)                | \$ (43.7)      | (14%)                                  |
| Other non-operating income (expense), net                | \$ (0.9)                 | \$ 16.5        | (105%)                                 |
| ICRA Gain  | \$ 102.8                 | \$             | NM                                     |
| Net income attributable to Moody's                       | \$ 537.2                 | \$ 413.9       | 30%                                    |
| Diluted EPS attributable to Moody's common shareholders  | \$ 2.47                  | \$ 1.83        | 35%                                    |
| Non-GAAP EPS attributable to Moody's common shareholders | \$ 2.11                  | \$ 1.97        | 7%                                     |
| Operating margin   | 45.4%                    | 42.4%          |  |
| Adjusted Operating Margin <sup>(1)</sup>                 | 48.2%                    | 45.6%          |  |

(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.

Global revenue of \$1,640.7 million in 2014 increased \$152.9 million compared to 2013 reflecting growth in both MIS and MA. The increase in ratings revenue reflects strong growth in bank loan and infrastructure finance revenue coupled with changes in the mix of fee type, new fee initiatives and certain pricing increases, primarily in the U.S. Also contributing to the growth were higher CLO rated issuance volumes as well as higher monitoring fees in CFG. These increases were partially offset by declines in rated issuance volumes for public finance in the U.S. The growth in MA reflects higher revenue across all LOBs. The growth in PS reflected revenue from the fourth quarter 2013 acquisition of Amba as well as growth from the Copal business. The growth in RD&A resulted from solid demand for credit research and content licensing while the growth in ERS was driven by higher revenue from software subscriptions and related services as well as software maintenance fees. Transaction revenue accounted for 51% of global MCO revenue in both the first half of 2014 and 2013.

U.S. revenue of \$886.7 million in the first half of 2014 increased \$68.4 million over the prior year reflecting changes in the mix of fee type, new fee initiatives and certain pricing increases coupled with growth in rated issuance volumes for bank loans and CLOs. Also contributing to the increase was growth across all LOBs within MA. These increases were partially offset by declines in public finance reflecting a decrease in

refunding volumes compared to the prior year.

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Non-U.S. revenue increased \$84.5 million compared to the first half of 2013, reflecting growth across all regions in both reportable segments. The most notable growth in the MIS segment reflected higher bank loan rated issuance volumes in EMEA coupled with benefits from changes in the mix of fee type, new fee initiatives and certain pricing increases. Additionally, the non-U.S. growth within MA reflected increases in RD&A revenue in EMEA as well as higher ERS revenue in the EMEA and the Americas regions. PS revenue in MA increased primarily due to the acquisition of Amba in the fourth quarter of 2013.

Operating expenses were \$438.1 million in the first half of 2014 and increased \$40.2 million from 2013 primarily due to an approximate \$41 million increase in compensation costs reflecting higher salaries and related employee benefits resulting from growth in headcount as well as the impact of annual compensation increases. Also contributing to the increase in compensation expenses were costs related to the acquisition of Amba in the fourth quarter of 2013.

SG&A expenses of \$412.5 million in the first half of 2014 were flat compared to the prior year period reflecting the first quarter 2013 settlement charge relating to the Abu Dhabi and Rhinebridge litigation matters being offset by higher compensation and non-compensation expenses. The growth in compensation costs of approximately \$35 million was primarily due to higher salaries and related employee benefits resulting from annual compensation increases, headcount growth in MIS and MA as well as in overhead support areas coupled with higher headcount from the Amba acquisition. Additionally, there were higher rent and occupancy costs reflecting additional floors leased at the Company's 7WTC headquarters coupled with various other real estate expansion projects worldwide as well as incremental expenses from the Amba business acquired in the fourth quarter of 2013.

Operating income of \$744.7 million increased \$113.5 million from the first half of 2013. Adjusted Operating Income was \$790.1 million in the first half of 2014 and increased \$112.2 million compared to 2013. Operating margin increased 300bps compared to the first half of 2013. Adjusted Operating Margin in the first half of 2014 of 48.2% increased 260bps compared to the prior year. The increase in operating margin and Adjusted Operating Margin is due to the aforementioned litigation settlement charge in 2013 which negatively impacted the prior year margins.

Interest income (expense), net in the first half of 2014 was (\$49.8) million, a \$6.1 million increase in net expense compared to 2013. This increase is due to higher interest of approximately \$10 million primarily reflecting the issuance of the 2013 Senior Notes in August 2013. Partially offsetting the increase in expense was an approximate \$2 million reversal of interest on UTPs in the first quarter of 2014 relating to the favorable resolution of certain international tax matters.

Other non-operating income (expense), net was (\$0.9) million in the first half of 2014, a \$17.4 million increase in expense compared to 2013 and reflected approximately \$6 million in FX losses in 2014 compared to approximately \$13 million in FX gains in 2013. The FX losses in 2014 are primarily due to the decline of the euro relative to the British pound. The FX gains in 2013 primarily related to the strengthening of the euro to the British pound in the first six months of the prior year.

The Company's ETR was 31.5% in the first half of 2014, up from 30.5% in 2013. The 2014 ETR included a benefit related to the reversal of UTPs resulting from the favorable resolution of certain international tax matters. The prior year ETR included a benefit related to U.S. tax legislation enacted in early 2013 which retroactively extended certain tax benefits to the 2012 tax year and prospectively extended these benefits to the 2013 tax year as well as tax benefits on the aforementioned litigation settlement.



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Net Income in the first half of 2014, which included \$78.5 million for the ICRA Gain, was \$537.2 million, or \$2.47 per diluted share. This is an increase of \$123.3 million, or \$0.64 per diluted share, compared to 2013, which included a \$0.14 charge related to the settlement of certain legal matters. Excluding the ICRA Gain in 2014 and the charge for the litigation settlement in the prior year, Non-GAAP Diluted EPS of \$2.11 in the first half of 2014 was \$0.14 higher than Non-GAAP Diluted EPS of \$1.97 in the same period of 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:

|   | Six months ended June 30, |          | % Change<br>Favorable<br>(Unfavorable) |
|---|---------------------------|----------|--|
|   | 2014                      | 2013     |  |
| <b>Revenue:</b>                                   |                           |          |  |
| Corporate finance (CFG)                           | \$ 585.3                  | \$ 521.2 | 12%                                    |
| Structured finance (SFG)                          | 205.9                     | 190.2    | 8%                                     |
| Financial institutions (FIG)                      | 177.6                     | 171.0    | 4%                                     |
| Public, project and infrastructure finance (PPIF) | 178.7                     | 176.1    | 1%                                     |
| <b>Total external revenue</b>                     | <b>1,147.5</b>            | 1,058.5  | 8%                                     |
| Intersegment royalty                              | 43.4                      | 37.9     | 15%                                    |
| <b>Total MIS Revenue</b>                          | <b>1,190.9</b>            | 1,096.4  | 9%                                     |
| <b>Expenses:</b>                                  |                           |          |  |
| Operating and SG&A (external)                     | 508.0                     | 515.0    | 1%                                     |
| Operating and SG&A (intersegment)                 | 6.6                       | 5.5      | (20%)                                  |
| <b>Adjusted Operating Income</b>                  | <b>676.3</b>              | 575.9    | 17%                                    |
| Depreciation and amortization                     | 22.8                      | 22.8     |  |
| <b>Operating income</b>                           | <b>\$ 653.5</b>           | \$ 553.1 | 18%                                    |
| <b>Adjusted Operating Margin</b>                  | <b>56.8%</b>              | 52.5%    |  |
| <b>Operating margin</b>                           | <b>54.9%</b>              | 50.4%    |  |

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

Global MIS revenue of \$1,147.5 million in the first half of 2014 increased \$89.0 million compared to 2013 reflecting changes in the mix of fee type, new fee initiatives and certain pricing increases coupled with higher rated issuance volumes for bank loans, CLOs and infrastructure finance. These increases were partially offset by declines in rated issuance volumes in U.S. public finance. Transaction revenue for MIS was 63% and 64% in the first half of 2014 and 2013, respectively.

In the U.S., revenue was \$668.2 million in the first half of 2014, an increase of \$41.9 million compared to 2013 reflecting changes in the mix of fee type, new fee initiatives and certain pricing increases coupled with growth in rated issuance volumes for bank loans, CLOs and infrastructure finance. Also contributing to the growth were higher monitoring fees in CFG. These increases were partially offset by lower refunding volumes in the public finance sector as well as declines in rated issuance volumes from high-yield corporate debt and banking-related issuers.

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Non-U.S. revenue was \$479.3 million in the first half of 2014, an increase of \$47.1 million compared to 2013 reflecting higher bank loan and CLO rated issuance volumes in EMEA coupled with changes in the mix of fee type, new fee initiatives and certain pricing increases. Additionally, the growth reflects higher monitoring fees resulting from an expanding base of monitored instruments. Partially offsetting these increases were declines in investment-grade corporate debt revenue in the EMEA region as well as declines in SFG revenue in the Asia-Pacific region across most asset classes.

Global CFG revenue of \$585.3 million in the first half of 2014 increased \$64.1 million from 2013 reflecting higher rated issuance volumes for bank loans in the U.S. and EMEA resulting from issuers taking advantage of the overall low interest rate environment to issue new debt and refinance existing borrowings combined with increased investor appetite for higher-yielding variable rate fixed income securities. The growth also reflects changes in the mix of fee type, new fee initiatives and certain pricing increases, primarily in the U.S. Monitoring and program fee revenue also increased across all regions due to growth in the number of outstanding rated entities. Partially offsetting these increases was a decline in high-yield corporate debt issuance in the U.S. and investment-grade revenue in EMEA in the first half of 2014 compared to robust refinancing issuance volumes in the prior year. Transaction revenue represented 73% of total CFG revenue in the first half of 2014, compared to 75% in the prior year period. In the U.S., revenue in the first half of 2014 was \$353.9 million, or \$39.6 million higher than the prior year. Internationally, revenue of \$231.4 million in the first half of 2014 increased \$24.5 million compared to the prior year.

Global SFG revenue of \$205.9 million in the first half of 2014 increased \$15.7 million compared to 2013 reflecting higher rated issuance volumes for CLOs in the U.S. and EMEA reflecting attractive interest rate spreads in this asset class as well as increasing investor demand for these instruments. Also contributing to the growth was an increase in the number of rated U.S. CMBS deals as well as the favorable impact of changes in the mix of fee type, new fee initiatives and certain pricing increases. Partially offsetting these increases were declines across most asset classes in the Asia-Pacific region. Transaction revenue was 61% of total SFG revenue in the first half of 2014 compared to 60% in the prior year. In the U.S., revenue of \$135.5 million increased \$13.9 million compared to the first half of 2013. Non-U.S. revenue in the first half of 2014 of \$70.4 million increased \$1.8 million compared to the prior year.

Global FIG revenue of \$177.6 million in the first half of 2014 was \$6.6 million higher compared to 2013 due to changes in the mix of fee type, new fee initiatives and pricing increases as well as higher cross-border issuance from the financial sector in the Asia-Pacific region and higher refinancing activity in the managed investments sector. Partially offsetting these increases was a decline in U.S. banking revenue which reflected an unfavorable shift in issuance mix. Transaction revenue was 35% of total FIG revenue in the first half of 2014 compared to 37% in the same period in 2013. In the U.S. revenue was \$69.5 million, or \$2.4 million lower than the prior year. Internationally, revenue was \$108.1 million in the first half of 2014, or \$9.0 million higher compared to 2013.

Global PPIF revenue was \$178.7 million in the first half of 2014 and increased \$2.6 million compared to 2013. The growth reflects changes in the mix of fee type, new fee initiatives and pricing increases coupled with growth in infrastructure finance rated issuance volumes in the U.S. and Asia-Pacific. These increases were partially offset by lower U.S. public finance revenue due to a decrease in refunding volumes resulting from higher benchmark interest rates. Transaction revenue was 59% and 62% of total PPIF revenue in the first half of 2014 and 2013, respectively. In the U.S., revenue in the first half of 2014 was \$109.3 million and decreased \$9.2 million compared to 2013. Outside the U.S., PPIF revenue increased \$11.8 million compared to 2013.

Operating and SG&A expenses in the first half of 2014 decreased \$7.0 million compared to 2013 primarily reflecting a settlement charge for the Abu Dhabi and Rhinebridge litigation matters in the prior year which is more fully discussed in Note 14 to the condensed consolidated financial statements. Partially offsetting this decrease were higher compensation costs of approximately \$40 million primarily resulting from annual compensation increases, headcount growth in the ratings LOBs as well as in support areas such as IT, finance and human resources for which the costs are allocated to each segment based on a revenue-split methodology. Also, there were higher non-compensation costs in the first half of 2014

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to support the Company's IT systems and infrastructure as well as higher rent and occupancy costs for additional leased floors at 7WTC coupled with various other global real estate expansion projects.

Adjusted Operating Income and operating income in the first half of 2014, which includes intersegment royalty revenue and intersegment expenses, were \$676.3 million and \$653.5 million, respectively, and both increased \$100.4 million compared to 2013. Adjusted Operating Margin and operating margin were 56.8% and 54.9%, respectively, or 430bps and 450bps higher than the prior year, respectively. The increase in both margins compared to the prior year is primarily due to the aforementioned litigation settlement charge in the first half of 2013.

**Moody's Analytics**

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

|                                     | Six months ended June 30, |          | % Change<br>Favorable<br>(Unfavorable) |
|-------------------------------------|---------------------------|----------|--|
|                                     | 2014                      | 2013     |  |
| <b>Revenue:</b>                     |                           |          |  |
| Research, data and analytics (RD&A) | \$ 285.6                  | \$ 259.9 | 10%                                    |
| Enterprise risk solutions (ERS)     | 127.0                     | 113.2    | 12%                                    |
| Professional services (PS)          | 80.6                      | 56.2     | 43%                                    |
| <b>Total external revenue</b>       | <b>493.2</b>              | 429.3    | 15%                                    |
| Intersegment revenue                | 6.6                       | 5.5      | 20%                                    |
| <b>Total MA Revenue</b>             | <b>499.8</b>              | 434.8    | 15%                                    |
| <b>Expenses:</b>                    |                           |          |  |
| Operating and SG&A (external)       | 342.6                     | 294.9    | (16%)                                  |
| Operating and SG&A (intersegment)   | 43.4                      | 37.9     | (15%)                                  |
| <b>Adjusted Operating Income</b>    | <b>113.8</b>              | 102.0    | 12%                                    |
| Depreciation and amortization       | 22.6                      | 23.9     | 5%                                     |
| <b>Operating income</b>             | <b>\$ 91.2</b>            | \$ 78.1  | 17%                                    |
| Adjusted Operating Margin           | 22.8%                     | 23.5%    |  |
| Operating margin                    | 18.2%                     | 18.0%    |  |

The following is a discussion of external MA revenue and operating expenses:

Global MA revenue increased \$63.9 million compared to the first half of 2013, with growth across all LOBs. Recurring revenue comprised 77% and 80% of total MA revenue in the first half of 2014 and 2013, respectively.

In the U.S., revenue of \$218.5 million in the first half of 2014 increased \$26.5 million, and reflected growth across all LOBs. International revenue of \$274.7 million in the first half of 2014 was \$37.4 million higher than in 2013.

Global RD&A revenue, which comprised 58% and 61% of total external MA revenue in the first half of 2014 and 2013, respectively, increased \$25.7 million over the prior year period. The growth, which was most notable in the U.S. and EMEA, was primarily due to increases in credit research and content licensing as well as general market price increases and the favorable impact of changes in FX translation rates.

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Global ERS revenue in the first half of 2014 increased \$13.8 million over 2013, primarily due to growth in software subscriptions and related services as well as higher software maintenance fees resulting from growing demand for ERS products and services in the banking and insurance industries. Revenue in ERS is subject to quarterly volatility resulting from the variable nature of project timing and the concentration of software implementation and license revenue in a relatively small number of engagements.

Revenue from PS increased \$24.4 million compared to the first half of 2013 with approximately 90% of the growth reflecting revenue from the acquisition of Amba in the fourth quarter of 2013. In addition to the acquisition of Amba, the growth reflects higher revenue from Copal reflecting further penetration into the market for outsourced research and analytical services as well as growth in the FSTC business.

Operating and SG&A expenses in the first half of 2014 increased \$47.7 million compared to 2013. The expense growth reflects an approximate \$37 million increase in compensation costs primarily due to higher headcount to support business growth as well as in support areas, for which the costs are allocated to each segment based on a revenue-split methodology. Headcount from the fourth quarter 2013 acquisition of Amba and annual merit increases also contributed to the compensation expense growth. The increase also reflects an approximate \$8 million increase reflecting higher consulting costs primarily related to ERS product delivery coupled with costs related to continued investment in IT infrastructure. Furthermore, there was an increase in rent and occupancy costs of approximately \$3 million reflecting additional floors at 7WTC as well as various other real estate expansion projects worldwide. These increases were partially offset by approximately \$4 million in lower contingent consideration costs relating to the Copal acquisition.

Adjusted Operating Income was \$113.8 million in the first half of 2014 and increased \$11.8 million compared to the same period in 2013. Operating income of \$91.2 million in the first half of 2014 increased \$13.1 million compared to the same period in 2013. Adjusted Operating Margin for the first half of 2014 was 22.8%, compared to 23.5% in 2013. Operating margin was 18.2%, or flat compared to the prior year. Adjusted operating income and operating income both include intersegment revenue and expense.

**Liquidity and Capital Resources****Cash Flow**

The Company is currently financing its operations, capital expenditures and share repurchases from cash flow from operating and financing activities. The following is a summary of the changes in the Company's cash flows followed by a brief discussion of these changes:

|   | Six Months Ended |            | \$ Change<br>Favorable<br>(Unfavorable) |
|---|------------------|------------|---|
|   | 2014             | 2013       |   |
| Net cash provided by operating activities | \$ 458.0         | \$ 369.1   | \$ 88.9                                 |
| Net cash used in investing activities     | \$ (113.4)       | \$ (19.0)  | \$ (94.4)                               |
| Net cash used in financing activities     | \$ (501.2)       | \$ (426.2) | \$ (75.0)                               |
| Free Cash Flow*                           | \$ 419.2         | \$ 351.0   | \$ 68.2                                 |

\* Free Cash Flow is a non-GAAP financial measure. Refer to the section **Non-GAAP Financial Measures** of this MD&A for further information on this financial measure.

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### **Net cash provided by operating activities**

The \$88.9 million increase in net cash flows provided by operating activities primarily reflected:

an increase in net income of \$126.6 million which was partially offset by the net-of-tax non-cash ICRA Gain of \$78.5 million;

an approximate \$50 million increase primarily relating to higher incentive compensation payouts in 2013 compared to the first quarter of 2014 which reflected greater achievement against full-year targeted results in 2012 compared to achievement in 2013;

an approximate \$40 million increase in cash flows relating to the timing of income tax payments primarily resulting from IRS relief due to Hurricane Sandy which allowed for the delay of fourth quarter 2012 estimated tax payments to the first quarter of 2013;

*Partially offset by:*

a \$48.2 million decrease in cash flow from changes in accounts receivable balances primarily reflecting a larger increase in accounts receivable balances in the first six months of 2014 compared to 2013. The increase in accounts receivable balances primarily reflects growth in MIS rated issuance volumes. Approximately 32% and 27% of the Company's accounts receivable balance at June 30, 2014 and 2013, respectively, represents unbilled receivables which primarily reflect certain annual fees in MIS which are invoiced in arrears;

### **Net cash used in investing activities**

The \$94.4 million increase in cash used in investing activities is primarily due to:

cash paid, net of cash acquired, of \$80.5 million to acquire additional equity shares of ICRA Limited. The acquisition of these additional shares resulted in the Company obtaining a controlling interest in ICRA;

an increase in capital additions of \$20.7 million which reflects ongoing initiatives to enhance the Company's IT infrastructure as well as costs relating to the build-out of additional leased space at 7WTC.

### **Net cash used in financing activities**

The \$75.0 million increase in cash used in financing activities was attributed to:

treasury shares repurchased of \$459.7 million in the first six months of 2014 compared to \$350.4 million repurchased in the prior year period;

higher dividends paid to MCO shareholders of \$30.1 million reflecting \$0.56 per share paid in the first six months of 2014 compared to \$0.40 per share paid in the same period of the prior year;

*Partially offset by:*

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repayments on the 2008 Term Loan of \$63.8 million in 2013. The 2008 Term Loan was fully repaid in 2013;

an \$18.2 million increase relating to greater excess tax benefits from stock-based compensation plans primarily due to a higher intrinsic value of awards delivered and exercised in 2014 resulting from a higher Moody's stock price.

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**Cash and short-term investments held in non-U.S. jurisdictions**

The Company's aggregate cash and cash equivalents and short-term investments of \$2.0 billion at June 30, 2014 consisted of approximately \$1.4 billion located outside of the U.S., of which approximately 53% is denominated in euros and British pounds. Approximately 94% of the cash and cash equivalents and short-term investments in the Company's non-U.S. operations are held by entities whose undistributed earnings are indefinitely reinvested in the Company's foreign operations. Accordingly, the Company has not provided deferred income taxes on these indefinitely reinvested earnings. A future distribution or change in assertion regarding reinvestment by the foreign subsidiaries relating to these earnings could result in additional tax liability to the Company. It is not practicable to determine the amount of the potential additional tax liability due to complexities in the tax laws and in the hypothetical calculations that would have to be made. The Company manages both its U.S. and international cash flow to maintain sufficient liquidity in all regions to effectively meet its operating needs.

**Indebtedness**

At June 30, 2014, Moody's had \$2.1 billion of outstanding debt and \$1.0 billion of additional capacity available under the 2012 Facility. At June 30, 2014, the Company was in compliance with all covenants contained within all of the debt agreements. 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 June 30, 2014, there were no such cross defaults.

On July 16, 2014, the Company issued \$450 million aggregate principal amount of unsecured notes in a public offering. The notes bear interest at 2.75% and mature on July 15, 2019. Also on July 16, 2014, the Company issued \$300 million aggregate principal amount of unsecured notes in a public offering. The \$300 million notes bear interest at 5.25% and mature on July 15, 2044. The Company will use the proceeds to retire the Series 2005-1 Notes as well as for general corporate purposes. The Company entered into interest rate swaps in July 2014 with a total notional amount of \$250 million to convert the fixed interest rate on a portion of the \$450 million unsecured 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 a portion of the \$450 million unsecured notes.

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The repayment schedule for the Company's borrowings is as follows:

| Year Ended  | Series 2005-1<br>Notes  | Series 2007-1<br>Notes | 2010 Senior<br>Notes | 2012 Senior<br>Notes | 2013 Senior<br>Notes | 2014 Senior<br>Notes<br>(5-Year) | 2014 Senior<br>Notes<br>(30-Year) | Total             |
|---|-------------------------|------------------------|----------------------|----------------------|----------------------|----------------------------------|-----------------------------------|-------------------|
| December 31,<br>2014 (after June 30,)<br>2015<br>2016<br>2017<br>2018<br>Thereafter | \$ 300.0 <sup>(1)</sup> | \$                     | \$                   | \$                   | \$                   | \$                               | \$                                | \$ 300.0          |
|   |                         | 300.0                  |                      |                      |                      |                                  |                                   | 300.0             |
|   |                         |                        | 500.0                | 500.0                | 500.0                | 450.0 <sup>(2)</sup>             | 300.0 <sup>(2)</sup>              | 2,250.0           |
| <b>Total</b>  | <b>\$ 300.0</b>         | <b>\$ 300.0</b>        | <b>\$ 500.0</b>      | <b>\$ 500.0</b>      | <b>\$ 500.0</b>      | <b>\$ 450.0</b>                  | <b>\$ 300.0</b>                   | <b>\$ 2,850.0</b> |

(1) Pursuant to the issuance of the 2014 Senior Notes (5-year) and the 2014 Senior Notes (30 year), the Company intends on repaying the outstanding balance on the Series 2005-1 Notes in the third quarter of 2014.

(2) The 2014 Senior Notes (5-year) and the 2014 Senior Notes (30 year) were issued in July 2014.

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

**Other Material Future Cash Requirements**

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

The Company remains committed to using its strong cash flow to create value for shareholders by investing in growing areas of the business, reinvesting in ratings quality initiatives, making selective acquisitions, repurchasing stock and paying a dividend, all in manner consistent with maintaining sufficient liquidity after giving effect to any additional indebtedness that may be incurred. In July 2014, the Board of Directors of the Company declared a quarterly dividend of \$0.28 per share of Moody's common stock, payable on September 10, 2014 to shareholders of record at the close of business on August 20, 2014. The continued payment of dividends at this rate, or at all, is subject to the discretion of the Board. On February 12, 2013, the Board approved \$1.0 billion of share repurchase authority. At June 30, 2014, the Company had \$0.3 billion of share repurchase authority remaining under this program, which does not have an established expiration. On February 11, 2014, the Board approved an additional \$1.0 billion of share repurchase authority which will be utilized once the February 12, 2013 authorization is exhausted. The Company expects to complete approximately \$1 billion of share repurchases in 2014. Share repurchase activity in the near term is subject to available cash flow, market conditions and other capital allocation decisions.



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As part of the Copal acquisition in November 2011, Moody's and the non-controlling shareholders entered into a put/call arrangement whereby the noncontrolling shareholders have the option to sell the portion of Copal that Moody's does not currently own and Moody's has the option to purchase this portion from the noncontrolling shareholders. The exercise price of this option was valued at \$68 million at the time of acquisition and will fluctuate based on the entity's financial results subject to a floor exercise price of approximately \$46 million. In connection with the acquisition of Amba in December 2013, the revenue and EBITDA multiples set forth in the original put/call option agreement were modified to include the results of Amba. The redemption value of this redeemable noncontrolling interest was \$122.6 million at June 30, 2014. There is no limit as to the amount of the strike price on the put/call option. It is estimated that the exercise of the put/call arrangement will take place in the next one to three and a half years. This put/call arrangement expires on the sixth anniversary date of the acquisition.

On February 6, 2008, the Company entered into a 17.5 year operating lease agreement to occupy six floors of an office tower located in the Canary Wharf district of London, England. The total base rent of the Canary Wharf Lease over its 17.5-year term is approximately £134 million, and the Company began making base rent payments in 2011. In addition to the base rent payments the Company will be obligated to pay certain customary amounts for its share of operating expenses and tax obligations. The total remaining lease payments as of June 30, 2014 are approximately £106 million, of which approximately £9 million will be paid in the next twelve months.

On October 20, 2006, the Company entered into an operating lease agreement with 7 World Trade Center, LLC for 589,945 square-feet of an office building located at 7WTC at 250 Greenwich Street, New York, New York, which is serving as Moody's headquarters. The 7WTC Lease has an initial term of 21 years with a total of 20 years of renewal options. The total base rent of 7WTC Lease over its initial 21-year term is approximately \$536 million including rent credits from the World Trade Center Rent Reduction Program promulgated by the Empire State Development Corporation. On March 28, 2007, the 7WTC lease agreement was amended for the Company to lease an additional 78,568 square-feet at 7WTC. The additional base rent is approximately \$106 million over a 20-year term. The total remaining lease payments as of June 30, 2014, including the aforementioned rent credits, are approximately \$463 million, of which approximately \$31 million will be paid during the next twelve months.

On October 21, 2013, the Company entered into a fourteen-year lease for three additional floors at its 7WTC headquarters. The total remaining net commitment for this lease is approximately \$63 million. The lease became effective in January 2014 and the net cash outlay during the next twelve months will be immaterial.

## **Off-Balance Sheet Arrangements**

At June 30, 2014, Moody's did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as special purpose or variable interest entities where Moody's is the primary beneficiary, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, Moody's is not exposed to any financing, liquidity market or credit risk that could arise if it had engaged in such relationships.

**Table of Contents****Contractual Obligations**

The following table presents payments due under the Company's contractual obligations as of June 30, 2014:

| (in millions)   | Total             | Payments Due by Period |              |              |                 |
|---|-------------------|------------------------|--------------|--------------|-----------------|
|   |                   | Less Than<br>1 Year    | 1-3<br>Years | 3-5<br>Years | Over<br>5 Years |
| Indebtedness <sup>(1)</sup>                                     | <b>\$ 2,761.9</b> | \$ 99.0                | \$ 482.1     | \$ 447.0     | \$ 1,733.8      |
| Operating lease obligations                                     | <b>803.0</b>      | 84.1                   | 134.6        | 124.8        | 459.5           |
| Purchase obligations  | <b>119.4</b>      | 61.2                   | 58.2         |              |                 |
| Contingent consideration related to acquisitions <sup>(2)</sup> | <b>17.2</b>       | 14.9                   | 2.3          |              |                 |
| Pension obligations <sup>(3)</sup>                              | <b>131.0</b>      | 27.7                   | 11.1         | 36.6         | 55.6            |
| Total <sup>(4)</sup>  | <b>\$ 3,832.5</b> | \$ 286.9               | \$ 688.3     | \$ 608.4     | \$ 2,248.9      |

- (1) Reflects principal payments, related interest and applicable fees due on the Series 2005-1 Notes, the Series 2007-1 Notes, the 2010 Senior Notes, the 2012 Senior Notes, the 2013 Senior Notes and the 2012 Facility as described in Note 13 to the condensed consolidated financial statements. The table above does not reflect the following: on July 16, 2014, the Company issued \$450 million aggregate 5-year unsecured senior notes and \$300 million aggregate 30-year unsecured notes as described in Note 17 to the condensed consolidated financial statements. The Company plans to retire the Series 2005-1 Notes with the proceeds of the aforementioned issuance.
- (2) The amount in the less than 1 year category reflects a \$4.3 million contingent cash payment related to the December 10, 2013 acquisition of Amba that was dependent on the acquired entity achieving certain revenue targets for its fiscal year ended March 31, 2014 as well as a \$10.6 million contingent consideration obligation related to the Copal acquisition. Additionally, the amount in the 1-3 years category reflects a \$2.3 million contingent cash payment related to the November 18, 2010 acquisition of CSI Global Education, Inc. The cash payment is dependent upon the achievement of a certain contractual milestone by January 2016.
- (3) Reflects projected benefit contributions to the Company's funded U.S. DBPP and payments relating to the Company's U.S. unfunded DBPPs and Retirement and Other Plans described in Note 12 to the condensed consolidated financial statements.
- (4) The table above does not include the Company's net long-term tax liabilities of \$220.1 million relating to UTP and Legacy Tax Matters, since the expected cash outflow of such amounts by period cannot be reasonably estimated. In addition, the table above does not include the \$122.6 million Redeemable Noncontrolling Interest related to the acquisition of Copal, as the expected cash outflow of such amounts by period cannot be reasonably estimated.

**Dividends**

On July 14, 2014, the Board approved the declaration of a quarterly dividend of \$0.28 per share of Moody's common stock, payable on September 10, 2014 to shareholders of record at the close of business on August 20, 2014.

**Table of Contents****Non-GAAP Financial Measures:**

In addition to its reported results, Moody's has included in this MD&A certain adjusted results that the SEC defines as non-GAAP financial measures. Management believes that such non-GAAP financial measures, when read in conjunction with the Company's reported results, can provide useful supplemental information for investors analyzing period to period comparisons of the Company's performance, facilitate comparisons to competitors' operating results and can provide greater transparency to investors of supplemental information used by management in its financial and operational decision-making. These non-GAAP measures, as defined by the Company, are not necessarily comparable to similarly defined measures of other companies. Furthermore, these non-GAAP measures should not be viewed in isolation or used as a substitute for other GAAP measures in assessing the operating performance or cash flows of the Company. Below are brief descriptions of the Company's non-GAAP financial measures accompanied by a reconciliation of the non-GAAP measure to its most directly comparable GAAP measure:

**Adjusted Operating Income and Adjusted Operating Margin:**

The Company presents Adjusted Operating Income because management deems this metric to be a useful measure of assessing the operating performance of Moody's, measuring the Company's ability to service debt, fund capital expenditures, and expand its business. Adjusted Operating Income excludes depreciation and amortization because companies utilize productive assets of different ages and use different methods of acquiring productive assets. Companies also have different methods of depreciating and amortizing productive assets. Management believes that the exclusion of this item allows for a more meaningful comparison of the Company's operating results from period to period and across companies. Below is a reconciliation of the Company's operating income and operating margin to Adjusted Operating Income and Adjusted Operating Margin:

|                                  | Three Months Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                 |
|----------------------------------|--------------------------------|-----------------|------------------------------|-----------------|
|                                  | 2014                           | 2013            | 2014                         | 2013            |
| <b>Operating income</b>          | <b>\$ 411.7</b>                | <b>\$ 350.8</b> | <b>\$ 744.7</b>              | <b>\$ 631.2</b> |
| Adjustments:                     |                                |                 |                              |                 |
| Depreciation and amortization    | 22.3                           | 23.1            | 45.4                         | 46.7            |
| <b>Adjusted Operating Income</b> | <b>\$ 434.0</b>                | <b>\$ 373.9</b> | <b>\$ 790.1</b>              | <b>\$ 677.9</b> |
| Operating Margin                 | 47.1%                          | 46.4%           | 45.4%                        | 42.4%           |
| Adjusted Operating Margin        | 49.7%                          | 49.5%           | 48.2%                        | 45.6%           |

|   | Full-Year<br>Ended<br>December 31,<br>2014 |
|---|--|
| Operating margin guidance                 | 42% - 43%                                  |
| Depreciation and amortization             | 3%   |
| <b>Adjusted Operating Margin guidance</b> | <b>45% - 46%</b>                           |

**Table of Contents**Non-GAAP Diluted EPS

The Company presents this non-GAAP measure to exclude the impact of a litigation settlement charge in the first quarter of 2013 and the ICRA Gain in the second quarter of 2014 to allow for a more meaningful comparison of Moody's diluted earnings per share from period to period. Below is a reconciliation of these measures to their most directly comparable U.S. GAAP amount:

|                                 | Three Months Ended<br>June 30, |                | Six Months Ended<br>June 30, |                |
|---------------------------------|--------------------------------|----------------|------------------------------|----------------|
|                                 | 2014                           | 2013           | 2013                         | 2012           |
| <b>Diluted EPS - GAAP</b>       | <b>\$ 1.48</b>                 | <b>\$ 1.00</b> | <b>\$ 2.47</b>               | <b>\$ 1.83</b> |
| ICRA Gain                       | (0.36)                         |                | (0.36)                       |                |
| Impact of litigation settlement |                                |                |                              | 0.14           |
| <b>Diluted EPS - Non-GAAP</b>   | <b>\$ 1.12</b>                 | <b>\$ 1.00</b> | <b>\$ 2.11</b>               | <b>\$ 1.97</b> |

|  | Projected full-year ended<br>December 31, 2014 |
|--|--|
| <b>Diluted EPS guidance - GAAP</b>     | <b>\$ 4.26 - 4.36</b>                          |
| ICRA Gain                              | \$ (0.36)                                      |
| <b>Diluted EPS guidance - Non-GAAP</b> | <b>\$ 3.90 - 4.00</b>                          |

Free Cash Flow:

The Company defines free cash flow as net cash provided by operating activities minus payments for capital additions. Management believes that free cash flow is a useful metric in assessing the Company's cash flows to service debt, pay dividends and to fund acquisitions and share repurchases. Management deems capital expenditures essential to the Company's product and service innovations and maintenance of Moody's operational capabilities. Accordingly, capital expenditures are deemed to be a recurring use of Moody's cash flow. Below is a reconciliation of the Company's net cash flows from operating activities to free cash flow:

|  | Six months ended<br>June 30, |                   |
|--|------------------------------|-------------------|
|  | 2014                         | 2013              |
| <b>Net cash flows provided by operating activities</b> | <b>\$ 458.0</b>              | <b>\$ 369.1</b>   |
| Capital additions                                      | (38.8)                       | (18.1)            |
| <b>Free cash flow</b>                                  | <b>\$ 419.2</b>              | <b>\$ 351.0</b>   |
| <b>Net cash used in investing activities</b>           | <b>\$ (113.4)</b>            | <b>\$ (19.0)</b>  |
| <b>Net cash used in financing activities</b>           | <b>\$ (501.2)</b>            | <b>\$ (426.2)</b> |

**Table of Contents****2014 Outlook**

Moody's outlook for 2014 is based on assumptions about many macroeconomic and capital market factors, including interest rates, corporate profitability and business investment spending, merger and acquisition activity, consumer borrowing and securitization, and the amount of debt issued. There is an important degree of uncertainty surrounding these assumptions, and, if actual conditions differ, Moody's results for the year may differ materially from the current outlook. The Company's guidance, which is presented in the table below, assumes foreign currency translation at end-of-quarter exchange rates.

| MOODY'S CORPORATION                         | Full-year 2014 Moody's Corporation guidance   |   |
|---|---|---|
|   | Current guidance as of the filing of this Form 10Q  | Last publicly disclosed guidance on May 1, 2014 |
| Revenue                                     | growth in the low-double-digit percent range  | growth in the high-single-digit percent range   |
| Operating Expenses                          | growth in the high-single-digit percent range   | growth in the mid-single-digit percent range    |
| Growth in compliance and regulatory expense | Less than \$5 million   | NC  |
| Depreciation & amortization                 | Approximately \$100 million   | NC  |
| Operating Margin                            | 42% to 43%  | NC  |
| Adjusted Operating Margin                   | 45% to 46%  | NC  |
| Effective tax rate                          | Approximately 33%   | NC  |
| Non-GAAP EPS**                              | \$3.90 to \$4.00  | NC  |
| Capital expenditures                        | Approximately \$90 million  | NC  |
| Free cash flow                              | Approximately \$900 million   | NC  |
| Share repurchases                           | Approximately \$1 billion (subject to available cash, market conditions and other ongoing capital allocation decisions) | NC  |

| MIS          | Full-year 2014 revenue guidance                    |   |
|--------------|--|---|
|              | Current guidance as of the filing of this Form 10Q | Last publicly disclosed guidance on May 1, 2014 |
| MIS global   | growth in the high-single-digit percent range      | growth in the mid-single-digit percent range    |
| MIS U.S.     | growth in the mid-single-digit percent range       | growth in the low-single-digit percent range    |
| MIS Non-U.S. | growth in the low-teens percent range              | growth in the low-double-digit percent range    |
| CFG          | growth in the low-double-digit percent range       | growth in the mid-single-digit percent range    |
| SFG          | growth of approximately 10%                        | growth in the low-single-digit percent range    |
| FIG          | growth in the low-single-digit percent range       | growth in the mid-single-digit percent range    |
| PPIF         | growth in the high-single-digit percent range      | NC  |
| ICRA Ltd.*   | Approximately \$12 million                         | NA  |
| MA           |  |   |
| MA global    | growth in the mid-teens percent range              | growth in the low-teens percent range           |
| MA U.S.      | growth in the low-double-digit percent range       | NC  |
| MA Non-U.S.  | growth in the high-teens percent range             | NC  |
| RD&A         | growth in the high-single-digit percent range      | NC  |
| ERS          | growth in the mid-teens percent range              | growth in the low-teens percent range           |
| PS           | growth of approximately 40%                        | growth in the low-forties percent range         |

NC - There is no difference between the Company's current guidance and the last publicly disclosed guidance for this item.

NA - Not applicable

\* Due to the three month lag in consolidating ICRA's financial statements as more fully discussed in Note 7 to the condensed consolidated financial statements, there is only one quarter of ICRA revenue included in the above table.

\*\* Full-Year 2014 GAAP Diluted EPS guidance is \$4.26 to \$4.36 and includes the \$0.36 ICRA Gain.



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### **Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This ASU outlines a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU is effective for annual and interim reporting periods beginning after December 15, 2016 and early adoption is not permitted. Companies may either use a full retrospective or modified retrospective approach to adopt this ASU. The Company is currently evaluating both adoption options and the impact that adoption of this update will have on its consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The objective of this ASU is to change the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. In accordance with this ASU, only those disposals of components of an entity that represent a strategic shift which has or will have a material effect on an entity's operations and financial results will be reported as discontinued operations. The amendments in this ASU are required to be applied prospectively for any disposals (of classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014 and interim periods within those years. Early adoption is permitted, for disposals (or classifications as held for sale) that have not been previously reported in an entity's financial statements. The adoption of this ASU will not have any impact on the Company's consolidated financial statements other than changing the classification criteria and related disclosures for any potential future disposals (or classifications as held for sale).

### **Contingencies**

Legal proceedings in which the Company is involved also may impact Moody's liquidity or operating results. No assurance can be provided as to the outcome of such proceedings. In addition, litigation inherently involves significant costs. For information regarding legal proceedings, see Item 1 *Financial Statements*, Note 14 *Contingencies*.

### **Regulation**

MIS and many of the securities that it rates are subject to extensive regulation in both the U.S. and in other countries (including by state and local authorities). Thus, existing and proposed laws and regulations can impact the Company's operations and the markets for securities that it rates. Additional laws and regulations have been adopted but not yet implemented or have been proposed or are being considered. Each of the existing, adopted, proposed and potential laws and regulations can increase the costs and legal risk associated with the issuance of credit ratings and may negatively impact Moody's operations or profitability, the Company's ability to compete, or result in changes in the demand for credit ratings, in the manner in which ratings are utilized and in the manner in which Moody's operates.

In the EU, the CRA industry is registered and supervised through a pan-European regulatory framework which is a compilation of three sets of legislative actions. In 2009, the European Parliament passed a new regulation ( *CRA1* ) that established an oversight regime for the CRA industry in the EU. *CRA1*, which required the registration, formal regulation and periodic inspection of CRAs operating in the EU, became fully effective in September 2010. MIS applied for registration in August 2010 and was granted registration in October 2011. In January 2011, *CRA2* established the European Securities and Markets Authority. ESMA has had direct supervisory responsibility for the registered CRA industry throughout the EU since July 2011.

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In the summer of 2013, a new set of rules that augmented the CRAs' supervisory framework went into effect. Commonly referred to as CRA3, these new rules, among other things:

impose various additional procedural requirements with respect to ratings of sovereign issuers;

require member states to adopt laws imposing liability on CRAs for an intentional or grossly negligent failure to abide by the applicable regulations;

impose mandatory rotation requirements on CRAs hired by issuers of securities for ratings of resecuritizations, which may limit the number of years a CRA can issue ratings for such securities of a particular issuer;

impose restrictions on CRAs or their shareholders if certain ownership thresholds are crossed; and

impose additional procedural and substantive requirements on the pricing of services.

Certain of the provisions of CRA3 are subject to further rule-making. In June, ESMA published its advice to the Commission regarding these additional rules. The advice covered two areas of direct relevance to the CRA industry: 1) registered CRAs' reporting requirements to ESMA on their fees; and, 2) the types of information that all registered CRAs are to provide on a daily basis for publication on a central website administered by ESMA (the European Ratings Platform). The Commission has 3 months to consider the proposal by ESMA and either endorse it or introduce changes to it before the draft is presented to the EU Parliament and Council for final adoption. It is expected that the full process will conclude by year-end 2014.

In December 2012, the Staff of the SEC's Trading and Markets Division published a Report to Congress on Assigned Credit Ratings. In the report, commonly referred to as the Franken Amendment Study, the SEC Staff identified several potential courses of action without endorsing any of them and noted that any changes through SEC rulemaking would require additional study of relevant information. The timing regarding the remainder of the SEC's rulemaking under the Financial Reform Act remains uncertain.

In light of the regulations that have gone into effect in both the EU and the U.S. (as well as many other countries), from time to time and as a matter of course pursuant to their enabling legislation these regulatory authorities have and will continue to publish reports that describe their oversight activities over the industry. In addition, other legislation and regulation relating to credit rating and research services is being considered by local, national and multinational bodies and this type of activity is likely to continue in the future. Finally, in certain countries, governments may provide financial or other support to locally-based rating agencies. For example, governments may from time to time establish official rating agencies or credit ratings criteria or procedures for evaluating local issuers. If enacted, any such legislation and regulation could change the competitive landscape in which MIS operates. The legal status of rating agencies has been addressed by courts in various decisions and is likely to be considered and addressed in legal proceedings from time to time in the future. Management of the Company cannot predict whether these or any other proposals will be enacted, the outcome of any pending or possible future legal proceedings, or regulatory or legislative actions, or the ultimate impact of any such matters on the competitive position, financial position or results of operations of Moody's.



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### **Forward-Looking Statements**

Certain statements contained in this quarterly report on Form 10-Q are forward-looking statements and are based on future expectations, plans and prospects for the Company's business and operations that involve a number of risks and uncertainties. Such statements involve estimates, projections, goals, forecasts, assumptions and uncertainties that could cause actual results or outcomes to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements. Those statements appear at various places throughout this quarterly report on Form 10-Q, including in the sections entitled "2014 Outlook" and "Contingencies" under Item 2. "MD&A", commencing on page 40 of this quarterly report on Form 10-Q, under "Legal Proceedings" in Part II, Item 1, of this Form 10-Q, and elsewhere in the context of statements containing the words "believe", "expect", "anticipate", "intend", "plan", "will", "predict", "potential", "continue", "strategically", "forecast", "project", "estimate", "should", "could", "may" and similar expressions or words and variations thereof relating to the Company's views on events, trends and contingencies. Stockholders and investors are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements and other information are made as of the date of this quarterly report on Form 10-Q, and the Company undertakes no obligation (nor does it intend) to publicly supplement, update or revise such statements on a going-forward basis, whether as a result of subsequent developments, changed expectations or otherwise. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is identifying examples of factors, risks and uncertainties that could cause actual results to differ, perhaps materially, from those indicated by these forward-looking statements.

Those factors, risks and uncertainties include, but are not limited to, the current world-wide credit market disruptions and economic slowdown, which is affecting and could continue to affect the volume of debt and other securities issued in domestic and/or global capital markets; other matters that could affect the volume of debt and other securities issued in domestic and/or global capital markets, including credit quality concerns, changes in interest rates and other volatility in the financial markets; the level of merger and acquisition activity in the U.S. and abroad; the uncertain effectiveness and possible collateral consequences of U.S. and foreign government initiatives to respond to the current world-wide credit market disruptions and economic slowdown; concerns in the marketplace affecting our credibility or otherwise affecting market perceptions of the integrity or utility of independent credit agency ratings; the introduction of competing products or technologies by other companies; pricing pressure from competitors and/or customers; the level of success of new product development and global expansion; the impact of regulation as an NRSRO, the potential for new U.S., state and local legislation and regulations, including provisions in the Financial Reform Act and anticipated regulations resulting from that Act; the potential for increased competition and regulation in the EU and other foreign jurisdictions; exposure to litigation related to our rating opinions, as well as any other litigation to which the Company may be subject from time to time; provisions in the Financial Reform Act legislation modifying the pleading standards, and EU regulations modifying the liability standards, applicable to credit rating agencies in a manner adverse to credit rating agencies; provisions of EU regulations imposing additional procedural and substantive requirements on the pricing of services; the possible loss of key employees; failures or malfunctions of our operations and infrastructure; any vulnerabilities to cyber threats or other cybersecurity concerns; the outcome of any review by controlling tax authorities of the Company's global tax planning initiatives; the outcome of those Legacy Tax Matters and legal contingencies that relate to the Company, its predecessors and their affiliated companies for which Moody's has assumed portions of the financial responsibility; the impact of mergers, acquisitions or other business combinations and the ability of the Company to successfully integrate acquired businesses; currency and foreign exchange volatility; the level of future cash flows; the levels of capital investments; and a decline in the demand for credit risk management tools by financial institutions. These factors, risks and uncertainties as well as other risks and uncertainties that could cause Moody's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements are described in greater detail under "Risk Factors" in Part I, Item 1A of the Company's annual report on Form 10-K for the year ended December 31, 2013, and in other filings made by the Company from time to time with the SEC or in materials incorporated herein or therein. Stockholders and investors are cautioned that the occurrence of any of these factors, risks and uncertainties may cause the Company's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the

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forward-looking statements, which could have a material and adverse effect on the Company's business, results of operations and financial condition. New factors may emerge from time to time, and it is not possible for the Company to predict new factors, nor can the Company assess the potential effect of any new factors on it.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

There was no material change in the Company's exposure to market risk since December 31, 2013. For a discussion of the Company's exposure to market risk, refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk, contained in the Company's annual report on Form 10-K for the year ended December 31, 2013.

**Item 4. Controls and Procedures**

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

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

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

For information regarding legal proceedings, see Item 1 Financial Statements, Note 14 Contingencies.

**Item 1A. Risk Factors**

There have been no material changes since December 31, 2013 to the significant risk factors and uncertainties known to the Company that, if they were to occur, could materially adversely affect the Company's business, financial condition, operating results and/or cash flow. For a discussion of the Company's risk factors, refer to Item 1A. Risk Factors, contained in the Company's annual report on Form 10-K for the year ended December 31, 2013.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****MOODY'S PURCHASES OF EQUITY SECURITIES**

**For the Three Months Ended June 30, 2014**

| Period       | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares That May Yet be Purchased Under the Program (2) |
|--------------|--------------------------------------|------------------------------|--|--|
| April 1 - 30 | 1,622,946                            | \$ 78.11                     | 1,622,329  | \$ 1,455.7 million   |
| May 1 - 31   | 1,100,126                            | \$ 81.22                     | 1,099,243  | \$ 1,366.4 million   |
| June 1 - 30  | 487,468                              | \$ 86.09                     | 487,468  | \$ 1,324.4 million   |
| Total        | 3,210,540                            | \$ 80.39                     | 3,209,040  |  |

- (1) Includes the surrender to the Company of 617 and 883 shares of common stock in April and May, respectively, to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees
- (2) As of the last day of each of the months and reflects the remaining authority under all of the Company's publicly announced programs. On February 11, 2014, the Board authorized a \$1 billion share repurchase program which will commence following the completion of the existing program. There is no established expiration date for the remaining authorization.
- During the second quarter of 2014, Moody's issued 0.7 million shares under employee stock-based compensation plans.

**Item 5. Other Information**

Not applicable

**Table of Contents****Item 6. Exhibits**

| <b>Exhibit</b> |  |
|----------------|--|
| <b>No.</b>     | <b>Description</b>   |
| 3              | ARTICLES OF INCORPORATION AND BY-LAWS  |
| .1             | Amended and Restated By-laws of Moody's Corporation, effective April 17, 2013 (incorporated by reference to Exhibit 3.2 to the Report on Form 8-K of the Registrant, file number 1-14037, filed April 22, 2013).   |
| .2             | Restated Certificate of Incorporation of Moody's Corporation, dated April 17, 2013 (incorporated by reference to Exhibit 3.4 to the Report on Form 8-K of the Registrant, file number 1-14037, filed April 22, 2013).  |
| 10             |  |
| .1*            | Seventh Amendment to the Profit Participation Plan of Moody's Corporation.   |
| .2*            | Second Amendment to Career Transition Plan.  |
| .3*            | First Amendment to Moody's Cafeteria Plan.   |
| 31             | CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002   |
| .1*            | Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| .2*            | Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32             | CERTIFICATIONS PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002   |
| .1*            | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. The Company has furnished this certification and does not intend for it to be considered filed under the Securities Exchange Act of 1934 or incorporated by reference into future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934. |
| .2*            | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. The Company has furnished this certification and does not intend for it to be considered filed under the Securities Exchange Act of 1934 or incorporated by reference into future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934. |
| 101.DEF*       | XBRL Definitions Linkbase Document   |
| 101.INS*       | XBRL Instance Document   |
| 101.SCH*       | XBRL Taxonomy Extension Schema Document  |
| 101.CAL*       | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB*       | XBRL Taxonomy Extension Labels Linkbase Document   |
| 101.PRE*       | XBRL Taxonomy Extension Presentation Linkbase Document   |

\* Filed herewith

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**SIGNATURES**

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

MOODY S CORPORATION

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

Date: July 31, 2014

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