MOODYS CORP /DE/
Form 10-Q
October 29, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark one)

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

For the quarterly period ended September 30, 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**

(State of Incorporation)	(I.R.S. Employer Identification No.)

7 World Trade Center at

250 Greenwich Street, New York, N.Y.	**10007**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code:

(212) 553-0300

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

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

Title of Each Class	Shares Outstanding at September 30, 2014
Common Stock, par value $0.01 per share	208.6 million

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MOODY S CORPORATION

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Exhibits Filed Herewith

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

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

TERM	DEFINITION
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, China, India, Indonesia, Japan, Korea, Malaysia, Singapore, Sri Lanka 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
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

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TERM	DEFINITION
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
FX	Foreign exchange
GAAP	U.S. Generally Accepted Accounting Principles
GBP	British pounds

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TERM	DEFINITION
ICRA	ICRA Limited.; a leading provider of credit ratings and research in India. The Company previously held 28.51% 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 2007-1 Notes, 2010 Senior Notes, 2012 Senior Notes, 2013 Senior Notes, 2014 Senior Notes (5-year) and 2014 Senior Notes (30-year) 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
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

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TERM	DEFINITION
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
WebEquity	WebEquity Solutions LLC; a leading provider of cloud-based loan origination solutions for financial institutions
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

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TERM	DEFINITION
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 Indenture	Supplemental indenture and related agreements dated July 16, 2014, relating to the 2014 Senior Notes
2014 Senior Notes (5-Year)	Principal amount of $450 million, 2.75% senior unsecured notes due in July 2019
2014 Senior Notes (30-Year)	Principal amount of $300 million, 5.25% 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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Amounts in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	**$ 816.1**	**$ 705.5**	**$ 2,456.8**	**$ 2,193.3**
Expenses				
Operating	236.7	203.5	674.8	601.4
Selling, general and administrative	206.5	187.1	619.0	599.1
Depreciation and amortization	23.2	23.4	68.6	70.1
Total expenses	**466.4**	**414.0**	**1,362.4**	**1,270.6**
Operating income	**349.7**	**291.5**	**1,094.4**	**922.7**
Non-operating (expense) income, net				
Interest income (expense), net	(37.7)	(24.4)	(87.5)	(68.1)
Other non-operating income (expense), net	16.4	(3.6)	15.5	12.9
ICRA Gain			102.8	
Total non-operating (expense) income, net	**(21.3)**	**(28.0)**	**30.8**	**(55.2)**
Income before provisions for income taxes	**328.4**	**263.5**	**1,125.2**	**867.5**
Provision for income taxes	109.9	76.7	360.6	261.2
Net income	218.5	186.8	764.6	606.3
Less: Net income attributable to noncontrolling interests	3.3	2.9	12.2	8.5
Net income attributable to Moody s	**$ 215.2**	**$ 183.9**	**$ 752.4**	**$ 597.8**
Earnings per share attributable to Moody s common shareholders				
Basic	$ 1.02	$ 0.84	$ 3.55	$ 2.70
Diluted	$ 1.00	$ 0.83	$ 3.48	$ 2.66
Weighted average number of shares outstanding				
Basic	210.4	217.8	212.1	221.1

Diluted	214.2	222.0	216.1	225.1
Dividends declared per share attributable to Moody s common shareholders	$ 0.28	$ 0.25	$ 0.56	$ 0.45

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

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MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in millions)

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Pre-tax amounts	**Tax amounts**	**After-tax amounts**	**Pre-tax amounts**	**Tax amounts**	**After-tax amounts**
Net income			**$ 218.5**			$ 186.8
Other comprehensive income (loss):						
Foreign currency translation:						
Foreign currency translation adjustments	**$ (99.5)**	**$**	**(99.5)**	$ 48.1	$	48.1
Foreign currency translation adjustments - reclassification of losses included in net income				1.3		1.3
Cash flow and net investment hedges:						
Net realized and unrealized gain (loss) on cash flow and net investment hedges	**20.3**	**(8.2)**	**12.1**	(2.7)	1.2	(1.5)
Reclassification of losses included in net income						
Pension and Other Retirement Benefits:						
Amortization of actuarial losses and prior service costs included in net income	**1.8**	**(0.7)**	**1.1**	3.1	(1.3)	1.8
Total other comprehensive loss	**$ (77.4)**	**$ (8.9)**	**(86.3)**	$ 49.8	$ (0.1)	49.7
Comprehensive income			**132.2**			236.5
Less: comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest			**3.3**			2.9
Comprehensive income attributable to Moody s			**$ 128.9**			$ 233.6

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Pre-tax amounts	**Tax amounts**	**After-tax amounts**	**Pre-tax amounts**	**Tax amounts**	**After-tax amounts**
Net income			**$ 764.6**			$ 606.3
Other comprehensive income (loss):						
Foreign currency translation:						
Foreign currency translation adjustments	**$ (90.2)**	**$**	**(90.2)**	$ (24.7)	$	(24.7)
Foreign currency translation adjustments - reclassification of losses included in net income	**4.4**		**4.4**	1.3		1.3
Cash flow and net investment hedges:						
Net realized and unrealized gain (loss) on cash flow and net investment hedges	**14.0**	**(5.6)**	**8.4**	(1.7)	0.7	(1.0)
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	**5.5**	**(3.0)**	**2.5**	9.0	(3.7)	5.3
Net actuarial gains (losses) and prior service costs	**(6.9)**	**2.8**	**(4.1)**	0.9	(0.4)	0.5
Total other comprehensive income (loss)	**$ (73.2)**	**$ (5.8)**	**(79.0)**	$ (14.5)	$ (3.6)	(18.1)
Comprehensive income			**685.6**			588.2
Less: comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest			**12.2**			8.5
Comprehensive income attributable to Moody s			**$ 673.4**			$ 579.7

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

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MOODY S CORPORATION

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

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

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,940.8	$ 1,919.5
Short-term investments	164.8	186.8
Accounts receivable, net of allowances of $31.2 in 2014 and $28.9 in 2013	712.2	694.2
Deferred tax assets, net	46.9	53.9
Other current assets	197.2	114.4
Total current assets	3,061.9	2,968.8
Property and equipment, net of accumulated depreciation of $427.0 in 2014 and $375.7 in 2013	303.5	278.7
Goodwill	1,000.3	665.2
Intangible assets, net	349.8	221.6
Deferred tax assets, net	136.0	148.7
Other assets	142.2	112.1
Total assets	**$ 4,993.7**	**$ 4,395.1**
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 420.2	$ 538.9
Deferred tax liabilities, net	8.3	4.0
Deferred revenue	613.2	598.4
Total current liabilities	1,041.7	1,141.3
Non-current portion of deferred revenue	123.2	109.2
Long-term debt	2,536.5	2,101.8
Deferred tax liabilities, net	114.8	59.1
Unrecognized tax benefits	211.6	195.6
Other liabilities	348.0	360.2
Total liabilities	4,375.8	3,967.2
Contingencies (Note 14)		
Redeemable noncontrolling interest	137.6	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 September 30, 2014 and December 31, 2013, respectively.	3.4	3.4
Capital surplus	402.3	405.8
Retained earnings	5,936.2	5,302.1
	(5,957.6)	(5,319.7)

Treasury stock, at cost; 134,278,898 and 128,941,621 shares of common stock at September 30, 2014 and December 31, 2013, respectively		
Accumulated other comprehensive loss	(133.6)	(54.6)
Total Moody s shareholders equity	250.7	337.0
Noncontrolling interests	229.6	10.9
Total shareholders equity	480.3	347.9
Total liabilities, redeemable noncontrolling interest and shareholders equity	**$ 4,993.7**	**$ 4,395.1**

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

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MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Amounts in millions)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Cash flows from operating activities		
Net income	$ 764.6	$ 606.3
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	68.6	70.1
Stock-based compensation expense	59.9	49.3
Deferred income taxes	43.7	(13.0)
Excess tax benefits from stock-based compensation plans	(54.5)	(32.4)
ICRA Gain	(102.8)	
Legacy Tax Matters	(6.4)	
Changes in assets and liabilities:		
Accounts receivable	(11.9)	26.8
Other current assets	(63.3)	(7.0)
Other assets	(4.8)	(6.0)
Accounts payable and accrued liabilities	(16.3)	(138.6)
Deferred revenue	25.8	25.6
Unrecognized tax benefits and other non-current tax liabilities	18.5	44.8
Other liabilities	(11.3)	27.6
Net cash provided by operating activities	**709.8**	**653.5**
Cash flows from investing activities		
Capital additions	(56.8)	(31.0)
Purchases of short-term investments	(68.0)	(215.2)
Sales and maturities of short-term investments	90.7	23.4
Acquisitions, net of cash acquired	(210.5)	
Net cash used in investing activities	**(244.6)**	**(222.8)**
Cash flows from financing activities		
Issuance of notes	747.7	497.2
Repayments of notes	(300.0)	(63.8)
Net proceeds from stock-based compensation plans	83.3	96.6
Cost of treasury shares repurchased	(780.2)	(747.6)
Excess tax benefits from settlement of stock-based compensation plans	54.5	32.4
Payment of dividends	(178.2)	(143.7)
Payment of dividends to noncontrolling interests	(9.7)	(9.9)
Contingent consideration paid	(4.3)	(0.3)
Debt issuance costs and related fees	(6.5)	(4.1)
Net cash used in financing activities	**(393.4)**	**(343.2)**
Effect of exchange rate changes on cash and cash equivalents	**(50.5)**	**(7.8)**

Net increase in cash and cash equivalents	**21.3**	**79.7**
Cash and cash equivalents, beginning of the period	1,919.5	1,755.4
Cash and cash equivalents, end of the period	**$ 1,940.8**	**$ 1,835.1**

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

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MOODY S CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Moody s is a provider of (i) credit ratings, (ii) credit, capital markets and economic research, data and analytical tools, (iii) software solutions and related risk management services, (iv) quantitative credit risk measures, financial services training and certification services and (v) outsourced research and analytical services to institutional customers. Moody s has two reportable segments: MIS and MA.

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

The MA segment, which includes all of the Company s non-rating commercial activities, develops a wide range of products and services that support financial analysis and risk management activities of institutional participants in global financial markets. Within its Research, Data and Analytics business, MA distributes research and data developed by MIS as part of its ratings process, including in-depth research on major debt issuers, industry studies and commentary on topical credit-related events. The RD&A business also produces economic research as well as data and analytical tools such as quantitative credit risk scores. 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 September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Stock-based compensation cost	**$ 19.3**	$ 16.0	**$ 59.9**	$ 49.3
Tax benefit	**$ 6.2**	$ 5.9	**$ 19.0**	$ 17.9

During the first nine months of 2014, the Company granted 0.3 million employee stock options, which had a weighted average grant date fair value of $31.53 per share based on the Black-Scholes option-pricing model. The Company also granted 0.9 million shares of restricted stock in the first nine months of 2014, which had a weighted average grant date fair value of $79.62 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 $76.35 per share.

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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	**$ 31.53**

Unrecognized compensation expense at September 30, 2014 was $9.9 million and $96.2 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 1.7 years, respectively. Additionally, there was $17.8 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 1.0 years.

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

	Nine Months Ended September 30,	
Exercise of stock options:	**2014**	**2013**
Proceeds from stock option exercises	**$ 131.5**	$ 124.4
Aggregate intrinsic value	**$ 107.7**	$ 89.0
Tax benefit realized upon exercise	**$ 38.7**	$ 32.6
Number of shares exercised	**2.8**	3.5

	Nine Months Ended September 30,	
Vesting of restricted stock:	**2014**	**2013**
Fair value of shares vested	**$ 92.3**	$ 54.0
Tax benefit realized upon vesting	**$ 31.6**	$ 19.2
Number of shares vested	**1.2**	1.1

	Nine Months Ended September 30,	
Vesting of performance-based restricted stock:	**2014**	**2013**
Fair value of shares vested	**$ 38.0**	$ 25.5
Tax benefit realized upon vesting	**$ 14.6**	$ 9.7
Number of shares vested	**0.5**	0.5

NOTE 3. INCOME TAXES

Moody s effective tax rate was 33.5% and 29.1% for the three months ended September 30, 2014 and 2013, respectively. The increase in the ETR compared to the third quarter of 2013 is primarily due to higher U.S. and non-U.S. taxes on foreign income in 2014 and certain discrete items that reduced the ETR in 2013.

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Moody s ETR was 32.0% and 30.1% for the nine month periods ended September 30, 2014 and 2013, respectively. The increase over the prior year is primarily due to higher U.S. and non-U.S. taxes on foreign income. The nine months ended September 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 nine month period ended September 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 $7.1 million ($4.0 million net of federal tax benefit) during the third quarter of 2014 and an overall increase in its UTPs during the first nine months of 2014 of $16.0 million ($8.4 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 through 2013 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 UTPs 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 UTPs. 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 UTPs 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 UTPs.

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

	Nine Months Ended September 30,	
	2014	**2013**
Income Taxes Paid*	**$ 334.6**	$ 267.3

* Payments in 2013 include $50 million of 2012 estimated federal taxes paid in the first quarter of 2013 pursuant to IRS relief due to Hurricane Sandy.

NOTE 4. WEIGHTED AVERAGE SHARES OUTSTANDING

Below is a reconciliation of basic to diluted shares outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Basic	**210.4**	217.8	**212.1**	221.1
Dilutive effect of shares issuable under stock-based compensation plans	**3.8**	4.2	**4.0**	4.0
Diluted	**214.2**	222.0	**216.1**	225.1
Anti-dilutive options to purchase common shares and restricted stock as well as contingently issuable restricted stock which are excluded from the table above	**0.5**	2.6	**0.7**	4.3

The calculation of diluted EPS requires certain assumptions regarding the use of both cash proceeds and assumed proceeds that would be received upon the exercise of stock options and vesting of restricted stock outstanding as of September 30, 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 September 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 was 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 were recorded each period within interest income (expense), net, in the Company s consolidated statement of operations. In August of 2014, the Company terminated the swaps on the Series 2005-1 Notes concurrent with the early retirement of those notes as further described in Note 13. The termination of these swaps resulted in a gain of approximately $4 million in the third quarter of 2014 which is recorded in interest income (expense), net in the Company s condensed consolidated statement of operations.

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. In the third 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 remaining balance of the 2010 Senior Notes to a floating interest rate based on the 3-month LIBOR. The purpose of these hedges is 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.

In the third 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 a portion of the 2014 Senior Notes (5-year) 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 2014 Senior Notes (5-year), 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 2014 Senior Notes (5-year). 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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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:

	September 30, 2014	December 31, 2013
Notional amount of currency pair:		
Contracts to purchase USD with euros	**$ 38.5**	$ 14.2
Contracts to sell USD for euros	**$ 53.7**	$ 53.2
Contracts to purchase USD with GBP	**$ 0.2**	$
Contracts to purchase USD with other foreign currencies	**$ 1.0**	$
Contracts to purchase euros with other foreign currencies	**55.3**	13.1
Contracts to purchase euros with GBP	**24.5**	22.1
Contracts to sell euros for GBP	**35.4**	

Net Investment Hedges

The Company enters into foreign currency forward contracts to hedge the exposure related to non-U.S. dollar net investments in certain foreign subsidiaries against adverse changes in foreign exchange rates. These forward contracts are designated as accounting hedges under the applicable sections of Topic 815 of the ASC. Hedge effectiveness is assessed based on the overall changes in the fair value of the forward contracts on a pre-tax basis. For hedges that meet the effectiveness requirements, any change in the fair value for the hedge is recorded in the currency translation adjustment component of AOCI. Any change in the fair value of these hedges that is the result of ineffectiveness would be recognized immediately in other non-operating (expense) income in the Company s consolidated statement of operations. These outstanding contracts expire in December 2014 for contracts to sell euros for USD and in November 2014 for contracts to sell Japanese yen for USD.

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

	September 30, 2014	December 31, 2013
Notional amount of currency pair:		
Contracts to sell euros for USD	**50.0**	50.0
Contracts to sell Japanese yen for USD	**¥ 19,700**	¥ 19,700

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

	Fair Value of Derivative Instruments		
Derivatives Instruments	**Balance Sheet Location**	**September 30, 2014**	**December 31, 2013**
Assets:			
Derivatives designated as accounting hedges:			
Interest rate swaps	Other assets	**$**	$ 10.3
FX forwards on net investment in certain foreign subsidiaries	Other current assets	**20.2**	9.3
Total derivatives designated as accounting hedges		**20.2**	19.6
Derivatives not designated as accounting hedges:			
FX forwards on certain assets and liabilities	Other current assets	**4.6**	0.9
Total assets		**$ 24.8**	$ 20.5
Liabilities:			
Derivatives designated as accounting hedges:			
Interest rate swaps	Accounts payable and accrued liabilities	**$ 3.4**	$
FX forwards on net investment in certain foreign subsidiaries	Accounts payable and accrued liabilities		1.0
Derivatives not designated as accounting hedges:			
FX forwards on certain assets and liabilities	Accounts payable and accrued liabilities	**5.1**	0.7
Total liabilities		**$ 8.5**	$ 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:

		Amount of gain (loss) recognized in the consolidated statements of operations			
		Three Months Ended September 30,		**Nine Months Ended September 30,**	
Derivatives designated as fair value accounting hedges	**Location on Statement of Operations**	**2014**	**2013**	**2014**	**2013**
Interest rate swaps [(1)]	Interest income(expense), net	**$ 7.8**	$ 1.0	**$ 8.3**	$ 3.1
Derivatives not designated as accounting hedges					
Foreign exchange forwards	Other non-operating income (expense), net	**$ (4.8)**	$ 2.1	**$ (3.9)**	$ 2.0

(1)

Represents the periodic net interest accruals/settlements with the counterparties based on the notional amount of the derivative and the agreed upon interest rates.

All gains and losses on interest rate swaps designated as cash flow hedges were initially recognized through OCI. 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 September 30, 2014 and 2013. Accordingly, there were no gains or losses recorded in AOCI in the three and nine months ended September 30, 2014.

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All gains and losses on derivatives designated as net investment hedges are recognized in the currency translation adjustment component of AOCI. Additionally, the cumulative amount of unrecognized hedge gains recorded in AOCI at September 30, 2014 and December 31, 2013 were $9.9 million and $1.5 million, respectively. The following table provides information on the gains/(losses) on the Company s net investment hedges:

Derivatives in Net Investment Hedging Relationships	Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion)	
	Three Months Ended September 30,	
	2014	2013
FX forwards	**$ 12.1**	$ (1.5)
Total	**$ 12.1**	$ (1.5)
	Nine Months Ended September 30,	
	2014	2013
FX forwards	**$ 8.4**	$ (1.0)
Total	**$ 8.4**	$ (1.0)

During the three and nine months ended September 30, 2014 and 2013, there were no gains or losses on derivatives in net investment hedging relationships that were reclassified from AOCI to the statements of operations and no gains or losses for hedge ineffectiveness for any of the Company s derivatives.

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.

WebEquity Solutions, LLC

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 cash payment to the sellers of $130.6 million was funded using Moody s U.S. cash. This acquisition will enhance MA s risk management product portfolio.

The Company incurred approximately $2 million of costs directly related to this acquisition in the nine months ended September 30, 2014, which are recorded within selling, general and administrative expenses in the Company s consolidated statements of operations.

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

Current assets		$ 3.0
Property and equipment, net		2.3
Intangible assets:		
Client relationships (18 year weighted average life)	$ 44.6	
Software (15 year weighted average life)	11.5	
Trade name (4 year weighted average life)	0.5	
Total intangible assets (17 year weighted average life)		56.6
Goodwill		76.3
Liabilities assumed		(7.6)
Net assets acquired		$ 130.6

Current assets include acquired cash of $0.6 million. Additionally, current assets includes gross accounts receivable of $0.7 million, of which an immaterial amount is not expected to be collectible. The acquired goodwill, which has been assigned to the MA segment, will be deductible for tax.

As of the date of the acquisition, WebEquity is part of the ERS reporting unit.

The amount of revenue and expenses for WebEquity from the date of acquisition through September 30, 2014 was not material.

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 MIS 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 September 30, 2014, ICRA s balance sheet was consolidated. Moody s will consolidate ICRA s financial statements on a three month lag, and accordingly, did not consolidate ICRA s operating results for the third quarter and will consolidate only one quarter of ICRA s operating results in 2014.

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. 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 resulting in a pre-tax gain of $102.8 million ($78.5 million after-tax) in the nine months ended September 30, 2014. The fair value of the Company s equity investment was based on ICRA s quoted market price on the date of acquisition.

The Company incurred approximately $2 million of costs directly related to the acquisition of ICRA during the nine months ended September 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
Total consideration	$ 210.9

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		$ 26.0
Property and equipment, net		15.1
Intangible assets:		
Trade name (36 year weighted average life)	$ 46.8	
Client relationships (19 year weighted average life)	33.8	
Other (17 year weighted average life)*	18.5	
Total intangible assets (26 year weighted average life)		99.1
Goodwill		291.1
Other assets		56.3
Liabilities		(57.9)
Fair value of non-controlling interest assumed		(218.8)
Net assets acquired		$ 210.9

* Primarily consists of acquired technical know-how and ratings methodologies

As of the date of the filing of this Form 10Q, the Company is still in the process of determining the fair value of certain real estate utilized by ICRA and deferred revenue. 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.

ICRA will operate as its own reporting unit.

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.

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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
Total fair value of consideration transferred	$ 71.6

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

The purchase agreement contained a provision for a contingent cash payment to the sellers valued at $4.3 million at the acquisition date which was dependent on Amba achieving certain revenue targets for the period from the acquisition date through March 31, 2014. The target was met and a $4.3 million payment was made to the sellers in the third quarter of 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	
Total intangible assets (11 year weighted average life)		31.6
Goodwill		29.2
Indemnification asset		10.4
Other assets		2.0
Liabilities assumed		(25.7)
Net assets acquired		$ 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 September 30, 2014 and December 31, 2013.

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

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NOTE 8. GOODWILL AND OTHER ACQUIRED INTANGIBLE ASSETS

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

	Nine Months Ended September 30, 2014								
	MIS			MA			Consolidated		
	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill
Balance at beginning of year	$ 11.4	$	$ 11.4	$ 666.0	$ (12.2)	$ 653.8	$ 677.4	$ (12.2)	$ 665.2
Additions/adjustments	291.1		291.1	71.0		71.0	362.1		362.1
Foreign currency translation adjustments	(7.7)		(7.7)	(19.3)		(19.3)	(27.0)		(27.0)
Ending balance	$ 294.8	$	$ 294.8	$ 717.7	$ (12.2)	$ 705.5	$ 1,012.5	$ (12.2)	$ 1,000.3

	Year ended December 31, 2013								
	MIS			MA			Consolidated		
	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill
Balance at beginning of year	$ 11.5	$	$ 11.5	$ 637.8	$ (12.2)	$ 625.6	$ 649.3	$ (12.2)	$ 637.1
Additions				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 and WebEquity in the third quarter of 2014. There were no impairments to goodwill in the nine months ended September 30, 2014 and year ended December 31, 2013.

Acquired intangible assets and related amortization consisted of:

	September 30, 2014	December 31, 2013
Customer relationships	**$ 311.1**	$ 237.4
Accumulated amortization	**(95.5)**	(86.6)
Net customer relationships	**215.6**	150.8
Trade secrets	**30.8**	31.1
Accumulated amortization	**(20.2)**	(18.5)
Net trade secrets	**10.6**	12.6
Software	**80.1**	71.0

Accumulated amortization	**(42.4)**	(38.8)
Net software	**37.7**	32.2
Trade names	**76.6**	31.3
Accumulated amortization	**(12.8)**	(11.7)
Net trade names	**63.8**	19.6
Other	**43.0**	26.1
Accumulated amortization	**(20.9)**	(19.7)
Net other	**22.1**	6.4
Total acquired intangible assets, net	**$ 349.8**	$ 221.6

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

Amortization expense relating to acquired intangible assets is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Amortization expense	**$ 6.9**	$ 7.0	**$ 20.5**	$ 21.0

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

Year Ending December 31,	
2014 (after September 30)	**$ 7.9**
2015	**30.8**
2016	**30.0**
2017	**26.7**
2018	**22.0**
Thereafter	**232.4**

Amortizable intangible assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the estimated undiscounted future cash flows are lower than the carrying amount of the related asset, a loss is recognized for the difference between the carrying amount and the estimated fair value of the asset. There were no impairments to intangible assets during the three and nine months ended September 30, 2014 and 2013.

NOTE 9. FAIR VALUE

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

	Fair Value Measurement as of September 30, 2014			
Description	Balance	Level 1	Level 2	Level 3
Assets:				
Derivatives [(a)]	**$ 24.8**	**$**	**$ 24.8**	**$**
Fixed maturity and open ended mutual funds [(b)]	**43.4**	**43.4**		
Total	**$ 68.2**	**$ 43.4**	**$ 24.8**	**$**
Liabilities:				
Derivatives [(a)]	**$ 8.5**	**$**	**$ 8.5**	**$**
Contingent consideration arising from acquisitions [(c)]	**13.3**			**13.3**
Total	**$ 21.8**	**$**	**$ 8.5**	**$ 13.3**

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	Description	Fair Value Measurement as of December 31, 2013 Balance	Level 1	Level 2	Level 3
Assets:					
	Derivatives [a]	**$ 20.5**	**$**	**$ 20.5**	**$**
	Total	**$ 20.5**	**$**	**$ 20.5**	**$**
Liabilities:					
	Derivatives [a]	**$ 1.7**	**$**	**$ 1.7**	**$**
	Contingent consideration arising from acquisitions [c]	**17.5**			**17.5**
	Total	**$ 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 held by ICRA. 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 acquisitions.

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

	Contingent Consideration Nine Months Ended September 30, 2014	2013
Balance as of January 1	**$ 17.5**	$ 9.0
Contingent consideration payments	**(4.3)**	(2.5)
Total losses (realized and unrealized):		
Included in earnings	**0.3**	6.0
Foreign currency translation adjustments	**(0.2)**	(0.1)
Balance as of September 30	**$ 13.3**	$ 12.4

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

Of the $13.3 million of contingent consideration obligations as of September 30, 2014, $11.1 million is classified in accounts payable and accrued liabilities and $2.2 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.

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Fixed maturity and open ended mutual funds:

The fixed maturity mutual funds and open ended mutual funds primarily represent exchange traded funds in India held by ICRA and are classified as securities available-for-sale. Accordingly, any unrealized gains and losses in future quarters will be recognized through OCI until the instruments mature. The cost basis of these investments is $41.2 million at September 30, 2014.

Contingent consideration:

At September 30, 2014, the Company has contingent consideration obligations related to the acquisitions of CSI and Copal 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.

The contingent consideration obligation for CSI is based on the achievement of a certain contractual milestone by January 2016. The Company utilizes a discounted cash flow methodology to value this obligation. The future expected cash flow for this obligation is discounted using an interest rate available to borrowers with similar credit risk profiles to that of the Company. The most significant unobservable input involved in the measurement of this obligation is the probability that the milestone will be reached by January 2016. At September 30, 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 remaining obligations will be settled upon the closing of Moody s acquisition of the non-controlling interest of Copal Amba that it does not currently own which is expected to occur in the fourth quarter of 2014 as discussed in Note 10. The payment is expected to be approximately $11 million. Other contingent cash payments were based on the achievement of revenue targets for Copal s fiscal year ended March 31, 2013 and a $2.5 million payment was made in 2013.

For the contingent consideration obligations relating to the acquisition of Amba, the payment was based on the acquired entity achieving a revenue target for its fiscal year ended March 31, 2014 which was met resulting in a $4.3 million payment 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.

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NOTE 10. OTHER BALANCE SHEET AND STATEMENT OF OPERATIONS INFORMATION

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

	September 30, 2014	December 31, 2013
Other current assets:		
Prepaid taxes	**$ 108.2**	$ 40.0
Prepaid expenses	**46.1**	48.1
Other	**42.9**	26.3
Total other current assets	**$ 197.2**	$ 114.4

	September 30, 2014	December 31, 2013
Other assets:		
Investments in joint ventures	**$ 20.0**	$ 37.5
Deposits for real-estate leases	**11.8**	10.3
Indemnification assets related to acquisitions	**25.7**	27.0
Fixed maturity and open ended mutual funds	**43.4**	
Other	**41.3**	37.3
Total other assets	**$ 142.2**	$ 112.1

	September 30, 2014	December 31, 2013
Accounts payable and accrued liabilities:		
Salaries and benefits	**$ 70.5**	$ 77.1
Incentive compensation	**114.4**	135.9
Profit sharing contribution	**2.3**	
Customer credits, advanced payments and advanced billings	**19.9**	21.7
Self-insurance reserves for wholly-owned insurance subsidiary	**19.1**	27.6
Dividends	**4.9**	65.5
Professional service fees	**47.7**	32.9
Interest accrued on debt	**14.8**	36.3
Accounts payable	**17.6**	16.4
Income taxes	**22.1**	47.5
Pension and other retirement employee benefits	**7.1**	7.0
Other	**79.8**	71.0
Total accounts payable and accrued liabilities	**$ 420.2**	$ 538.9

	September 30, 2014	December 31, 2013
Other liabilities:		
Pension and other retirement employee benefits	**$ 166.1**	$ 164.0
Deferred rent-non-current portion	**106.2**	106.3

Interest accrued on UTPs	**18.1**	18.0
Legacy and other tax matters	**8.6**	15.4
Other	**49.0**	56.5
Total other liabilities	**$ 348.0**	$ 360.2

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Changes in the Company s self-insurance reserves for claims insured by the Company s wholly-owned insurance subsidiary, which primarily relate to legal defense costs for claims from prior years, are as follows:

(in millions)	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
Balance January 1,	**$ 27.6**	$ 55.8
Accruals (reversals), net	**(1.2)**	(0.9)
Payments	**(7.3)**	(27.3)
Balance	**$ 19.1**	$ 27.6

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.

In the third quarter of 2014, the Company notified the non-controlling shareholders that it planned to exercise its call option to acquire the remaining interest of Copal Amba that it does not currently own and is expected to close in the fourth quarter of 2014. In accordance with certain agreements relating to the acquisition of Copal Amba, the Company will incur a 25% premium to the formulaic redemption value of the non-controlling interest.

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

(in millions)	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
	Redeemable Noncontrolling Interest	
Balance January 1,	**$ 80.0**	$ 72.3
Net earnings	**7.2**	5.8
Dividends	**(4.9)**	(6.0)
Adjustment to redemption value*	**55.3**	7.9
Balance	**$ 137.6**	$ 80.0

* The adjustment to the redemption value in the nine months ended September 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.

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Noncontrolling Interests:

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

(in millions)	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
	Noncontrolling Interests	
Balance January 1,	**$ 10.9**	$ 11.4
Net earnings	**5.0**	5.7
Dividends	**(5.2)**	(6.2)
ICRA noncontrolling interest*	**218.9**	
Balance	**$ 229.6**	$ 10.9

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

Other Non-Operating (Expense) Income:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
FX gain/(loss)	**$ 7.6**	$ (5.8)	**$ 1.5**	$ 6.9
Legacy Tax benefit	**6.4**		**6.4**	
Joint venture income	**2.6**	2.5	**7.9**	7.4
Other	**(0.2)**	(0.3)	**(0.3)**	(1.4)
Total	**$ 16.4**	$ (3.6)	**$ 15.5**	$ 12.9

NOTE 11. COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014	Affected line in the consolidated statement of operations
Gains/(losses) on foreign currency translation adjustments			