

MOODYS CORP /DE/
Form 10-Q
November 02, 2010
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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 September 30, 2010

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)

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Delaware
(State of Incorporation)

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

7 World Trade Center at

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

10007
(Zip Code)

Registrant's telephone number, including area code:

(212) 553-0300

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

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

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

Large accelerated filer Accelerated filer

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

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

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

Title of Each Class	Shares Outstanding at September 30, 2010
Common Stock, par value \$0.01 per share	234.2 million

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MOODY S CORPORATION

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32.1 <u>Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	
32.2 <u>Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	

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

TERM	DEFINITION
ACNielsen	ACNielsen Corporation a former affiliate of Old D&B
Analytics	Moody s Analytics reportable segment of MCO formed in January 2008, which includes the non-rating commercial activities of MCO
AOCI	Accumulated other comprehensive income (loss); a separate component of shareholders equity (deficit)
ASC	The FASB Accounting Standards Codification; the sole source of authoritative GAAP as of July 1, 2009 except for rules and interpretive releases of the SEC, which are also sources of authoritative GAAP for SEC registrants
ASU	The FASB Accounting Standards Updates 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.
Basel II	Capital adequacy framework published in June 2004 by the Basel Committee on Banking Supervision
Board	The board of directors of the Company
Bps	Basis points
Canary Wharf Lease	Operating lease agreement entered into on February 6, 2008 for office space in London, England, occupied by the Company in the second half of 2009.
CDOs	Collateralized debt obligations
CESR	Committee of European Securities Regulators
CFG	Corporate finance group; an LOB of MIS
CMBS	Commercial mortgage-backed securities; part of CREF
Cognizant	Cognizant Corporation a former affiliate of Old D&B; comprised the IMS Health and NMR businesses
Commission	European Commission
Company	Moody s Corporation and its subsidiaries; MCO; Moody s
Corporate Family Ratings	Rating opinion of a corporate family s ability to honor all of its financial obligations which is assigned to the corporate family as if it had a single class of debt and a single consolidated legal entity structure. This rating is often issued in connection with ratings of leveraged finance transactions.
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CP	Commercial paper
CP Notes	Unsecured commercial paper notes
CP Program	The Company s commercial paper program entered into on October 3, 2007
CRAs	Credit rating agencies
CRA Reform Act	Credit Rating Agency Reform Act of 2006
CREF	Commercial real estate finance which includes REITs, commercial real estate CDOs and MBS; part of SFG
D&B Business	Old D&B s Dun & Bradstreet operating company
DBPP	Defined benefit pension plans

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Debt/EBITDA	Ratio of Total Debt to EBITDA
Directors' Plan	The 1998 MCO Non-Employee Directors' Stock Incentive Plan
Distribution Date	September 30, 2000; the date which old D&B separated into two publicly traded companies: Moody's Corporation and New D&B
EBITDA	Earnings before interest, taxes, depreciation and amortization
ECAIs	External Credit Assessment Institutions
ECB	European Central Bank

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TERM	DEFINITION
EMEA	Represents countries within Europe, the Middle East and Africa
EPS	Earnings per share
ESP	Estimated selling price; price, as defined by the ASC, at which a vendor would transact if a deliverable were sold by the vendor regularly on a standalone basis
ESPP	The 1999 Moody's Corporation Employee Stock Purchase Plan
ETR	Effective tax rate
EU	European Union
EUR	Euros
Excess Tax Benefit	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 that 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
Fitch	Fitch Ratings, a division of the Fitch Group which is a majority-owned subsidiary of Fimalac, S.A.
Financial Reform Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
FSF	Financial Stability Forum
FX	Foreign exchange
GAAP	U.S. Generally Accepted Accounting Principles
GBP	British pounds
G-8	The finance ministers and central bank governors of the group of eight countries consisting of Canada, France, Germany, Italy, Japan, Russia, U.S. and U.K., that meet annually
G-20	The G-20 is an informal forum of industrial and emerging-market countries on key issues related to global economic stability. The G-20 is comprised of: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the U.K. and the U.S. and The EU who is represented by the rotating Council presidency and the ECB
HFSC	House Financial Services Committee
IMS Health	A spin-off of Cognizant; provides services to the pharmaceutical and healthcare industries
Indenture	Indenture and supplemental indenture dated August 19, 2010, relating to the 2010 Senior Notes
Indicative Ratings	These are ratings which are provided as of a point in time, and not published or monitored. They are primarily provided to potential or current issuers to indicate what a rating may be based on business fundamentals and financial conditions as well as based on proposed financings
IOSCO	International Organization of Securities Commissions
IOSCO Code	Code of Conduct Fundamentals for Credit Rating Agencies
IRS	Internal Revenue Service
Legacy Tax Matter(s)	Exposures to certain potential tax liabilities assumed in connection with the 2000 Distribution
LIBOR	London Interbank Offered Rate

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TERM	DEFINITION
LOB	Line of business
MA	Moody's Analytics – a reportable segment of MCO formed in January 2008; which includes the non-rating commercial activities of MCO
Make Whole Amount	The prepayment penalty amount relating to the Series 2005-1 Notes, Series 2007-1 Notes, and 2010 Senior Notes which is a premium based on the excess, if any, of the discounted value of the remaining scheduled payments over the prepaid principal
MCO	Moody's Corporation and its subsidiaries; the Company; Moody's
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MIS	Moody's Investors Service – a reportable segment of MCO; consists of four LOBs – SFG, CFG, FIG and PPIF
MIS Code	Moody's Investors Service Code of Professional Conduct
Moody's	Moody's Corporation and its subsidiaries; MCO; the Company
Net Income	Net income attributable to Moody's Corporation, which excludes net income from consolidated noncontrolling interests belonging to the minority interest holder
New D&B	The New D&B Corporation - which comprises the D&B business
NM	Percentage change is not meaningful
NMR	Nielsen Media Research, Inc.; a spin-off of Cognizant; a leading source of television audience measurement services
Notices	IRS Notices of Deficiency for 1997-2002
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
Post-Retirement Plans	Moody's funded and unfunded pension plans, the post-retirement healthcare plans and the post-retirement life insurance plans
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
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
Reform Act	Credit Rating Agency Reform Act of 2006
REITs	Real estate investment trusts
RMBS	Residential mortgage-backed security; part of SFG
RMS	The Risk Management Software LOB within MA which provides both economic and regulatory capital risk management software and implementation services
S&P	Standard & Poor's Ratings Services; a division of The McGraw-Hill Companies, Inc.
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933
Series 2005-1 Notes	Principal amount of \$300.0 million, 4.98% senior unsecured notes due in September 2015 pursuant to the 2005 Agreement
Series 2007-1 Notes	Principal amount of \$300.0 million, 6.06% senior unsecured notes due in September 2017 pursuant to the 2007 Agreement

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TERM	DEFINITION
SFG	Structured finance group; an LOB of MIS
SG&A	Selling, general and administrative expenses
Stock Plans	The 1998 Plan and the 2001 Plan
T&E	Travel and entertainment expenses
TPE	Third party evidence; evidence, as defined in the ASC, used to determine selling price based on a vendor's or any competitor's largely interchangeable products or services in standalone sales transactions to similarly situated customers
Total Debt	All indebtedness of the Company as reflected on the consolidated balance sheets, excluding current accounts payable and deferred revenue incurred in the ordinary course of business
U.K.	United Kingdom
U.S.	United States
USD	U.S. dollar
UTBs	Unrecognized tax benefits
UTPs	Uncertain tax positions
VAT	Value added tax
VSOE	Vendor specific objective evidence; evidence, as defined in the ASC, of selling price limited to either of the following: the price charged for a deliverable when it is sold separately, or for a deliverable not yet being sold separately, the price established by management having the relevant authority
1998 Plan	Old D&B's 1998 Key Employees' Stock Incentive Plan
2000 Distribution	The distribution by Old D&B to its shareholders of all of 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
2001 Plan	The Amended and Restated 2001 MCO Key Employees' Stock Incentive Plan
2005 Agreement	Note purchase agreement dated September 30, 2005, relating to the Series 2005-1 Notes
2007 Agreement	Note purchase agreement dated September 7, 2007 relating to the Series 2007-1 Notes
2007 Facility	Revolving credit facility of \$1 billion entered into on September 28, 2007, expiring in 2012
2007 Restructuring Plan	The Company's 2007 restructuring plan approved on December 31, 2007
2008 Term Loan	Five-year \$150.0 million senior unsecured term loan entered into by the Company on May 7, 2008
2009 Restructuring Plan	The Company's 2009 restructuring plan approved on March 27, 2009
2010 Senior Notes	Principal amount of \$500.0 million, 5.50% senior unsecured notes due in September 2020 pursuant to the Indenture
7WTC	The Company's corporate headquarters located at 7 World Trade Center in New York, NY
7WTC Lease	Operating lease agreement entered into on October 20, 2006

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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,	
	2010	2009	2010	2009
Revenue	\$ 513.3	\$ 451.8	\$ 1,467.7	\$ 1,311.4
Expenses				
Operating	153.7	135.1	423.9	385.5
Selling, general and administrative	152.2	124.3	418.5	351.2
Restructuring	0.4	3.7		18.6
Depreciation and amortization	18.1	16.2	49.1	47.5
Total expenses	324.4	279.3	891.5	802.8
Operating income	188.9	172.5	576.2	508.6
Non-operating (expense) income, net				
Interest (expense) income, net	(12.8)	(11.5)	(35.1)	(20.9)
Other non-operating (expense) income, net	5.3	1.7	0.7	(8.8)
Total non-operating (expense) income, net	(7.5)	(9.8)	(34.4)	(29.7)
Income before provision for income taxes	181.4	162.7	541.8	478.9
Provision for income taxes	44.2	61.0	167.3	175.1
Net income	137.2	101.7	374.5	303.8
Less: Net income attributable to noncontrolling interests	1.2	1.1	4.1	3.7
Net income attributable to Moody s	\$ 136.0	\$ 100.6	\$ 370.4	\$ 300.1
Earnings per share attributable to Moody s common shareholders				
Basic	\$ 0.58	\$ 0.43	\$ 1.57	\$ 1.27
Diluted	\$ 0.58	\$ 0.42	\$ 1.56	\$ 1.26
Weighted average number of shares outstanding				
Basic	234.3	236.4	235.5	236.0
Diluted	235.7	238.2	237.1	237.6