

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:

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

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**MOODY S CORPORATION**

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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:

<b>TERM</b>	<b>DEFINITION</b>
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
AOI	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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<b>TERM</b>	<b>DEFINITION</b>
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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<b>TERM</b>	<b>DEFINITION</b>
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

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****MOODY S CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

(Amounts in millions, except per share data)

	Three Months Ended September 30, 2010		September 30, 2009	
	2010	2009	2010	2009
<b>Revenue</b>	<b>\$ 513.3</b>	<b>\$ 451.8</b>	<b>\$ 1,467.7</b>	<b>\$ 1,311.4</b>
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
<b>Total expenses</b>	<b>324.4</b>	<b>279.3</b>	<b>891.5</b>	<b>802.8</b>
<b>Operating income</b>	<b>188.9</b>	<b>172.5</b>	<b>576.2</b>	<b>508.6</b>
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)
<b>Total non-operating (expense) income, net</b>	<b>(7.5)</b>	<b>(9.8)</b>	<b>(34.4)</b>	<b>(29.7)</b>
<b>Income before provision for income taxes</b>	<b>181.4</b>	<b>162.7</b>	<b>541.8</b>	<b>478.9</b>
Provision for income taxes	44.2	61.0	167.3	175.1
<b>Net income</b>	<b>137.2</b>	<b>101.7</b>	<b>374.5</b>	<b>303.8</b>
Less: Net income attributable to noncontrolling interests	1.2	1.1	4.1	3.7
<b>Net income attributable to Moody s</b>	<b>\$ 136.0</b>	<b>\$ 100.6</b>	<b>\$ 370.4</b>	<b>\$ 300.1</b>
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

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Dividends declared per share attributable to Moody's common shareholders	\$ 0.105	\$ 0.10	\$ 0.21	\$ 0.20
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The accompanying notes are an integral part of the 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, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 793.7	\$ 473.9
Short-term investments	10.8	10.0
Accounts receivable, net of allowances of \$31.2 in 2010 and \$24.6 in 2009	410.6	444.9
Deferred tax assets, net	47.1	32.3
Other current assets	39.2	51.8
Total current assets	1,301.4	1,012.9
Property and equipment, net of accumulated depreciation of \$197.5 in 2010 and \$164.8 in 2009	307.5	293.0
Goodwill	355.2	349.2
Intangible assets, net	93.3	104.9
Deferred tax assets, net	227.8	192.6
Other assets	63.0	50.7
Total assets	\$ 2,348.2	\$ 2,003.3
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 321.0	\$ 317.2
Commercial paper	15.0	443.7
Current portion of long-term debt	9.4	3.8
Deferred revenue	447.2	471.3
Total current liabilities	792.6	1,236.0
Non-current portion of deferred revenue	96.9	103.8
Long-term debt	1,235.6	746.2
Deferred tax liabilities, net	15.9	31.4
Unrecognized tax benefits	171.2	164.2
Other liabilities	333.6	317.8
Total liabilities	2,645.8	2,599.4
Contingencies (Note 12)		
Shareholders' deficit:		
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, 2010 and December 31, 2009	3.4	3.4
Capital surplus	384.1	391.1
Retained earnings	3,650.1	3,329.0
	(4,320.7)	(4,288.5)

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Treasury stock, at cost; 108,690,561 and 106,044,833 shares of common stock at September 30, 2010 and December 31, 2009, respectively		
Accumulated other comprehensive loss	(24.6)	(41.2)
Total Moody's shareholders' deficit	(307.7)	(606.2)
Noncontrolling interests	10.1	10.1
Total shareholders' deficit	(297.6)	(596.1)
Total liabilities and shareholders' deficit	\$ 2,348.2	\$ 2,003.3

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

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

(Amounts in millions)

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 374.5	\$ 303.8
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	49.1	47.5
Stock-based compensation expense	41.3	44.4
Excess tax benefits from stock-based compensation plans	(6.1)	(3.2)
Changes in assets and liabilities:		
Accounts receivable	31.1	51.3
Other current assets	(1.1)	45.1
Other assets	(46.2)	9.4
Accounts payable and accrued liabilities	24.7	7.1
Restructuring	(4.7)	7.8
Deferred revenue	(30.7)	(22.8)
Unrecognized tax benefits	21.8	(26.8)
Other liabilities	21.0	(7.0)
<b>Net cash provided by operating activities</b>	<b>474.7</b>	<b>456.6</b>
<b>Cash flows from investing activities</b>		
Capital additions	(54.6)	(64.3)
Purchases of short-term investments	(24.0)	(10.7)
Sales and maturities of short-term investments	23.6	11.5
Cash paid for acquisitions, net of cash acquired		(0.9)
<b>Net cash used in investing activities</b>	<b>(55.0)</b>	<b>(64.4)</b>
<b>Cash flows from financing activities</b>		
Borrowings under revolving credit facilities	250.0	2,412.0
Repayments of borrowings under revolving credit facilities	(250.0)	(3,025.0)
Issuance of commercial paper	2,232.8	7,703.0
Repayments of commercial paper	(2,661.5)	(7,276.6)
Issuance of notes	496.9	
Repayment of notes	(1.9)	
Net proceeds from stock-based compensation plans	26.0	14.6
Cost of treasury shares repurchased	(119.6)	
Excess tax benefits from stock-based compensation plans	6.1	3.2
Payment of dividends	(74.1)	(70.8)
Payment of dividends to noncontrolling interests	(4.4)	(2.9)
Payments under capital lease obligations	(1.0)	(1.1)
Debt issuance costs and related fees	(4.0)	
<b>Net cash used in financing activities</b>	<b>(104.7)</b>	<b>(243.6)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>4.8</b>	<b>28.2</b>

<b>Net increase in cash and cash equivalents</b>	<b>319.8</b>	<b>176.8</b>
Cash and cash equivalents, beginning of the period	473.9	245.9
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 793.7</b>	<b>\$ 422.7</b>

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 and economic related research, data and analytical tools, (iii) risk management software and (iv) quantitative credit risk measures, credit portfolio management solutions and training services. In 2007 and prior years, Moody's operated in two reportable segments: Moody's Investors Service and Moody's KMV. Beginning in January 2008, Moody's segments were changed to reflect the Reorganization announced in August 2007 and Moody's now reports in two new reportable segments: MIS and MA. As a result of the Reorganization, the rating agency remains in the MIS operating segment and several ratings business lines have been realigned. All of Moody's other non-rating commercial activities are included within the new Moody's Analytics segment. The MIS segment 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's ratings to support the distribution of their debt issues to investors. The MA segment develops a wide range of products and services that support the credit risk management activities of institutional participants in global financial markets. These offerings include quantitative credit risk scores, credit processing software, economic research, analytical models, financial data, and specialized advisory and training services. MA also distributes investor-oriented research and data developed by MIS as part of its rating process, including in-depth research on major debt issuers, industry studies and commentary on topical events.

The Company operated as part of Old D&B until September 30, 2000, when Old D&B separated into two publicly traded companies: Moody's Corporation and New D&B. At that time, Old D&B distributed to its shareholders shares of New D&B stock. New D&B comprised the business of Old D&B's Dun & Bradstreet operating company. The remaining business of Old D&B consisted solely of the business of providing ratings and related research and credit risk management services and was renamed Moody's Corporation. For purposes of governing certain ongoing relationships between the Company and New D&B after the 2000 Distribution and to provide for an orderly transition, the Company and New D&B entered into various agreements including a distribution agreement, tax allocation agreement and employee benefits agreement.

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 2009 annual report on Form 10-K filed with the SEC on March 1, 2010. The results of interim periods are not necessarily indicative of results for the full year or any subsequent period. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Certain prior year amounts have been reclassified to conform to the current year presentation.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Other than the update to the Company's revenue recognition policy pursuant to the early adoption of ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements further described below, there have been no material changes to the Company's significant accounting policies from those disclosed in its Form 10-K filed with the SEC for the year ended December 31, 2009.

***Revenue Recognition***

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or the services have been provided and accepted by the customer when applicable, fees are determinable and the collection of resulting receivables is considered probable.

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements (ASU 2009-13). The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration based on the relative selling price of each deliverable. The Company has elected to early adopt ASU 2009-13 on a prospective basis for applicable transactions originating or materially modified on or after January 1, 2010. If applied in the same manner to the year ended December 31, 2009, ASU 2009-13 would not have had a material impact on net revenue reported for both its MIS and MA segments in terms of the timing and pattern of revenue recognition. The adoption of ASU 2009-13 did not have a significant effect on the Company's net revenue in the period of adoption and is also not expected to have a significant effect on the Company's net revenue in periods after the initial adoption.

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when applied to multiple element arrangements based on the currently anticipated business volume and pricing.

For 2010 and future periods, pursuant to the guidance of ASU 2009-13, when a sales arrangement contains multiple deliverables, the Company allocates revenue to each deliverable based on its relative selling price which is determined based on its vendor specific objective evidence ( VSOE ) if available, third party evidence ( TPE ) if VSOE is not available, or estimated selling price ( ESP ) if neither VSOE nor TPE is available.

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**MOODY S CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

The Company's products and services will generally continue to qualify as separate units of accounting under ASU 2009-13. The Company evaluates each deliverable in an arrangement to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has stand-alone value to the customers and if the arrangement includes a customer refund or return right relative to the delivered item, the delivery and performance of the undelivered item is considered probable and substantially in the Company's control. In instances where the aforementioned criteria are not met, the deliverable is combined with the undelivered items and revenue recognition is determined as one single unit.

The Company determines whether its selling price in a multi-element transaction meets the VSOE criteria by using the price charged for a deliverable when sold separately. In instances where the Company is not able to establish VSOE for all deliverables in a multiple element arrangement, which may be due to the Company infrequently selling each element separately, not selling products within a reasonably narrow price range, or only having a limited sales history, the Company attempts to establish TPE for deliverables. The Company determines whether TPE exists by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. However, due to the difficulty in obtaining third party pricing, possible differences in its market strategy from that of its peers and the potential that products and services offered by the Company may contain a significant level of differentiation and/or customization such that the comparable pricing of products with similar functionality cannot be obtained, the Company generally is unable to reliably determine TPE. Based on the selling price hierarchy established by ASU 2009-13, when the Company is unable to establish selling price using VSOE or TPE, the Company will establish an ESP. ESP is the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. The Company establishes its best estimate of ESP considering internal factors relevant to its pricing practices such as costs and margin objectives, standalone sales prices of similar products, percentage of the fee charged for a primary product or service relative to a related product or service, and customer segment and geography. Additional consideration is also given to market conditions such as competitor pricing strategies and market trend. The Company reviews its determination of VSOE, TPE and ESP on an annual basis or more frequently as needed.

In the MIS segment, revenue attributed to initial ratings of issued securities is recognized when the rating is issued. Revenue attributed to monitoring of issuers or issued securities is recognized ratably over the period in which the monitoring is performed, generally one year. In the case of commercial mortgage-backed securities, derivatives, international residential mortgage-backed and asset-backed securities, issuers can elect to pay the monitoring fees upfront. These fees are deferred and recognized over the future monitoring periods based on the expected lives of the rated securities.

Multiple element revenue arrangements in the MIS segment are generally comprised of an initial rating and the related monitoring service. Beginning January 1, 2010, in instances where monitoring fees are not charged for the first year monitoring effort, fees are allocated to the initial rating and monitoring services based on the relative selling price of each service to the total arrangement fees. The Company generally uses ESP in determining the selling price for its initial ratings as the Company rarely sells initial ratings separately without providing related monitoring services and thus is unable to establish VSOE or TPE for initial ratings. Prior to January 1, 2010 and pursuant to the previous accounting standards, for these types of arrangements the initial rating fee was first allocated to the monitoring service determined based on the estimated fair market value of monitoring services, with the residual amount allocated to the initial rating. Under ASU 2009-13 this practice can no longer be used for non-software deliverables upon the adoption of ASU 2009-13.

In the MA segment, products and services offered by the Company include software licenses and related maintenance, subscriptions, and professional services. Revenue from subscription based products, such as research and data subscriptions and certain software-based credit risk management subscription products, is recognized ratably over the related subscription period, which is principally one year. Revenue from sale of perpetual licenses of credit processing software is generally recognized at the time the product master or first copy is delivered or transferred to and accepted by the customer. Software maintenance revenue is recognized ratably over the annual maintenance period. Revenue from services rendered within the professional services line of business is generally recognized as the services are performed. If uncertainty exists regarding customer acceptance of the product or service, revenue is not recognized until acceptance occurs.

Products and services offered within the MA segment are sold either stand-alone or together in various combinations. In instances where a multiple element arrangement includes software and non-software deliverables, revenue is allocated to the non-software deliverables and to the software deliverables, as a group, using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. Revenue is recognized for each element based upon the conditions for revenue recognition noted above.

If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is allocated to each software deliverable using VSOE. In the instances where the Company is not able to determine VSOE for all of the deliverables of an arrangement, the Company allocates the revenue to the undelivered elements equal to its VSOE and the residual revenue to the delivered elements. If the Company is unable to determine VSOE for an undelivered element, the Company defers all revenue allocated to the software deliverables until the Company has delivered all of the elements or when VSOE has been determined for the undelivered elements.

Prior to January 1, 2010 and pursuant to the previous accounting standards, the Company allocated revenue in a multiple element arrangement to each deliverable based on its relative fair value, or for software elements, based on VSOE. If the fair value was not available for an undelivered element, the revenue for the entire arrangement was deferred.

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

**NOTE 3. 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,	
	2010	2009	2010	2009
Stock compensation cost	\$ 13.6	\$ 13.8	\$ 41.3	\$ 44.4
Tax benefit	\$ 5.0	\$ 5.0	\$ 15.6	\$ 16.3

During the nine months ended September 30, 2010 the Company granted 2.4 million employee stock options, which had a weighted average grant date fair value of \$10.39 per share based on the Black-Scholes option-pricing model. The Company also granted 1.4 million shares of restricted stock in the first nine months of 2010, which had a weighted average grant date fair value of \$25.50 per share. Of the shares granted, approximately 0.4 million contained a condition 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 following weighted average assumptions were used in determining the fair value for options granted in 2010:

Expected dividend yield	1.58%
Expected stock volatility	44%
Risk-free interest rate	2.73%
Expected holding period	5.9 years
Grant date fair value	\$ 10.39

On April 20, 2010, the shareholders of the Company approved an increase in the number of shares which may be issued with respect to awards granted under the 2001 Plan. The 2001 Plan, which is shareholder approved, now permits the granting of up to 35.6 million shares, of which not more than 15.0 million shares are available for grants of awards other than stock options.

Unrecognized compensation expense at September 30, 2010 was \$39.3 million and \$43.8 million for stock options and nonvested restricted stock, respectively, which is expected to be recognized over a weighted average period of 1.6 years and 1.4 years, respectively.

The following tables summarize information relating to stock option exercises and restricted stock vesting:

	Nine Months Ended September 30,	
	2010	2009
<b>Stock option exercises:</b>		
Proceeds from stock option exercises	\$ 28.5	\$ 13.5
Aggregate intrinsic value	\$ 16.3	\$ 9.2
Tax benefit realized upon exercise	\$ 6.6	\$ 3.7

**Restricted stock vesting:**

Fair value of shares vested	\$ 12.4	\$ 7.9
Tax benefit realized upon vesting	\$ 4.6	\$ 2.9

**NOTE 4. INCOME TAXES**

Moody's effective tax rate was 24.4% and 37.5% for the three month periods ended September 30, 2010 and 2009, respectively and 30.9% and 36.6% for the nine month periods ended September 30, 2010 and 2009, respectively. The decrease in the effective tax rate for both periods was primarily due to a tax benefit, recorded in the third quarter of 2010, on foreign earnings that are indefinitely reinvested. The year over year decrease in the effective tax rate is also due to the completion of various tax audits resulting in the recognition of UTBs.

The Company classifies interest related to UTBs in interest expense in its consolidated statements of operations. Penalties, if incurred, would be recognized in other non-operating expenses. During the third quarter of 2010, the Company had an overall increase in its UTBs of \$0.2 million (\$3.1 million decrease, net of federal tax benefit), and an overall increase in its UTBs during the first nine months of 2010 of \$7.0 million (\$0.7 million decrease, net of federal tax benefit).

Prepaid taxes of \$4.2 million and \$18.6 million at September 30, 2010 and December 31, 2009, respectively, are included in other current assets in the consolidated balance sheets.

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Moody's Corporation and subsidiaries are subject to U.S. federal income tax as well as income tax in various state, local and foreign jurisdictions. Moody's U.S. federal tax returns filed for the years 2007 through 2009 remain subject to examination by the IRS. The Company's tax filings in New York State for the years 2004 through 2007 are currently under examination. The income tax returns for 2008 remain open to examination for both New York State and New York City. Tax filings in the U.K. for 2006 are currently under examination by the U.K. taxing authorities and for 2007 and 2008 remain open to examination.

For ongoing audits related to open tax years, 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 for all open tax years by tax jurisdiction in accordance with the applicable provisions of topic 740 of the ASC regarding UTBs. Additionally, the Company is seeking tax rulings on certain tax positions that, if granted, could decrease the balance of UTPs over the next twelve months however, due to the uncertainty involved with this process, the Company is unable to estimate the amount of changes to the balance of UTPs at this time.

**NOTE 5. WEIGHTED AVERAGE SHARES OUTSTANDING**

Below is a reconciliation of basic to diluted shares outstanding:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Basic	<b>234.3</b>	236.4	<b>235.5</b>	236.0
Dilutive effect of shares issuable under stock-based compensation plans	<b>1.4</b>	1.8	<b>1.6</b>	1.6
<b>Diluted</b>	<b>235.7</b>	238.2	<b>237.1</b>	237.6
Anti-dilutive options to purchase common shares and restricted stock excluded from the table above	<b>16.0</b>	14.7	<b>16.3</b>	16.0

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, 2010 and 2009. These assumed proceeds include Excess Tax Benefits and any unrecognized compensation on the awards.

**NOTE 6. 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 eight months and one month to three months as of September 30, 2010 and December 31, 2009, respectively. Interest and dividends are recorded into income when earned.

**NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

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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.

The Company engages in hedging activities to protect against FX risks from forecasted billings and related revenue denominated in the EUR and the GBP. FX options and forward exchange contracts are utilized to hedge exposures related to changes in FX rates. As of September 30, 2010, all FX options and forward exchange contracts had maturities between one and two months. The hedging program mainly utilizes FX options. The forward exchange contracts are immaterial. Both the FX options and forward exchange contracts are designated as cash flow hedges.

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The following table summarizes the notional amounts of the Company's outstanding FX options:

	September 30, 2010	December 31, 2009
Notional amount of Currency Pair:		
GBP/USD	£ 0.6	£ 5.0
EUR/USD	1.9	9.9
EUR/GBP	2.6	21.0

In May 2008, the Company entered into interest rate swaps with a total notional amount of \$150.0 million to protect against fluctuations in the LIBOR-based variable interest rate on the 2008 Term Loan, further described in Note 11. These interest rate swaps are designated as cash flow hedges.

The Company also enters into foreign exchange forwards to mitigate foreign exchange gains and losses on certain intercompany loans denominated in currencies other than a subsidiary's functional currency. These forward contracts are not designated as hedging instruments 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 intercompany loan.

The tables below show the classification between assets and liabilities on the Company's consolidated balance sheets of the fair value of derivative instruments as well as information on gains/(losses) on those instruments:

	Fair Value of Derivative Instruments			
	Asset		Liability	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
<b>Derivatives designated as hedging instruments:</b>				
FX options	\$ 0.2	\$ 1.2	\$	\$
Interest rate swaps			10.1	7.6
Total derivatives designated as hedging instruments	0.2	1.2	10.1	7.6
<b>Derivatives not designated as hedging instruments:</b>				
FX forwards on intercompany loans	2.3	0.3		1.0
<b>Total</b>	<b>\$ 2.5</b>	<b>\$ 1.5</b>	<b>\$ 10.1</b>	<b>\$ 8.6</b>

The fair value of FX options and interest rate swaps are included in other current assets and other liabilities, respectively, in the consolidated balance sheets at September 30, 2010 and December 31, 2009. The fair value of the FX forwards are included in other current assets at September 30, 2010 and in other current assets and accounts payable and accrued liabilities as of December 31, 2009. All of the above derivative instruments are valued using Level 2 inputs as defined in Topic 820 of the ASC. In determining the fair value of the derivative contracts in the table above, the Company utilizes industry standard valuation models when active market quotes are not available. Where applicable, these models project future cash flows and discount the future amounts to a present value using spot rates, forward points, currency volatilities,

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interest rates as well as the risk of non-performance of the Company and the counterparties with whom it has derivative contracts. The Company has 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.

**Table of Contents****MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

Derivatives in Cash Flow	Amount of Gain/(Loss)		Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain/(Loss)		Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion Amount Excluded from Effectiveness Testing)	Gain / (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Recognized in AOCI on Derivative (Effective Portion)			Reclassified from AOCI into Income (Effective Portion)				
Hedging Relationships	Three Months Ended September 30, 2010	2009		Three Months Ended September 30, 2010	2009		Three Months Ended September 30, 2010	2009
FX options	\$ (0.4)	\$ (1.5)	Revenue	\$ (0.2)	\$ 0.7	Revenue	\$	\$
Interest rate swaps	(1.1)	(1.4)	Interest expense	(0.7)	(0.7)	N/A		
Total	\$ (1.5)	\$ (2.9)		\$ (0.9)	\$		\$	\$

  

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2010	
	2010	2009		2010	2009		2010	2009
FX options	\$ 0.1	\$ (1.3)	Revenue	\$ (0.7)	\$ 1.6	Revenue	\$ (0.2)	\$ (0.2)
Interest rate swaps	(3.6)	(0.5)	Interest expense	(2.3)	(1.8)	N/A		
Total	\$ (3.5)	\$ (1.8)		\$ (3.0)	\$ (0.2)		\$ (0.2)	\$ (0.2)

All gains and losses on derivatives designated as hedging instruments are initially recognized through AOCI. Realized gains and losses reported in AOCI are reclassified into earnings (into revenue for the FX options and into Interest expense, net for the interest rate swaps) as the underlying transaction is recognized. The existing realized gains as of September 30, 2010 expected to be reclassified to earnings in the next twelve months are immaterial.

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

	Unrecognized Losses, net of tax	
	September 30, 2010	December 31, 2009
FX options	\$ (0.2)	\$ (1.2)
Interest rate swaps	(6.4)	(5.1)

Total	\$ (6.6)	\$ (6.3)
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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, 2010			Year Ended December 31, 2009		
	MIS	MA	Consolidated	MIS	MA	Consolidated
Beginning balance	\$ 11.1	\$ 338.1	\$ 349.2	\$ 10.6	\$ 327.4	\$ 338.0
Additions/adjustments				(0.3)	5.0	4.7
FX translation	0.2	5.8	6.0	0.8	5.7	6.5
Ending balance	\$ 11.3	\$ 343.9	\$ 355.2	\$ 11.1	\$ 338.1	\$ 349.2

The 2009 additions/adjustments for the MA segment in the table above relate primarily to adjustments made to the purchase accounting associated with acquisitions made in December 2008.

**Table of Contents****MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

Acquired intangible assets and related amortization consisted of:

	September 30, 2010	December 31, 2009
Customer lists	\$ 80.4	\$ 80.6
Accumulated amortization	(47.3)	(42.8)
Net customer lists	33.1	37.8
Trade secret	25.5	25.5
Accumulated amortization	(10.3)	(8.7)
Net trade secret	15.2	16.8
Software	54.6	55.0
Accumulated amortization	(18.8)	(14.8)
Net software	35.8	40.2
Other	28.2	26.8
Accumulated amortization	(19.0)	(16.7)
Net other	9.2	10.1
Total acquired intangible assets, net	\$ 93.3	\$ 104.9

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

Amortization expense is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Amortization expense	\$ 4.2	\$ 4.2	\$ 12.1	\$ 12.4

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

Year Ending December 31,

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2010 (after September 30)	<b>\$ 3.8</b>
2011	<b>14.8</b>
2012	<b>14.2</b>
2013	<b>14.0</b>
2014	<b>10.6</b>
Thereafter	<b>35.9</b>

Intangible assets are reviewed for impairment whenever 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. Goodwill is tested for impairment annually as of November 30th, or more frequently if circumstances indicate the assets may be impaired. For the nine months ended September 30, 2010 there were no impairments to goodwill or intangible assets. For the nine months ended September 30, 2009, there were no impairments to goodwill, however \$0.2 million of intangible assets was included in the restructuring charge as further described in Note 9 below.

### **NOTE 9. RESTRUCTURING**

On March 27, 2009, the Company approved the 2009 Restructuring Plan to reduce costs in response to a strategic review of its business in certain jurisdictions and weak global economic and market conditions. The 2009 Restructuring Plan consisted of headcount reductions of approximately 150 positions representing approximately 4% of the Company's workforce at December 31, 2008 as well as contract termination costs and the divestiture of non-strategic assets. The 2009 Restructuring Plan included closing offices in South Bend, Indiana; Jakarta, Indonesia and Taipei, Taiwan. There was \$0.2 million in accelerated amortization for intangible assets recognized in the first quarter of 2009 relating to the closure of the Jakarta, Indonesia office. The remaining liability relating to this charge will result in cash outlays that will be substantially paid out over the next twelve months. The cumulative amount of expense incurred from inception through September 30, 2010 for the 2009 Restructuring Plan was \$14.8 million. The 2009 Restructuring Plan was substantially complete at September 30, 2009.

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On December 31, 2007, the Company approved the 2007 Restructuring Plan that reduced global headcount by approximately 275 positions, or approximately 7.5% of the workforce at September 30, 2007, in response to the Company's reorganization announced in August 2007 and a decline in the then current and anticipated issuance of rated debt securities in some market sectors. Included in the 2007 Restructuring Plan was a reduction of staff as a result of: (i) consolidation of certain corporate staff functions, (ii) the integration of businesses comprising MA and (iii) an anticipated decline in new securities issuance in some market sectors. The 2007 Restructuring Plan also called for the termination of technology contracts as well as the outsourcing of certain technology functions. The cumulative amount of expense incurred from inception through September 30, 2010 for the 2007 Restructuring Plan was \$50.2 million. The 2007 Restructuring Plan was substantially complete as of December 31, 2008.

Total expenses included in the accompanying consolidated statements of operations are as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(in millions)</b>			
2007 Restructuring Plan	<b>\$ 0.3</b>	<b>\$ 0.7</b>	<b>\$ 0.8</b>	<b>\$ 1.6</b>
2009 Restructuring Plan	<b>0.1</b>	<b>\$ 3.0</b>	<b>(0.8)</b>	<b>17.0</b>
<b>Total</b>	<b>\$ 0.4</b>	<b>\$ 3.7</b>	<b>\$</b>	<b>\$ 18.6</b>

The amount related to the 2009 Restructuring Plan for the three months and nine months ended September 30, 2009 reflects costs associated with initial estimates for this plan. All other amounts in the table above reflect adjustments to previous estimates for both plans.

Changes to the restructuring liability during the first nine months of 2010 were as follows:

	<b>Employee Termination Costs</b>			<b>Contract</b>	<b>Total</b>
	<b>Severance</b>	<b>Pension Settlements</b>	<b>Total</b>	<b>Termination Costs</b>	<b>Restructuring Liability</b>
Balance at December 31, 2009	<b>\$ 4.4</b>	<b>\$ 8.1</b>	<b>\$ 12.5</b>	<b>\$ 1.5</b>	<b>\$ 14.0</b>
<i>2007 Restructuring Plan</i>					
Cost incurred and adjustments	<b>(0.2)</b>		<b>(0.2)</b>	<b>0.4</b>	<b>0.2</b>
Cash payments				<b>(0.4)</b>	<b>(0.4)</b>
<i>2009 Restructuring Plan</i>					
Cost incurred and adjustments	<b>(1.0)</b>		<b>(1.0)</b>		<b>(1.0)</b>
Cash payments	<b>(3.0)</b>		<b>(3.0)</b>	<b>(0.4)</b>	<b>(3.4)</b>
FX Translation	<b>(0.1)</b>		<b>(0.1)</b>		<b>(0.1)</b>
<b>Balance at September 30, 2010</b>	<b>\$ 0.1</b>	<b>\$ 8.1</b>	<b>\$ 8.2</b>	<b>\$ 1.1</b>	<b>\$ 9.3</b>

As of September 30, 2010, the remaining restructuring liability of \$1.2 million relating to severance and contract termination costs is expected to be paid out before the end of 2010. Payments related to the \$8.1 million unfunded pension liability will be paid in accordance with the

Post-Retirement Plans as certain of the affected employees reach retirement age.

Severance and contract termination costs of \$1.2 million and \$5.9 million as of September 30, 2010 and December 31, 2009, respectively, are recorded in accounts payable and accrued liabilities in the Company's consolidated balance sheets. Additionally, the amount for pension settlements is recorded within other liabilities as of September 30, 2010 and December 31, 2009.

**NOTE 10. PENSION AND OTHER POST-RETIREMENT BENEFITS**

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

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## MOODY S CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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

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

	Three Months Ended September 30,			
	Pension Plans		Other Post-Retirement Plans	
	2010	2009	2010	2009
<b>Components of net periodic expense</b>				
Service cost	\$ 3.3	\$ 3.0	\$ 0.2	\$ 0.2
Interest cost	3.1	2.5	0.2	0.2
Expected return on plan assets	(2.7)	(2.5)		
Amortization of net actuarial loss from earlier periods	0.7	0.1		
Amortization of net prior service costs from earlier periods	0.2	0.1	0.1	
Net periodic expense	\$ 4.6	\$ 3.2	\$ 0.5	\$ 0.4

	Nine Months Ended September 30,			
	Pension Plans		Other Post-Retirement Plans	
	2010	2009	2010	2009
<b>Components of net periodic expense</b>				
Service cost	\$ 10.1	\$ 9.1	\$ 0.6	\$ 0.6
Interest cost	9.1	7.4	0.6	0.6
Expected return on plan assets	(8.0)	(7.5)		
Amortization of net actuarial loss from earlier periods	2.1	0.4		
Amortization of net prior service costs from earlier periods	0.5	0.3	0.1	
Net periodic expense	\$ 13.8	\$ 9.7	\$ 1.3	\$ 1.2

In March 2010, the Patient Protection and Affordable Care Act (the "Act") and the related reconciliation measure, which modifies certain provisions of the Act, were signed into law. The Act repeals the current rule permitting deduction of the portion of the drug coverage expense that is offset by the Medicare Part D subsidy. The provision of the Act is effective for taxable years beginning after December 31, 2010 and the reconciliation measure delays the aforementioned repeal of the drug coverage expense reduction by two years to December 31, 2012. The Company has accounted for the enactment of the two laws in the first quarter of 2010, for which the impact to the Company's income tax expense and net income was immaterial.

The Company made payments of \$1.1 million to its unfunded DBPPs and \$0.3 million to its other post-retirement plans during the nine months ended September 30, 2010. The Company presently anticipates making additional payments of \$7.2 million to its unfunded DBPPs and \$0.3 million to its other post-retirement plans during the remainder of 2010.



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## MOODY S CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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

## NOTE 11. INDEBTEDNESS

The following table summarizes total indebtedness:

	September 30, 2010	December 31, 2009
2007 Facility	\$	\$
Commercial paper, net of unamortized discount of nil and \$0.1 million at 2010 and 2009, respectively.	15.0	443.7
Notes payable:		
Series 2005-1 Notes due 2015	300.0	300.0
Series 2007-1 Notes due 2017	300.0	300.0
2010 Senior Notes, net of unamortized discount of \$3.1 million at 2010, due 2020	496.9	
2008 Term Loan, various payments through 2013	148.1	150.0
Total Debt	1,260.0	1,193.7
Current portion	(24.4)	(447.5)
Total long-term debt	\$ 1,235.6	\$ 746.2

*2007 Facility*

On September 28, 2007, the Company entered into a \$1.0 billion five-year senior, unsecured revolving credit facility, expiring in September 2012. The 2007 Facility will serve, in part, to support the Company's CP Program described below. Interest on borrowings is payable at rates that are based on LIBOR plus a premium that can range from 16.0 to 40.0 basis points of the outstanding borrowing amount depending on the Debt/EBITDA ratio. The Company also pays quarterly facility fees, regardless of borrowing activity under the 2007 Facility. The quarterly fees for the 2007 Facility can range from 4.0 to 10.0 basis points per annum of the facility amount, depending on the Company's Debt/EBITDA ratio. The Company also pays a utilization fee of 5.0 basis points on borrowings outstanding when the aggregate amount outstanding exceeds 50% of the total facility. The 2007 Facility contains certain covenants that, among other things, restrict the ability of the Company and certain of its subsidiaries, without the approval of the lenders, to engage in mergers, consolidations, asset sales, transactions with affiliates and sale-leaseback transactions or to incur liens, as defined in the related agreement. The 2007 Facility also contains financial covenants that, among other things, require the Company to maintain a Debt/EBITDA ratio of not more than 4.0 to 1.0 at the end of any fiscal quarter.

*Commercial Paper*

On October 3, 2007, the Company entered into a private placement commercial paper program under which the Company may issue CP notes up to a maximum amount of \$1.0 billion. Amounts available under the CP Program may be re-borrowed. The CP Program is supported by the Company's 2007 Facility. The maturities of the CP Notes will vary, but may not exceed 397 days from the date of issue. The CP Notes are sold at a discount from par or, alternatively, sold at par and bear interest at rates that will vary based upon market conditions at the time of issuance. The rates of interest will depend on whether the CP Notes will be a fixed or floating rate. The interest on a floating rate may be based on the following: (a) certificate of deposit rate; (b) commercial paper rate; (c) federal funds rate; (d) LIBOR; (e) prime rate; (f) Treasury rate; or (g) such other base rate as may be specified in a supplement to the private placement agreement. The weighted average interest rate on CP

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borrowings outstanding was 0.6% and 0.3% as of September 30, 2010 and December 31, 2009, respectively. The CP Program contains certain events of default including, among other things: non-payment of principal, interest or fees; entrance into any form of moratorium; and bankruptcy and insolvency events, subject in certain instances to cure periods.

### *Notes Payable*

On August 19, 2010, the Company issued \$500 million aggregate principal amount of unsecured notes in a public offering. The 2010 Senior Notes bear interest at a fixed rate of 5.50% and mature on September 1, 2020. Interest on the 2010 Senior Notes will be due semi-annually on September 1 and March 1 of each year, commencing March 1, 2011. The Company may prepay the 2010 Senior Notes, in whole or in part, at any time at a price equal to 100% of the principal amount being prepaid, plus accrued and unpaid interest and a Make-Whole Amount. Additionally, at the option of the holders of the notes, the Company may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event, as defined in the Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The Indenture contains covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur or create liens and enter into sale and leaseback transactions. In addition, the Indenture contains a covenant that limits the ability of the Company to consolidate or merge with another entity or to sell all or substantially all of its assets to another entity. The Indenture contains customary default provisions. In addition, an event of default will occur if the Company or certain of its subsidiaries fail to pay the principal of any indebtedness (as defined in the Indenture) when due at maturity in an aggregate amount of \$50 million or more, or a default occurs that results in the acceleration of the maturity of the Company's or certain of its subsidiaries' indebtedness in an aggregate amount of \$50 million or more. Upon the occurrence and during the continuation of an event of default under the Indenture, the notes may become immediately due and payable either automatically or by the vote of the holders of more than 25% of the aggregate principal amount of all of the notes then outstanding.

**Table of Contents****MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****(tabular dollar and share amounts in millions, except per share data)**

On September 7, 2007, the Company issued and sold through a private placement transaction, \$300.0 million aggregate principal amount of its 6.06% Series 2007-1 Senior Unsecured Notes due 2017 pursuant to the 2007 Agreement. The Series 2007-1 Notes have a ten-year term and bear interest at an annual rate of 6.06%, payable semi-annually on March 7 and September 7. Under the terms of the 2007 Agreement, the Company may, from time to time within five years, in its sole discretion, issue additional series of senior notes in an aggregate principal amount of up to \$500.0 million pursuant to one or more supplements to the 2007 Agreement. The Company may prepay the Series 2007-1 Notes, in whole or in part, at any time at a price equal to 100% of the principal amount being prepaid, plus accrued and unpaid interest and a Make Whole Amount. The 2007 Agreement contains covenants that limit the ability of the Company, and certain of its subsidiaries to, among other things: enter into transactions with affiliates, dispose of assets, incur or create liens, enter into any sale-leaseback transactions, or merge with any other corporation or convey, transfer or lease substantially all of its assets. The Company must also not permit its Debt/EBITDA ratio to exceed 4.0 to 1.0 at the end of any fiscal quarter.

On September 30, 2005, the Company issued and sold through a private placement transaction, \$300.0 million aggregate principal amount of its Series 2005-1 Senior Unsecured Notes due 2015 pursuant to the 2005 Agreement. The Series 2005-1 Notes have a ten-year term and bear interest at an annual rate of 4.98%, payable semi-annually on March 30 and September 30. Proceeds from the sale of the Series 2005-1 Notes were used to refinance \$300.0 million aggregate principal amount of the Company's outstanding 7.61% senior notes which matured on September 30, 2005. In the event that Moody's pays all, or part, of the Series 2005-1 Notes in advance of their maturity, such prepayment will be subject to a Make Whole Amount. The Series 2005-1 Notes are subject to certain covenants that, among other things, restrict the ability of the Company and certain of its subsidiaries, without the approval of the lenders, to engage in mergers, consolidations, asset sales, transactions with affiliates and sale-leaseback transactions or to incur liens, as defined in the related agreements.

*2008 Term Loan*

On May 7, 2008, Moody's entered into a five-year, \$150.0 million senior unsecured term loan with several lenders. Proceeds from the loan were used to pay off a portion of the CP outstanding. Interest on borrowings under the 2008 Term Loan is payable quarterly at rates that are based on LIBOR plus a margin that can range from 125 basis points to 175 basis points depending on the Company's Debt/EBITDA ratio. The outstanding borrowings shall amortize beginning in 2010 in accordance with the schedule of payments set forth in the 2008 Term Loan outlined in the table below.

The 2008 Term Loan contains restrictive covenants that, among other things, restrict the ability of the Company to engage or to permit its subsidiaries to engage in mergers, consolidations, asset sales, transactions with affiliates and sale-leaseback transactions or to incur, or permit its subsidiaries to incur, liens, in each case, subject to certain exceptions and limitations. The 2008 Term Loan also limits the amount of debt that subsidiaries of the Company may incur. In addition, the 2008 Term Loan contains a financial covenant that requires the Company to maintain a Debt/EBITDA ratio of not more than 4.0 to 1.0 at the end of any fiscal quarter.

The principal payments due on the 2008 Term Loan through its maturity are as follows:

<b>Year Ending December 31,</b>	
2010 (after September 30)	\$ 1.9
2011	11.3
2012	71.2
2013	63.7
<b>Total</b>	<b>\$ 148.1</b>

At September 30, 2010, the Company was in compliance with all covenants contained within all of the debt agreements. In addition to the covenants described above, the 2007 Facility, the 2005 Agreement, the 2007 Agreement, the 2010 Senior Notes and the 2008 Term Loan contain cross default provisions. These provisions state that default under one of the aforementioned debt instruments could in turn permit lenders under other debt instruments to declare borrowings outstanding under those instruments to be immediately due and payable. As of September 30, 2010, there were no such cross defaults.

**Table of Contents****MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

***Interest (expense) income, net***

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Expense on borrowings	<b>\$ (14.0)</b>	<b>\$ (10.4)</b>	<b>\$ (35.4)</b>	<b>\$ (34.8)</b>
Income	<b>0.8</b>	<b>0.6</b>	<b>1.9</b>	<b>2.0</b>
Expense on UTBs and other tax related liabilities	<b>(0.2)</b>	<b>(2.4)</b>	<b>(5.3)</b>	<b>4.3</b>
Capitalized	<b>0.6</b>	<b>0.7</b>	<b>1.2</b>	<b>1.1</b>
Legacy Tax (a)			<b>2.5</b>	<b>6.5</b>
Total interest expense, net	<b>\$ (12.8)</b>	<b>\$ (11.5)</b>	<b>\$ (35.1)</b>	<b>\$ (20.9)</b>

- (a) The amounts in both years represent interest income related to the favorable settlement of Legacy Tax Matters, as further discussed in Note 12 below.

Net interest expense of \$20.9 million for the first nine months of 2009 reflects a reduction of approximately \$12 million related to tax and tax-related liabilities.

The Company's long-term debt, including the current portion, is recorded at cost. The fair value and carrying value of the Company's long-term debt as of September 30, 2010 and December 31, 2009 is as follows:

	<b>September 30, 2010</b>		<b>December 31, 2009</b>	
	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>
Series 2005-1 Notes	<b>\$ 300.0</b>	<b>\$ 314.4</b>	<b>\$ 300.0</b>	<b>\$ 291.1</b>
Series 2007-1 Notes	<b>300.0</b>	<b>327.8</b>	<b>300.0</b>	<b>298.6</b>
2010 Senior Notes	<b>496.9</b>	<b>515.0</b>		
2008 Term Loan	<b>148.1</b>	<b>148.1</b>	<b>150.0</b>	<b>150.0</b>
Total	<b>\$ 1,245.0</b>	<b>\$ 1,305.3</b>	<b>\$ 750.0</b>	<b>\$ 739.7</b>

The fair value of the Company's 2010 Senior Notes is based on quoted market prices. The fair value of the remaining long-term debt, which is not publicly traded, is estimated using discounted cash flows based on prevailing interest rates available to the Company for borrowings with similar maturities.

**NOTE 12. CONTINGENCIES**

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From time to time, Moody's is involved in legal and tax proceedings, governmental investigations, 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 events in the U.S. subprime residential mortgage sector and the credit markets more broadly over the last several years, MIS and other credit rating agencies are the subject of intense scrutiny, increased regulation, ongoing investigation, 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 governmental authorities and is responding to such investigations and inquiries.

On July 1, 2008, Moody's publicly announced the results of the Company's investigation into the issues raised in a May 21, 2008 report by a newspaper concerning a coding error in a model used in the rating process for certain constant-proportion debt obligations. The Company's investigation determined that, in April 2007, members of a European rating surveillance committee engaged in conduct contrary to Moody's Code of Professional Conduct. On March 18, 2010, MIS received a Wells Notice from the Staff of the SEC stating that the Staff was considering recommending that the SEC institute administrative and cease-and-desist proceedings against MIS in connection with MIS's initial June 2007 application on SEC Form NRSRO to register as a nationally recognized statistical rating organization under the CRA Reform Act of 2006. The SEC Staff subsequently informed the Company that the Staff's investigation of the matter had been completed, that a Report of Investigation Pursuant to Section 21(a) of the Exchange Act would be issued and that no enforcement action would be taken by the SEC.

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 in the current economic environment.

On June 27, 2008, the Brockton Contributory Retirement System, a purported shareholder of the Company's securities, filed a purported shareholder derivative complaint on behalf of the Company against its directors and certain senior officers, and the Company as nominal defendant, in the Supreme Court of the State of New York, County of New York. The plaintiff asserts various causes of action relating to the named defendants' oversight of MIS's ratings of RMBS and constant-proportion debt obligations, and their participation in the alleged public dissemination of false and misleading information about MIS's ratings practices and/or a failure to implement internal procedures and controls to prevent the alleged wrongdoing. The plaintiff seeks compensatory damages, restitution, disgorgement of profits and other equitable relief. On July 2, 2008, Thomas R. Flynn, a purported shareholder of the Company's securities, filed a similar purported shareholder derivative complaint on behalf of the Company against its directors and certain senior officers, and the Company as nominal defendant, in the Supreme Court of the State of New York, County of New York, asserting similar claims and seeking the same relief. The cases have been consolidated.

**Table of Contents****MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****(tabular dollar and share amounts in millions, except per share data)**

and plaintiffs filed an amended consolidated complaint in November 2008. The Company removed the consolidated action to the United States District Court for the Southern District of New York in December 2008. In January 2009, the plaintiffs moved to remand the case to the Supreme Court of the State of New York, which the Company opposed. On February 23, 2010, the court issued an opinion remanding the case to the Supreme Court of New York. On October 30, 2008, the Louisiana Municipal Police Employees Retirement System, a purported shareholder of the Company's securities, also filed a shareholder derivative complaint on behalf of the Company against its directors and certain officers, and the Company as a nominal defendant, in the U.S. District Court for the Southern District of New York. This complaint also asserts various causes of action relating to the Company's ratings of RMBS, CDO and constant-proportion debt obligations, and named defendants participation in the alleged public dissemination of false and misleading information about MIS's ratings practices and/or a failure to implement internal procedures and controls to prevent the alleged wrongdoing. On December 9, 2008, Rena Nadoff, a purported shareholder of the Company, filed a shareholder derivative complaint on behalf of the Company against its directors and its CEO, and the Company as a nominal defendant, in the Supreme Court of the State of New York. The complaint asserts a claim for breach of fiduciary duty in connection with alleged overrating of asset-backed securities and underrating of municipal securities. On October 20, 2009, the Company moved to dismiss or stay the action in favor of related federal litigation. On January 26, 2010, the court entered a stipulation and order, submitted jointly by the parties, staying the Nadoff litigation pending coordination and prosecution of similar claims in the above and below described federal derivative actions. On July 6, 2009, W. A. Sokolowski, a purported shareholder of the Company, filed a purported shareholder derivative complaint on behalf of the Company against its directors and current and former officers, and the Company as a nominal defendant, in the United States District Court for the Southern District of New York. The complaint asserts claims relating to alleged mismanagement of the Company's processes for rating structured finance transactions, alleged insider trading and causing the Company to buy back its own stock at artificially inflated prices.

Two purported class action complaints have been filed by purported purchasers of the Company's securities against the Company and certain of its senior officers, asserting claims under the federal securities laws. The first was filed by Raphael Nach in the U.S. District Court for the Northern District of Illinois on July 19, 2007. The second was filed by Teamsters Local 282 Pension Trust Fund in the U.S. District Court for the Southern District of New York on September 26, 2007. Both actions have been consolidated into a single proceeding entitled *In re Moody's Corporation Securities Litigation* in the U.S. District Court for the Southern District of New York. On June 27, 2008, a consolidated amended complaint was filed, purportedly on behalf of all purchasers of the Company's securities during the period February 3, 2006 through October 24, 2007. Plaintiffs allege that the defendants issued false and/or misleading statements concerning the Company's business conduct, business prospects, business conditions and financial results relating primarily to MIS's ratings of structured finance products including RMBS, CDO and constant-proportion debt obligations. The plaintiffs seek an unspecified amount of compensatory damages and their reasonable costs and expenses incurred in connection with the case. The Company moved for dismissal of the consolidated amended complaint in September 2008. On February 23, 2009, the court issued an opinion dismissing certain claims and sustaining others.

Moody's Wall Street Analytics unit is cooperating with an investigation by the SEC concerning services provided by that unit to certain financial institutions in connection with the valuations used by those institutions with respect to certain financial instruments held by such institutions.

For claims, litigation and proceedings 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. 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. For income tax matters, the Company employs the prescribed methodology of Topic 740 of the ASC which requires a company to first determine whether it is more-likely-than-not (defined as a likelihood of more than fifty percent) that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more-likely-than-not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority.

The Company cannot predict the ultimate impact that any of the legislative, regulatory, enforcement or litigation matters may have on how its business is conducted and thus its competitive position, financial position or results of operations. Based on its review of the latest information available, in the opinion of management, the ultimate monetary liability of the Company for the pending matters referred to above (other than the Legacy Tax Matters that are discussed below) is not likely to have a material adverse effect on the Company's consolidated financial position, although it is possible that the effect could be material to the Company's consolidated results of operations for an individual reporting period.

***Legacy Tax Matters***

Moody's continues to have exposure to potential liabilities arising from Legacy Tax Matters. As of September 30, 2010, Moody's has recorded liabilities for Legacy Tax Matters totaling \$58.1 million. This includes liabilities and accrued interest due to New D&B arising from the 2000 Distribution Agreement. It is possible that the ultimate liability for Legacy Tax Matters could be greater than the liabilities recorded by the Company, which could result in additional charges that may be material to Moody's future reported results, financial position and cash flows.

The following summary of the relationships among Moody's, New D&B and their predecessor entities is important in understanding the Company's exposure to the Legacy Tax Matters.

**Table of Contents****MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****(tabular dollar and share amounts in millions, except per share data)**

In November 1996, The Dun & Bradstreet Corporation separated into three separate public companies: The Dun & Bradstreet Corporation, ACNielsen Corporation and Cognizant Corporation. In June 1998, The Dun & Bradstreet Corporation separated into two separate public companies: Old D&B and R.H. Donnelley Corporation. During 1998, Cognizant separated into two separate public companies: IMS Health Incorporated and Nielsen Media Research, Inc. In September 2000, Old D&B separated into two separate public companies: New D&B and Moody's.

Old D&B and its predecessors entered into global tax planning initiatives in the normal course of business. These initiatives are subject to normal review by tax authorities. Old D&B and its predecessors also entered into a series of agreements covering the sharing of any liabilities for payment of taxes, penalties and interest resulting from unfavorable IRS determinations on certain tax matters, and certain other potential tax liabilities, all as described in such agreements. Further, in connection with the 2000 Distribution and pursuant to the terms of the 2000 Distribution Agreement, New D&B and Moody's have agreed on the financial responsibility for any potential liabilities related to these Legacy Tax Matters.

Settlement agreements were executed with the IRS in 2005 regarding the Legacy Tax Matters for the years 1989-1990 and 1993-1996. These settlements represent substantially all of the total potential liability to the IRS, including penalties. As of September 30, 2010, the Company continues to carry a liability of \$2.0 million for the remaining potential exposure. In addition, with respect to these settlement agreements, Moody's and New D&B believe that IMS Health and NMR did not pay their full share of the liability to the IRS pursuant to the terms of the applicable separation agreements among the parties. Moody's and New D&B paid these amounts to the IRS on their behalf, and attempted to resolve this dispute with IMS Health and NMR. As a result, Moody's and New D&B commenced arbitration proceedings against IMS Health and NMR in connection with the 1989-1990 matter. This matter was resolved during the third quarter of 2008 in favor of Moody's and New D&B, resulting in IMS Health and NMR having paid a total of \$6.7 million to Moody's. In the second quarter of 2009, Moody's and New D&B reached a settlement with IMS Health and NMR with respect to the 1993-1996 matter, resulting in \$10.8 million of cash proceeds paid to Moody's of which \$6.5 million represents interest and \$4.3 million is a reduction of tax expense.

*Amortization Expense Deductions*

This Legacy Tax Matter, which was affected by developments in June 2007 and 2008 as further described below, involves a partnership transaction which resulted in amortization expense deductions on the tax returns of Old D&B since 1997. IRS audits of Old D&B's and New D&B's tax returns for the years 1997 through 2002 concluded in June 2007 without any disallowance of the amortization expense deductions, or any other adjustments to income related to this partnership transaction. These audits resulted in the IRS issuing the Notices for other tax issues for the 1997-2000 years aggregating \$9.5 million in tax and penalties, plus statutory interest of approximately \$6 million, which should be apportioned among Moody's, New D&B, IMS Health and NMR pursuant to the terms of the applicable separation agreements. Moody's share of this assessment was \$6.6 million including interest, net of tax. In November 2007, the IRS assessed the tax and penalties and used a portion of the deposit discussed below to satisfy the assessment, together with interest. As noted below, the Company has challenged the IRS's actions and recovered a portion of these amounts. The absence of any tax deficiencies in the Notices for the amortization expense deductions for the years 1997 through 2002, combined with the expiration of the statute of limitations for 1997 through 2002, for issues not assessed, resulted in Moody's recording an earnings benefit of \$52.3 million in the second quarter of 2007. This is comprised of two components, as follows: (i) a reversal of a tax liability of \$27.3 million related to the period from 1997 through the Distribution Date, reducing the provision for income taxes; and (ii) a reduction of accrued interest expense of \$17.5 million (\$10.6 million, net of tax) and an increase in other non-operating income of \$14.4 million, relating to amounts due to New D&B. In June 2008, the statute of limitations for New D&B relating to the 2003 tax year expired. As a result, in the second quarter of 2008, Moody's recorded a reduction of accrued interest expense of \$2.3 million (\$1.4 million, net of tax) and an increase in other non-operating income of \$6.4 million, relating to amounts due to New D&B.

On the Distribution Date, New D&B paid Moody's \$55.0 million for 50% of certain anticipated future tax benefits of New D&B through 2012. It is possible that IRS audits of New D&B for tax years after 2003 could result in income adjustments with respect to the amortization expense deductions of this partnership transaction. In the event that these tax benefits are not claimed or otherwise not realized by New D&B, or there is

an audit adjustment, Moody's would be required, pursuant to the terms of the 2000 Distribution Agreement, to repay to New D&B an amount equal to the discounted value of its share of the related future tax benefits and its share of any tax liability that New D&B incurs. As of September 30, 2010, Moody's liability with respect to this matter totaled \$56.2 million.

In March 2006, New D&B and Moody's each deposited \$39.8 million with the IRS in order to stop the accrual of statutory interest on potential tax deficiencies with respect to the 1997 through 2002 tax years. In July 2007, New D&B and Moody's commenced procedures to recover approximately \$57 million of these deposits (\$24.6 million for New D&B and \$31.9 million for Moody's), which represents the excess of the original deposits over the total of the deficiencies asserted in the Notices. As noted above, in November 2007 the IRS used a portion of Moody's share of the deposit to satisfy an assessment and related interest; it subsequently returned the balance of the deposit with interest. The Company has pursued a refund of a portion of the outstanding amount. In May 2010, the IRS refunded \$5.2 million to the Company for the 1997 tax year, which included interest of approximately \$2.5 million.

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

**NOTE 13. COMPREHENSIVE INCOME AND NONCONTROLLING INTERESTS**

The components of total comprehensive income, net of tax, are as follows:

	2010			Three months ended September 30, 2009		
	Shareholders of Moody's Corporation	Noncontrolling Interests	Total	Shareholders of Moody's Corporation	Noncontrolling Interests	Total
Net income	\$ 136.0	\$ 1.2	\$ 137.2	\$ 100.6	\$ 1.1	\$ 101.7
Net realized and unrealized gain/(loss) on cash flow hedges (net of tax of \$0.1 million and \$0.7 million in 2010 and 2009, respectively)	(0.6)		(0.6)	(2.9)		(2.9)
FX translation (net of tax of \$1.7 million and \$1.0 million in 2010 and 2009, respectively)	58.8	0.7	59.5	13.2	0.5	13.7
Amortization and recognition of actuarial losses and prior service costs (net of tax of \$0.4 million and \$0.1 million in 2010 and 2009, respectively)	0.5		0.5	0.1		0.1
<b>Total comprehensive income</b>	<b>\$ 194.7</b>	<b>\$ 1.9</b>	<b>\$ 196.6</b>	<b>\$ 111.0</b>	<b>\$ 1.6</b>	<b>\$ 112.6</b>

	2010			Nine months ended September 30, 2009		
	Shareholders of Moody's Corporation	Noncontrolling Interests	Total	Shareholders of Moody's Corporation	Noncontrolling Interests	Total
Net income	\$ 370.4	\$ 4.1	\$ 374.5	\$ 300.1	\$ 3.7	\$ 303.8
Net realized and unrealized gain/ (loss) on cash flow hedges (net of tax of \$0.1 million and \$3.4 million in 2010 and 2009, respectively)	(0.3)		(0.3)	(1.4)		(1.4)
FX translation (net of tax of \$10.3 million and \$10.7 million in 2010 and 2009, respectively)	11.5	0.3	11.8	30.5	0.3	30.8
Net actuarial gains and prior service costs (net of tax of \$2.9 million and \$2.1 million in 2010 and 2009, respectively)	4.1		4.1	3.1		3.1
Amortization and recognition of actuarial losses and prior service costs (net of tax of \$1.4 million and \$0.3 million in 2010 and 2009, respectively)	1.3		1.3	0.4		0.4
<b>Total comprehensive income</b>	<b>\$ 387.0</b>	<b>\$ 4.4</b>	<b>\$ 391.4</b>	<b>\$ 332.7</b>	<b>\$ 4.0</b>	<b>\$ 336.7</b>



**Table of Contents****MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

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

	<b>Nine Months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Beginning Balance	\$ 10.1	\$ 8.3
Net income attributable to noncontrolling interests	4.1	3.7
Dividends declared to noncontrolling interests	(4.4)	(2.9)
FX translation	0.3	0.3
Ending Balance	\$ 10.1	\$ 9.4

**NOTE 14. SEGMENT INFORMATION**

The Company operates in two reportable segments: MIS and MA.

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. Additionally, overhead costs and corporate expenses of the Company 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 resource, information technology and legal. Eliminations in the table below represent intersegment royalty revenue/expense.

Below is financial information by segment, MIS and MA revenue by line of business and consolidated revenue information by geographic area, each of which is for the three and nine month periods ended September 30, 2010, and total assets by segment as of September 30, 2010 and December 31, 2009.

***Financial Information by Segment***

	<b>Three Months Ended September 30,</b>							
	<b>2010</b>				<b>2009</b>			
	<b>MIS</b>	<b>MA</b>	<b>Eliminations</b>	<b>Consolidated</b>	<b>MIS</b>	<b>MA</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenue	\$ 373.7	\$ 155.1	\$ (15.5)	\$ 513.3	\$ 319.8	\$ 146.5	\$ (14.5)	\$ 451.8
Expenses:								
Operating, SG&A	205.0	116.4	(15.5)	305.9	173.7	100.2	(14.5)	259.4
Restructuring	0.2	0.2		0.4	1.0	2.7		3.7
Depreciation and amortization	9.7	8.4		18.1	7.9	8.3		16.2
Total	214.9	125.0	(15.5)	324.4	182.6	111.2	(14.5)	279.3
Operating income	\$ 158.8	\$ 30.1	\$	\$ 188.9	\$ 137.2	\$ 35.3	\$	\$ 172.5

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	Nine Months Ended September 30,							
	2010		Eliminations	Consolidated	2009		Eliminations	Consolidated
	MIS	MA			MIS	MA		
Revenue	\$ 1,068.6	\$ 445.4	\$ (46.3)	\$ 1,467.7	\$ 929.4	\$ 425.6	\$ (43.6)	\$ 1,311.4
Expenses:								
Operating, SG&A	562.1	326.6	(46.3)	842.4	489.5	290.8	(43.6)	736.7
Restructuring	(0.1)	0.1			9.1	9.5		18.6
Depreciation and amortization	25.3	23.8		49.1	23.1	24.4		47.5
Total	587.3	350.5	(46.3)	891.5	521.7	324.7	(43.6)	802.8
Operating income	\$ 481.3	\$ 94.9	\$	\$ 576.2	\$ 407.7	\$ 100.9	\$	\$ 508.6

The cumulative restructuring charges incurred since the fourth quarter of 2007 through September 30, 2010 for both restructuring plans, which is further described in Note 9 above, are \$48.7 million and \$16.3 million for the MIS and MA operating segments, respectively.

In the fourth quarter of 2009, the MA businesses were realigned and renamed to reflect the reporting unit structure for the MA segment at December 31, 2009. Pursuant to this realignment, the subscriptions business was renamed RD&A and the software business was renamed RMS. The revised groupings classify certain subscription-based risk management software revenue and advisory services relating to software sales to the redefined RMS business.

**Table of Contents****MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

The tables below present revenue by LOB by segment and reflect the aforementioned MA business realignment:

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>MIS:</b>				
Corporate finance (CFG)	\$ 144.9	\$ 101.4	\$ 399.2	\$ 293.0
Structured finance (SFG)	70.1	79.2	214.7	226.2
Financial institutions (FIG)	73.6	62.9	213.0	186.5
Public, project and infrastructure finance (PPIF)	69.6	61.8	195.4	180.1
Total external revenue	358.2	305.3	1,022.3	885.8
Intersegment royalty	15.5	14.5	46.3	43.6
<b>Total MIS</b>	<b>373.7</b>	<b>319.8</b>	<b>1,068.6</b>	<b>929.4</b>
<b>MA:</b>				
Research, data and analytics (RD&A)	106.0	103.4	315.8	307.7
Risk management software (RMS)	42.8	36.8	115.3	102.8
Professional Services	6.3	6.3	14.3	15.1
<b>Total MA</b>	<b>155.1</b>	<b>146.5</b>	<b>445.4</b>	<b>425.6</b>
Eliminations	(15.5)	(14.5)	(46.3)	(43.6)
<b>Total MCO</b>	<b>\$ 513.3</b>	<b>\$ 451.8</b>	<b>\$ 1,467.7</b>	<b>\$ 1,311.4</b>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
United States	\$ 278.3	\$ 229.7	\$ 794.4	\$ 675.7
International:				
EMEA	155.5	156.7	453.9	453.3
Other	79.5	65.4	219.4	182.4
<b>Total International</b>	<b>235.0</b>	<b>222.1</b>	<b>673.3</b>	<b>635.7</b>

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Total			\$ 513.3	\$ 451.8	\$ 1,467.7	\$ 1,311.4
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	September 30, 2010 Corporate Assets				December 31, 2009 Corporate Assets			
	MIS	MA	(a)	Consolidated	MIS	MA	(a)	Consolidated
<b>Total Assets by Segment:</b>								
Total Assets	\$ 594.7	783.4	970.1	\$ 2,348.2	\$ 579.4	724.9	699.0	\$ 2,003.3

- (a) Represents common assets that are shared between each segment or utilized by the corporate entity. Such assets primarily include cash and cash equivalents, short-term investments, unallocated property and equipment and deferred taxes.

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**MOODY S CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

**NOTE 15. RECENTLY ISSUED ACCOUNTING STANDARDS**

***Adopted:***

In June 2009, the FASB issued a new accounting standard related to the consolidation of variable interest entities. This new standard eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This new standard also requires enhanced disclosures regarding an enterprise's involvement in variable interest entities. The Company has adopted this new accounting standard as of January 1, 2010 and the implementation did not impact its consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13). The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence of selling price (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. The Company has elected to early adopt ASU 2009-13 on a prospective basis for applicable transactions originating or materially modified on or after January 1, 2010. The early adoption of this ASU did not have a material impact on the Company's consolidated financial statements. Further information on the early adoption of this standard is set forth in Note 2 to the condensed consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. The new standard requires disclosure regarding transfers in and out of Level 1 and Level 2 classifications within the fair value hierarchy as well as requiring further detail of activity within the Level 3 category of the fair value hierarchy. The new standard also requires disclosures regarding the fair value for each class of assets and liabilities, which is a subset of assets or liabilities within a line item in a company's balance sheet. Additionally, the standard will require further disclosures surrounding inputs and valuation techniques used in fair value measurements. The new disclosures and clarifications of existing disclosures set forth in this ASU are effective for interim and annual reporting periods beginning after December 15, 2009, except for the additional disclosures regarding Level 3 fair value measurements, for which the effective date is for fiscal years and interim periods within those years beginning after December 15, 2010. The Company has partially adopted the provisions of this ASU as of January 1, 2010 for all new disclosure requirements except for the aforementioned requirements regarding Level 3 fair-value measurements, for which the Company will adopt that portion of the ASU on January 1, 2011. The portion of this ASU that was adopted on January 1, 2010 did not have a material impact on the Company's consolidated financial statements. The Company does not expect the implementation of the portion of this ASU that relates to Level 3 fair value measurements to have a material impact on its consolidated financial statements.

**NOTE 16. SUBSEQUENT EVENT**

On October 26, 2010, the Board approved the declaration of a quarterly dividend of \$0.105 per share of Moody's common stock, payable on December 10, 2010 to shareholders of record at the close of business on November 20, 2010.

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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 55 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) risk management software and (iv) quantitative credit risk measures, credit portfolio management solutions and training services. Moody's operates in 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 develops a wide range of products and services that support the risk management activities of institutional participants in global financial markets. Within its RD&A business, MA distributes investor-oriented 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 and provides economic research and credit data and analytical tools such as quantitative credit risk scores. Within its RMS business, MA provides both economic and regulatory capital risk management software solutions. Within its professional services business it provides quantitative credit risk measures, credit portfolio management solutions and training services.

**Critical Accounting Estimates**

Moody's discussion and analysis of its financial condition and results of operations are based on the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Moody's to make estimates and judgments that affect reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the dates of the financial statements and revenue and expenses during the reporting periods. These estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, Moody's evaluates its estimates, including those related to revenue recognition, accounts receivable allowances, contingencies, restructuring, goodwill and acquired intangible assets, pension and other post-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, 2009, 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, the Company has updated its accounting policy regarding revenue recognition pursuant to the early adoption of accounting guidance concerning revenue arrangements with multiple deliverables. A discussion of the Company's new accounting policy and related management estimates underlying the policy follows:

***Revenue Recognition***

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or the services have been provided and accepted by the customer when applicable, fees are determinable and the collection of resulting receivables is considered probable.

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements (ASU 2009-13). The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration based on the relative selling price of each deliverable. The Company has elected to early adopt ASU 2009-13 on a prospective basis for applicable transactions originating or materially modified on or after January 1, 2010. If applied in the same manner to the year ended December 31, 2009, ASU 2009-13 would not have had a material impact on net revenue reported for both its MIS and MA segments in terms of the timing and pattern of revenue recognition. The adoption of ASU 2009-13 did not have a significant effect on the Company's net revenue in the period of adoption and is also not expected to have a significant effect on the Company's net revenue in periods after the initial adoption when applied to multiple element arrangements based on the currently anticipated business volume and pricing.

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For 2010 and future periods, pursuant to the guidance of ASU 2009-13, when a sales arrangement contains multiple deliverables, the Company allocates revenue to each deliverable based on its relative selling price which is determined based on its vendor specific objective evidence ( VSOE ) if available, third party evidence ( TPE ) if VSOE is not available, or estimated selling price ( ESP ) if neither VSOE nor TPE is available.

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The Company's products and services will generally continue to qualify as separate units of accounting under ASU 2009-13. The Company evaluates each deliverable in an arrangement to determine whether it represents a separate unit of accounting. A deliverable constitutes a separate unit of accounting when it has stand-alone value to the customers and if the arrangement includes a customer refund or return right relative to the delivered item, the delivery and performance of the undelivered item is considered probable and substantially in the Company's control. In instances where the aforementioned criteria are not met, the deliverable is combined with the undelivered items and revenue recognition is determined as one single unit.

The Company determines whether its selling price in a multi-element transaction meets the VSOE criteria by using the price charged for a deliverable when sold separately. In instances where the Company is not able to establish VSOE for all deliverables in a multiple element arrangement, which may be due to the Company infrequently selling each element separately, not selling products within a reasonably narrow price range, or only having a limited sales history, the Company attempts to establish TPE for deliverables. The Company determines whether TPE exists by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers. However, due to the difficulty in obtaining third party pricing, possible differences in its market strategy from that of its peers and the potential that products and services offered by the Company may contain a significant level of differentiation and/or customization such that the comparable pricing of products with similar functionality cannot be obtained, the Company generally is unable to reliably determine TPE. Based on the selling price hierarchy established by ASU 2009-13, when the Company is unable to establish selling price using VSOE or TPE, the Company will establish an ESP. ESP is the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. The Company establishes its best estimate of ESP considering internal factors relevant to its pricing practices such as costs and margin objectives, standalone sales prices of similar products, percentage of the fee charged for a primary product or service relative to a related product or service, and customer segment and geography. Additional consideration is also given to market conditions such as competitor pricing strategies and market trend. The Company reviews its determination of VSOE, TPE and ESP on an annual basis or more frequently as needed.

In the MIS segment, revenue attributed to initial ratings of issued securities is recognized when the rating is issued. Revenue attributed to monitoring of issuers or issued securities is recognized ratably over the period in which the monitoring is performed, generally one year. In the case of commercial mortgage-backed securities, derivatives, international residential mortgage-backed and asset-backed securities, issuers can elect to pay the monitoring fees upfront. These fees are deferred and recognized over the future monitoring periods based on the expected lives of the rated securities.

Multiple element revenue arrangements in the MIS segment are generally comprised of an initial rating and the related monitoring service. Beginning January 1, 2010, in instances where monitoring fees are not charged for the first year monitoring effort, fees are allocated to the initial rating and monitoring services based on the relative selling price of each service to the total arrangement fees. The Company generally uses ESP in determining the selling price for its initial ratings as the Company rarely sells initial ratings separately without providing related monitoring services and thus is unable to establish VSOE or TPE for initial ratings. Prior to January 1, 2010 and pursuant to the previous accounting standards, for these types of arrangements the initial rating fee was first allocated to the monitoring service determined based on the estimated fair market value of monitoring services, with the residual amount allocated to the initial rating. Under ASU 2009-13 this practice can no longer be used for non-software deliverables upon the adoption of ASU 2009-13.

In the MA segment, products and services offered by the Company include software licenses and related maintenance, subscriptions, and professional services. Revenue from subscription based products, such as research and data subscriptions and certain software-based credit risk management subscription products, is recognized ratably over the related subscription period, which is principally one year. Revenue from sale of perpetual licenses of credit processing software is generally recognized at the time the product master or first copy is delivered or transferred to and accepted by the customer. Software maintenance revenue is recognized ratably over the annual maintenance period. Revenue from services rendered within the professional services line of business is generally recognized as the services are performed. If uncertainty exists regarding customer acceptance of the product or service, revenue is not recognized until acceptance occurs.

Products and services offered within the MA segment are sold either stand-alone or together in various combinations. In instances where a multiple element arrangement includes software and non-software deliverables, revenue is allocated to the non-software deliverables and to the software deliverables, as a group, using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. Revenue is recognized for each element based upon the conditions for revenue recognition noted above.

If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is allocated to each software deliverable using VSOE. In the instances where the Company is not able to determine VSOE for all of the deliverables of an arrangement, the Company allocates the revenue to the undelivered elements equal to its VSOE and the residual revenue to the delivered elements. If the Company is unable to determine VSOE for an undelivered element, the Company defers all revenue allocated to the software deliverables until the Company has delivered all of the elements or when VSOE has been determined for the undelivered elements.

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Prior to January 1, 2010 and pursuant to the previous accounting standards, the Company allocated revenue in a multiple element arrangement to each deliverable based on its relative fair value, or for software elements, based on VSOE. If the fair value was not available for an undelivered element, the revenue for the entire arrangement was deferred.

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Excluding the change in the revenue recognition policy and the related management estimates discussed above, there have been no material changes to the Company's critical accounting estimates from those discussed in Item 7, MD&A in the Company's annual report on Form 10-K for the year ended December 31, 2009.

**Operating Segments**

The Company reports in two reportable segments: 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—structured finance, corporate finance, financial institutions and public, project and infrastructure finance—that generate revenue principally from fees for the assignment and monitoring of credit ratings on debt obligations and the entities that issue such obligations in markets worldwide.

The MA segment consists of three lines of business—RD&A, RMS and professional services—that develop a wide range of products and services that support the risk management activities of institutional participants in global financial markets. Within its Research, Data and Analytics business, MA distributes investor-oriented 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. RD&A also produces and provides economic research and credit data and analytical tools such as quantitative credit risk scores. Within its Risk Management Software business, MA provides both economic and regulatory capital risk management software and implementation services. Within its professional services business it provides quantitative credit risk measures, credit portfolio management solutions and training services.

In the fourth quarter of 2009, the MA businesses were realigned and renamed to reflect the reporting unit structure for the MA segment at December 31, 2009. Pursuant to this realignment the subscriptions business was renamed RD&A and the software business was renamed RMS. The revised groupings classify license software sales, certain subscription-based risk management software revenue, maintenance and advisory services relating to software sales to the redefined RMS business. The following tables are reconciliations of the revenue groupings previously disclosed to the new groupings for the three and nine months ended September 30, 2009:

	<b>Three Months Ended September 30, 2009</b>	<b>Nine Months Ended September 30, 2009</b>
<b>Revenue reported as per filing in prior year:</b>		
Subscriptions	\$ 118.9	\$ 353.7
Software	20.2	53.7
Professional Services	7.4	18.2
 Total MA	 \$ 146.5	 \$ 425.6

	<b>Three Months Ended September 30, 2009</b>	<b>Nine Months Ended September 30, 2009</b>
<b>Reclassification for 2009 realignment:</b>		
Subscriptions	\$ (15.5)	\$ (46.0)
Software	16.6	49.1
Professional Services	(1.1)	(3.1)
 Total MA	 \$	 \$

	<b>Three Months Ended September 30, 2009</b>	<b>Nine Months Ended September 30, 2009</b>
<b>Revenue Reported:</b>		

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Research, data and analytics (RD&A)	\$	103.4	\$	307.7
Risk management software (RMS)		36.8		102.8
Professional Services		6.3		15.1
Total MA	\$	146.5	\$	425.6

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

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costs and corporate expenses of the Company 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, information technology and legal.

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. These non-GAAP financial measures relate to adjustments made to the Company's 2007 and 2009 Restructuring Plans and Legacy Tax Matters, further described in Note 9 and Note 12, respectively, to the Company's condensed consolidated financial statements.

Certain prior year amounts have been reclassified to conform to the current presentation.

**Results of Operations****Three Months Ended September 30, 2010 compared with Three Months Ended September 30, 2009***Executive Summary*

Moody's revenue for the third quarter of 2010 totaled \$513.3 million, an increase of \$61.5 million compared to the same period in 2009. Total expenses were \$324.4 million, an increase of \$45.1 million compared to the third quarter of 2009. Operating income of \$188.9 million in the third quarter of 2010 increased \$16.4 million compared to the same period in the prior year. Excluding the impact of restructuring related amounts in both periods, the third quarter 2010 operating income of \$189.3 million increased \$13.1 million over the prior year period. Diluted EPS of \$0.58 for the third quarter of 2010 increased \$0.16 over the prior year period and included a tax benefit of \$0.07, recorded in the third quarter of 2010, on foreign earnings that are indefinitely reinvested.

**Moody's Corporation**

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

	Three Months Ended September 30,		% Change Favorable (Unfavorable)
	2010	2009	
<b>Revenue:</b>			
United States	\$ 278.3	\$ 229.7	21%
<b>International:</b>			
EMEA	155.5	156.7	(1)%
Other	79.5	65.4	22%
Total International	235.0	222.1	6%
<b>Total</b>	<b>513.3</b>	<b>451.8</b>	<b>14%</b>
<b>Expenses:</b>			
Operating	153.7	135.1	(14)%
SG&A	152.2	124.3	(22)%
Restructuring	0.4	3.7	89%
Depreciation and amortization	18.1	16.2	(12)%
<b>Total</b>	<b>324.4</b>	<b>279.3</b>	<b>(16)%</b>
<b>Operating income</b>	<b>\$ 188.9</b>	<b>\$ 172.5</b>	<b>10%</b>

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Interest (expense) income, net	\$ (12.8)	\$ (11.5)	(11)%
Other non-operating (expense) income, net	\$ 5.3	\$ 1.7	212%
Net income attributable to Moody's	\$ 136.0	\$ 100.6	35%

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Global revenue of \$513.3 million in the third quarter of 2010 increased \$61.5 million compared to the same period in 2009, reflecting growth in both ratings and MA revenue. The ratings revenue growth is primarily due to strong speculative-grade corporate debt and bank loan rated issuance coupled with good growth in banking and public finance rated issuance. The aforementioned ratings revenue growth was partially offset by declines in rated issuance across most asset classes within SFG. The increase in MA revenue reflects growth from within RMS and RD&A. Transaction revenue accounted for 45% of global MCO revenue in the third quarter of 2010 compared to 37% in the same period of the prior year. Transaction revenue in the MIS segment represents the initial rating of a new debt issuance as well as other one-time fees while 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. In the MA segment, relationship revenue represents subscription-based revenues and software maintenance revenue. Transaction revenue in MA represents software license fees and revenue from the professional services line of business which offers credit risk management advisory and training services, which are typically sold on a per-engagement basis.

U.S. revenue increased \$48.6 million over the third quarter of 2009, and reflects growth in both segments. The growth in U.S. ratings revenue reflects strong bank loan and high-yield issuance within CFG as well as good growth in infrastructure and public finance issuance. These increases were partially offset by declines in U.S. derivatives issuance. The MA growth is primarily due to increases in RMS revenue.

International revenue increased \$12.9 million compared to the same period in 2009, reflecting growth in both segments. The increase in ratings revenue reflects growth in high-yield corporate debt and banking related issuance across all non-U.S. regions, coupled with growth in sovereign and sub-sovereign rated issuance in EMEA. These increases were partially offset by declines in rated issuance across most asset classes within SFG as well as declines in infrastructure finance revenue in the EMEA region. Changes in FX translation rates had an approximate \$8 million unfavorable impact on international revenue in the third quarter of 2010.

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

	September 30,		
	2010	2009	% Change
United States	2,275	2,162	5%
International	2,013	1,824	10%
Total	4,288	3,986	8%

Operating expenses were \$153.7 million in the third quarter of 2010, an increase of \$18.6 million from the third quarter of 2009 and was primarily due to higher compensation costs. The increase primarily reflects approximately \$7 million higher incentive compensation resulting from greater achievement against targeted results compared to the prior year period. Additionally, the increase in compensation costs reflects approximately \$9 million higher salaries and related employee benefits primarily due to annual merit increases coupled with headcount increases within both operating segments to support business growth.

SG&A expenses of \$152.2 million for the third quarter of 2010 increased \$27.9 million from the same quarter in 2009. Non-compensation expenses increased approximately \$14 million over the prior year primarily reflecting higher professional service costs relating to ongoing investments in technology infrastructure as well as higher legal and litigation-related costs due to ongoing matters. Compensation costs increased approximately \$14 million primarily due to higher salaries and related benefits expense of approximately \$10 million which reflects annual merit increases and headcount growth in sales personnel within MA as well as in support areas such as compliance and IT. Also driving the increase was higher incentive compensation costs of approximately \$4 million reflecting greater achievement against targeted results compared to the prior period.

Restructuring expense in the third quarter of 2010 reflects minor adjustments to previous estimates associated with the 2007 and 2009 Restructuring Plans. Restructuring expense of \$3.7 million in the third quarter of 2009 reflects costs associated with headcount reductions, divestiture of non-strategic assets and contract termination costs relating to office closures in accordance with the 2009 Restructuring Plan, as well as adjustments to previous estimates for both the 2007 and 2009 Restructuring Plans.

Operating income for the quarter was \$188.9 million, up \$16.4 million from the third quarter of 2009, reflecting the 14% increase in revenue partially offset by the 16% increase in operating expenses. Excluding the impact of the aforementioned restructuring adjustments in both years,

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operating income of \$189.3 million increased \$13.1 million over the third quarter of 2009. Changes in FX translation rates had an approximate \$6 million unfavorable impact on operating income in the third quarter of 2010.

Interest (expense) income, net for the three months ended September 30, 2010 was \$(12.8) million, a \$1.3 million increase compared to the same period in 2009. The increase is primarily due to higher interest on borrowings which reflects the issuance of the \$500 million 2010 Senior Notes issued in August 2010. This was partially offset by lower expense on short-term borrowings reflecting lower average balances in the current year period compared to 2009 and lower interest on UTBs and other tax related liabilities reflecting statute of limitation lapses in the third quarter of 2010.

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Other non-operating (expense) income, net of \$5.3 million in the third quarter of 2010 increased \$3.6 million compared to the prior year. This increase primarily reflects a charge of approximately \$5 million in the third quarter of 2009 relating to an international non-income tax matter that did not recur in 2010.

Moody's ETR was 24.4% for the quarter ended September 30, 2010, down from 37.5% in 2009. The lower ETR for the three months ended September 30, 2010 compared to the same period in 2009 reflected a \$17.6 million tax benefit, recorded in the third quarter of 2010, on foreign earnings that are indefinitely reinvested.

Net Income in the third quarter of 2010, which reflected the aforementioned tax benefit of \$17.6 million, or \$0.07 per diluted share, was \$136.0 million, or \$0.58 per diluted share representing an increase of \$35.4 million, or \$0.16 per diluted share, compared to the prior year. Excluding amounts related to the 2009 restructuring charge and restructuring-related adjustments in both years, Net Income increased \$33.4 million, or 32%, from \$102.9 million in 2009, resulting in a \$0.15, or 35%, increase in diluted EPS compared to the prior year.

**Table of Contents****Segment Results***Moody's Investors Service*

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

	Three Months Ended September 30,		% Change Favorable (Unfavorable)
	2010	2009	
Revenue:			
Corporate finance (CFG)	\$ 144.9	\$ 101.4	43%
Structured finance (SFG)	70.1	79.2	(11)%
Financial institutions (FIG)	73.6	62.9	17%
Public, project and infrastructure finance (PPIF)	69.6	61.8	13%
Total external revenue	358.2	305.3	17%
Intersegment royalty	15.5	14.5	7%
Total MIS revenue			
	der-bottom: #ffffff solid;"> Sales of parts	4.42	1.5
	\$ 38.45	\$ 14.5	

Income from installation projects contributed 88.5% of total revenue for the three months ended March 31, 2007, as compared to 89.7% for the same period last year. Management believes that revenues from the installation projects will continue to be the Company's major revenue source in the next a few years. With the acquisitions of Cheng Feng and Hongtianshi and other planned acquisitions, management believes that the percentage of revenue from the sale of products will increase in the future.

*Cost of goods sold.* Cost of goods sold for the first quarter of 2007 totaled \$28.3 million, compared to \$10.2 million of the same period in 2006, an increase of 177.7%. Components of costs of goods sold in the first quarters of 2007 and 2006 are as follows:

All amounts in millions of U.S. dollars

	Three months ended March 31,	
	2007	2006
Purchases (of raw material)	\$ 28.0	\$ 10.0
Percentage	98.8%	98.0%
Salary	\$ 0.3	\$ 0.2
Percentage	1.2%	2.0%

100%

100%

Labor and security system purchase cost represented 1.2% and 98.8% of the total cost of goods sold for the first quarter of 2007, respectively, as compared to 2.0% and 98% for the same period in 2006.

*Net margin.* Net margin for the first three months of 2007 was 11.7%, as compared to 24.0% for the same period of 2006. The decrease of the net margin was mainly due to the combination of a decrease in sales price in the first quarter of 2007 and the increase in expenses related to the costs of being a public reporting company. The lower net margin of Cheng Feng's business also contributed to the decrease of gross margin for the first quarter of 2007. Cheng Feng, as a separate business entity, reported a net income of approximately \$0.1 million with a revenue of approximately \$2.3 million. Cheng Feng's net margin was approximately 4.3%. Cheng Feng generates almost all revenues from manufacturing security and surveillance equipments which generally has a lower margin than installation service revenue.

*General and administrative expenses.* General and administrative expenses for the first quarter of 2007 increased by 666.7% to \$2.3 million from \$0.3 million of the same period in 2006, primarily due to compensation expense of the restricted common stock issued to employees, the hiring of additional staff, and professional expenses related to the costs of being a public reporting company.

*Total selling expenses.* Total selling expenses for the first quarter of 2007 were \$0.6 million, a 394.3% increase from \$0.1 million for the same period in 2006. The increase was mainly due to the hiring of sales staff.

*Income Taxes.* In accordance with the relevant tax laws and regulations of the People's Republic of China for the Shenzhen Special Economic Zone, our Chinese subsidiary Golden is subject to the Chinese enterprise income tax ("EIT") rate of 15% for the fiscal years 2006, 2005, and 2004. Cheng Feng is subject to an EIT rate of 7.5% due to its software and high technology company status. We anticipate that our effective tax rate will change from the current 15% in the first quarter of 2007 because the companies we acquired and intend to acquire are located in different cities and may have different tax rates.

On March 16, 2007, the National People's Congress of the PRC determined to adopt a new corporate income tax law in its fifth plenary session. The new corporate income tax law unifies the application scope, tax rate, tax deduction and preferential policy for both domestic and foreign-invested enterprises. The new corporate income tax law will be effective on January 1, 2008. According to the new corporate income tax law, the applicable income tax rate for our operating subsidiaries may be subject to change. As the implementation detail has not yet been announced, we cannot be sure of the potential impact of such new corporate income tax law on our financial position and operating results.

Income taxes paid increased \$0.70 million to \$1.32 million for the three months ended March 31, 2007 from \$0.62 million for the same period of 2006. We paid more taxes during the first three months of 2007 mostly because of increased income before income taxes during that period.

*Net income.* Net income for the first quarter of 2007 was \$4.5 million, representing a 29.5% increase from the same period in 2006. The increase was mainly due to the increase in sales. During the first three months of 2007, we reported sales revenue of \$38.5 million, with a back-log of approximately \$21.9 million. Gross margin for the first quarter of 2007 was 26.3%, a decrease from 30.1% for the same quarter of 2006. While the first quarter of 2006 was an exceptional quarter in terms of gross margin, the gross margin for the first quarter of 2007 was also within the range of the average gross margin recorded by the Company. The decrease in gross margin in the first quarter was mainly due to a decrease in sales prices. As noted above, we decreased our selling prices as a strategic move to increase our market penetration into new markets. In the first quarter of 2007, about half of the projects we signed were in the western part of China where economic development is not as advanced as the coastal cities. We reduced the prices to gain market penetration in these cities.

*Income from operations per share.* The basic income from operations per share for the first quarter of 2007 was \$0.20, as compared to \$0.18 for the same quarter of 2006. The diluted income from operations per share for the first quarter of 2007 was \$0.19, as compared to \$0.18 for the same period of 2006.

## Liquidity and Capital Resources

### General

As of March 31, 2007 and December 31, 2006, we had cash and cash equivalents of \$71.9 million and \$31.0 million, respectively. The following table provides detailed information about our net cash flow for the three months ended March 31, 2007 and 2006.

### Cash Flow

All amounts in thousands of U.S. dollars

	Three months ended March 31,	
	2007	2006
Net cash (used in) provided by operating activities	\$ (1,575)	\$ 7,264
Net cash (used in) provided by investing activities	(20,899)	(1)
Net cash provided by (used in) financing activities	63,330	71
Net increase in cash and cash equivalents	\$ 40,856	\$ 7,334

### Operating Activities:

Net cash used in operating activities was \$1.58 million for the three months ended March 31, 2007, which is a decrease of \$8.84 million from the \$7.26 million of the net cash provided by operating activities for the same period in 2006. The decrease was mainly due to an increase in inventories, prepayment and deposits and trade receivables.

### Investing Activities:

Our main uses of cash for investing activities during the first quarter of 2007 were deposits for the acquisition of subsidiaries and businesses and for property, plant and equipment.

Net cash used in investing activities in the three months ended March 31, 2007 was \$20.90 million, which is an increase of \$20.90 million from net cash used in investing activities of \$0.001 million in the same period of 2006 due to increased acquisition of property, plant, equipment and businesses in 2007.

We have signed letters of intent to acquire Changzhou Minking Electronics Inc, Ltd. (“Minking”), Hangzhou Tsingvision Intelligence System Co., Ltd. (“Tsing”) and Shenzhen Wandaiheng Industry Ltd. (“Wandai”). Pursuant to the letters of intent, the cash consideration for these three intended acquisitions is expected to total \$32.3 million with additional consideration to be paid in equity. The number of our shares to be included in the equity portion of the purchase price for the Minking and Tsing acquisitions will be subject to the achievement of certain net income performance targets over a two-year period. We expect to finance the cash portion of the purchase price with the net proceeds from our \$60 million convertible notes financing that closed in February 2007. The Minking and Tsing acquisitions are expected to be accretive to earnings upon closing and are expected to provide support to the Company’s city-wide projects. Wandai owns an 80,000 square meter Industrial Park in Shenzhen. We expect that we will consolidate all existing and potentially acquired entities into a single location in Shenzhen in order to benefit from greater economies of scale. All three acquisitions are expected to close in the second quarter of 2007. Consummation of each acquisition is subject to customary closing conditions, including execution of definitive documentation and receipt of governmental approval.



*Financing Activities:*

Net cash provided by financing activities in the three months ended March 31, 2007 totaled \$63.33 million as compared to \$0.07 million provided by financing activities in the same period of 2006. The increase of cash provided by financing activities was mainly attributable to the issuance of common shares in connection with several financing transactions closed in the first quarter of 2007.

*Loan Facilities*

As of March 31, 2007, the amounts and maturity dates for our bank loans were as follows.

All amounts, other than percentages, in millions of U.S. dollars

<b>Banks</b>	<b>At March 31, 2007</b>	<b>Beginning Date</b>	<b>Ending Date</b>	<b>Duration</b>
Shanghai PuDong Development Bank	-	August 2006	February 2007	6 months
China Construction Bank	-	September 2006	September 2016	10 years
Shanghai PuDong Development Bank	\$ 3.88	February 2007	February 2008	1 year
Shanghai PuDong Development Bank	\$ 1.29	February 2007	February 2008	1 year
Shanghai PuDong Development Bank	\$ 0.78	November 2005	November 2007	2 years
Total	\$ 5.95			

As of December 31, 2006, our total long-term liabilities were approximately \$2.22 million, consisting of a 10-year loan from China Construction Bank ("CCB") for the purpose of purchasing new office premises in Shenzhen. We received the loan on September 27, 2006. We repaid this loan on March 27, 2007.

On August 16, 2006, we entered into a loan agreement with Shanghai PuDong Development Bank pursuant to which we borrowed RMB 10 million (approximately \$1.28 million) with an annual interest rate of 5.94%. The loan was repaid on February 16, 2007.

On October 3, 2006, we signed a banking facility agreement with CCB under which CCB agreed to provide a new receivable-based facility to support our efforts in securing new contracts relating to the Safe City Project initiative, also known as "Plan 3111." This facility will provide three possible financing options: (1) the government takes a loan from CCB to finance the project; (2) we sell the accounts receivable to CCB, 85% of the total account receivables value will be paid by CCB to the Company and the remaining 15% will be collected by CCB from the government; from the 15% collected from the government, CCB will retain certain finance charges and pay the remainder over to Company; or (3) we take a loan from CCB to finance the project. As part of this agreement, we will make periodic deposits with CCB, which, depending upon the specific project, will provide a maximum factoring capacity of five to ten times the amount deposited. None of the facility has been drawn down as of the date of this Report.

In February 2007, we entered into two short-term loan agreements with Shanghai PuDong Development Bank pursuant to which we borrowed RMB10 million (approximately \$1.29 million) at an annual interest rate of 6.15%, and RMB30 million (approximately \$3.88 million) with an annual interest rate of 6.39%, respectively. The loans are due in February 2008.

On February 20, 2007, we completed a financing with Citadel pursuant to which we issued to Citadel \$60 million aggregate principal amount of guaranteed senior unsecured convertible notes due 2012 (the “February Convertible Notes”). This financing replaced an existing bridge financing closed on February 8, 2007 in which we issued to Citadel \$60 million aggregate principal amount of senior notes. The February Convertible Notes bear an annual interest rate of 1% and carry an initial conversion price of \$18 per share. If the February Convertible Notes are not converted before their maturity, they will be redeemed by us on the maturity date at a redemption price equal to 100% of the principal amount of the February Convertible Notes then outstanding plus an additional amount of 15.0% per annum, calculated on a quarterly compounded basis, plus any accrued and unpaid interest. The net proceeds of approximately \$60 million are and will be used for working capital and our acquisition plan.

In April 2007, we completed another financing with Citadel pursuant to which we issued to Citadel \$50 million aggregate principal amount of guaranteed senior unsecured convertible notes due 2012 (the “April Convertible Notes”). The April Convertible Notes bear an annual interest of 1% and carry an initial conversion price of \$23.60 per share. If the April Convertible Notes are not converted before their maturity, they will be redeemed by us on the maturity date at a redemption price equal to 100% of the principal amount of the April Convertible Notes then outstanding plus an additional amount of 15.0% per annum, calculated on a quarterly compounded basis, plus any accrued and unpaid interest. The net proceeds of approximately \$50 million will be used for working capital and our acquisition plan.

We believe that our currently available working capital, after receiving the aggregate proceeds of our capital raising activities and the credit facilities referred to above, should be adequate to sustain our operations at our current levels through at least the next twelve months.

### ***Obligations Under Material Contracts***

Below is a table setting forth our material contractual obligations as of March 31, 2007:

All amounts in thousands of U.S. dollars

	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations	\$ 60,000	\$ -	\$ -	\$ 60,000	\$ -
Operating Lease Obligations	497	239	216	42	-
Total	\$ 60,497	\$ 239	\$ 216	\$ 60,042	\$ -

### **Critical Accounting Policies**

This “Management’s Discussion and Analysis of Financial Condition and Results of Operations” is based on our condensed consolidated financial statements, which have been prepared using accounting principles generally accepted in the United States of America. The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. We consider our critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including basis of consolidation, intangible assets, goodwill, inventories, revenue recognition, foreign currency translation, use of

estimates and income taxes. Except for the implementation of Financial Accounting Standards Board (“FASB”) Interpretation No. 48 (“FIN 48”), as described below, management believes there have been no material changes during the three months ended March 31, 2007 to the critical accounting policies discussed in the Management’s Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission (the “SEC”) on March 21, 2007.

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We adopted the provisions of Financial Accounting Standards Board (“FASB”) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109,” (“FIN 48”), on January 1, 2007. We did not have any material unrecognized tax benefits and there was no effect on its financial condition or results of operations as a result of implementing FIN 48.

We file income tax returns in the U.S. federal jurisdiction and PRC jurisdictions. We were not subject to U.S. federal tax examinations for years before 2006. We do not believe there will be any material changes in our unrecognized tax positions over the next 12 months.

Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, we did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor were any interest expenses recognized during the quarter. Our effective tax rate differs from the federal statutory rate primarily due to non-deductible expenses, temporary differences, and preferential tax treatment.

### **Seasonality**

Our operating results and operating cash flows historically have been subject to seasonal variations. Our revenues are usually higher in the second half of the year than in the first half of the year and the first quarter is usually the slowest quarter because fewer projects are undertaken during and around the Chinese spring festival.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

### ***Interest Rate Risk***

The Company deposits surplus funds with Chinese banks earning daily interest. The Company does not invest in any instruments for trading purposes. All of the Company’s outstanding debt instruments carry fixed rates of interest. The Company’s operations are not sensitive to fluctuations in interest rates.

### ***Foreign Exchange Risk***

While our reporting currency is the U.S. dollar, all of our consolidated revenues and consolidated costs and expenses are denominated in RMB. All of our assets are denominated in RMB except for cash. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between U.S. Dollars and RMB. If the RMB depreciates against the U.S. Dollar, the value of our RMB revenues, earnings and assets as expressed in our U.S. dollar financial statements will decline. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

## ***Inflation***

Inflationary factors such as increases in the cost of our product and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenues if the selling prices of our products do not increase with these increased costs.

## **ITEM 4T. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.* We maintain a system of disclosure controls and procedures. The term “disclosure controls and procedures,” as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit to the SEC under the Exchange Act is accumulated and communicated to the our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Guoshen Tu, our President and Chief Executive Officer, and Terence Yap, our Chief Financial Officer, have evaluated the design and operating effectiveness of our disclosure controls and procedures as of March 31, 2007. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of March 31, 2007.

*Internal Control Over Financial Reporting.* We also maintain internal control over financial reporting. The term “internal control over financial reporting,” as defined by regulations of the SEC, means a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by the our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP, and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

*Changes in Internal Control Over Financial Reporting.* There has been no change to our internal control over financial reporting during the quarter ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II**

### **OTHER INFORMATION**

#### **ITEM 1. LEGAL PROCEEDINGS**

From time to time, we have disputes that arise in the ordinary course of its business. Currently, there are no material legal proceedings to which we are a party, or to which any of our property is subject, that we expect to have a material adverse effect on our financial condition.

#### **ITEM 1A. RISK FACTORS**

There are no material changes from the risk factors previously disclosed in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on March 21, 2007.

#### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On February 16, 2007, we entered into a Notes Purchase Agreement with Citadel pursuant to which the Company issued and sold to Citadel \$60 million Guaranteed Senior Unsecured Convertible Notes due 2012. The notes carry an initial conversion price of \$18 per share. If the notes are not converted before its maturity, the notes will be redeemed by the Company on the maturity date at a redemption price equal to 100% of the principal amount of the notes then outstanding plus an additional amount of 15.0% per annum, calculated on a quarterly compounded basis, plus any accrued and unpaid interest. The offer and sale of the notes were made in an offshore transaction pursuant to Regulation S under the Securities Act.

In February 2007, we issued 1,361,748 shares of common stock in satisfaction of the equity portion of the purchase price of approximately \$7.5 million in the acquisition of Cheng Feng. The offer and sale of the notes were made in an offshore transaction pursuant to Regulation S under the Securities Act.

#### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

There were no defaults upon senior securities in the quarter ended March 31, 2007.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders in the quarter ended March 31, 2007.

#### **ITEM 5. OTHER INFORMATION**

N/A

#### **ITEM 6. EXHIBITS**

##### **Exhibit**

##### **Number**

##### **Description**

3.1	Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.1 to the registrant's Registration Statement on Form S-4 filed with the Securities and Exchange Commission on October 4, 2006).
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- 3.2 By-laws of the registrant (incorporated by reference to Exhibit 3.2 to the registrant's Registration Statement on Form S-4 filed with the Securities and Exchange Commission on October 4, 2006).
  
- 4.1 Notes Purchase Agreement, dated February 5, 2007, by and between the registrant and Citadel Equity Fund Ltd. (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 9, 2007).
  
- 4.2 Share Pledge Agreement, dated February 8, 2007, by and among Citadel Equity Fund Ltd., The Bank of New York, Guoshen Tu, Zhiquan Li and Whitehorse Technology Limited (incorporated by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 9, 2007).
  
- 4.3 Form of the Notes (incorporated by reference to Exhibit 4.3 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 9, 2007).
  
- 4.4 Notes Purchase Agreement, dated February 16, 2007, by and among the registrant, Safetech, CSST HK, CSST PRC, Golden, Cheng Feng and Citadel Equity Fund Ltd. (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 16, 2007).
  
- 4.5 Indenture, dated February 16, 2007, among the registrant, Safetech, CSST HK and The Bank of New York (incorporated by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 16, 2007).
  
- 4.6 Investor Rights Agreement, dated February 16, 2007, among the registrant, Safetech, CSST HK, CSST PRC, Golden, Cheng Feng, Guoshen Tu, Zhiquan Li, Whitehorse Technology Limited and Citadel Equity Fund Ltd. (incorporated by reference to Exhibit 4.3 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 16, 2007).
  
- 4.7 Supplemental Indenture, dated March 29, 2007, among the Company, Safetech, CSST-HK and The Bank of New York. (incorporated by reference to Exhibit 4.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission April 2, 2007).
  
- 4.8 Amendment to the Investor Rights Agreement, dated March 29, 2007, among the Company, Safetech, CSST-HK, CSST-PRC, Golden, Cheng Feng, Mr. Tu, Ms. Li, Whitehorse and Citadel. (incorporated by reference to Exhibit 4.2 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission April 2, 2007).
  
- 10.1 China Security & Surveillance Technology, Inc. 2007 Equity Incentive Plan (incorporated by reference to Exhibit 99.1 to the registrant's Current Report on

Form 8-K filed with the Securities and Exchange Commission on February 13, 2007).

- 10.2 Equity Purchase Agreement, dated April 2, 2007, by and among the registrant, China Safetech Holdings Limited, Chain Star Investments Limited and Zheng Huang.\*
- 31.1 Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 32.2 Certification of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

\* Filed herewith.

## 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 hereunto duly authorized.

DATED: May 15, 2007

### **China Security & Surveillance Technology, Inc.**

By: /s/ Guoshen Tu

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Guoshen Tu  
Principle Executive Officer

By: /s/ Terence Yap

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Terence Yap  
Principle Financial Officer

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- 10.1          China Security & Surveillance Technology, Inc. 2007 Equity Incentive Plan (incorporated by reference to Exhibit 99.1 to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 13, 2007).
  
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