



REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (212) 553-0300.

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

| <b>TITLE OF EACH CLASS</b>              | <b>NAME OF EACH EXCHANGE ON WHICH REGISTERED</b> |
|---|--|
| COMMON STOCK, PAR VALUE \$.01 PER SHARE | NEW YORK STOCK EXCHANGE                          |

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the Registrant: (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months 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 (§232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (see definition of "accelerated filer and large accelerated filer" in Exchange Act Rule 12b-2).

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer  Small reporting company

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

The aggregate market value of Moody's Corporation Common Stock held by nonaffiliates\* on June 30, 2013 (based upon its closing transaction price on the Composite Tape on such date) was approximately \$13.4 billion.

As of January 31, 2014, 213.7 million shares of Common Stock of Moody's Corporation were outstanding.

## EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (the "Amendment") amends Moody's Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the "Form 10-K"), as filed with the Securities and Exchange Commission on February 26, 2014, and is being filed solely to amend the Report of Independent Registered Public Accounting Firm (the "Audit Report") contained in Item 8 of the Form 10-K to correct a typographical error in the date of the Audit Report from February 26, 2013 to February 26, 2014.

Pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, we have included the entire text of Item 8 of the Form 10-K in this Amendment. However, there have been no changes to the text of such item other than the change stated in the immediately preceding paragraph. Furthermore, there have been no changes to the XBRL data filed in Exhibit 101 of the Form 10-K.

Except as expressly set forth above, this Amendment does not, and does not purport to, amend, update or restate the information in any other item of the Form 10-K or reflect any events that have occurred after the filing of the original Form 10-K.

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MOODY S CORPORATION

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**Exhibits  
filed Herewith**

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

ITEM 8. FINANCIAL STATEMENTS  
**Index to Financial Statements**

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Schedules are omitted as not required or inapplicable or because the required information is provided in the consolidated financial statements, including the notes thereto.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Moody's Corporation is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the SEC in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's Board, 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 generally accepted accounting principles.

Moody's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Moody's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company has undertaken an assessment of the design and operational effectiveness of the Company's internal control over financial reporting as of December 31, 2013 based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO framework is based upon five integrated components of control: risk assessment, control activities, control environment, information and communications and ongoing monitoring.

Based on the assessment performed, management has concluded that Moody's maintained effective internal control over financial reporting as of December 31, 2013.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which appears herein.

/s/ RAYMOND W. MCDANIEL, JR.

**Raymond W. McDaniel, Jr.**

*President and Chief Executive Officer*

/s/ LINDA S. HUBER

**Linda S. Huber**

*Executive Vice President and Chief Financial Officer*

February 26, 2014



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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Moody's Corporation:

We have audited the accompanying consolidated balance sheets of Moody's Corporation (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2013. We also have audited Moody's Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Moody's Corporation's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Moody's Corporation as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Moody's Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway



Commission (COSO).

/s/ KPMG LLP

*New York, New York*

February 26, 2014

## MOODY S CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in millions, except per share data)

|   | Year Ended December 31, |                 |                 |
|---|-------------------------|-----------------|-----------------|
|   | 2013                    | 2012            | 2011            |
| <b>Revenue</b>  | \$ 2,972.5              | \$ 2,730.3      | \$ 2,280.7      |
| <b>Expenses</b>   |                         |                 |                 |
| Operating   | 822.4                   | 795.0           | 683.5           |
| Selling, general and administrative                       | 822.1                   | 752.2           | 629.6           |
| Goodwill impairment charge                                |                         | 12.2            |                 |
| Depreciation and amortization                             | 93.4                    | 93.5            | 79.2            |
| <b>Total expenses</b>                                     | <b>1,737.9</b>          | <b>1,652.9</b>  | <b>1,392.3</b>  |
| <b>Operating income</b>                                   | <b>1,234.6</b>          | <b>1,077.4</b>  | <b>888.4</b>    |
| Interest income (expense), net                            | (91.8)                  | (63.8)          | (62.1)          |
| Other non-operating income (expense), net                 | 26.5                    | 10.4            | 13.5            |
| <b>Non-operating income (expense), net</b>                | <b>(65.3)</b>           | <b>(53.4)</b>   | <b>(48.6)</b>   |
| <b>Income before provision for income taxes</b>           | <b>1,169.3</b>          | <b>1,024.0</b>  | <b>839.8</b>    |
| Provision for income taxes                                | 353.4                   | 324.3           | 261.8           |
| <b>Net income</b>   | <b>815.9</b>            | <b>699.7</b>    | <b>578.0</b>    |
| Less: Net income attributable to noncontrolling interests | 11.4                    | 9.7             | 6.6             |
| <b>Net income attributable to Moody s</b>                 | <b>\$ 804.5</b>         | <b>\$ 690.0</b> | <b>\$ 571.4</b> |
| <b>Earnings per share</b>                                 |                         |                 |                 |
| Basic   | \$ 3.67                 | \$ 3.09         | \$ 2.52         |
| Diluted   | \$ 3.60                 | \$ 3.05         | \$ 2.49         |
| <b>Weighted average shares outstanding</b>                |                         |                 |                 |
| Basic   | 219.4                   | 223.2           | 226.3           |
| Diluted   | 223.5                   | 226.6           | 229.4           |

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

## MOODY S CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(amounts in millions)

|  | Year Ended<br>December 31, 2013 |                |                      | Year Ended<br>December 31, 2012 |                |                      | Year Ended<br>December 31, 2011 |                |                      |
|--|---------------------------------|----------------|----------------------|---------------------------------|----------------|----------------------|---------------------------------|----------------|----------------------|
|  | Pre-tax<br>Amounts              | Tax<br>Amounts | After-tax<br>Amounts | Pre-tax<br>Amounts              | Tax<br>Amounts | After-tax<br>Amounts | Pre-tax<br>Amounts              | Tax<br>Amounts | After-tax<br>Amounts |
| Net income   |                                 |                | \$ 815.9             |                                 |                | \$ 699.7             |                                 |                | \$ 578.0             |
| <b>Other Comprehensive<br/>Income (loss):</b>  |                                 |                |                      |                                 |                |                      |                                 |                |                      |
| <b>Foreign currency<br/>adjustments:</b>   |                                 |                |                      |                                 |                |                      |                                 |                |                      |
| Foreign currency<br>translation adjustments  | \$ (15.8)                       | \$ 0.6         | (15.2)               | \$ 35.4                         | \$ (0.2)       | 35.2                 | \$ (50.3)                       | \$ 1.6         | (48.7)               |
| Foreign currency<br>translation adjustments<br>reclassification of losses<br>included in net income due<br>to liquidation of foreign<br>subsidiaries |                                 |                | 1.4                  |                                 |                | 1.4                  |                                 |                |                      |
| <b>Cash flow and net<br/>investment hedges:</b>  |                                 |                |                      |                                 |                |                      |                                 |                |                      |
| Net realized and<br>unrealized (loss) gain on<br>cash flow and net<br>investment hedges  | 6.3                             | (2.6)          | 3.7                  | (3.9)                           | 1.6            | (2.3)                | (1.0)                           | 0.4            | (0.6)                |
| Reclassification of losses<br>included in net income   | 1.2                             | (0.5)          | 0.7                  | 4.1                             | (1.7)          | 2.4                  | 5.3                             | (2.1)          | 3.2                  |
| <b>Pension and Other<br/>Retirement Benefits:</b>  |                                 |                |                      |                                 |                |                      |                                 |                |                      |
| Amortization of actuarial<br>losses and prior service<br>costs included in net<br>income   | 11.9                            | (4.9)          | 7.0                  | 10.0                            | (4.1)          | 5.9                  | 7.4                             | (3.0)          | 4.4                  |
| Net actuarial gains (losses)<br>and prior service costs  | 50.9                            | (21.0)         | 29.9                 | (26.0)                          | 11.2           | (14.8)               | (56.3)                          | 22.1           | (34.2)               |
| Total other comprehensive<br>income (loss)   | \$ 55.9                         | \$ (28.4)      | 27.5                 | \$ 19.6                         | \$ 6.8         | 26.4                 | \$ (94.9)                       | \$ 19.0        | (75.9)               |
| Comprehensive Income   |                                 |                | 843.4                |                                 |                | 726.1                |                                 |                | 502.1                |
| Less: comprehensive<br>income attributable to<br>noncontrolling interests  |                                 |                | 11.4                 |                                 |                | 10.7                 |                                 |                | 4.8                  |

and redeemable  
noncontrolling interest

|   |                 |                 |                 |
|---|-----------------|-----------------|-----------------|
| <b>Comprehensive income<br/>attributable to Moody s</b> | <b>\$ 832.0</b> | <b>\$ 715.4</b> | <b>\$ 497.3</b> |
|---|-----------------|-----------------|-----------------|

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

## MOODY S CORPORATION

## CONSOLIDATED BALANCE SHEETS

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

|  | December 31, |            |
|--|--------------|------------|
|  | 2013         | 2012       |
| <b>ASSETS</b>  |              |            |
| Current assets:  |              |            |
| Cash and cash equivalents  | \$ 1,919.5   | \$ 1,755.4 |
| Short-term investments   | 186.8        | 17.9       |
| Accounts receivable, net of allowances of \$28.9 in 2013 and \$29.1 in 2012    | 694.2        | 621.8      |
| Deferred tax assets, net   | 53.9         | 38.7       |
| Other current assets   | 114.4        | 91.9       |
| Total current assets   | 2,968.8      | 2,525.7    |
| Property and equipment, net  | 278.7        | 307.1      |
| Goodwill   | 665.2        | 637.1      |
| Intangible assets, net   | 221.6        | 226.5      |
| Deferred tax assets, net   | 148.7        | 168.5      |
| Other assets   | 112.1        | 96.0       |
| Total assets   | \$ 4,395.1   | \$ 3,960.9 |
| <b>LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS EQUITY</b> |              |            |
| Current liabilities:   |              |            |
| Accounts payable and accrued liabilities                                       | \$ 538.9     | \$ 555.3   |
| Deferred tax liabilities, net  | 4.0          |            |
| Current portion of long-term debt  |              | 63.8       |
| Deferred revenue   | 598.4        | 545.8      |
| Total current liabilities  | 1,141.3      | 1,164.9    |
| Non-current portion of deferred revenue  | 109.2        | 94.9       |
| Long-term debt   | 2,101.8      | 1,607.4    |
| Deferred tax liabilities, net  | 59.1         | 58.1       |
| Unrecognized tax benefits  | 195.6        | 156.6      |
| Other liabilities  | 360.2        | 410.1      |
| Total liabilities  | 3,967.2      | 3,492.0    |
| Contingencies (Note 18)  |              |            |
| Redeemable noncontrolling interest   | 80.0         | 72.3       |

Shareholders equity:

|   |                   |            |
|---|-------------------|------------|
| Preferred stock, par value \$.01 per share; 10,000,000 shares authorized; no shares issued and outstanding  |                   |            |
| Series common stock, par value \$.01 per share; 10,000,000 shares authorized; no shares issued and outstanding  |                   |            |
| Common stock, par value \$.01 per share; 1,000,000,000 shares authorized; 342,902,272 shares issued at December 31, 2013 and December 31, 2012, respectively. | <b>3.4</b>        | 3.4        |
| Capital surplus   | <b>405.8</b>      | 365.1      |
| Retained earnings   | <b>5,302.1</b>    | 4,713.3    |
| Treasury stock, at cost; 128,941,621 and 119,650,254 shares of common stock at December 31, 2013 and December 31, 2012, respectively                          | <b>(5,319.7)</b>  | (4,614.5)  |
| Accumulated other comprehensive loss  | <b>(54.6)</b>     | (82.1)     |
| Total Moody's shareholders' equity  | <b>337.0</b>      | 385.2      |
| Noncontrolling interests  | <b>10.9</b>       | 11.4       |
| Total shareholders' equity  | <b>347.9</b>      | 396.6      |
| Total liabilities, redeemable noncontrolling interest and shareholders' equity  | <b>\$ 4,395.1</b> | \$ 3,960.9 |

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

## MOODY S CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in millions)

|   | Year Ended December 31, |          |          |
|---|-------------------------|----------|----------|
|   | 2013                    | 2012     | 2011     |
| <b>Cash flows from operating activities</b>                                   |                         |          |          |
| Net income  | \$ 815.9                | \$ 699.7 | \$ 578.0 |
| Reconciliation of net income to net cash provided by operating activities:    |                         |          |          |
| Depreciation and amortization   | 93.4                    | 93.5     | 79.2     |
| Stock-based compensation expense  | 67.1                    | 64.5     | 56.7     |
| Goodwill impairment charge  |                         | 12.2     |          |
| Deferred income taxes   | (27.2)                  | 36.1     | 10.3     |
| Excess tax benefits from settlement of stock-based compensation awards        | (38.8)                  | (15.7)   | (7.4)    |
| Legacy Tax Matters  | (19.2)                  | (12.8)   | (6.4)    |
| Changes in assets and liabilities:  |                         |          |          |
| Accounts receivable   | (67.0)                  | (128.2)  | 17.1     |
| Other current assets  | (21.7)                  | (14.1)   | 53.5     |
| Other assets  | (0.7)                   | 5.1      | 7.5      |
| Accounts payable and accrued liabilities                                      | (2.9)                   | 101.7    | 23.9     |
| Deferred revenue  | 66.1                    | 20.9     | 8.8      |
| Unrecognized tax benefits   | 30.9                    | (49.2)   | 3.9      |
| Other liabilities   | 30.9                    | 9.4      | (21.8)   |
| Net cash provided by operating activities                                     | 926.8                   | 823.1    | 803.3    |
| <b>Cash flows from investing activities</b>                                   |                         |          |          |
| Capital additions   | (42.3)                  | (45.0)   | (67.7)   |
| Purchases of short-term investments   | (225.9)                 | (56.2)   | (43.3)   |
| Sales and maturities of short-term investments                                | 57.0                    | 54.5     | 40.9     |
| Cash paid for acquisitions and investment in affiliates, net of cash acquired | (50.7)                  | (3.5)    | (197.5)  |
| Net cash used in investing activities   | (261.9)                 | (50.2)   | (267.6)  |
| <b>Cash flows from financing activities</b>                                   |                         |          |          |
| Issuance of notes   | 497.2                   | 496.1    |          |
| Repayment of notes  | (63.8)                  | (71.3)   | (11.3)   |
| Net proceeds from stock plans   | 136.0                   | 116.7    | 46.4     |
| Excess tax benefits from settlement of stock-based compensation awards        | 38.8                    | 15.7     | 7.4      |
| Cost of treasury shares repurchased   | (893.1)                 | (196.5)  | (333.8)  |
| Payment of dividends  | (197.3)                 | (143.0)  | (121.0)  |



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|  |            |            |          |
|--|------------|------------|----------|
| Payment of dividends to noncontrolling interests             | (12.2)     | (8.3)      | (5.1)    |
| Contingent consideration paid                                | (0.3)      | (0.5)      | (0.3)    |
| Debt issuance costs and related fees                         | (4.1)      | (6.3)      |          |
| Net cash provided by (used in) financing activities          | (498.8)    | 202.6      | (417.7)  |
| Effect of exchange rate changes on cash and cash equivalents | (2.0)      | 19.9       | (17.6)   |
| Increase in cash and cash equivalents                        | 164.1      | 995.4      | 100.4    |
| Cash and cash equivalents, beginning of period               | 1,755.4    | 760.0      | 659.6    |
| Cash and cash equivalents, end of period                     | \$ 1,919.5 | \$ 1,755.4 | \$ 760.0 |

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

MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT)

(amounts in millions)

Shareholders of Moody s Corporation

| Common Stock |        | Capital<br>Surplus | Retained<br>Earnings | Treasury Stock |              | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total Moody s<br>Shareholders<br>Equity<br>(Deficit) | Contr<br>Int |
|--------------|--------|--------------------|----------------------|----------------|--------------|---|--|--------------|
| Shares       | Amount |                    |                      | Shares         | Amount       |   |  |              |
| 342.9        | \$ 3.4 | \$ 391.5           | \$ 3,736.2           | (112.1)        | \$ (4,407.3) | \$ (33.4)   | \$ (309.6)   |              |
|              |        |                    | 571.4                |                |              |   | 571.4  |              |
|              |        |                    | (131.5)              |                |              |   | (131.5)  |              |
|              |        | 56.9               |                      |                |              |   | 56.9   |              |
|              |        | (59.2)             |                      | 2.6            | 105.6        |   | 46.4   |              |
|              |        | 7.2                |                      |                |              |   | 7.2  |              |
|              |        | (1.9)              |                      |                |              |   | (1.9)  |              |
|              |        |                    |                      | (11.0)         | (333.8)      |   | (333.8)  |              |

(46.9) (46.9)

(34.2) (34.2)

4.4 4.4

2.6 2.6

342.9 \$ 3.4 \$ 394.5 \$ 4,176.1 (120.5) \$ (4,635.5) \$ (107.5) \$ (169.0) \$

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

*(continued on next page)*

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT) *continued*

(amounts in millions)

| Shareholders of Moody's Corporation |        |                    |                      |                |              | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total Moody's<br>Shareholders<br>Equity<br>(Deficit) | Contr<br>Int |
|-------------------------------------|--------|--------------------|----------------------|----------------|--------------|---|--|--------------|
| Common Stock                        |        | Capital<br>Surplus | Retained<br>Earnings | Treasury Stock |              |   |  |              |
| Shares                              | Amount |                    |                      |                |              | Shares  | Amount   |              |
| 342.9                               | \$ 3.4 | \$ 394.5           | \$ 4,176.1           | (120.5)        | \$ (4,635.5) | \$ (107.5)  | \$ (169.0)   |              |
|                                     |        |                    | 690.0                |                |              |   | 690.0  |              |
|                                     |        |                    | (152.8)              |                |              |   | (152.8)  |              |
|                                     |        | 64.6               |                      |                |              |   | 64.6   |              |
|                                     |        | (100.9)            |                      | 5.6            | 217.5        |   | 116.6  |              |
|                                     |        | 10.3               |                      |                |              |   | 10.3   |              |
|                                     |        | (3.4)              |                      |                |              |   | (3.4)  |              |
|                                     |        |                    |                      | (4.8)          | (196.5)      |   | (196.5)  |              |
|                                     |        |                    |                      |                |              | 34.2  | 34.2   |              |
|                                     |        |                    |                      |                |              | (14.8)  | (14.8)   |              |

5.9 5.9

0.1 0.1

342.9 \$ 3.4 \$ 365.1 \$ 4,713.3 (119.7) \$ (4,614.5) \$ (82.1) \$ 385.2 \$

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT) *continued*

(amounts in millions)

| Shareholders of Moody's Corporation |        |                    |                      |                |              | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total Moody's<br>Shareholders<br>Equity | Controlling<br>Interest |
|-------------------------------------|--------|--------------------|----------------------|----------------|--------------|---|---|-------------------------|
| Common Stock                        |        | Capital<br>Surplus | Retained<br>Earnings | Treasury Stock |              |   |   |                         |
| Shares                              | Amount |                    |                      |                |              | Shares  | Amount                                  |                         |
| 342.9                               | \$ 3.4 | \$ 365.1           | \$ 4,713.3           | (119.7)        | \$ (4,614.5) | \$ (82.1)   | \$ 385.2                                |                         |
|                                     |        |                    | 804.5                |                |              |   | 804.5                                   |                         |
|                                     |        |                    | (215.7)              |                |              |   | (215.7)                                 |                         |
|                                     |        | 67.2               |                      |                |              |   | 67.2                                    |                         |
|                                     |        | (51.9)             |                      | 5.0            | 187.9        |   | 136.0                                   |                         |
|                                     |        | 33.3               |                      |                |              |   | 33.3                                    |                         |
|                                     |        | (7.9)              |                      |                |              |   | (7.9)                                   |                         |
|                                     |        |                    |                      | (14.2)         | (893.1)      |   | (893.1)                                 |                         |
|                                     |        |                    |                      |                |              | (13.8)  | (13.8)                                  |                         |
|                                     |        |                    |                      |                |              | 29.9  | 29.9                                    |                         |

7.0 7.0

4.4 4.4

342.9 \$ 3.4 \$ 405.8 \$ 5,302.1 (128.9) \$ (5,319.7) \$ (54.6) \$ 337.0 \$

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

MOODY S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**NOTE 1 DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

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

Moody s has two reportable segments: MIS and MA.

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

MA, which includes all of the Company s non-rating commercial activities, develops a wide range of products and services that support financial analysis and risk management activities of institutional participants in global financial markets. Within its Research, Data and Analytics business, MA distributes research and data developed by MIS as part of its ratings process, including in-depth research on major debt issuers, industry studies and commentary on topical credit-related events. The RD&A business also produces economic research as well as data and analytical tools such as quantitative credit risk scores. Within its Enterprise Risk Solutions business (formerly referred to as Risk Management Software), MA provides software solutions as well as related risk management services. The Professional Services business provides outsourced research and analytical services along with financial training and certification programs.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Consolidation**

The consolidated financial statements include those of Moody s Corporation and its majority- and wholly-owned subsidiaries. The effects of all intercompany transactions have been eliminated. Investments in companies for which the Company has significant influence over operating and financial policies but not a controlling interest are accounted for on an equity basis whereby the Company records its proportional share of the investment s net income or loss as part of other non-operating income (expense), net and any dividends received reduce the carrying amount of the investment. The Company applies the guidelines set forth in Topic 810 of the ASC in assessing its interests in variable interest entities to decide whether to consolidate that entity. The Company has reviewed the potential variable interest entities and determined that there are no consolidation requirements under Topic 810 of the ASC.

**Cash and Cash Equivalents**

Cash equivalents principally consist of investments in money market mutual funds and high-grade commercial paper with maturities of three months or less when purchased.

**Property and Equipment**



Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives. Expenditures for maintenance and repairs that do not extend the economic useful life of the related assets are charged to expense as incurred.

### **Research and Development Costs**

All research and development costs are expensed as incurred. These costs primarily reflect the development of credit processing software and quantitative credit risk assessment products sold by the MA segment.

Research and development costs were \$22.8 million, \$16.1 million, and \$29.8 million for the years ended December 31, 2013, 2012 and 2011, respectively, and are included in operating expenses within the Company's consolidated statements of operations. These costs generally consist of professional services provided by third parties and compensation costs of employees.

Costs for internally developed computer software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. These costs primarily relate to the development or enhancement of credit processing software and quantitative credit risk assessment products sold by the MA segment, to be licensed to customers and generally consist of professional services provided by third parties and compensation costs of employees that develop the software. Judgment is required in determining

when technological feasibility of a product is established and the Company believes that technological feasibility for its software products is reached after all high-risk development issues have been resolved through coding and testing. Generally, this occurs shortly before the products are released to customers. Accordingly, costs for internally developed computer software that will be sold, leased or otherwise marketed that were eligible for capitalization under Topic 985 of the ASC as well as the related amortization expense related to such costs were immaterial for the years ended December 31, 2013, 2012 and 2011.

### **Computer Software Developed or Obtained for Internal Use**

The Company capitalizes costs related to software developed or obtained for internal use. These assets, included in property and equipment in the consolidated balance sheets, relate to the Company's accounting, product delivery and other systems. Such costs generally consist of direct costs for third-party license fees, professional services provided by third parties and employee compensation, in each case incurred either during the application development stage or in connection with upgrades and enhancements that increase functionality. Such costs are depreciated over their estimated useful lives on a straight-line basis. Costs incurred during the preliminary project stage of development as well as maintenance costs are expensed as incurred.

### **Long-Lived Assets, Including Goodwill and Other Acquired Intangible Assets**

Moody's evaluates its goodwill for impairment at the reporting unit level, defined as an operating segment or one level below an operating segment, annually as of July 31 or more frequently if impairment indicators arise in accordance with ASC Topic 350.

The Company evaluates the recoverability of goodwill using a three-step impairment test approach at the reporting unit level. In the first step, the Company assesses various qualitative factors to determine whether the fair value of a reporting unit may be less than its carrying amount. If a determination is made that, based on the qualitative factors, an impairment does not exist, the Company is not required to perform further testing. If the aforementioned qualitative assessment results in the Company concluding that it is more likely than not that the fair value of a reporting unit may be less than its carrying amount, the fair value of the reporting unit will be determined and compared to its carrying value including goodwill. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and the Company is not required to perform further testing. If the fair value of the reporting unit is less than the carrying value, the Company must perform a third step of the impairment test to determine the implied fair value of the reporting unit's goodwill. The implied fair value of the goodwill is determined based on the difference between the fair value of the reporting unit and the net fair value of the identifiable assets and liabilities of the reporting unit. If the implied fair value of the goodwill is less than its carrying value, the difference is recognized as an impairment charge. For the reporting units where the Company is consistently able to conclude on impairment using only a qualitative approach, the Company's accounting policy is to perform the second step of the aforementioned goodwill impairment assessment at least once every three years. Goodwill is assigned to a reporting unit at the date when an acquisition is integrated into one of the established reporting units, and is based on which reporting unit is expected to benefit from the synergies of the acquisition.

For purposes of assessing the recoverability of goodwill, the Company has five reporting units at December 31, 2013: one in MIS that encompasses all of Moody's ratings operations and four reporting units within MA: RD&A, ERS, Financial Services Training and Certifications and Copal Amba. The RD&A reporting unit encompasses the distribution of investor-oriented research and data developed by MIS as part of its ratings process, in-depth research on major debt issuers, industry studies, economic research and commentary on topical events and credit analytic tools. The ERS reporting unit consists of credit risk management and compliance software that is sold on a license or subscription basis as well as related advisory services for implementation and maintenance. The FSTC reporting unit consists of the portion of the MA business that offers both credit training as well as other professional development training and certification services. The Company acquired Copal and Amba in the fourth quarter of 2011 and 2013,

respectively. On the date of the acquisition of Amba, it was combined with the Copal reporting unit to form the new Copal Amba reporting unit.

Amortizable intangible assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### **Rent Expense**

The Company records rent expense on a straight-line basis over the life of the lease. In cases where there is a free rent period or future fixed rent escalations the Company will record a deferred rent liability. Additionally, the receipt of any lease incentives will be recorded as a deferred rent liability which will be amortized over the lease term as a reduction of rent expense.

### **Stock-Based Compensation**

The Company records compensation expense for all share-based payment award transactions granted to employees based on the fair value of the equity instrument at the time of grant. This includes shares issued under stock option and restricted stock plans. The Company has also established a pool of additional paid-in capital related to the tax effects of employee share-based compensation, which is available to absorb any recognized tax deficiencies.

## **Derivative Instruments and Hedging Activities**

Based on the Company's risk management policy, from time to time the Company may use derivative financial instruments to reduce exposure to changes in foreign exchange rates and interest rates. The Company does not enter into derivative financial instruments for speculative purposes. All derivative financial instruments are recorded on the balance sheet at their respective fair values. The changes in the value of derivatives that qualify as fair value hedges are recorded currently into earnings. Changes in the derivative's fair value that qualify as cash flow hedges are recorded to other comprehensive income or loss, to the extent the hedge is effective, and such amounts are reclassified from accumulated other comprehensive income or loss to earnings in the same period or periods during which the hedged transaction affects income. Changes in the derivative's fair value that qualify as net investment hedges are recorded to other comprehensive income or loss, to the extent the hedge is effective.

## **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.

Pursuant to ASC Topic 605, 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 if available, third party evidence if VSOE is not available, or estimated selling price if neither VSOE nor TPE is available.

The Company's products and services will generally continue to qualify as separate units of accounting under ASC Topic 605. 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 and 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 ASC Topic 605, 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, which was approximately 30 years on a weighted average basis at December 31, 2013. At December 31, 2013, 2012 and 2011, deferred revenue related to these securities was approximately \$97 million, \$82 million, and \$79 million.

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.

MIS estimates revenue for ratings of commercial paper for which, in addition to a fixed annual monitoring fee, issuers are billed quarterly based on amounts outstanding. Revenue is accrued each quarter based on estimated amounts outstanding and is billed when actual data is available. The estimate is determined based on the issuers' most recent reported quarterly data. At December 31, 2013, 2012 and 2011, accounts receivable included approximately \$21 million, \$22 million, and \$24 million, respectively, related to accrued commercial paper revenue. Historically, MIS has not had material differences between the estimated revenue and the actual billings. Furthermore, for certain annual monitoring services, fees are not invoiced until the end of the annual monitoring period and revenue is accrued ratably over the monitoring period.

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. If uncertainty exists regarding customer acceptance of the product or service, revenue is not recognized until acceptance occurs. 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. A large portion of annual research and data subscriptions and annual software maintenance are invoiced in the months of November, December and January.

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. In cases where software implementation services are considered essential and VSOE of fair value exists for post-contract customer support ( PCS ), once the delivery criteria has been met on the standard software, license and service revenue is recognized on a percentage-of-completion basis as implementation services are performed, while PCS is recognized over the coverage period. If VSOE of fair value does not exist for PCS, once the delivery criteria has been met on the standard software, service revenue is recognized on a zero profit margin basis until essential services are complete, at which point total arrangement revenue is then spread ratably over the remaining PCS coverage period.

### **Accounts Receivable Allowances**

Moody's records an allowance for estimated future adjustments to customer billings as a reduction of revenue, based on historical experience and current conditions. Such amounts are reflected as additions to the accounts receivable allowance. Additionally, estimates of uncollectible accounts are recorded as bad debt expense and are reflected as additions to the accounts receivable allowance. Actual billing adjustments and uncollectible account write-offs are recorded against the allowance. Moody's evaluates its accounts receivable allowance by reviewing and assessing historical collection and adjustment experience and the current status of customer accounts. Moody's also considers the economic environment of the customers, both from an industry and geographic perspective, in evaluating the need for allowances. Based on its analysis, Moody's adjusts its allowance as considered appropriate in the circumstances.

## **Contingencies**

From time to time, Moody's is involved in legal and tax proceedings, governmental investigations and inquiries, claims and litigation that are incidental to the Company's business, including claims based on ratings assigned by MIS. Moody's is also subject to ongoing tax audits in the normal course of business. Management periodically assesses the Company's liabilities and contingencies in connection with these matters based upon the latest information available. Moody's discloses material pending legal proceedings pursuant to SEC rules and other pending matters as it may determine to be appropriate.

For claims, litigation and proceedings and governmental investigations and inquiries not related to income taxes, where it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated, the Company records liabilities in the consolidated financial statements and periodically adjusts these as appropriate. When the reasonable estimate of the loss is within a range of amounts, the minimum amount of the range is accrued unless some higher amount within the range is a better estimate than another amount within the range. In other instances, because of uncertainties related to the probable outcome and/or the amount or range of loss, management does not record a liability but discloses the contingency if significant. As additional information becomes

available, the Company adjusts its assessments and estimates of such matters accordingly. In view of the inherent difficulty of predicting the outcome of litigation, regulatory, governmental investigations and inquiries, enforcement and similar matters, particularly where the claimants seek large or indeterminate damages or where the parties assert novel legal theories or the matters involve a large number of parties, the Company cannot predict what the eventual outcome of the pending matters will be or the timing of any resolution of such matters. The Company also cannot predict the impact (if any) that any such matters may have on how its business is conducted, on its competitive position or on its financial position, results of operations or cash flows. As the process to resolve any pending matters progresses, management will continue to review the latest information available and assess its ability to predict the outcome of such matters and the effects, if any, on its operations and financial condition. However, in light of the large or indeterminate damages sought in some of them, the absence of similar court rulings on the theories of law asserted and uncertainties regarding apportionment of any potential damages, an estimate of the range of possible losses cannot be made at this time.

The Company's wholly-owned insurance subsidiary insures the Company against certain risks including but not limited to deductibles for worker's compensation, employment practices litigation and employee medical claims and terrorism, for which the claims are not material to the Company. In addition, for claim years 2008 and 2009, the insurance subsidiary insured the Company for defense costs related to professional liability claims. For matters insured by the Company's insurance subsidiary, Moody's records liabilities based on the estimated total claims expected to be paid and total projected costs to defend a claim through its anticipated conclusion. The Company determines liabilities based on an assessment of management's best estimate of claims to be paid and legal defense costs as well as actuarially determined estimates. The Cheyne SIV and Rhinebridge SIV matters more fully discussed in Note 18 are both cases from the 2008/2009 claims period, and accordingly these matters are covered by the Company's insurance subsidiary. Defense costs for matters not self-insured by the Company's wholly-owned insurance subsidiary are expensed as services are provided.

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.

### **Operating Expenses**

Operating expenses include costs associated with the development and production of the Company's products and services and their delivery to customers. These expenses principally include employee compensation and benefits and travel costs that are incurred in connection with these activities. Operating expenses are charged to income as incurred, except for certain costs related to software implementation services which are deferred until related revenue is recognized. Additionally, certain costs incurred to develop internal use software are capitalized and depreciated over their estimated useful life.

### **Selling, General and Administrative Expenses**

SG&A expenses include such items as compensation and benefits for corporate officers and staff and compensation and other expenses related to sales of products. They also include items such as office rent, business insurance, professional fees and gains and losses from sales and disposals of assets. SG&A expenses are charged to income as incurred, except for certain expenses incurred to develop internal use software are capitalized and depreciated over their estimated useful life.

### **Redeemable Noncontrolling Interest**



The Company records its redeemable noncontrolling interest at fair value on the date of the related business combination transaction. The redeemable noncontrolling interest represents noncontrolling shareholders' interest in entities which are controlled but not wholly-owned by Moody's and for which Moody's obligation to redeem the minority shareholders' interest is governed by a put/call relationship. Subsequent to the initial measurement, the redeemable noncontrolling interest is recorded at the greater of its redemption value or its carrying value at the end of each reporting period. If the redeemable noncontrolling interest is carried at its redemption value, the difference between the redemption value and the carrying value would be adjusted through capital surplus at the end of each reporting period. The Company also performs a quarterly assessment to determine if the aforementioned redemption value exceeds the fair value of the redeemable noncontrolling interest. If the redemption value of the redeemable noncontrolling interest were to exceed its fair value, the excess would reduce the net income attributable to Moody's shareholders.

### **Foreign Currency Translation**

For all operations outside the U.S. where the Company has designated the local currency as the functional currency, assets and liabilities are translated into U.S. dollars using end of year exchange rates, and revenue and expenses are translated using average exchange rates for the year. For these foreign operations, currency translation adjustments are accumulated in a separate component of shareholders' equity.

## **Comprehensive Income**

Comprehensive income represents the change in net assets of a business enterprise during a period due to transactions and other events and circumstances from non-owner sources including foreign currency translation impacts, net actuarial losses and net prior service costs related to pension and other retirement plans and gains and losses on derivative instruments.

## **Income Taxes**

The Company accounts for income taxes under the asset and liability method in accordance with ASC Topic 740. Therefore, income tax expense is based on reported income before income taxes and deferred income taxes reflect the effect of temporary differences between the amounts of assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes.

The Company classifies interest related to unrecognized tax benefits as a component of interest expense in its consolidated statements of operations. Penalties are recognized in other non-operating expenses. For UTPs, the Company first determines 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.

For certain of its non-U.S. subsidiaries, the Company has deemed the undistributed earnings relating to these subsidiaries to be indefinitely reinvested within its foreign operations. Accordingly, the Company has not provided deferred income taxes on these indefinitely reinvested earnings. It is not practicable to determine the amount of deferred taxes that might be required to be provided if such earnings were distributed in the future due to complexities in the tax laws and in the hypothetical calculations that would have to be made.

## **Fair Value of Financial Instruments**

The Company's financial instruments include cash, cash equivalents, trade receivables and payables, all of which are short-term in nature and, accordingly, approximate fair value. Additionally, the Company invests in short-term investments that are carried at cost, which approximates fair value due to their short-term maturities. Also, the Company uses derivative instruments, as further described in Note 5, to manage certain financial exposures that occur in the normal course of business. These derivative instruments are carried at fair value on the Company's consolidated balance sheets. The Company also is subject to contingent consideration obligations related to certain of its acquisitions as more fully discussed in Note 9. These obligations are carried at their estimated fair value within the Company's consolidated balance sheets.

Fair value is defined by the ASC as the price that would be received from selling an asset or paid to transfer a liability (i.e., an exit price) in an orderly transaction between market participants at the measurement date. The determination of this fair value is based on the principal or most advantageous market in which the Company could commence transactions and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance. Also, determination of fair value assumes that market participants will consider the highest and best use of the asset.

The ASC establishes a fair value hierarchy whereby the inputs contained in valuation techniques used to measure fair value are categorized into three broad levels as follows:

Level 1: quoted market prices in active markets that the reporting entity has the ability to access at the date of the fair value measurement;

Level 2: inputs other than quoted market prices described in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement of the assets or liabilities.

### **Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentration of credit risk principally consist of cash and cash equivalents, short-term investments, trade receivables and derivatives.

Cash equivalents consist of investments in high quality investment-grade securities within and outside the U.S. The Company manages its credit risk exposure by allocating its cash equivalents among various money market mutual funds and issuers of high- grade commercial paper. Short-term investments primarily consist of certificates of deposit as of December 31, 2013 and 2012. The Company manages its credit risk exposure on cash equivalents and short-term investments by limiting the amount it can invest with any single issuer. No customer accounted for 10% or more of accounts receivable at December 31, 2013 or 2012.

### **Earnings per Share of Common Stock**

Basic shares outstanding is calculated based on the weighted average number of shares of common stock outstanding during the reporting period. Diluted shares outstanding is calculated giving effect to all potentially dilutive common shares, assuming that such shares were outstanding during the reporting period.

### **Pension and Other Retirement Benefits**

Moody's maintains various noncontributory DBPPs as well as other contributory and noncontributory retirement plans. The expense and assets/liabilities that the Company reports for its pension and other retirement benefits are dependent on many assumptions concerning the outcome of future events and circumstances. These assumptions represent the Company's best estimates and may vary by plan. The differences between the assumptions for the expected long-term rate of return on plan assets and actual experience is spread over a five-year period to the market related value of plan assets which is used in determining the expected return on assets component of annual pension expense. All other actuarial gains and losses are generally deferred and amortized over the estimated average future working life of active plan participants.

The Company recognizes as an asset or liability in its consolidated balance sheet the funded status of its defined benefit retirement plans, measured on a plan-by-plan basis. Changes in the funded status due to actuarial gains/losses are recorded as part of other comprehensive income during the period the changes occur.

### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Estimates are used for, but not limited to, revenue recognition, accounts receivable allowances, income taxes, contingencies, valuation of long-lived and intangible assets, goodwill, pension and other retirement benefits, stock-based compensation, and depreciation and amortization rates for property and equipment and computer software.

### **Recently Issued Accounting Pronouncements**

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". The objective of this ASU is to improve reporting by requiring entities to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in the statement of operations. The amendments in this ASU are required to be applied prospectively and are effective for reporting periods beginning after December 15, 2012. The Company has fully adopted all provisions of this ASU as of January 1, 2013, and the implementation did not have any impact on the Company's consolidated financial statements other than to provide additional footnote disclosure which is included in Note 11.

### **NOTE 3 RECONCILIATION OF WEIGHTED AVERAGE SHARES OUTSTANDING**

Below is a reconciliation of basic to diluted shares outstanding:

**Year Ended December 31,**

|   | <b>2013</b>  | <b>2012</b> | <b>2011</b> |
|---|--------------|-------------|-------------|
| Basic   | <b>219.4</b> | 223.2       | 226.3       |
| Dilutive effect of shares issuable under stock-based compensation plans   | <b>4.1</b>   | 3.4         | 3.1         |
| <b>Diluted</b>  | <b>223.5</b> | 226.6       | 229.4       |
| Antidilutive options to purchase common shares and restricted stock as well as contingently issuable restricted stock which are excluded from the table above | <b>4.0</b>   | 7.5         | 10.6        |

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 December 31, 2013, 2012 and 2011. These assumed proceeds include Excess Tax Benefits and any unrecognized compensation on the awards.

#### NOTE 4 **SHORT-TERM INVESTMENTS**

Short-term investments are securities with maturities greater than 90 days at the time of purchase that are available for use in the Company's 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 to nine months and one to 11 months as of December 31, 2013 and 2012, respectively. Interest and dividends are recorded into income when earned.

**NOTE 5 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Company is exposed to global market risks, including risks from changes in FX rates and changes in interest rates. Accordingly, the Company uses derivatives in certain instances to manage the aforementioned financial exposures that occur in the normal course of business. The Company does not hold or issue derivatives for speculative purposes.

***Interest Rate Swaps***

In the fourth quarter of 2010, the Company entered into interest rate swaps with a total notional amount of \$300 million to convert the fixed interest rate on the Series 2005-1 Notes to a floating interest rate based on the 3-month LIBOR. The purpose of this hedge was to mitigate the risk associated with changes in the fair value of the Series 2005-1 Notes, thus the Company has designated these swaps as fair value hedges. The fair value of the swaps is adjusted quarterly with a corresponding adjustment to the carrying value of the Series 2005-1 Notes. The changes in the fair value of the hedges and the underlying hedged item generally offset and the net cash settlements on the swaps are recorded each period within interest income (expense), net in the Company's consolidated statements of operations.

In May 2008, the Company entered into interest rate swaps with a total notional amount of \$150 million to protect against fluctuations in the LIBOR-based variable interest rate on the 2008 Term Loan further described in Note 15. These interest rate swaps were designated as cash flow hedges. Accordingly, changes in the fair value of these swaps were recorded to other comprehensive income or loss, to the extent that the hedge was effective, and such amounts were reclassified to earnings in the same period during which the hedged transaction affected income. The 2008 Term Loan was repaid in full in May 2013 and the interest rate swaps have matured. Accordingly, all amounts in AOCI have been reclassified to interest income (expense), net in the Company's consolidated statements of operations.

***Foreign Exchange Forwards***

The Company also enters into foreign exchange forwards to mitigate the change in fair value on certain assets and liabilities denominated in currencies other than the 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 income (expense), net in the Company's consolidated statements of operations along with the FX gain or loss recognized on the assets and liabilities denominated in a currency other than the subsidiary's functional currency. These contracts have expiration dates at various times through March 2014.

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

|   | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|---|------------------------------|------------------------------|
| <b>Notional amount of Currency Pair:</b>                  |                              |                              |
| Contracts to purchase USD with euros                      | \$ 14.2                      | \$ 34.3                      |
| Contracts to sell USD for euros                           | \$ 53.2                      | \$ 48.4                      |
| Contracts to purchase USD with GBP                        | \$                           | \$ 2.1                       |
| Contracts to sell USD for GBP                             | \$                           | \$ 1.7                       |
| Contracts to purchase USD with other foreign currencies   | \$                           | \$ 6.7                       |
| Contracts to sell USD for other foreign currencies        | \$                           | \$ 5.1                       |
| Contracts to purchase euros with other foreign currencies | <b>13.1</b>                  | 14.4                         |

|                                      |      |     |
|--------------------------------------|------|-----|
| Contracts to purchase euros with GBP | 22.1 |     |
| Contracts to sell euros for GBP      |      | 8.9 |
| <i>Net Investment Hedges</i>         |      |     |

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

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

|  | December 31,<br>2013 | December 31,<br>2012 |
|--|----------------------|----------------------|
| <b>Notional amount of Currency Pair:</b> |                      |                      |
| Contracts to sell euros for USD          | 50.0                 | 50.0                 |
| Contracts to sell Japanese yen for USD   | ¥ 19,700             | ¥                    |

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

|   |  | <b>Fair Value of Derivative Instruments</b> |                              |                              |
|---|--|---|------------------------------|------------------------------|
|   |  | <b>Balance Sheet<br/>Location</b>           | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> |
| <b>Assets:</b>  |  |   |                              |                              |
| <i>Derivatives designated as accounting hedges:</i>           |  |   |                              |                              |
| Interest rate swaps   | Other assets                             | \$  | 10.3                         | \$ 13.8                      |
| FX forwards on net investment in certain foreign subsidiaries | Other current assets                     |   | 9.3                          |                              |
| Total derivatives designated as accounting hedges             |  |   | 19.6                         | 13.8                         |
| <i>Derivatives not designated as accounting hedges:</i>       |  |   |                              |                              |
| FX forwards on certain assets and liabilities                 | Other current assets                     |   | 0.9                          | 1.4                          |
| Total   |  | \$  | 20.5                         | \$ 15.2                      |
| <b>Liabilities:</b>   |  |   |                              |                              |
| <i>Derivatives designated as accounting hedges:</i>           |  |   |                              |                              |
| Interest rate swaps   | Accounts payable and accrued liabilities | \$  |                              | \$ 0.7                       |
| FX forwards on net investment in certain foreign subsidiaries | Accounts payable and accrued liabilities |   | 1.0                          | 1.0                          |
| Total derivatives designated as accounting hedges             |  |   | 1.0                          | 1.7                          |
| <i>Derivatives not designated as accounting hedges:</i>       |  |   |                              |                              |
|   |  |   | 0.7                          | 0.7                          |



|   |  |    |     |    |     |
|---|--|----|-----|----|-----|
| FX forwards on certain assets and liabilities | Accounts payable and accrued liabilities |    |     |    |     |
| Total   |  | \$ | 1.7 | \$ | 2.4 |

The following table summarizes the net gain (loss) on the Company's foreign exchange forwards which are not designated as hedging instruments as well as the gain (loss) on the interest rate swaps designated as fair value hedges:

|  | Location on Consolidated Statements of Operations | Amount of Gain (Loss) Recognized in Consolidated Statement of Operations |        |                              |
|--|---|--|--------|------------------------------|
|  |   | 2013   | 2012   | Year Ended December 31, 2011 |
| <b>Derivatives designated as accounting hedges</b>     |   |  |        |                              |
| Interest rate swaps                                    | Interest Expense (expense), net                   | \$ 4.2   | \$ 3.6 | \$ 4.1                       |
| <b>Derivatives not designated as accounting hedges</b> |   |  |        |                              |
| Foreign exchange forwards                              | Other non-operating (expense) income              | \$ 2.1   | \$ 0.9 | \$ (1.4)                     |

The following table provides information on gains (losses) on the Company's cash flow hedges:

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion) |                 |                 | Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) | Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) |                 |                 | Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) |           |           |
|--|--|-----------------|-----------------|--|--|-----------------|-----------------|---|---|-----------|-----------|
|  | 2013   | 2012            | 2011            |  | 2013   | 2012            | 2011            |   | 2013  | 2012      | 2011      |
| FX options                                     | \$   | \$              | \$              | Revenue Interest income  | \$   | \$              | \$ (0.2)        | Revenue   | \$  | \$        | \$        |
| Interest rate swaps                            |  | (0.1)           | (0.6)           | (expense), net   | (0.7)  | (2.4)           | (3.0)           | N/A   |   |           |           |
| <b>Total</b>                                   | <b>\$</b>  | <b>\$ (0.1)</b> | <b>\$ (0.6)</b> |  | <b>\$ (0.7)</b>  | <b>\$ (2.4)</b> | <b>\$ (3.2)</b> |   | <b>\$</b>   | <b>\$</b> | <b>\$</b> |

All gains and losses on derivatives designated as cash flow hedges are initially recognized through OCI. Realized gains and losses reported in AOCI are reclassified into earnings (into revenue for FX options and into interest income (expense), net for the interest rate swaps) as the underlying transaction is recognized.

The following table provides information on gains (losses) on the Company's net investment hedges:

| Derivatives in Net Investment Hedging Relationships | Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion) | Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) | Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion) | Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) |
|---|--|--|--|---|---|
|---|--|--|--|---|---|

|             | Year               |          | Excluded from Effectiveness Testing) | Year               |      | Excluded from Effectiveness Testing) | Year               |      |
|-------------|--------------------|----------|--------------------------------------|--------------------|------|--------------------------------------|--------------------|------|
|             | Ended December 31, |          |                                      | Ended December 31, |      |                                      | Ended December 31, |      |
|             | 2013               | 2012     |                                      | 2013               | 2012 |                                      | 2013               | 2012 |
| FX forwards | \$ 3.7             | \$ (2.2) | N/A                                  | \$                 | \$   | N/A                                  | \$                 | \$   |
| Total       | \$ 3.7             | \$ (2.2) |                                      | \$                 | \$   |                                      | \$                 | \$   |

All gains and losses on derivatives designated as net investment hedges are recognized through OCI.

The cumulative amount of hedge gain (losses) recorded in AOCI relating to derivative instruments is as follows:

|                                      | Gains (Losses), net of tax |                   |
|--------------------------------------|----------------------------|-------------------|
|                                      | December 31, 2013          | December 31, 2012 |
| FX forwards on net investment hedges | \$ 1.5                     | \$ (2.2)          |
| Interest rate swaps                  |                            | (0.7)             |
| Total                                | \$ 1.5                     | \$ (2.9)          |

**NOTE 6 PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consisted of:

|   | <b>December 31,</b> |             |
|---|---------------------|-------------|
|   | <b>2013</b>         | <b>2012</b> |
| Office and computer equipment (2 – 20 year estimated useful life) | \$ 129.7            | \$ 119.7    |
| Office furniture and fixtures (5 – 10 year estimated useful life) | 40.6                | 40.3        |
| Internal-use computer software (3 – 5 year estimated useful life) | 284.9               | 263.9       |
| Leasehold improvements (3 – 20 year estimated useful life)        | 199.2               | 197.5       |
| Total property and equipment, at cost                             | 654.4               | 621.4       |
| Less: accumulated depreciation and amortization                   | (375.7)             | (314.3)     |
| Total property and equipment, net                                 | \$ 278.7            | \$ 307.1    |

Depreciation and amortization expense related to the above assets was \$65.4 million, \$63.4 million, and \$58.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.

**NOTE 7 ACQUISITIONS**

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

**Amba Investment Services**

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

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

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

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

The purchase agreement contains a provision for a contingent cash payment to the sellers valued at \$4.3 million at the acquisition date. This contingent cash payment is dependent on Amba achieving certain revenue targets for the period from the acquisition date through March 31, 2014. At December 31, 2013, financial projections for Amba indicate that it will achieve the revenue targets set forth in the purchase agreement. Any contingent consideration arising from the acquisition of Amba will be paid to the sellers during 2014.

The Company incurred approximately \$1 million of costs directly related to the acquisition of Amba during the year ended December 31, 2013. These costs, which primarily consist of consulting and legal fees, are recorded within selling, general and administrative expenses in the Company's consolidated statements of operations.

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

|   |    |      |        |
|---|----|------|--------|
| Current assets  |    | \$   | 23.7   |
| Property and equipment, net                             |    |      | 0.4    |
| Intangible assets:                                      |    |      |        |
| Trade name (7 year weighted average life)               | \$ | 3.3  |        |
| Client relationships (12 year weighted average life)    |    | 26.7 |        |
| Other (3 year weighted average life)                    |    | 1.6  |        |
| Total intangible assets (11 year weighted average life) |    |      | 31.6   |
| Goodwill  |    |      | 34.5   |
| Indemnification asset                                   |    |      | 10.4   |
| Other assets  |    |      | 2.0    |
| Liabilities assumed                                     |    |      | (31.0) |
| Net assets acquired                                     |    | \$   | 71.6   |

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

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

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

### **Barrie & Hibbert, Limited**

On December 16, 2011, a subsidiary of the Company acquired Barrie & Hibbert Limited, a provider of risk management modeling tools for insurance companies worldwide. B&H operates within the ERS LOB of MA, broadening MA's suite of software solutions for the insurance and pension sectors.

The aggregate purchase price was \$79.5 million in cash payments to the sellers and was funded by using Moody's non-U.S. cash on hand.

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

|                             |  |    |      |
|-----------------------------|--|----|------|
| Current assets              |  | \$ | 15.2 |
| Property and equipment, net |  |    | 0.7  |
| Intangible assets:          |  |    |      |

|   |    |        |
|---|----|--------|
| Trade name (5 year weighted average life)               | \$ | 1.9    |
| Client relationships (18 year weighted average life)    |    | 8.3    |
| Software (7 year weighted average life)                 |    | 16.8   |
| Other intangibles (2 year weighted average life)        |    | 0.1    |
| Total intangible assets (12 year weighted average life) |    | 27.1   |
| Goodwill  |    | 54.6   |
| Liabilities assumed                                     |    | (18.1) |
| Net assets acquired                                     | \$ | 79.5   |

Current assets include acquired cash of approximately \$10 million. The acquired goodwill will not be deductible for tax. B&H operates within the ERS reporting unit and goodwill associated with the acquisition was part of the ERS reporting unit within the MA segment as of the acquisition date.

The Company incurred approximately \$1 million of costs directly related to the acquisition of B&H during the year ended December 31, 2011. These costs, which primarily consisted of consulting and legal fees, are recorded within selling, general and administrative expenses in the Company's consolidated statements of operations.

## Copal Partners

On November 4, 2011, subsidiaries of the Company acquired a 67% interest in Copal Partners Limited and a 100% interest in two related entities that were wholly-owned by Copal Partners Limited (together herein referred to as Copal ). These acquisitions resulted in the Company obtaining an approximate 75% economic ownership interest in the Copal group of companies. Copal is a provider of outsourced research and consulting services to the financial services industry. Copal operates within the PS LOB of MA and complements the other product and services offered by MA. The table below details the total consideration transferred to the sellers of Copal:

|   |        |           |
|---|--------|-----------|
| Cash paid   | \$     | 125.0     |
| Put/call option for non-controlling interest      |        | 68.0      |
| Contingent consideration liability assumed        |        | 6.8       |
| <br>Total fair value of consideration transferred | <br>\$ | <br>199.8 |

In conjunction with the purchase, the Company and the non-controlling shareholders entered into a put/call option agreement whereby the Company has the option to purchase from the non-controlling shareholders and the non-controlling shareholders have the option to sell to the Company the remaining 33% ownership interest of Copal Partners Limited based on a strike price to be calculated on pre-determined formulas using a combination of revenue and EBITDA multiples when exercised. The value of the estimated put/call option strike price on the date of acquisition was based on a Monte Carlo simulation model. This model contemplated multiple scenarios which simulated certain of Copal's revenue, EBITDA margins and equity values to estimate the present value of the expected strike price of the option. In connection with the acquisition of Amba in December 2013, which was combined with Copal to form the Copal Amba reporting unit, the aforementioned revenue and EBITDA multiples set forth in the original put/call option agreement were modified to include the results of Amba. The option is subject to a minimum exercise price of \$46 million. There is no limit as to the maximum amount of the strike price on the put/call option.

Additionally, as part of the consideration transferred, the Company issued a note payable of \$14.2 million to the sellers which is more fully discussed in Note 15. The Company has a right to reduce the amount payable under this note in accordance with certain indemnification arrangements which are more fully discussed below. Accordingly, this note payable is not carried on the consolidated balance sheet as of December 31, 2013 and 2012 in accordance with these indemnification arrangements.

Also, the purchase agreement contains several different provisions for contingent cash payments to the sellers valued at \$6.8 million at the acquisition date. A portion of the contingent cash payments are based on revenue and EBITDA growth for certain of the acquired Copal entities. This growth is calculated by comparing revenue and EBITDA in the year immediately prior to the exercise of the aforementioned put/call option to revenue and EBITDA in the year ended December 31, 2011. There are no limitations set forth in the acquisition agreement relating to the amount payable under this contingent payment arrangement. Payments under this arrangement, if any, would be made upon the exercise of the put/call option. Other contingent cash payments, which have been fully settled as of December 31, 2013, were based on the achievement of revenue targets for 2012 and 2013, with certain limits on the amount of revenue that can be applied to the calculation of the contingent payment. Further information on the inputs and methodologies utilized to derive the fair value of these contingent consideration liabilities outstanding at December 31, 2013 are discussed in Note 9.

The Company incurred approximately \$7 million of costs directly related to the acquisition of Copal during the year ended December 31, 2011. These costs, which primarily consist of consulting and legal fees, are recorded within



selling, general and administrative expenses in the Company's consolidated statements of operations.

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

|   |    |      |        |
|---|----|------|--------|
| Current assets  |    | \$   | 15.5   |
| Property and equipment, net                             |    |      | 0.5    |
| Intangible assets:                                      |    |      |        |
| Trade name (15 year weighted average life)              | \$ | 8.6  |        |
| Client relationships (16 year weighted average life)    |    | 66.2 |        |
| Other (2 year weighted average life)                    |    | 4.4  |        |
| Total intangible assets (15 year weighted average life) |    |      | 79.2   |
| Goodwill  |    |      | 136.9  |
| Indemnification asset                                   |    |      | 18.8   |
| Other assets  |    |      | 6.6    |
| Liabilities assumed                                     |    |      | (57.7) |
| Net assets acquired                                     |    | \$   | 199.8  |

Current assets include acquired cash of approximately \$7 million. The acquired goodwill, which has been assigned to the MA segment, will not be deductible for tax.

In connection with the acquisition, the Company assumed liabilities relating to UTPs. These UTPs are included in the liabilities assumed in the table above. The sellers have contractually indemnified the Company against any potential payments that may have to be made regarding these UTPs. Under the terms of the acquisition agreement, a portion of the purchase price was remitted to an escrow agent for various uncertainties associated with the transaction of which a portion relates to these UTPs. Additionally, the Company is contractually indemnified for payments in excess of the amount paid into escrow via a reduction to the amount payable under the aforementioned note payable issued to the sellers. Accordingly, the Company carries an indemnification asset on its consolidated balance sheet at December 31, 2013 and 2012 for which a portion has been offset by the note payable in the amount of \$14.2 million.

As of the date of this acquisition through the Amba acquisition date, Copal operated as its own reporting unit. Accordingly, goodwill associated with the acquisition was part of the Copal reporting unit within the MA segment through December 10, 2013. On December 10, 2013, Amba was combined with the Copal reporting unit to form the new Copal Amba reporting unit.

#### NOTE 8 GOODWILL AND OTHER ACQUIRED INTANGIBLE ASSETS

The following table summarizes the activity in goodwill:

|             |            | Year Ended December 31, 2013 |            |              |            |
|-------------|------------|------------------------------|------------|--------------|------------|
| MIS         |            | MA                           |            | Consolidated |            |
| Accumulated | Net        | Accumulated                  | Net        | Accumulated  | Net        |
| Goodwill    | Impairment | Goodwill                     | Impairment | Goodwill     | Impairment |
|             | Goodwill   |                              | Goodwill   |              | Goodwill   |

|  | Charge  |         | Charge   |           | Charge   |          |           |          |
|--|---------|---------|----------|-----------|----------|----------|-----------|----------|
| Balance at beginning of year             | \$ 11.5 | \$ 11.5 | \$ 637.8 | \$ (12.2) | \$ 625.6 | \$ 649.3 | \$ (12.2) | \$ 637.1 |
| Additions/adjustments                    |         |         | 34.5     |           | 34.5     | 34.5     |           | 34.5     |
| Foreign currency translation adjustments | (0.1)   | (0.1)   | (6.3)    |           | (6.3)    | (6.4)    |           | (6.4)    |
| Ending balance                           | \$ 11.4 | \$ 11.4 | \$ 666.0 | \$ (12.2) | \$ 653.8 | \$ 677.4 | \$ (12.2) | \$ 665.2 |

|  | Year Ended December 31, 2012              |                 |   |                 |   |                 |   |                 |
|--|---|-----------------|---|-----------------|---|-----------------|---|-----------------|
|  | MIS                                       |                 | MA  |                 |   | Consolidated    |   |                 |
|  | Accumulated<br>Gross Impairment<br>Charge | Net<br>Goodwill | Accumulated<br>Gross Impairment<br>Charge | Net<br>Goodwill | Accumulated<br>Gross Impairment<br>Charge | Net<br>Goodwill | Accumulated<br>Gross Impairment<br>Charge | Net<br>Goodwill |
| Balance at beginning of year             | \$ 11.0                                   | \$ 11.0         | \$ 631.9                                  | \$ 631.9        | \$ 642.9                                  | \$ 642.9        | \$ 642.9                                  | \$ 642.9        |
| Additions/adjustments                    |   |                 | (4.4)                                     | (4.4)           | (4.4)                                     | (4.4)           | (4.4)                                     | (4.4)           |
| Impairment charge                        |   |                 |   | (12.2)          | (12.2)                                    | (12.2)          | (12.2)                                    | (12.2)          |
| Foreign currency translation adjustments | 0.5                                       | 0.5             | 10.3                                      | 10.3            | 10.8                                      | 10.8            | 10.8                                      | 10.8            |
| Ending balance                           | \$ 11.5                                   | \$ 11.5         | \$ 637.8                                  | \$ 625.6        | \$ 649.3                                  | \$ 649.3        | \$ 637.1                                  | \$ 637.1        |

The 2013 additions for the MA segment relate to the acquisition of Amba in the fourth quarter of 2013. The 2012 additions/adjustments for the MA segment relate to the acquisitions of Copal and B&H in the fourth quarter of 2011, more fully discussed in Note 7.

The impairment charge in the table above relates to goodwill in the FSTC reporting unit within MA. The Company evaluates its goodwill for potential impairment annually on July 31 or more frequently if impairment indicators arise throughout the year. Projected operating results for the FSTC reporting unit at December 31, 2012 were lower than projections utilized for the annual impairment analysis performed at July 31, 2012 reflecting a contraction in spending for training and certification services at the time for many individuals and global financial institutions amidst macroeconomic uncertainties in the prior year. Based on this trend and overall macroeconomic uncertainties at the time, the Company lowered its cash flow forecasts for this reporting unit in the fourth quarter of 2012. Accordingly, the Company performed another goodwill impairment assessment as of December 31, 2012 which resulted in an impairment charge of \$12.2 million. The fair value of the FSTC reporting unit utilized in the impairment assessment was estimated using a discounted cash flow methodology and comparable public company and precedent transaction multiples. There was no goodwill impairment in 2013.

Acquired intangible assets consisted of:

|                            | December 31, |          |
|----------------------------|--------------|----------|
|                            | 2013         | 2012     |
| Customer relationships     | \$ 237.4     | \$ 219.6 |
| Accumulated amortization   | (86.6)       | (74.0)   |
| Net customer relationships | 150.8        | 145.6    |
| Trade secrets              | 31.1         | 31.4     |
| Accumulated amortization   | (18.5)       | (16.0)   |
| Net trade secrets          | 12.6         | 15.4     |
| Software                   | 71.0         | 73.2     |
| Accumulated amortization   | (38.8)       | (33.7)   |

|                          |                 |          |
|--------------------------|-----------------|----------|
| Net software             | <b>32.2</b>     | 39.5     |
| Trade names              | <b>31.3</b>     | 28.3     |
| Accumulated amortization | <b>(11.7)</b>   | (10.3)   |
| Net trade names          | <b>19.6</b>     | 18.0     |
| Other                    | <b>26.1</b>     | 24.9     |
| Accumulated amortization | <b>(19.7)</b>   | (16.9)   |
| Net other                | <b>6.4</b>      | 8.0      |
| Total                    | <b>\$ 221.6</b> | \$ 226.5 |

Other intangible assets primarily consist of databases and covenants not to compete. Amortization expense relating to intangible assets is as follows:

|                      | Year Ended December 31, |         |         |
|----------------------|-------------------------|---------|---------|
|                      | 2013                    | 2012    | 2011    |
| Amortization expense | \$ 28.0                 | \$ 30.1 | \$ 20.5 |

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

| Year Ended December 31, |         |
|-------------------------|---------|
| 2014                    | \$ 25.9 |
| 2015                    | 24.3    |
| 2016                    | 23.7    |
| 2017                    | 21.0    |
| 2018                    | 16.0    |
| Thereafter              | 110.7   |

Amortizable intangible assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In conjunction with the assessment of goodwill impairment at July 31, 2012, the Company reviewed the recoverability of certain customer lists within its FSTC reporting unit. This review resulted in an impairment of approximately \$1 million in the third quarter of 2012 which is recorded in depreciation and amortization expense in the consolidated statement of operations. The fair value of these customer lists was determined using a discounted cash flow analysis. The Company again reviewed the recoverability of these customer lists in the fourth quarter of 2012 in conjunction with the quantitative goodwill impairment test performed at December 31, 2012 for the FSTC reporting unit. Based on this assessment, there was no further impairment of the customer lists in the fourth quarter of 2012. For all intangible assets, there were no such events or changes during 2013 that would indicate that the carrying amount of amortizable intangible assets in any of the Company's reporting units may not be recoverable. This determination was made based on improving market conditions for the reporting unit where the intangible asset resides and an assessment of projected cash flows for all reporting units. Additionally, there were no events or circumstances during 2013 that would indicate the need for an adjustment of the remaining useful lives of these amortizable intangible assets.

#### NOTE 9 FAIR VALUE

The table below presents information about items, which are carried at fair value on a recurring basis at December 31, 2013 and 2012:

|                            | Fair Value Measurement as of December 31, 2013 |         |         |         |         |
|----------------------------|--|---------|---------|---------|---------|
|                            | Description                                    | Balance | Level 1 | Level 2 | Level 3 |
| <b>Assets:</b>             |  |         |         |         |         |
| Derivatives <sup>(a)</sup> | \$ 20.5  | \$      | \$ 20.5 | \$      |         |

|   |    |      |    |    |      |         |
|---|----|------|----|----|------|---------|
| Total   | \$ | 20.5 | \$ | \$ | 20.5 | \$      |
| <b>Liabilities:</b>   |    |      |    |    |      |         |
| Derivatives <sup>(a)</sup>  | \$ | 1.7  | \$ | \$ | 1.7  | \$      |
| Contingent<br>consideration<br>arising from<br>acquisitions<br><sup>(b)</sup> |    | 17.5 |    |    |      | 17.5    |
| Total   | \$ | 19.2 | \$ | \$ | 1.7  | \$ 17.5 |

| Fair Value Measurement as of December 31, 2012                    |                |           |                |           |            |
|---|----------------|-----------|----------------|-----------|------------|
| Description   | Balance        | Level 1   | Level 2        | Level 3   |            |
| <b>Assets:</b>  |                |           |                |           |            |
| Derivatives <sup>(a)</sup>  | \$ 15.2        | \$        | \$ 15.2        | \$        |            |
| <b>Total</b>  | <b>\$ 15.2</b> | <b>\$</b> | <b>\$ 15.2</b> | <b>\$</b> |            |
| <b>Liabilities:</b>   |                |           |                |           |            |
| Derivatives <sup>(a)</sup>  | \$ 2.4         | \$        | \$ 2.4         | \$        |            |
| Contingent consideration arising from acquisitions <sup>(b)</sup> | 9.0            |           |                |           | 9.0        |
| <b>Total</b>  | <b>\$ 11.4</b> | <b>\$</b> | <b>\$ 2.4</b>  | <b>\$</b> | <b>9.0</b> |

(a) Represents interest rate swaps and FX forwards on certain assets and liabilities as well as on certain non-U.S. dollar net investments in certain foreign subsidiaries more fully discussed in Note 5

(b) Represents contingent consideration liabilities pursuant to the agreements for certain MA acquisitions. The following table summarizes the changes in the fair value of the Company's Level 3 liabilities:

|   | Contingent Consideration Year Ended December 31, |               |
|---|--|---------------|
|   | 2013   | 2012          |
| Balance as of January 1                                 | \$ 9.0   | \$ 9.1        |
| Contingent consideration assumed in acquisition of Amba | 4.3  |               |
| Contingent consideration payments                       | (2.5)  | (0.5)         |
| Losses included in earnings                             | 6.9  | 0.1           |
| Foreign currency translation adjustments                | (0.2)  | 0.3           |
| <b>Balance as of December 31</b>                        | <b>\$ 17.5</b>                                   | <b>\$ 9.0</b> |

The losses included in earnings in the table above are recorded within SG&A expenses in the Company's consolidated statements of operations and relate to contingent consideration obligations outstanding at December 31, 2013.

Of the \$17.5 million of contingent consideration obligations as of December 31, 2013, \$4.3 million is classified in accounts payable and accrued liabilities and \$13.2 million is classified in other liabilities within the Company's consolidated balance sheet.



The following are descriptions of the methodologies utilized by the Company to estimate the fair value of its derivative contracts and contingent consideration obligations:

**Derivatives:**

In determining the fair value of the derivative contracts in the table above, the Company utilizes industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using spot rates, forward points, currency volatilities, interest rates as well as the risk of non-performance of the Company and the counterparties with whom it has derivative contracts. The Company established strict counterparty credit guidelines and only enters into transactions with financial institutions that adhere to these guidelines. Accordingly, the risk of counterparty default is deemed to be minimal.

**Contingent Consideration:**

At December 31, 2013, the Company has contingent consideration obligations related to the acquisitions of CSI, Copal and Amba which are carried at estimated fair value, and are based on certain financial and non-financial metrics set forth in the acquisition agreements. These obligations are measured using Level 3 inputs as defined in the ASC. The Company has recorded the obligations for these contingent consideration arrangements on the date of each respective acquisition based on management's best estimates of the achievement of the metrics and the value of the obligations are adjusted quarterly.

The contingent consideration obligation for CSI is based on the achievement of a certain contractual milestone by January 2016. The Company utilizes a discounted cash flow methodology to value this obligation. The future expected cash flow for this obligation is discounted using an interest rate available to borrowers with similar credit risk profiles to that of the Company. The most significant unobservable input involved in the measurement of this obligation is the probability that the milestone will be reached by January 2016. At December 31, 2013, the Company expects that this milestone will be reached by the aforementioned date.

For certain of the contingent consideration obligations relating to the acquisition of Copal, a portion of the contingent cash payments are based on revenue and EBITDA growth for certain of the Copal entities. This growth is calculated by comparing revenue and EBITDA in the year immediately prior to the exercise of the put/call option to acquire the remaining 33% ownership interest of Copal Partners Limited which the Company does not currently own, to revenue and EBITDA in Copal's fiscal year ended March 31, 2011. There are no limitations set forth in the acquisition agreement relating to the amount payable under this contingent consideration arrangement. Payments under this arrangement, if any, would be made upon the exercise of the aforementioned put/call option, which expires in November 2017. Other contingent cash payments were based on the achievement of revenue targets for Copal's fiscal year ended March 31, 2012 and 2013, with certain limits on the amount of revenue that could be applied to the calculation of these contingent payments. Each of these contingent payments had a maximum payout of \$2.5 million and have been settled as of December 31, 2013. The Company utilizes discounted cash flow methodologies to value these obligations. The expected future cash flows for the outstanding obligations are discounted using a risk-free interest rate plus a credit spread based on the option adjusted spread of the Company's publicly traded debt as of the valuation date. The most significant unobservable input involved in the measurement of these obligations is the projected future financial results of the applicable Copal entities. Also, the remaining outstanding obligations are dependent upon the exercise of the call/put option and the Company has utilized a Monte Carlo simulation model to estimate when the option will be exercised, thus triggering the payment of contingent consideration.

For the contingent consideration obligations relating to the acquisition of Amba, the payment is based on the acquired entity achieving a revenue target for its fiscal year ended March 31, 2014. The Company has utilized a discounted cash flow methodology to value this obligation. Due to the short proximity from the Company's year end to the anticipated payment date in 2014, the expected gross payments of \$4.3 million due to the sellers approximates fair value at December 31, 2013. The most significant unobservable input involved in the measurement of this obligation is the probability that Amba will meet the aforementioned revenue target. At December 31, 2013, the Company expects that Amba will meet this revenue target and that \$4.3 million in contingent consideration payments will be made in 2014.

A significant increase or decrease in any of the aforementioned significant unobservable inputs related to the fair value measurement of the Company's contingent consideration obligations would result in a significantly higher or lower reported fair value for these obligations.

**NOTE 10 DETAIL OF CERTAIN BALANCE SHEET INFORMATION**

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

|                                   | December 31,    |                |
|-----------------------------------|-----------------|----------------|
|                                   | 2013            | 2012           |
| <i>Other current assets:</i>      |                 |                |
| Prepaid taxes                     | \$ 40.0         | \$ 31.8        |
| Prepaid expenses                  | 48.1            | 47.3           |
| Other                             | 26.3            | 12.8           |
| <b>Total other current assets</b> | <b>\$ 114.4</b> | <b>\$ 91.9</b> |

|  | December 31,    |                |
|--|-----------------|----------------|
|  | 2013            | 2012           |
| <i>Other assets:</i>                           |                 |                |
| Investments in joint ventures                  | \$ 37.5         | \$ 38.3        |
| Deposits for real-estate leases                | 10.3            | 10.0           |
| Indemnification assets related to acquisitions | 27.0            | 18.7           |
| Other  | 37.3            | 29.0           |
| <b>Total other assets</b>                      | <b>\$ 112.1</b> | <b>\$ 96.0</b> |

|  | December 31,    |                 |
|--|-----------------|-----------------|
|  | 2013            | 2012            |
| <i>Accounts payable and accrued liabilities:</i>             |                 |                 |
| Salaries and benefits  | \$ 77.1         | \$ 79.2         |
| Incentive compensation                                       | 135.9           | 162.6           |
| Profit sharing contribution                                  |                 | 12.6            |
| Customer credits, advanced payments and advanced billings    | 21.7            | 21.5            |
| Self-insurance reserves                                      | 27.6            | 55.8            |
| Dividends  | 65.5            | 47.7            |
| Professional service fees                                    | 32.9            | 30.2            |
| Interest accrued on debt                                     | 36.3            | 23.4            |
| Accounts payable   | 16.4            | 14.3            |
| Income taxes (see Note 14)                                   | 47.5            | 56.1            |
| Pension and other retirement employee benefits (see Note 12) | 7.0             | 4.4             |
| Other  | 71.0            | 47.5            |
| <b>Total accounts payable and accrued liabilities</b>        | <b>\$ 538.9</b> | <b>\$ 555.3</b> |

|  | <b>December 31,</b> |                 |
|--|---------------------|-----------------|
|  | <b>2013</b>         | <b>2012</b>     |
| <i>Other liabilities:</i>                                    |                     |                 |
| Pension and other retirement employee benefits (see Note 12) | \$ <b>164.0</b>     | \$ 213.3        |
| Deferred rent-non-current portion                            | <b>106.3</b>        | 110.2           |
| Interest accrued on UTPs                                     | <b>18.0</b>         | 10.6            |
| Legacy and other tax matters                                 | <b>15.4</b>         | 37.1            |
| Other  | <b>56.5</b>         | 38.9            |
| <b>Total other liabilities</b>                               | <b>\$ 360.2</b>     | <b>\$ 410.1</b> |

**Redeemable Noncontrolling Interest:**

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

| (in millions)                                | Year Ended December 31,                   |                |
|--|---|----------------|
|  | 2013                                      | 2012           |
|  | <b>Redeemable Noncontrolling Interest</b> |                |
| <b>Balance January 1,</b>                    | <b>\$ 72.3</b>                            | <b>\$ 60.5</b> |
| Adjustment due to right of offset for UTPs * |   | 6.8            |
| Net earnings                                 | <b>5.8</b>                                | 3.6            |
| Dividends                                    | <b>(6.0)</b>                              | (3.6)          |
| FX translation                               |   | 1.6            |
| Adjustment to redemption value               | <b>7.9</b>                                | 3.4            |
| <b>Balance December 31,</b>                  | <b>\$ 80.0</b>                            | <b>\$ 72.3</b> |

\* Relates to an adjustment for the right of offset pursuant to the Copal acquisition agreement whereby the amount due to the sellers under the put/call arrangement is reduced by the amount of UTPs that the Company may be required to pay. See Note 7 for further detail on this arrangement.

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

| (in millions)               | Year Ended December 31, |                |                |
|-----------------------------|-------------------------|----------------|----------------|
|                             | 2013                    | 2012           | 2011           |
| <b>Balance January 1,</b>   | <b>\$ 55.8</b>          | <b>\$ 27.1</b> | <b>\$ 30.0</b> |
| Accruals (reversals), net   | <b>(0.9)</b>            | 38.1           | 10.9           |
| Payments                    | <b>(27.3)</b>           | (9.4)          | (13.8)         |
| <b>Balance December 31,</b> | <b>\$ 27.6</b>          | <b>\$ 55.8</b> | <b>\$ 27.1</b> |

Refer to the Contingencies accounting policy in Note 2 for further information on the Company's self-insurance reserves. These reserves primarily relate to legal defense costs for claims from 2008 and 2009.

**NOTE 11 COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME**

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

|  | Year Ended<br>December 31,<br>2013 | Affected Line in the<br>Consolidated Statement of<br>Operation |
|--|------------------------------------|--|
| <b>Gains/(losses) on foreign translation adjustments</b>                                     |                                    |  |
| Liquidation of foreign subsidiary  | \$ (1.4)                           | Other non-operating<br>income (expense), net                   |
| <b>Total gains/(losses) on foreign translation<br/>adjustments</b>                           | <b>(1.4)</b>                       |  |
| <b>Gains/(losses) on cash flow hedges</b>  |                                    |  |
| Interest rate swap derivative contracts  | (1.2)                              | Interest income (expense), net                                 |
| Income tax effect of item above  | 0.5                                | Provision for income taxes                                     |
| <b>Total gains/(losses) on cash flow hedges</b>  | <b>(0.7)</b>                       |  |
| <b>Pension and other retirement benefits</b>   |                                    |  |
| Amortization of actuarial losses and prior service costs<br>included in net income           | (7.6)                              | Operating expense  |
| Amortization of actuarial losses and prior service costs<br>included in net income           | (4.3)                              | SG&A expense   |
| Total before income taxes  | (11.9)                             |  |
| Income tax effect of item above  | 4.9                                | Provision for income tax                                       |
| <b>Total pension and other retirement benefits</b>   | <b>(7.0)</b>                       |  |
| <b>Total losses included in Net Income attributable to<br/>reclassifications out of AOCI</b> | <b>\$ (9.1)</b>                    |  |

Changes in AOCI by component (net of tax) for the period ended December 31, 2013:

|   | Year Ended December 31, 2013   |   |  |    | Total  |
|---|--|---|--|----|--------|
|   | Gains/(losses)<br>on<br>Cash Flow<br>and Net<br>Investment<br>Hedges | Pension and<br>Other Retirement<br>Benefits | Foreign Currency<br>Translation<br>Adjustments |    |        |
| Balance December 31, 2012                                       | \$ (2.9)   | \$ (90.1)                                   | \$ 10.9  | \$ | (82.1) |
| Other comprehensive<br>income/(loss) before<br>reclassification | 3.7  | 29.9  | (15.2)   |    | 18.4   |
| Amounts reclassified from<br>AOCI                               | 0.7  | 7.0   | 1.4  |    | 9.1    |
| Other comprehensive<br>income/(loss)                            | 4.4  | 36.9  | (13.8)   |    | 27.5   |
| Balance December 31, 2013                                       | \$ 1.5   | \$ (53.2)                                   | \$ (2.9)                                       | \$ | (54.6) |

## NOTE 12 PENSION AND OTHER RETIREMENT BENEFITS

### U.S. Plans

Moody's maintains funded and unfunded noncontributory Defined Benefit Pension Plans. The U.S. plans provide defined benefits using a cash balance formula based on years of service and career average salary or final average pay for selected executives. The Company also provides certain healthcare and life insurance benefits for retired U.S. employees. The retirement healthcare plans are contributory; the life insurance plans are noncontributory. Moody's funded and unfunded U.S. pension plans, the U.S. retirement healthcare plans and the U.S. retirement life insurance plans are collectively referred to herein as the Retirement Plans. The U.S. retirement healthcare plans and the U.S. retirement life insurance plans are collectively referred to herein as the Other Retirement Plans. Effective at the Distribution Date, Moody's assumed responsibility for the pension and other retirement benefits relating to its active employees. New D&B has assumed responsibility for the Company's retirees and vested terminated employees as of the Distribution Date.

Through 2007, substantially all U.S. employees were eligible to participate in the Company's DBPPs. Effective January 1, 2008, the Company no longer offers DBPPs to employees hired or rehired on or after January 1, 2008 and new hires instead will receive a retirement contribution in similar benefit value under the Company's Profit Participation Plan. Current participants of the Company's DBPPs continue to accrue benefits based on existing plan benefit formulas.

Following is a summary of changes in benefit obligations and fair value of plan assets for the Retirement Plans for the years ended December 31:

|   | Pension Plans |            | Other Retirement Plans |           |
|---|---------------|------------|------------------------|-----------|
|   | 2013          | 2012       | 2013                   | 2012      |
| Change in benefit obligation:                         |               |            |                        |           |
| Benefit obligation, beginning of the period           | \$ (356.3)    | \$ (298.8) | \$ (21.8)              | \$ (20.2) |
| Service cost  | (19.8)        | (18.9)     | (1.7)                  | (1.5)     |
| Interest cost   | (13.5)        | (13.1)     | (0.8)                  | (0.7)     |
| Plan participants contributions                       |               |            | (0.3)                  | (0.3)     |
| Benefits paid   | 5.3           | 5.7        | 0.6                    | 1.0       |
| Actuarial gain (loss)                                 | (0.7)         | (11.0)     | 1.0                    | 1.1       |
| Assumption changes                                    | 37.9          | (20.2)     | 2.3                    | (1.2)     |
| Benefit obligation, end of the period                 | (347.1)       | (356.3)    | (20.7)                 | (21.8)    |
| Change in plan assets:                                |               |            |                        |           |
| Fair value of plan assets, beginning of the period    | 167.6         | 133.0      |                        |           |
| Actual return on plan assets                          | 23.0          | 19.0       |                        |           |
| Benefits paid   | (5.3)         | (5.7)      | (0.6)                  | (1.0)     |
| Employer contributions                                | 19.3          | 21.3       | 0.3                    | 0.7       |
| Plan participants contributions                       |               |            | 0.3                    | 0.3       |
| Benefit obligation, end of the period                 | 204.6         | 167.6      |                        |           |
| Funded Status of the plans                            | (142.5)       | (188.7)    | (20.7)                 | (21.8)    |
| Amounts recorded on the consolidated balance sheets:  |               |            |                        |           |
| Pension and retirement benefits liability current     | (6.2)         | (3.6)      | (0.8)                  | (0.8)     |
| Pension and retirement benefits liability non current | (136.3)       | (185.1)    | (19.9)                 | (21.0)    |
| Net amount recognized                                 | \$ (142.5)    | \$ (188.7) | \$ (20.7)              | \$ (21.8) |
| Accumulated benefit obligation, end of the period     | \$ (298.5)    | \$ (298.4) |                        |           |

The following information is for those pension plans with an accumulated benefit obligation in excess of plan assets:



|  | <b>December 31,</b> |             |
|--|---------------------|-------------|
|  | <b>2013</b>         | <b>2012</b> |
| Aggregate projected benefit obligation   | \$ 347.1            | \$ 356.3    |
| Aggregate accumulated benefit obligation | \$ 298.5            | \$ 298.4    |
| Aggregate fair value of plan assets      | \$ 204.6            | \$ 167.6    |

The following table summarizes the pre-tax net actuarial losses and prior service cost recognized in AOCI for the Company's Retirement Plans as of December 31:

|                                  | <b>Pension Plans</b> |             | <b>Other Retirement Plans</b> |             |
|----------------------------------|----------------------|-------------|-------------------------------|-------------|
|                                  | <b>2013</b>          | <b>2012</b> | <b>2013</b>                   | <b>2012</b> |
| Net actuarial losses             | \$ (84.6)            | \$ (142.7)  | \$ (2.4)                      | \$ (6.0)    |
| Net prior service costs          | (3.3)                | (4.0)       |                               |             |
| Total recognized in AOCI- pretax | \$ (87.9)            | \$ (146.7)  | \$ (2.4)                      | \$ (6.0)    |

The following table summarizes the estimated pre-tax net actuarial losses and prior service cost for the Company's Retirement Plans that will be amortized from AOCI and recognized as components of net periodic expense during the next fiscal year:

|   | <b>Pension Plans</b> | <b>Other Retirement Plans</b> |
|---|----------------------|-------------------------------|
| Net actuarial losses  | \$ 6.0               | \$                            |
| Net prior service costs   | 0.7                  |                               |
| <b>Total to be recognized as components of net periodic expense</b> | <b>\$ 6.7</b>        | <b>\$</b>                     |

Net periodic benefit expenses recognized for the Retirement Plans for years ended December 31:

|  | <b>Pension Plans</b> |                |                | <b>Other Retirement Plans</b> |               |               |
|--|----------------------|----------------|----------------|-------------------------------|---------------|---------------|
|  | <b>2013</b>          | <b>2012</b>    | <b>2011</b>    | <b>2013</b>                   | <b>2012</b>   | <b>2011</b>   |
| <b>Components of net periodic expense</b>                    |                      |                |                |                               |               |               |
| Service cost   | \$ 19.8              | \$ 18.9        | \$ 15.1        | \$ 1.7                        | \$ 1.5        | \$ 1.1        |
| Interest cost  | 13.5                 | 13.1           | 13.1           | 0.8                           | 0.7           | 0.8           |
| Expected return on plan assets                               | (12.9)               | (12.5)         | (11.9)         |                               |               |               |
| Amortization of net actuarial loss from earlier periods      | 10.8                 | 9.1            | 5.0            | 0.3                           | 0.3           | 0.3           |
| Amortization of net prior service costs from earlier periods | 0.6                  | 0.7            | 0.6            |                               |               |               |
| Settlement charges   |                      |                | 1.6            |                               |               |               |
| <b>Net periodic expense</b>                                  | <b>\$ 31.8</b>       | <b>\$ 29.3</b> | <b>\$ 23.5</b> | <b>\$ 2.8</b>                 | <b>\$ 2.5</b> | <b>\$ 2.2</b> |

The following table summarizes the pre-tax amounts recorded in OCI related to the Company's Retirement Plans for the years ended December 31:

|  | Pension Plans |           | Other Retirement Plans |        |
|--|---------------|-----------|------------------------|--------|
|  | 2013          | 2012      | 2013                   | 2012   |
| Amortization of net actuarial losses         | \$ 10.8       | \$ 9.1    | \$ 0.3                 | \$ 0.3 |
| Amortization of prior service costs          | 0.6           | 0.7       |                        |        |
| Net actuarial loss arising during the period | 47.3          | (24.7)    | 3.3                    | (0.2)  |
| Total recognized in OCI pre-tax              | \$ 58.7       | \$ (14.9) | \$ 3.6                 | \$ 0.1 |

**ADDITIONAL INFORMATION:***Assumptions Retirement Plans*

*Weighted-average assumptions used to determine benefit obligations at December 31:*

|                               | Pension Plans |       | Other Retirement Plans |       |
|-------------------------------|---------------|-------|------------------------|-------|
|                               | 2013          | 2012  | 2013                   | 2012  |
| Discount rate                 | 4.71%         | 3.82% | 4.45%                  | 3.55% |
| Rate of compensation increase | 4.00%         | 4.00% |                        |       |

*Weighted-average assumptions used to determine net periodic benefit expense for years ended December 31:*

|                                | Pension Plans |       |       | Other Retirement Plans |       |       |
|--------------------------------|---------------|-------|-------|------------------------|-------|-------|
|                                | 2013          | 2012  | 2011  | 2013                   | 2012  | 2011  |
| Discount rate                  | 3.82%         | 4.25% | 5.39% | 3.55%                  | 4.05% | 5.15% |
| Expected return on plan assets | 7.30%         | 7.85% | 8.35% |                        |       |       |
| Rate of compensation increase  | 4.00%         | 4.00% | 4.00% |                        |       |       |

The expected rate of return on plan assets represents the Company's best estimate of the long-term return on plan assets and is determined by using a building block approach, which generally weighs the underlying long-term expected rate of return for each major asset class based on their respective allocation target within the plan portfolio, net of plan paid expenses. As the assumption reflects a long-term time horizon, the plan performance in any one particular year does not, by itself, significantly influence the Company's evaluation. For 2013, the expected rate of return used in calculating the net periodic benefit costs was 7.30%. For 2014, the Company reduced the expected rate of return assumption to 6.80% to reflect the Company's current view of long-term capital market outlook and is commensurate with the returns expected to be generated by the plan assets under Company's current investment strategy.

*Assumed Healthcare Cost Trend Rates at December 31:*

|  | 2013       |             | 2012       |             | 2011       |             |
|--|------------|-------------|------------|-------------|------------|-------------|
|  | Pre-age 65 | Post-age 65 | Pre-age 65 | Post-age 65 | Pre-age 65 | Post-age 65 |
| Healthcare cost trend rate assumed for the following year                              | 8.2%       | 7.3%        | 6.9%       | 7.9%        | 7.4%       | 8.4%        |
| Ultimate rate to which the cost trend rate is assumed to decline (ultimate trend rate) | 5.0%       |             | 5.0%       |             | 5.0%       |             |
| Year that the rate   | 2028       | 2026        | 2020       |             | 2020       |             |

reaches  
the  
ultimate  
trend rate

The assumed health cost trend rate reflects different expectations for the medical and prescribed medication components of health care costs for pre and post-65 retirees. As the Company subsidies for retiree healthcare coverage are capped at the 2005 level, for the majority of the retirement health plan participants, retiree contributions are assumed to increase at the same rate as the healthcare cost trend rates. In 2013, the Company revised its trend rates to reflect current expectations of future health care inflation. A one percentage-point increase or decrease in assumed healthcare cost trend rates would not have affected total service and interest cost and would have a minimal impact on the retiree medical benefit obligation.

In 2012, the Company amended its retiree medical plan to modify its current design. Effective January 1, 2013, the newly implemented plan design provides current retirees age 65 and older with the option over the next three years to either enroll in a new Health Reimbursement Account (HRA) Program and receive a fixed amount annual subsidy or continue to stay in the current retiree medical plan. All future retirees age 65 and older will have to participate in the new HRA Program. There is no change to pre-65 coverage. As the new plan was designed to be cost neutral to the Company, the amendment of the plan had no significant impact to the plan.

### **Plan Assets**

Moody's investment objective for the assets in the funded pension plan is to earn total returns that will minimize future contribution requirements over the long-term within a prudent level of risk. The Company works with its independent investment consultants to determine asset allocation targets for its pension plan investment portfolio based on its assessment of business and financial conditions, demographic and actuarial data, funding characteristics, and related risk factors. Other relevant factors, including historical and forward looking views of inflation and capital market returns, are also considered. Risk management practices include monitoring of the plan, diversification across asset classes and investment styles, and periodic rebalancing toward asset allocation targets. The Company's monitoring of the plan includes ongoing reviews of investment performance, annual liability measurements, periodic asset/liability studies, and investment portfolio reviews.

The Company's current target asset allocation is approximately 60% (range of 50% to 70%) in equity securities, 30% (range of 25% to 35%) in fixed income securities and 10% (range of 7% to 13%) in other investments and the plan will use a combination of active and passive investment strategies and different investment styles for its investment portfolios within each asset class. The plan's equity investments are diversified across U.S. and non-U.S. stocks of small, medium and large capitalization. The plan's fixed income investments are diversified principally across U.S. and non-U.S. government and corporate bonds which are expected to help reduce plan exposure to

interest rate variation and to better align assets with obligations. Approximately 3% of total plan assets may be invested in funds which invest in debts rated below investment grade and 3% may be invested in emerging market debt. The plan's other investments are made through private real estate and convertible securities funds and these investments are expected to provide additional diversification benefits and absolute return enhancement to the plan assets. The Company does not use derivatives to leverage the portfolio. The overall allocation is expected to help protect the plan's funded status while generating sufficiently stable returns over the long-term.

Fair value of the assets in the Company's funded pension plan by asset category at December 31, 2013 and 2012 are as follows:

| <b>Fair Value Measurement as of December 31, 2013</b>        |                |                |                |                |                          |
|--|----------------|----------------|----------------|----------------|--------------------------|
| <b>Asset Category</b>  | <b>Balance</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>% of total assets</b> |
| <b>Cash and cash equivalent</b>                              | \$ 0.4         | \$             | \$ 0.4         | \$             |                          |
| <b>Emerging markets equity fund</b>                          | 14.6           | 14.6           |                |                | 7%                       |
| <b>Common/collective trust funds equity securities</b>       |                |                |                |                |                          |
| U.S. large-cap   | 44.5           |                | 44.5           |                | 22%                      |
| U.S. small and mid-cap                                       | 15.3           |                | 15.3           |                | 7%                       |
| International  | 58.2           |                | 58.2           |                | 29%                      |
| <b>Total equity investments</b>                              | <b>132.6</b>   | <b>14.6</b>    | <b>118.0</b>   |                | <b>65%</b>               |
| <b>Common/collective trust funds fixed income securities</b> |                |                |                |                |                          |
| Long-term government/treasury bonds                          | 13.7           |                | 13.7           |                | 7%                       |
| Long-term investment grade corporate bonds                   | 15.4           |                | 15.4           |                | 7%                       |
| U.S. Treasury Inflation-Protected Securities (TIPs)          | 8.7            |                | 8.7            |                | 4%                       |
| Emerging markets bonds                                       | 5.8            |                | 5.8            |                | 3%                       |
| High yield bonds   | 6.1            |                | 6.1            |                | 3%                       |
| <b>Total fixed-income investments</b>                        | <b>49.7</b>    |                | <b>49.7</b>    |                | <b>24%</b>               |

|   |                 |                |                 |
|---|-----------------|----------------|-----------------|
| <b>Common/collective<br/>trust funds convertible<br/>securities</b> | <b>6.3</b>      | <b>6.3</b>     | <b>3%</b>       |
| <b>Private real estate fund</b>                                     | <b>15.6</b>     | <b>15.6</b>    | <b>8%</b>       |
| <b>Total other investment</b>                                       | <b>21.9</b>     | <b>6.3</b>     | <b>11%</b>      |
| <b>Total Assets</b>   | <b>\$ 204.6</b> | <b>\$ 14.6</b> | <b>\$ 174.4</b> |
|   |                 |                | <b>\$ 15.6</b>  |
|   |                 |                | <b>100%</b>     |

## Fair Value Measurement as of December 31, 2012

| Asset Category   | Balance         | Level 1        | Level 2         | Level 3        | % of Total Assets |
|--|-----------------|----------------|-----------------|----------------|-------------------|
| <b>Cash and cash equivalent</b>                              | \$ 0.2          | \$             | \$ 0.2          | \$             |                   |
| <b>Emerging markets equity fund</b>                          | 13.3            | 13.3           |                 |                | 8%                |
| <b>Common/collective trust funds equity securities</b>       |                 |                |                 |                |                   |
| U.S. large-cap   | 32.0            |                | 32.0            |                | 19%               |
| U.S. small and mid-cap                                       | 10.7            |                | 10.7            |                | 6%                |
| International  | 44.1            |                | 44.1            |                | 27%               |
| <b>Total equity investments</b>                              | <b>100.1</b>    | <b>13.3</b>    | <b>86.8</b>     |                | <b>60%</b>        |
| <b>Common/collective trust funds fixed income securities</b> |                 |                |                 |                |                   |
| Long-term government/treasury bonds                          | 13.8            |                | 13.8            |                | 8%                |
| Long-term investment grade corporate bonds                   | 17.5            |                | 17.5            |                | 11%               |
| U.S. Treasury Inflation-Protected Securities (TIPs)          | 8.5             |                | 8.5             |                | 5%                |
| Emerging markets bonds                                       | 5.4             |                | 5.4             |                | 3%                |
| High yield bonds   | 5.2             |                | 5.2             |                | 3%                |
| <b>Total fixed-income investments</b>                        | <b>50.4</b>     |                | <b>50.4</b>     |                | <b>30%</b>        |
| <b>Common/collective trust funds convertible securities</b>  | <b>4.8</b>      |                | <b>4.8</b>      |                | <b>3%</b>         |
| <b>Private real estate fund</b>                              | <b>12.1</b>     |                |                 | <b>12.1</b>    | <b>7%</b>         |
| <b>Total other investment</b>                                | <b>16.9</b>     |                | <b>4.8</b>      | <b>12.1</b>    | <b>10%</b>        |
| <b>Total Assets</b>  | <b>\$ 167.6</b> | <b>\$ 13.3</b> | <b>\$ 142.2</b> | <b>\$ 12.1</b> | <b>100%</b>       |

Cash and cash equivalent is primarily comprised of investment in money market mutual funds. In determining fair value, Level 1 investments are valued based on quoted market prices in active markets. Investments in common/collective trust funds are valued using the net asset value (NAV) per unit in each fund. The NAV is based on



the value of the underlying investments owned by each trust, minus its liabilities, and then divided by the number of shares outstanding. Common/collective trust funds are categorized in Level 2 to the extent that they are readily redeemable at their NAV or else they are categorized in Level 3 of the fair value hierarchy. The Company's investment in a private real estate fund is valued using the NAV per unit of funds that are invested in real property, and the real property is valued using independent market appraisals. Since appraisals involve utilization of significant unobservable inputs and the private real estate fund is not readily redeemable for cash, the Company's investment in the private real estate fund is categorized in Level 3.

The table below is a summary of changes in the fair value of the Plan's Level 3 assets:

| <b>Real estate investment fund:</b>                                  |         |
|--|---------|
| Balance as of December 31, 2012                                      | \$ 12.1 |
| Return on plan assets related to assets held as of December 31, 2013 | 1.5     |
| Purchases (sales), net   | 2.0     |
| Balance as of December 31, 2013                                      | \$ 15.6 |

Except for the Company's U.S. funded pension plan, all of Moody's Retirement Plans are unfunded and therefore have no plan assets.

### **Cash Flows**

The Company contributed \$16.8 million and \$17.8 million to its U.S. funded pension plan during the years ended December 31, 2013 and 2012, respectively. The Company made payments of \$2.5 million and \$3.5 million related to its U.S. unfunded pension plan obligations during the years ended December 31, 2013 and 2012, respectively. The Company made payments of \$0.6 million and \$0.7 million to its Other Retirement Plans during the years ended December 31, 2013 and 2012, respectively. The Company presently anticipates making contributions of \$20.4 million to its funded pension plan and anticipates making payments of \$6.2 million related to its unfunded U.S. pension plans and \$0.8 million related to its Other Retirement Plans during the year ended December 31, 2014.

**Estimated Future Benefits Payable**

Estimated future benefits payments for the Retirement Plans are as follows at ended December 31, 2013:

| <b>Year Ending December 31,</b> | <b>Pension Plans</b> | <b>Other Retirement Plans</b> |
|---------------------------------|----------------------|-------------------------------|
| 2014                            | \$ 9.5               | \$ 0.8                        |
| 2015                            | \$ 7.6               | \$ 1.0                        |
| 2016                            | \$ 10.5              | \$ 1.1                        |
| 2017                            | \$ 10.9              | \$ 1.2                        |
| 2018                            | \$ 35.4              | \$ 1.3                        |
| 2019 - 2023                     | \$ 96.8              | \$ 8.8                        |

**Defined Contribution Plans**

Moody's has a Profit Participation Plan covering substantially all U.S. employees. The Profit Participation Plan provides for an employee salary deferral and the Company matches employee contributions equal to 50% of employee contribution up to a maximum of 3% of the employee's pay. Moody's also makes additional contributions to the Profit Participation Plan based on year-to-year growth in the Company's EPS. Effective January 1, 2008, all new hires are automatically enrolled in the Profit Participation Plan when they meet eligibility requirements unless they decline participation. As the Company's U.S. DBPPs are closed to new entrants effective January 1, 2008, all eligible new hires will instead receive a retirement contribution into the Profit Participation Plan in value similar to the pension benefits. Additionally, effective January 1, 2008, the Company implemented a deferred compensation plan in the U.S., which is unfunded and provides for employee deferral of compensation and Company matching contributions related to compensation in excess of the IRS limitations on benefits and contributions under qualified retirement plans. Total expenses associated with U.S. defined contribution plans were \$18.8 million, \$24.5 million and \$14.9 million in 2013, 2012, and 2011, respectively.

Effective January 1, 2008, Moody's has designated the Moody's Stock Fund, an investment option under the Profit Participation Plan, as an Employee Stock Ownership Plan and, as a result, participants in the Moody's Stock Fund may receive dividends in cash or may reinvest such dividends into the Moody's Stock Fund. Moody's paid approximately \$0.5 million and \$0.4 million in dividends during

the years ended December 31, 2013 and 2012, respectively, for the Company's common shares held by the Moody's Stock Fund. The Company records the dividends as a reduction of retained earnings in the Consolidated Statements of Shareholders' Equity (Deficit). The Moody's Stock Fund held approximately 520,000 and 580,000 shares of Moody's common stock at December 31, 2013 and 2012, respectively.

**International Plans**

Certain of the Company's international operations provide pension benefits to their employees. For defined contribution plans, company contributions are primarily determined as a percentage of employees' eligible compensation. Moody's also makes contributions to non-U.S. employees under a profit sharing plan which is based on year-to-year growth in the Company's diluted EPS. Expenses related to these defined contribution plans for the years ended December 31, 2013, 2012 and 2011 were \$19.7 million, \$18.8 million and \$16.3 million, respectively.

For defined benefit plans, the Company maintains various unfunded DBPPs and retirement health benefit plan for certain of its non-U.S. subsidiaries located in Germany, France and Canada. These unfunded DBPPs are generally

based on each eligible employee's years of credited service and on compensation levels as specified in the plans. The DBPP in Germany was closed to new entrants in 2002. Total defined benefit pension liabilities recorded related to non-U.S. pension plans was \$7.8 million, \$7.2 million and \$5.3 million based on a weighted average discount rate of 3.58%, 3.53% and 4.79% at December 31, 2013, 2012 and 2011, respectively. The pension liabilities recorded as of December 31, 2013 represent the unfunded status of these pension plans and were recognized in the consolidated balance sheet as mostly non-current liabilities. Total pension expense recorded for the years ended December 31, 2013, 2012 and 2011 was approximately \$0.6 million for each year. These amounts are not included in the tables above. As of December 31, 2013, the amount of net actuarial losses included in AOCI related to non-U.S. pension plans was immaterial. The Company's non-U.S. other retirement benefit obligation was also immaterial as of December 31, 2013.

**NOTE 13 STOCK-BASED COMPENSATION PLANS**

Under the 1998 Plan, 33.0 million shares of the Company's common stock have been reserved for issuance. The 2001 Plan, which is shareholder approved, permits the granting of up to 50.6 million shares, of which not more than 14.0 million shares are available for grants of awards other than stock options. The Stock Plans also provide for the granting of restricted stock. The Stock Plans provide that options are exercisable not later than ten years from the grant date. The vesting period for awards under the Stock Plans is generally determined by the Board at the date of the grant and has been four years except for employees who are at or near retirement eligi-

bility, as defined, for which vesting is between one and four years. Additionally, the vesting period is three years for certain performance-based restricted stock that contain 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. Options may not be granted at less than the fair market value of the Company's common stock at the date of grant.

The Company maintains the Directors' Plan for its Board, which permits the granting of awards in the form of non-qualified stock options, restricted stock or performance shares. The Directors' Plan provides that options are exercisable not later than ten years from the grant date. The vesting period is determined by the Board at the date of the grant and is generally one year for both options and restricted stock. Under the Directors' Plan, 1.7 million shares of common stock were reserved for issuance. Any director of the Company who is not an employee of the Company or any of its subsidiaries as of the date that an award is granted is eligible to participate in the Directors' Plan.

Presented below is a summary of the stock-based compensation expense and associated tax benefit in the accompanying Consolidated Statements of Operations:

|                                  | Year Ended December 31, |         |         |
|----------------------------------|-------------------------|---------|---------|
|                                  | 2013                    | 2012    | 2011    |
| Stock-based compensation expense | \$ 67.1                 | \$ 64.5 | \$ 56.7 |
| Tax benefit                      | \$ 24.7                 | \$ 23.3 | \$ 18.1 |

The fair value of each employee stock option award is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions noted below. The expected dividend yield is derived from the annual dividend rate on the date of grant. The expected stock volatility is based on an assessment of historical weekly stock prices of the Company as well as implied volatility from Moody's traded options. The risk-free interest rate is based on U.S. government zero coupon bonds with maturities similar to the expected holding period. The expected holding period was determined by examining historical and projected post-vesting exercise behavior activity.

The following weighted average assumptions were used for options granted:

|                           | Year Ended December 31, |           |           |
|---------------------------|-------------------------|-----------|-----------|
|                           | 2013                    | 2012      | 2011      |
| Expected dividend yield   | 1.72%                   | 1.66%     | 1.53%     |
| Expected stock volatility | 43%                     | 44%       | 41%       |
| Risk-free interest rate   | 1.53%                   | 1.55%     | 3.33%     |
| Expected holding period   | 7.2 years               | 7.4 years | 7.6 years |
| Grant date fair value     | \$ 17.58                | \$ 15.19  | \$ 12.49  |

A summary of option activity as of December 31, 2013 and changes during the year then ended is presented below:

| Options | Shares | Weighted Average Exercise Price | Weighted Average Remaining | Aggregate Intrinsic Value |
|---------|--------|---------------------------------|----------------------------|---------------------------|
|---------|--------|---------------------------------|----------------------------|---------------------------|

|   |            |           | <b>Per Share</b> | <b>Contractual</b> |           |              |
|---|------------|-----------|------------------|--------------------|-----------|--------------|
|   |            |           |                  | <b>Term</b>        |           |              |
| Outstanding, December 31, 2012                            | 13.0       | \$        | 42.82            |                    |           |              |
| Granted   | 0.5        | \$        | 46.45            |                    |           |              |
| Exercised   | (4.3)      | \$        | 37.55            |                    |           |              |
| Forfeited   | (0.1)      | \$        | 35.53            |                    |           |              |
| Expired   | (0.2)      | \$        | 69.01            |                    |           |              |
| <b>Outstanding, December 31, 2013</b>                     | <b>8.9</b> | <b>\$</b> | <b>45.00</b>     | <b>4.4 years</b>   | <b>\$</b> | <b>296.4</b> |
| <b>Vested and expected to vest,<br/>December 31, 2013</b> | <b>8.7</b> | <b>\$</b> | <b>45.11</b>     | <b>4.3 years</b>   | <b>\$</b> | <b>290.7</b> |
| <b>Exercisable, December 31, 2013</b>                     | <b>7.2</b> | <b>\$</b> | <b>47.11</b>     | <b>3.7 years</b>   | <b>\$</b> | <b>225.7</b> |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between Moody's closing stock price on the last trading day of the year ended December 31, 2013 and the exercise prices, multiplied by the number of in-the-

money options) that would have been received by the option holders had all option holders exercised their options as of December 31, 2013. This amount varies based on the fair value of Moody's stock. As of December 31, 2013 there was \$8.1 million of total unrecognized compensation expense related to options. The expense is expected to be recognized over a weighted average period of 1.4 years.

The following table summarizes information relating to stock option exercises:

|                                      | Year Ended December 31, |          |         |
|--------------------------------------|-------------------------|----------|---------|
|                                      | 2013                    | 2012     | 2011    |
| Proceeds from stock option exercises | \$ 163.3                | \$ 127.4 | \$ 50.3 |
| Aggregate intrinsic value            | \$ 112.4                | \$ 61.3  | \$ 25.3 |
| Tax benefit realized upon exercise   | \$ 41.1                 | \$ 23.4  | \$ 9.6  |

A summary of the status of the Company's nonvested restricted stock as of December 31, 2013 and changes during the year then ended is presented below:

| Nonvested Restricted Stock        | Shares     | Weighted Average Grant Date Fair Value Per Share |
|-----------------------------------|------------|--|
| Balance, December 31, 2012        | 3.0        | \$ 33.08   |
| Granted                           | 1.3        | \$ 46.52   |
| Vested                            | (1.1)      | \$ 31.60   |
| Forfeited                         | (0.1)      | \$ 37.72   |
| <b>Balance, December 31, 2013</b> | <b>3.1</b> | <b>\$ 39.30</b>                                  |

As of December 31, 2013, there was \$70.3 million of total unrecognized compensation expense related to nonvested restricted stock. The expense is expected to be recognized over a weighted average period of 1.7 years.

The following table summarizes information relating to the vesting of restricted stock awards:

|                                   | Year Ended December 31, |         |         |
|-----------------------------------|-------------------------|---------|---------|
|                                   | 2013                    | 2012    | 2011    |
| Fair value of vested shares       | \$ 54.6                 | \$ 37.8 | \$ 18.9 |
| Tax benefit realized upon vesting | \$ 19.3                 | \$ 13.4 | \$ 6.9  |

A summary of the status of the Company's performance-based restricted stock as of December 31, 2013 and changes during the year then ended is presented below:

| Performance-based restricted stock | Shares | Weighted Average Grant Date Fair Value Per Share |
|------------------------------------|--------|--|
|------------------------------------|--------|--|

|   |            |           |              |
|---|------------|-----------|--------------|
| Balance, December 31, 2012              | 1.0        | \$        | 30.06        |
| Granted                                 | 0.3        | \$        | 44.07        |
| Adjustment to shares expected to vest * | (0.1)      | \$        | 33.31        |
| Balance, December 31, 2013              | <b>1.2</b> | <b>\$</b> | <b>31.17</b> |

\* Reflects an adjustment to shares expected to vest based on the Company's projected achievement of certain non-market based performance metrics as of December 31, 2013.

In the year ended December 2013, the fair value of the delivered shares for the performance-based restricted stock plan was \$25.5 million for which the tax benefit realized was \$9.7 million. These delivered shares vested in December 2012.

As of December 31, 2013, there was \$13.6 million of total unrecognized compensation expense related to this plan. The expense is expected to be recognized over a weighted average period of 0.9 years.

The Company has a policy of issuing treasury stock to satisfy shares issued under stock-based compensation plans.

In addition, the Company also sponsors the ESPP. Under the ESPP, 6.0 million shares of common stock were reserved for issuance. The ESPP allows eligible employees to purchase common stock of the Company on a monthly basis at a discount to the average of the high and the low trading prices on the New York Stock Exchange on the last trading day of each month. This discount was 5% in 2013, 2012

and 2011 resulting in the ESPP qualifying for non-compensatory status under Topic 718 of the ASC. Accordingly, no compensation expense was recognized for the ESPP in 2013, 2012, and 2011. The employee purchases are funded through after-tax payroll deductions, which plan participants can elect from one percent to ten percent of compensation, subject to the annual federal limit.

#### NOTE 14 INCOME TAXES

Components of the Company's provision for income taxes are as follows:

|                                  | Year Ended December 31, |          |          |
|----------------------------------|-------------------------|----------|----------|
|                                  | 2013                    | 2012     | 2011     |
| Current:                         |                         |          |          |
| Federal                          | \$ 226.2                | \$ 168.1 | \$ 133.6 |
| State and Local                  | 57.6                    | 33.7     | 28.1     |
| Non-U.S.                         | 96.8                    | 86.4     | 89.8     |
| Total current                    | 380.6                   | 288.2    | 251.5    |
| Deferred:                        |                         |          |          |
| Federal                          | (13.1)                  | 35.7     | 9.3      |
| State and Local                  | (5.6)                   | 4.5      | 7.0      |
| Non-U.S.                         | (8.5)                   | (4.1)    | (6.0)    |
| Total deferred                   | (27.2)                  | 36.1     | 10.3     |
| Total provision for income taxes | \$ 353.4                | \$ 324.3 | \$ 261.8 |

A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate on income before provision for income taxes is as follows:

|   | Year Ended December 31, |                         |          |
|---|-------------------------|-------------------------|----------|
|   | 2013                    | 2012                    | 2011     |
| U.S. statutory tax rate                           | 35.0%                   | 35.0%                   | 35.0%    |
| State and local taxes, net of federal tax benefit | 2.9                     | 2.4                     | 2.7      |
| Benefit of foreign operations                     | (6.4)                   | (6.1)                   | (6.3)    |
| Legacy tax items                                  | (0.6)                   | (0.4)                   | (0.2)    |
| Other   | (0.7)                   | 0.8                     |          |
| Effective tax rate                                | 30.2%                   | 31.7%                   | 31.2%    |
| Income tax paid                                   | \$ 335.7 <sup>(1)</sup> | \$ 293.3 <sup>(2)</sup> | \$ 191.4 |



(1) Includes fourth quarter 2012 estimated federal tax payment made in 2013 due to IRS relief for companies affected by Hurricane Sandy

(2) Includes approximately \$92 million in payments for tax audit settlements in the first quarter of 2012  
The source of income before provision for income taxes is as follows:

|   | <b>Year Ended December 31,</b> |                   |                 |
|---|--------------------------------|-------------------|-----------------|
|   | <b>2013</b>                    | <b>2012</b>       | <b>2011</b>     |
| United States                                   | \$ 836.1                       | \$ 694.2          | \$ 469.1        |
| International                                   | 333.2                          | 329.8             | 370.7           |
| <b>Income before provision for income taxes</b> | <b>\$ 1,169.3</b>              | <b>\$ 1,024.0</b> | <b>\$ 839.8</b> |

The components of deferred tax assets and liabilities are as follows:

|   | December 31,   |         |
|---|----------------|---------|
|   | 2013           | 2012    |
| <b>Deferred tax assets:</b>   |                |         |
| Current:  |                |         |
| Account receivable allowances   | \$ 8.2         | 8.2     |
| Accrued compensation and benefits   | 12.8           | 13.3    |
| Deferred revenue  | 7.3            | 6.1     |
| Legal and professional fees   | 10.9           | 8.4     |
| Restructuring   | 3.5            | 1.5     |
| Uncertain tax positions   | 7.5            |         |
| Other   | 0.7            | 3.1     |
| <b>Total current</b>  | <b>50.9</b>    | 40.6    |
| Non-current:  |                |         |
| Accumulated depreciation and amortization   | 2.6            | 0.4     |
| Stock-based compensation  | 73.7           | 86.9    |
| Benefit plans   | 78.9           | 96.6    |
| Deferred rent and construction allowance  | 30.4           | 31.3    |
| Deferred revenue  | 33.4           | 34.3    |
| Foreign net operating loss <sup>(1)</sup>   | 10.6           | 13.0    |
| Uncertain tax positions   | 26.8           | 25.9    |
| Self-insured related reserves   | 20.4           | 33.8    |
| Other   | 4.3            | 4.5     |
| <b>Total non-current</b>  | <b>281.1</b>   | 326.7   |
| <b>Total deferred tax assets</b>  | <b>332.0</b>   | 367.3   |
| <b>Deferred tax liabilities:</b>  |                |         |
| Current:  |                |         |
| Other   |                | (0.2)   |
| <b>Total Current</b>  |                | (0.2)   |
| Non-current:  |                |         |
| Accumulated depreciation and amortization of intangible assets and capitalized software | (153.7)        | (154.7) |
| Foreign earnings to be repatriated  | (3.7)          | (4.7)   |
| Self-insured related income   | (24.0)         | (39.7)  |
| Other liabilities   | (2.7)          | (3.9)   |
| <b>Total non-current</b>  | <b>(184.1)</b> | (203.0) |
| <b>Total deferred tax liabilities</b>   | <b>(184.1)</b> | (203.2) |

|                               |                 |        |
|-------------------------------|-----------------|--------|
| Net deferred tax asset        | <b>147.9</b>    | 164.1  |
| Valuation allowance           | <b>(8.4)</b>    | (15.2) |
| Total net deferred tax assets | <b>\$ 139.5</b> | 148.9  |

(1) Amounts are primarily set to expire beginning in 2017, if unused.

As of December 31, 2013, the Company had approximately \$1,574.6 million of undistributed earnings of foreign subsidiaries that it intends to indefinitely reinvest in foreign operations. The Company has not provided deferred income taxes on these indefinitely reinvested earnings. It is not practicable to determine the amount of deferred taxes that might be required to be provided if such earnings were distributed in the future, due to complexities in the tax laws and in the hypothetical calculations that would have to be made.

The Company had valuation allowances of \$8.4 million and \$15.2 million at December 31, 2013 and 2012, respectively, related to foreign net operating losses for which realization is uncertain. The decrease in the valuation allowances for 2013 primarily resulted from the expected utilization of losses in certain jurisdictions based on the Company's evaluation of these future benefits.

As of December 31, 2013 the Company had \$195.6 million of UTPs of which \$136.3 million represents the amount that, if recognized, would impact the effective tax rate in future periods.

A reconciliation of the beginning and ending amount of UTPs is as follows:

|   | Year Ended December 31, |          |          |
|---|-------------------------|----------|----------|
|   | 2013                    | 2012     | 2011     |
| Balance as of January 1                                 | \$ 156.6                | \$ 205.4 | \$ 180.8 |
| Additions for tax positions related to the current year | 67.8                    | 49.1     | 48.9     |
| Additions for tax positions of prior years              | 6.1                     | 18.9     | 15.3     |
| Reductions for tax positions of prior years             | (10.1)                  | (20.6)   | (27.3)   |
| Settlements with taxing authorities                     | (21.4)                  | (91.5)   | (2.1)    |
| Lapse of statute of limitations                         | (3.4)                   | (4.7)    | (10.2)   |
| Balance as of December 31                               | \$ 195.6                | \$ 156.6 | \$ 205.4 |

The Company classifies interest related to UTPs in interest expense in its consolidated statements of operations. Penalties, if incurred, would be recognized in other non-operating expenses. During 2013, the Company incurred a net interest expense of \$7.6 million related to UTPs. As of December 31, 2013 and 2012, the amount of accrued interest recorded in the Company's consolidated balance sheets related to UTPs was \$17.9 million and \$10.6 million, respectively.

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. The Company's U.S. federal income tax returns for the years 2008 through 2010 are under examination and its 2011 and 2012 returns remain open to examination. The Company's New York State income tax returns for 2011 and 2012 remain open to examination. The Company's New York City income tax returns have been examined through 2012. Tax filings in the U.K. remain open to examination for tax years 2008 through 2012.

For current ongoing audits related to open tax years, the Company estimates that it is possible that the balance of UTPs could decrease in the next twelve months as a result of the effective 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 might necessitate increases to the balance of UTPs. As the Company is unable to predict the timing of conclusion of these audits, the Company is unable to estimate the amount of changes to the balance of UTPs at this time.

#### NOTE 15 INDEBTEDNESS

The following table summarizes total indebtedness:

|  | December 31, |      |
|--|--------------|------|
|  | 2013         | 2012 |

|   |                   |            |
|---|-------------------|------------|
| 2012 Facility   | \$                | \$         |
| Notes payable:  |                   |            |
| Series 2005-1 Notes due 2015, including fair value of interest rate swap of \$10.3 million at 2013 and \$13.8 million at 2012 | <b>310.3</b>      | 313.8      |
| Series 2007-1 Notes due in 2017   | <b>300.0</b>      | 300.0      |
| 2010 Senior Notes, due 2020, net of unamortized discount of \$2.2 million and \$2.6 million in 2013 and 2012, respectively    | <b>497.8</b>      | 497.4      |
| 2012 Senior Notes, due 2022, net of unamortized discount of \$3.5 million in 2013 and \$3.8 million in 2012                   | <b>496.5</b>      | 496.2      |
| 2013 Senior Notes, due 2024, net of unamortized discount of \$2.8 million in 2013   | <b>497.2</b>      |            |
| 2008 Term Loan, various payments through 2013   |                   | 63.8       |
| Total debt  | <b>2,101.8</b>    | 1,671.2    |
| Current portion   |                   | (63.8)     |
| Total long-term debt  | \$ <b>2,101.8</b> | \$ 1,607.4 |

### ***2012 Facility***

On April 18, 2012, the Company and certain of its subsidiaries entered into a \$1 billion five-year senior, unsecured revolving credit facility in an aggregate principal amount of \$1 billion that expires in April 2017. The 2012 Facility replaced the \$1 billion 2007 Facility that was scheduled to expire in September 2012. The proceeds from the 2012 Facility will be used for general corporate purposes, including, without limitation, share repurchases and acquisition financings. Interest on borrowings under the facility is payable at rates that are based on LIBOR plus a premium that can range from 77.5 basis points to 120 basis points per annum of the outstanding amount, depending on the Company's Debt/EBITDA ratio. The Company also pays quarterly facility fees, regardless of borrowing activity under the 2012 Facility. These quarterly fees can range from 10 basis points of the facility amount to 17.5 basis points, depending on the Company's Debt/EBITDA Ratio.

The 2012 Facility contains covenants that, among other things, restrict the ability of the Company and 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 set forth in the facility agreement. The 2012 Facility also contains a financial covenant that requires the Company to maintain a Debt to EBITDA Ratio of not more than 4 to 1 at the end of any fiscal quarter. Upon the occurrence of certain financial or economic events, significant corporate events or certain other events constituting an event of default under the 2012 Facility, all loans outstanding under the facility (including accrued interest and fees payable thereunder) may be declared immediately due and payable and all commitments under the facility may be terminated.

### ***Commercial Paper***

On October 3, 2007, the Company entered into a private placement commercial paper program under which the Company could issue CP notes up to a maximum amount of \$1.0 billion. In October 2013, the Company terminated its CP program.

### ***Notes Payable***

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.

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 August 19, 2010, the Company issued \$500 million aggregate principal amount of senior 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 2010 Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The 2010 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 2010 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 2010 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 2010 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 2010

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.

On November 4, 2011, in connection with the acquisition of Copal, a subsidiary of the Company issued a \$14.2 million non-interest bearing note to the sellers which represented a portion of the consideration transferred to acquire the Copal entities. If a seller subsequently transfers to the Company all of its shares, the Company must repay the seller its proportion of the principal on the later of (i) the fourth anniversary date of the note or (ii) within a time frame set forth in the acquisition agreement relating to the resolution of certain income tax uncertainties pertaining to the transaction. Otherwise, the Company must repay any amount outstanding on the earlier of (i) two business days subsequent to the exercise of the put/call option to acquire the remaining shares of Copal or (ii) the tenth anniversary date of the issuance of the note. The Company has the right to offset payment of the note against certain indemnification assets associated with UTPs related to the acquisition, which are more fully discussed in Note 7 to the consolidated financial statements. Accordingly, the Company has offset the liability for this note against the indemnification asset, thus no balance for this note is carried on the Company's consolidated balance sheet at December 31, 2013 and 2012. In the event that the Company would not be required to settle amounts related to the UTPs, the Company would be required to pay the sellers the principal in accordance with the note agreement. The Company may prepay the note in accordance with certain terms set forth in the acquisition agreement.

On August 20, 2012, the Company issued \$500 million aggregate principal amount of unsecured notes in a public offering. The 2012 Senior Notes bear interest at a fixed rate of 4.50% and mature on September 1, 2022. Interest on the 2012 Senior Notes will be due semi-annually on September 1 and March 1 of each year, commencing March 1, 2013. The Company may prepay the 2012 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 2012 Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The 2012 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 2012 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 2012 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 2012 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 2012 Indenture, the 2012 Senior 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.

On August 12, 2013, the Company issued \$500 million aggregate principal amount of senior unsecured notes in a public offering. The 2013 Senior Notes bear interest at a fixed rate of 4.875% and mature on February 15, 2024. Interest on the 2013 Senior Notes will be due semi-annually on February 15 and August 15 of each year, commencing February 15, 2014. The Company may prepay the 2013 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. Notwithstanding the immediately preceding sentence, the Company may redeem the 2013 Senior Notes, in whole or in part, at any time or from time to time on or after November 15, 2023 (three months prior to their maturity), at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding the redemption date. 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 2013 Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The 2013 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 2013 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 2013 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 2013 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 2013 Indenture, the 2013 Senior 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.

***2008 Term Loan***

On May 7, 2008, Moody's entered into a five-year, \$150.0 million senior unsecured term loan with several lenders due at various times through May 7, 2013. Proceeds from the loan were used to pay off a portion of the CP outstanding. Interest on borrowings under the

2008 Term Loan was payable quarterly at rates that were based on LIBOR plus a margin that could range from 125 basis points to 175 basis points depending on the Company's Debt/EBITDA ratio.

The 2008 Term Loan contained restrictive covenants that, among other things, restricted 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 limited the amount of debt that subsidiaries of the Company may incur. In addition, the 2008 Term Loan contained 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 2008 Term Loan was repaid in full in May 2013.

The principal payments due on the Company's long-term borrowings for each of the next five years are presented in the table below:

| Year Ending December 31, | Series 2005-1<br>Notes | Series 2007-1<br>Notes | 2010 Senior<br>Notes | 2012 Senior<br>Notes | 2013 Senior<br>Notes | Total             |
|--------------------------|------------------------|------------------------|----------------------|----------------------|----------------------|-------------------|
| 2014                     | \$                     | \$                     | \$                   | \$                   | \$                   | \$                |
| 2015                     | 300.0                  |                        |                      |                      |                      | 300.0             |
| 2016                     |                        |                        |                      |                      |                      |                   |
| 2017                     |                        | 300.0                  |                      |                      |                      | 300.0             |
| 2018                     |                        |                        |                      |                      |                      |                   |
| Thereafter               |                        |                        | 500.0                | 500.0                | 500.0                | 1,500.0           |
| <b>Total</b>             | <b>\$ 300.0</b>        | <b>\$ 300.0</b>        | <b>\$ 500.0</b>      | <b>\$ 500.0</b>      | <b>\$ 500.0</b>      | <b>\$ 2,100.0</b> |

In the fourth quarter of 2010, the Company entered into interest rate swaps with a total notional amount of \$300 million which will convert the fixed rate of interest on the Series 2005-1 Notes to a floating LIBOR-based interest rate.

At December 31, 2013, the Company was in compliance with all covenants contained within all of the debt agreements. In addition to the covenants described above, the 2012 Facility, the 2005 Agreement, the 2007 Agreement, the 2013 Indenture, the 2012 Indenture and the 2010 Indenture 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 December 31, 2013, there are no such cross defaults.

#### INTEREST EXPENSE, NET

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

|        | Year Ended December 31, |        |        |
|--------|-------------------------|--------|--------|
|        | 2013                    | 2012   | 2011   |
| Income | \$ 5.5                  | \$ 5.2 | \$ 5.3 |

|  |                  |           |           |
|--|------------------|-----------|-----------|
| Expense on borrowings                                      | <b>(92.3)</b>    | (73.8)    | (65.5)    |
| (Expense) income on UTPs and other tax related liabilities | <b>(8.6)</b>     | 0.4       | (8.7)     |
| Legacy Tax <sup>(a)</sup>                                  | <b>3.6</b>       | 4.4       | 3.7       |
| Interest capitalized                                       |                  |           | 3.1       |
| Total  | <b>\$ (91.8)</b> | \$ (63.8) | \$ (62.1) |
| Interest paid <sup>(b)</sup>                               | <b>\$ 81.9</b>   | \$ 94.4   | \$ 67.2   |

(a) Represents a reduction of accrued interest related to the favorable resolution of Legacy Tax Matters, further discussed in Note 18 to the consolidated financial statements.

(b) Interest paid includes payments of interest relating to the settlement of income tax audits in the first quarter of 2012 as well as net settlements on interest rate swaps more fully discussed in Note 5.

The Company's long-term debt, including the current portion, is recorded at cost except for the Series 2005-1 Notes which is carried at cost adjusted for the fair value of an interest rate swap used to hedge the fair value of the note. The fair value and carrying value of the Company's long-term debt as of December 31, 2013 and 2012 is as follows:

|                      | December 31, 2013 |                      | December 31, 2012 |                      |
|----------------------|-------------------|----------------------|-------------------|----------------------|
|                      | Carrying Amount   | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| Series 2005-1 Notes* | \$ 310.3          | \$ 319.2             | \$ 313.8          | \$ 326.1             |
| Series 2007-1 Notes  | 300.0             | 334.7                | 300.0             | 348.3                |
| 2010 Senior Notes    | 497.8             | 536.6                | 497.4             | 562.8                |
| 2012 Senior Notes    | 496.5             | 497.0                | 496.2             | 528.8                |
| 2013 Senior Notes    | 497.2             | 501.2                |                   |                      |
| 2008 Term Loan       |                   |                      | 63.8              | 63.8                 |
| <b>Total</b>         | <b>\$ 2,101.8</b> | <b>\$ 2,188.7</b>    | <b>\$ 1,671.2</b> | <b>\$ 1,829.8</b>    |

\* The carrying amount includes a \$10.3 million and \$13.8 million fair value adjustment on an interest rate hedge at December 31, 2013 and 2012, respectively.

The fair value of the Company's long-term debt is estimated using discounted cash flows based on prevailing interest rates available to the Company for borrowings with similar maturities.

## NOTE 16 CAPITAL STOCK

### Authorized Capital Stock

The total number of shares of all classes of stock that the Company has authority to issue under its Restated Certificate of Incorporation is 1.02 billion shares with a par value of \$0.01, of which 1.0 billion are shares of common stock, 10.0 million are shares of preferred stock and 10.0 million are shares of series common stock. The preferred stock and series common stock can be issued with varying terms, as determined by the Board.

### Share Repurchase Program

The Company implemented a systematic share repurchase program in the third quarter of 2005 through an SEC Rule 10b5-1 program. Moody's may also purchase opportunistically when conditions warrant. On July 30, 2007, the Board of the Company authorized a \$2.0 billion share repurchase program, which the Company began utilizing in January 2008. The company completed this program in the third quarter of 2013. On February 12, 2013, the Board authorized a new \$1 billion share repurchase program. On February 11, 2014, the Board authorized a new \$1 billion share repurchase program which will commence following the completion of the existing program. There is no established expiration date for both the February 12, 2013 and February 11, 2014 authorizations. The Company's intent is to return capital to shareholders in a way that serves their long-term interests. As a result, Moody's share repurchase activity will continue to vary from quarter to quarter.

During 2013, Moody's repurchased 14.2 million shares of its common stock under its share repurchase program and issued 5.5 million shares under employee stock-based compensation plans.

## Dividends

During the years ended December 31, 2013, 2012 and 2011, the Company's cash dividends declared and paid were:

|                       | Dividends Per Share<br>Year ended December 31, |      |          |      |          |      |      |      |       |      |    |       |
|-----------------------|--|------|----------|------|----------|------|------|------|-------|------|----|-------|
|                       | 2013   |      | 2012     |      | 2011     |      |      |      |       |      |    |       |
|                       | Declared                                       | Paid | Declared | Paid | Declared | Paid |      |      |       |      |    |       |
| <b>First quarter</b>  | \$   | \$   | 0.20     | \$   | \$       | 0.16 | \$   | \$   | 0.115 |      |    |       |
| <b>Second quarter</b> |  | 0.20 | 0.20     | 0.16 | 0.16     | 0.14 | 0.14 | 0.14 | 0.14  |      |    |       |
| <b>Third quarter</b>  |  | 0.25 | 0.25     | 0.16 | 0.16     | 0.14 | 0.14 | 0.14 | 0.14  |      |    |       |
| <b>Fourth quarter</b> |  | 0.53 | 0.25     | 0.36 | 0.16     | 0.30 | 0.14 | 0.14 | 0.14  |      |    |       |
| <b>Total</b>          | \$   | 0.98 | \$       | 0.90 | \$       | 0.68 | \$   | 0.64 | \$    | 0.58 | \$ | 0.535 |

On December 17, 2013, the Board of the Company approved the declaration of a quarterly dividend of \$0.28 per share of Moody's common stock, payable on March 10, 2014 to shareholders of record at the close of business on February 20, 2014. The continued payment of dividends at the rate noted above, or at all, is subject to the discretion of the Board.

**NOTE 17 LEASE COMMITMENTS**

Moody's operates its business from various leased facilities, which are under operating leases that expire over the next 14 years. Moody's also leases certain computer and other equipment under operating leases that expire over the next four years. Rent expense, including lease incentives, is amortized on a straight-line basis over the related lease term. Rent expense under operating leases for the years ended December 31, 2013, 2012 and 2011 was \$74.2 million, \$75.8 million and \$73.1 million, respectively.

The minimum rent for operating leases that have remaining or original non-cancelable lease terms in excess of one year at December 31, 2013 is as follows:

| <b>Year Ending December 31,</b>     | <b>Operating<br/>Leases</b> |
|-------------------------------------|-----------------------------|
| 2014                                | \$ 78.0                     |
| 2015                                | 68.0                        |
| 2016                                | 59.6                        |
| 2017                                | 58.0                        |
| 2018                                | 58.0                        |
| Thereafter                          | 484.0                       |
| <b>Total minimum lease payments</b> | <b>\$ 805.6</b>             |

Future minimum operating lease payments have been reduced by future minimum sublease income of \$7.1 million.

On October 20, 2006, the Company entered into a 21-year operating lease agreement to occupy 15 floors of an office building at 7WTC which includes a total of 20 years of renewal options. On March 28, 2007 the 7WTC lease agreement was amended for the Company to lease an additional two floors for a term of 20 years. On October 21, 2013, the Company entered into a 14-year lease for an additional three floors at its 7WTC headquarters which became effective on January 2, 2014. The total net commitment for the additional three floors is approximately \$74 million, including capital expenditures to build-out the space. The total base rent for the entire lease term, including rent credits, for the 7WTC lease and the additional floors is approximately \$703 million. As of December 31, 2013, the company has a remaining obligation of \$539.9 million.

On February 6, 2008, the Company entered into a 17.5 year operating lease agreement to occupy six floors of an office tower located in the Canary Wharf district of London, England. The total base rent of the Canary Wharf Lease over its 17.5-year term is approximately 134 million GBP, and the Company began making base rent payments in 2011. As of December 31, 2013, the Company has a remaining obligation of \$181.4 million. In addition to the base rent payments the Company is obligated to pay certain customary amounts for its share of operating expenses and tax obligation.

**NOTE 18 CONTINGENCIES**

From time to time, Moody's is involved in legal and tax proceedings, governmental investigations and inquiries, claims and litigation that are incidental to the Company's business, including claims based on ratings assigned by MIS.

Moody's is also subject to ongoing tax audits in the normal course of business. Management periodically assesses the Company's liabilities and contingencies in connection with these matters based upon the latest information available. Moody's discloses material pending legal proceedings pursuant to SEC rules and other pending matters as it may

determine to be appropriate.

Following the global credit crisis of 2008, MIS and other credit rating agencies have been the subject of intense scrutiny, increased regulation, ongoing inquiry and governmental investigations, and civil litigation. Legislative, regulatory and enforcement entities around the world are considering additional legislation, regulation and enforcement actions, including with respect to MIS's compliance with newly imposed regulatory standards. Moody's has received subpoenas and inquiries from states attorneys general and other domestic and foreign governmental authorities and is responding to such investigations and inquiries.

In addition, the Company is facing litigation from market participants relating to the performance of MIS rated securities. Although Moody's in the normal course experiences such litigation, the volume and cost of defending such litigation has significantly increased following the events in the U.S. subprime residential mortgage sector and global credit markets more broadly over the last several years.

Two purported class action complaints were 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 United States District Court for the Southern District of New York on September 26, 2007. Both actions were 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 alleged 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 Moody's ratings of structured finance products including RMBS, CDO and constant-proportion debt obligations. The plaintiffs sought 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. On January 22, 2010, plaintiffs moved to certify a class of individuals who purchased Moody's Corporation common stock between February 3, 2006 and October 24, 2007, which the Company opposed. On March 31, 2011, the court issued an opinion denying plaintiffs' motion to certify the proposed class. On April 14, 2011, plaintiffs filed a petition in the United States Court of Appeals for the Second Circuit seeking discretionary permission to appeal the decision. The Company filed its response to the petition on April 25, 2011. On July 20, 2011, the Second Circuit issued an order denying plaintiffs' petition for leave to appeal. On September 14, 2012, the Company filed a motion for summary judgment, which was fully briefed on December 21, 2012. On August 23, 2013, the court issued an opinion granting defendants' motion for summary judgment. Judgment was entered in Moody's favor on August 26, 2013. On September 23, 2013, plaintiffs filed a notice of appeal from the judgment and from the March 2011 decision denying class certification. On December 19, 2013, that appeal was voluntarily dismissed with prejudice pursuant to a confidential settlement agreement, thereby concluding this litigation.

On August 25, 2008, Abu Dhabi Commercial Bank filed a purported class action in the United States District Court for the Southern District of New York asserting numerous common-law causes of action against two subsidiaries of the Company, another rating agency, and Morgan Stanley & Co. The action related to securities issued by a structured investment vehicle called Cheyne Finance (the Cheyne SIV) and sought, among other things, compensatory and punitive damages. The central allegation against the rating agency defendants was that the credit ratings assigned to the securities issued by the Cheyne SIV were false and misleading. In early proceedings, the court dismissed all claims against the rating agency defendants except those for fraud and aiding and abetting fraud. In June 2010, the court denied plaintiff's motion for class certification, and additional plaintiffs were subsequently added to the complaint. In January 2012, the rating agency defendants moved for summary judgment with respect to the fraud and aiding and abetting fraud claims. Also in January 2012, in light of new New York state case law, the court permitted the plaintiffs to file an amended complaint that reasserted previously dismissed claims against all defendants for breach of fiduciary duty, negligence, negligent misrepresentation, and related aiding and abetting claims. In May 2012, the court, ruling on the rating agency defendants' motion to dismiss, dismissed all of the reasserted claims except for the negligent misrepresentation claim, and on September 19, 2012, after further proceedings, the court also dismissed the negligent misrepresentation claim. On August 17, 2012, the court ruled on the rating agencies' motion for summary judgment on the plaintiffs' remaining claims for fraud and aiding and abetting fraud. The court dismissed, in whole or in part, the fraud claims of four plaintiffs as against Moody's but allowed the fraud claims to proceed with respect to certain claims of one of those plaintiffs and the claims of the remaining 11 plaintiffs. The court also dismissed all claims against Moody's for aiding and abetting fraud. Three of the plaintiffs whose claims were dismissed filed motions for reconsideration, and on November 7, 2012, the court granted two of these motions, reinstating the claims of two plaintiffs that were previously dismissed. On February 1, 2013, the court dismissed the claims of one additional plaintiff on jurisdictional grounds. Trial on the remaining fraud claims against the rating agencies, and on claims against Morgan Stanley for aiding and abetting fraud and for negligent misrepresentation, was scheduled for May 2013. On April 24, 2013, pursuant to confidential settlement agreements, the 14 plaintiffs with claims that had been ordered to trial stipulated to the voluntary dismissal, with prejudice, of these claims as against all defendants, and the Court so ordered that stipulation on April 26, 2013. The settlement did not cover certain claims of two plaintiffs that were previously dismissed by the Court. On May 23, 2013, these two plaintiffs filed a Notice of Appeal to the Second Circuit, seeking reversal of the dismissal of their claims and also seeking reversal of the Court's denial of class certification. According to pleadings filed by plaintiffs in earlier proceedings, they seek approximately \$76 million in total compensatory damages in connection with the two claims at issue on the appeal.



In October 2009, plaintiffs King County, Washington and Iowa Student Loan Liquidity Corporation each filed substantially identical putative class actions in the Southern District of New York against two subsidiaries of the Company and several other defendants, including two other rating agencies and IKB Deutsche Industriebank AG. These actions arose out of investments in securities issued by a structured investment vehicle called Rhinebridge Plc (the Rhinebridge SIV ) and sought, among other things, compensatory and punitive damages. Each complaint asserted a claim for common law fraud against the rating agency defendants, alleging, among other things, that the credit ratings assigned to the securities issued by the Rhinebridge SIV were false and misleading. The case was assigned to the same judge presiding over the litigation concerning the Cheyne SIV, described above. In April 2010, the court denied the rating agency defendants' motion to dismiss. In June 2010, the court consolidated the two cases and the plaintiffs filed an amended complaint that, among other things, added Morgan Stanley & Co. as a defendant. In January 2012, in light of new New York state case law, the court permitted the plaintiffs to file an amended complaint that asserted claims against the rating agency defendants for breach of fiduciary duty, negligence, negligent misrepresentation, and aiding and abetting claims. In May 2012, the court, ruling on the rating agency defendants' motion to dismiss, dismissed all of the new claims except for the negligent misrepresentation claim and a claim for aiding and abetting fraud; on September 28, 2012, after further proceedings, the court also dismissed the negligent misrepresentation

claim. Plaintiffs did not seek class certification. On September 7, 2012 the rating agencies filed a motion for summary judgment dismissing the remaining claims against them. On January 3, 2013, the Court issued an order dismissing the claim for aiding and abetting fraud against the rating agencies but allowing the claim for fraud to proceed to trial. In June 2012 and March 2013, respectively, defendants IKB Deutsche Industriebank AG (and a related entity) and Fitch, Inc. informed the court that they had executed confidential settlement agreements with the plaintiffs. On April 24, 2013, pursuant to a confidential settlement agreement, the plaintiffs stipulated to the voluntary dismissal, with prejudice, of all remaining claims as against the remaining defendants, including Moody's, and the Court so ordered that stipulation on April 26, 2013.

### **Legacy Tax Matters**

Moody's continues to have exposure to potential liabilities arising from Legacy Tax Matters. As of December 31, 2013, Moody's has recorded liabilities for Legacy Tax Matters totaling \$17.6 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.

In the fourth quarter of 2013, certain Legacy Tax Matters were resolved, resulting in a \$19.2 million reduction of Legacy Tax liabilities and a \$3.6 million reduction of related accrued interest expense. Similarly, in the third quarter of 2012, certain Legacy Tax Matters were resolved, resulting in a \$12.8 million reduction of Legacy Tax liabilities and a \$4.4 million reduction of related accrued interest expense.

### **NOTE 19 SEGMENT INFORMATION**

The Company is organized into three operating segments: (i) MIS, (ii) MA and (iii) an immaterial operating segment that provides fixed income pricing services in the Asia-Pacific region. This aforementioned immaterial operating segment has been aggregated with the MA operating segment based on the fact that it has similar economic characteristics to MA. Accordingly, 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—corporate finance, structured finance, financial institutions and public, project and infrastructure finance—that generate revenue principally from fees for the assignment and ongoing monitoring of credit ratings on debt obligations and the entities that issue such obligations in markets worldwide.

The MA segment, which includes all of the Company's non-rating commercial activities, develops a wide range of products and services that support the risk management activities of institutional participants in global financial markets. The MA segment consists of three lines of business—RD&A, ERS and PS.

In the first quarter of 2013, a portion of a division within the PS LOB that provides solutions for structured finance securities was transferred to the RD&A LOB. Additionally, in the first quarter of 2012, a division within the PS LOB that provides various financial modeling services was transferred to the ERS LOB. Accordingly, the prior year revenue by LOB for MA has been reclassified to reflect these transfers.

Revenue for MIS and expenses for MA include an intersegment royalty charged to MA for the rights to use and distribute content, data and products developed by MIS. The royalty rate charged by MIS approximates the fair value of the aforementioned content, data and products and is generally based on comparable market transactions. Also, revenue for MA and expenses for MIS include an intersegment fee charged to MIS from MA for certain MA products and services utilized in MIS's ratings process. These fees charged by MA are generally equal to the costs incurred by

MA to produce these products and services. Additionally, overhead costs and corporate expenses of the Company which exclusively benefit only one segment, are fully charged to that segment. Overhead costs and corporate expenses of the Company which benefit both segments are allocated to each segment based on a revenue-split methodology. Overhead expenses include costs such as rent and occupancy, information technology and support staff such as finance, human resources and information technology. Beginning on January 1, 2013, the Company refined its methodology for allocating certain overhead departments to its segments to better align the costs allocated based on each segment's usage of the overhead service. The refined methodology is reflected in the segment results for the year ended December 31, 2013 and accordingly, the segment results for the years ended December 31, 2012 and 2011 have been reclassified to conform to the new presentation. These reclassifications were not material. Eliminations in the table below represent intersegment revenue/expense.

Moody's does not report the Company's assets by reportable segment as this metric is not used by the chief operating decision maker to allocate resources to the segments. Consequently, it is not practical to show assets by reportable segment.

**FINANCIAL INFORMATION BY SEGMENT:**

The table below shows revenue, Adjusted Operating Income and operating income by reportable segment. Adjusted Operating Income is a financial metric utilized by the Company's chief operating decision maker to assess the profitability of each reportable segment.

|                               | Year Ended December 31, |          |              |              | 2012       |          |              |              |
|-------------------------------|-------------------------|----------|--------------|--------------|------------|----------|--------------|--------------|
|                               | 2013                    |          |              |              | 2012       |          |              |              |
|                               | MIS                     | MA       | Eliminations | Consolidated | MIS        | MA       | Eliminations | Consolidated |
| Revenue                       | \$ 2,138.0              | \$ 924.7 | \$ (90.2)    | \$ 2,972.5   | \$ 1,958.3 | \$ 855.3 | \$ (83.3)    | \$ 2,730.3   |
| Operating, SG&A               | 1,022.6                 | 712.1    | (90.2)       | 1,644.5      | 967.6      | 662.9    | (83.3)       | 1,547.2      |
| Adjusted Operating Income     | 1,115.4                 | 212.6    |              | 1,328.0      | 990.7      | 192.4    |              | 1,183.1      |
| Depreciation and amortization | 46.6                    | 46.8     |              | 93.4         | 44.2       | 49.3     |              | 93.5         |
| Goodwill impairment charge    |                         |          |              |              |            | 12.2     |              | 12.2         |
| Operating income              | \$ 1,068.8              | \$ 165.8 | \$           | \$ 1,234.6   | \$ 946.5   | \$ 130.9 | \$           | \$ 1,077.4   |

**Year Ended December 31,  
2011**

|                               | MIS        | MA       | Eliminations | Consolidated |
|-------------------------------|------------|----------|--------------|--------------|
| Revenue                       | \$ 1,634.7 | \$ 722.4 | \$ (76.4)    | \$ 2,280.7   |
| Operating, SG&A               | 832.3      | 557.2    | (76.4)       | 1,313.1      |
| Adjusted Operating Income     | 802.4      | 165.2    |              | 967.6        |
| Depreciation and amortization | 41.2       | 38.0     |              | 79.2         |
| Operating income              | \$ 761.2   | \$ 127.2 | \$           | \$ 888.4     |

**MIS AND MA REVENUE BY LINE OF BUSINESS**

The tables below present revenue by LOB:

| MIS: | Year Ended December 31, |      |      |
|------|-------------------------|------|------|
|      | 2013                    | 2012 | 2011 |
|      |                         |      |      |

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|   |            |            |            |
|---|------------|------------|------------|
| Corporate finance (CFG)                           | \$ 996.8   | \$ 857.6   | \$ 652.1   |
| Structured finance (SFG)                          | 382.5      | 381.0      | 344.6      |
| Financial institutions (FIG)                      | 338.8      | 325.5      | 294.9      |
| Public, project and infrastructure finance (PPIF) | 341.3      | 322.7      | 277.3      |
| Total external revenue                            | 2,059.4    | 1,886.8    | 1,568.9    |
| Intersegment royalty                              | 78.6       | 71.5       | 65.8       |
| Total   | 2,138.0    | 1,958.3    | 1,634.7    |
| <b>MA:</b>  |            |            |            |
| Research, data and analytics (RD&A)               | 532.0      | 493.2      | 453.9      |
| Enterprise risk solutions (ERS)                   | 262.5      | 242.6      | 196.1      |
| Professional services (PS)                        | 118.6      | 107.7      | 61.8       |
| Total external revenue                            | 913.1      | 843.5      | 711.8      |
| Intersegment revenue                              | 11.6       | 11.8       | 10.6       |
| Total   | 924.7      | 855.3      | 722.4      |
| Eliminations                                      | (90.2)     | (83.3)     | (76.4)     |
| Total MCO   | \$ 2,972.5 | \$ 2,730.3 | \$ 2,280.7 |

**CONSOLIDATED REVENUE AND LONG-LIVED ASSETS INFORMATION BY GEOGRAPHIC AREA**

|  | Year Ended December 31, |                   |                   |
|--|-------------------------|-------------------|-------------------|
|  | 2013                    | 2012              | 2011              |
| <b>Revenue:</b>                          |                         |                   |                   |
| U.S.                                     | \$ 1,626.5              | \$ 1,472.4        | \$ 1,177.0        |
| <b>International:</b>                    |                         |                   |                   |
| EMEA                                     | 862.8                   | 800.2             | 708.4             |
| Asia-Pacific                             | 286.1                   | 266.5             | 233.0             |
| Americas                                 | 197.1                   | 191.2             | 162.3             |
| <b>Total International</b>               | <b>1,346.0</b>          | <b>1,257.9</b>    | <b>1,103.7</b>    |
| <b>Total</b>                             | <b>\$ 2,972.5</b>       | <b>\$ 2,730.3</b> | <b>\$ 2,280.7</b> |
| <b>Long-lived assets at December 31:</b> |                         |                   |                   |
| United States                            | \$ 547.1                | \$ 498.4          | 495.8             |
| International                            | 618.0                   | 672.3             | 727.5             |
| <b>Total</b>                             | <b>\$ 1,165.1</b>       | <b>\$ 1,170.7</b> | <b>\$ 1,223.3</b> |

In January 2014, the Company revised its operating segments to create the new Copal Amba operating segment. The new operating segment will consist of all operations from Copal, a majority of which was acquired in December 2011, and the operations of Amba. The Copal Amba operating segment provides offshore research and analytic services to the global financial and corporate sectors. The Company is currently in the process of determining whether the new Copal Amba segment has similar economic characteristics to MA as defined in ASC 280, and whether it will be combined with the MA segment into one reportable segment beginning in 2014.

**NOTE 20 VALUATION AND QUALIFYING ACCOUNTS**

Accounts receivable allowances primarily represent adjustments to customer billings that are estimated when the related revenue is recognized and also represents an estimate for uncollectible accounts. The valuation allowance on deferred tax assets relates to foreign net operating losses for which realization is uncertain. Below is a summary of activity for both allowances:

| Year Ended December 31,<br>2013 | Balance at Beginning<br>of the Year | Additions | Write-offs<br>and<br>Adjustments | Balance at End of<br>the Year |
|---------------------------------|-------------------------------------|-----------|----------------------------------|-------------------------------|
| Accounts receivable allowance   | \$ (29.1)                           | (44.5)    | 44.7                             | \$ (28.9)                     |
|                                 | \$ (15.2)                           | (0.1)     | 6.9                              | \$ (8.4)                      |

| <b>Deferred tax assets</b>              | <b>valuation</b> |        |        |      |    |        |
|---|------------------|--------|--------|------|----|--------|
| <b>allowance</b>                        |                  |        |        |      |    |        |
| 2012                                    |                  |        |        |      |    |        |
| Accounts receivable allowance           | \$               | (28.0) | (44.3) | 43.2 |    | (29.1) |
| Deferred tax assets valuation allowance | \$               | (13.9) | (3.1)  | 1.8  |    | (15.2) |
| 2011                                    |                  |        |        |      |    |        |
| Accounts receivable allowance           | \$               | (33.0) | (40.6) | 45.6 | \$ | (28.0) |
| Deferred tax assets valuation allowance | \$               | (12.8) | (4.0)  | 2.9  | \$ | (13.9) |

**NOTE 21 OTHER NON-OPERATING INCOME (EXPENSE), NET**

The following table summarizes the components of other non-operating income (expense), net as presented in the consolidated statements of operations:

|                           | Year Ended December 31, |                |                |
|---------------------------|-------------------------|----------------|----------------|
|                           | 2013                    | 2012           | 2011           |
| FX gain(loss)             | \$ 26.5                 | \$ (5.9)       | \$ 2.6         |
| Legacy Tax <sup>(a)</sup> | 19.2                    | 12.8           | 6.4            |
| Joint venture income      | 8.8                     | 4.8            | 6.8            |
| Other                     | (1.5)                   | (1.3)          | (2.3)          |
| <b>Total</b>              | <b>\$ 26.5</b>          | <b>\$ 10.4</b> | <b>\$ 13.5</b> |

(a) The 2013 amount represents a reversal a liability relating to favorable resolution of a Legacy Tax Matter for the 2007 – 2009 tax years. The 2012 amount represents a reversal of a liability relating to the favorable resolution of a Legacy tax Matter for the 2005 and 2006 tax years. The 2011 amounts represent a reversal of a liability relating to the lapse of the statute of limitations for a 2004 Legacy Tax Matter.

**NOTE 22 RELATED PARTY TRANSACTIONS**

Moody's Corporation made grants of \$8 million to The Moody's Foundation during the year ended December 31, 2013. Grants of \$10 million and \$5 million were made during the years ended December 31, 2012 and 2011, respectively. The Foundation carries out philanthropic activities primarily in the areas of education and health and human services. Certain members of Moody's senior management are on the board of the Foundation.

**NOTE 23 QUARTERLY FINANCIAL DATA (UNAUDITED)**

| (amounts in millions, except EPS)  | Three Months Ended |          |              |             |
|------------------------------------|--------------------|----------|--------------|-------------|
|                                    | March 31           | June 30  | September 30 | December 31 |
| <b>2013</b>                        |                    |          |              |             |
| Revenue                            | \$ 731.8           | \$ 756.0 | \$ 705.5     | \$ 779.2    |
| Operating Income                   | \$ 280.4           | \$ 350.8 | \$ 291.5     | \$ 311.9    |
| Net income attributable to Moody's | \$ 188.4           | \$ 225.5 | \$ 183.9     | \$ 206.7    |
| <b>EPS:</b>                        |                    |          |              |             |
| Basic                              | \$ 0.84            | \$ 1.01  | \$ 0.84      | \$ 0.96     |
| Diluted                            | \$ 0.83            | \$ 1.00  | \$ 0.83      | \$ 0.94     |
| <b>2012</b>                        |                    |          |              |             |
| Revenue                            | \$ 646.8           | \$ 640.8 | \$ 688.5     | \$ 754.2    |
| Operating income                   | \$ 269.0           | \$ 278.5 | \$ 269.7     | \$ 260.2    |
| Net income attributable to Moody's | \$ 173.5           | \$ 172.5 | \$ 183.9     | \$ 160.1    |



## EPS:

|         |    |      |    |      |    |      |    |      |
|---------|----|------|----|------|----|------|----|------|
| Basic   | \$ | 0.78 | \$ | 0.77 | \$ | 0.83 | \$ | 0.72 |
| Diluted | \$ | 0.76 | \$ | 0.76 | \$ | 0.81 | \$ | 0.70 |

Basic and diluted EPS are computed for each of the periods presented. The number of weighted average shares outstanding changes as common shares are issued pursuant to employee stock-based compensation plans and for other purposes or as shares are repurchased. Therefore, the sum of basic and diluted EPS for each of the four quarters may not equal the full year basic and diluted EPS.

Additionally, the quarterly financial data includes benefits of \$21.3 million and \$12.8 million to net income related to the resolution of Legacy Tax Matters for the three months December 31, 2013 and the three months ended September 30, 2012, respectively. There was a \$0.14 share charge in the first quarter of 2013 related to the settlement of litigation matters more fully discussed in Note 18. There was a \$12.2 million non-tax deductible goodwill impairment charge in the fourth quarter of 2012 relating to the Company's FTSC reporting unit.

**NOTE 24 SUBSEQUENT EVENT**

On February 21, 2014, the Company made a conditional open offer to acquire up to 2,650,000 equity shares of ICRA Limited, a leading provider of credit ratings and research in India. The offer is conditional upon acquiring at least 2,149,101 equity shares, which would increase Moody's ownership stake from 28.5% to just over 50.0%. Full acceptance of the offer would increase Moody's ownership stake in ICRA to approximately 55.0%. Upon the closing of the offer, the Company anticipates that it would consolidate the results of ICRA Limited into its financial statements subsequent to the acquisition of the shares.

The offer price, payable in cash, is 2,000 Indian rupees per share which, based on exchange rates on the date of the offer, would result in a cash payment to the sellers ranging between approximately \$69 million and \$85 million depending on the number of shares acquired. The tender period is expected to begin in April 2014, subject to completion of a review of the transaction by Indian regulatory authorities.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**MOODY S CORPORATION**

*(Registrant)*

By: /s/ JOSEPH MCCABE

**Joseph McCabe**

*Senior Vice President-Corporate Controller (principal accounting officer)*

Date: February 27, 2014