MOODYS CORP /DE/
Form 10-Q
May 01, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2018

Or

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

For the transition period from to

Commission file number 1-14037

Moody s Corporation

(Exact name of registrant as specified in its charter)

Delaware	**13-3998945**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

7 World Trade Center at

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

Registrant s telephone number, including area code:

(212) 553-0300

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

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

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

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Title of Each Class	**Shares Outstanding at March 31, 2018**
Common Stock, par value $0.01 per share	191.9 million

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MOODY S CORPORATION

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Exhibits Filed Herewith

12	Statement of Computation of Ratios of Earnings to Fixed Charges
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Principal 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	Principal Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.DEF	XBRL Definitions Linkbase Document
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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GLOSSARY OF TERMS AND ABBREVIATIONS

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

TERM	DEFINITION
Acquisition-Related Amortization	Amortization of definite-lived intangible assets acquired by the Company from all business combination transactions
Acquisition-Related Expenses	Consists of expenses incurred to complete and integrate the acquisition of Bureau van Dijk for which the integration will be a multi-year effort
Adjusted Diluted EPS	Diluted EPS excluding the impact of certain items as detailed in the section entitled Non-GAAP Financial Measures
Adjusted Net Income	Net Income excluding the impact of certain items as detailed in the section entitled Non-GAAP Financial Measures
Adjusted Operating Income	Operating income excluding depreciation and amortization
Adjusted Operating Margin	Adjusted Operating Income divided by revenue
Americas	Represents countries within North and South America, excluding the U.S.
AOCI	Accumulated other comprehensive income (loss); a separate component of shareholders (deficit) equity
ASC	The FASB Accounting Standards Codification; the sole source of authoritative GAAP as of July 1, 2009 except for rules and interpretive releases of the SEC, which are also sources of authoritative GAAP for SEC registrants
ASC 605	The U.S. GAAP authoritative guidance for revenue accounting prior to the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606).
Asia-Pacific	Represents countries in Asia including but not limited to: Australia, China, India, Indonesia, Japan, Korea, Malaysia, Singapore, Sri Lanka and Thailand
ASU	The FASB Accounting Standards Update to the ASC. It also provides background information for accounting guidance and the bases for conclusions on the changes in the ASC. ASUs are not considered authoritative until codified into the ASC
Board	The board of directors of the Company
BPS	Basis points
Bureau van Dijk	Bureau van Dijk Electronic Publishing, B.V., a global provider of business intelligence and company information; acquired by the Company on August 10, 2017 via the acquisition of Yellow Maple I B.V., an indirect parent of Bureau van Dijk.
CCXI	China Cheng Xin International Credit Rating Co. Ltd.; China s first and largest domestic credit rating agency approved by the People s Bank of China; the Company acquired a 49% interest in 2006; currently Moody s owns 30% of CCXI.

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Term	Definition
CCXI Gain	In the first quarter of 2017 CCXI, as part of a strategic business realignment, issued additional capital to its majority shareholder in exchange for a ratings business wholly-owned by the majority shareholder and which has the right to rate a different class of debt instrument in the Chinese market. The capital issuance by CCXI in exchange for this ratings business diluted Moody s ownership interest in CCXI to 30% of a larger business and resulted in a $59.7 million non-cash, non-taxable gain.
CFG	Corporate finance group; an LOB of MIS
CLO	Collateralized loan obligation
CMBS	Commercial mortgage-backed securities; part of the CREF asset class within SFG
Commission	European Commission
Common Stock	The Company s common stock
Company	Moody s Corporation and its subsidiaries; MCO; Moody s
Council	Council of the European Union
CP	Commercial Paper
CP Notes	Unsecured commercial paper issued under the CP Program
CP Program	A program entered into on August 3, 2016 allowing the Company to privately place CP up to a maximum of $1 billion for which the maturity may not exceed 397 from the date of issue and which is backstopped by the 2015 Facility
CRAs	Credit rating agencies
CRA3	Regulation (EU) No 462/2013 of the European Parliament and of the Council, which updated the regulatory regimes imposing additional procedural requirements on CRAs
CREF	Commercial real estate finance which includes REITs, commercial real estate CDOs and mortgage-backed securities; part of SFG
D&A	Depreciation and amortization
DBPPs	Defined benefit pension plans
Debt/EBITDA	Ratio of Total Debt to EBITDA
EBITDA	Earnings before interest, taxes, depreciation and amortization
EMEA	Represents countries within Europe, the Middle East and Africa
EPS	Earnings per share
ERS	The Enterprise Risk Solutions LOB within MA, which offers risk management software solutions as well as related risk management services
ESA	Economics and Structured Analytics; part of the RD&A line of business within MA

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Term	Definition
ESMA	European Securities and Markets Authority
ETR	Effective tax rate
EU	European Union
EUR	Euros
Excess Tax Benefits	The difference between the tax benefit realized at exercise of an option or delivery of a restricted share and the tax benefit recorded at the time the option or restricted share is expensed under GAAP
Exchange Act	The Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FIG	Financial institutions group; an LOB of MIS
Financial Reform Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Free Cash Flow	Net cash provided by operating activities less cash paid for capital additions
FSTC	Financial Services Training and Certifications; part of the PS LOB and a reporting unit within the MA reportable segment; consists of on-line and classroom-based training services and CSI Global Education, Inc.
FX	Foreign exchange
GAAP	U.S. Generally Accepted Accounting Principles
GBP	British pounds
ICRA	ICRA Limited; a leading provider of credit ratings and research in India. The Company previously held 28.5% equity ownership and in June 2014, increased that ownership stake to just over 50% through the acquisition of additional shares
IRS	Internal Revenue Service
IT	Information technology
KIS	Korea Investors Service, Inc; a leading Korean rating agency and consolidated subsidiary of the Company
KIS Pricing	Korea Investors Service Pricing, Inc; a leading Korean provider of fixed income securities pricing and consolidated subsidiary of the Company
LIBOR	London Interbank Offered Rate
LOB	Line of business
M&A	Mergers and acquisitions
MA	Moody s Analytics, a reportable segment of MCO which provides a wide range of products and services that support financial analysis and risk management activities of institutional participants in global financial markets; consists of three LOBs RD&A, ERS and PS

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Term	Definition
Make Whole Amount	The prepayment penalty amount relating to the Series 2007-1 Notes, 2010 Senior Notes, 2012 Senior Notes, 2013 Senior Notes, 2014 Senior Notes (5-year), 2014 Senior Notes (30-year), 2015 Senior Notes and 2017 Senior Notes which is a premium based on the excess, if any, of the discounted value of the remaining scheduled payments over the prepaid principal
MAKS	Moody s Analytics Knowledge Services; formerly known as Copal Amba; provides offshore research and analytic services to the global financial and corporate sectors; part of the PS LOB and a reporting unit within the MA reportable segment
MCO	Moody s Corporation and its subsidiaries; the Company; Moody s
MD&A	Management s Discussion and Analysis of Financial Condition and Results of Operations
MIS	Moody s Investors Service a reportable segment of MCO; consists of five LOBs SFG, CFG, FIG, PPIF and MIS Other
MIS Other	Consists of non-ratings revenue from ICRA, KIS Pricing and KIS Research. These businesses are components of MIS; MIS Other is an LOB of MIS
Moody s	Moody s Corporation and its subsidiaries; MCO; the Company
Net Income	Net income attributable to Moody s Corporation, which excludes net income from consolidated noncontrolling interests belonging to the minority interest holder
New Revenue Accounting Standard	Updates to the ASC pursuant to ASU No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606) . This new accounting guidance significantly changes the accounting framework under U.S. GAAP relating to revenue recognition and to the accounting for the deferral of incremental costs of obtaining or fulfilling a contract with a customer.
NM	Percentage change is not meaningful
Non-GAAP	A financial measure not in accordance with GAAP; these measures, when read in conjunction with the Company s reported results, can provide useful supplemental information for investors analyzing period-to-period comparisons of the Company s performance, facilitate comparisons to competitors operating results and to provide greater transparency to investors of supplemental information used by management in its financial and operational decision making
NRSRO	Nationally Recognized Statistical Rating Organization
OCI	Other comprehensive income (loss); includes gains and losses on cash flow and net investment hedges, unrealized gains and losses on available for sale securities (in periods prior to January 1, 2018), certain gains and losses relating to pension and other retirement benefit obligations and foreign currency translation adjustments
Other Retirement Plan	The U.S. retirement healthcare and U.S. retirement life insurance plans
PCS	Post-Contract Customer Support
PPIF	Public, project and infrastructure finance; an LOB of MIS
Profit Participation Plan	Defined contribution profit participation plan that covers substantially all U.S. employees of the Company
PS	Professional Services, an LOB within MA consisting of MAKS and FSTC that provides research and analytical services as well as financial training and certification programs
RD&A	Research, Data and Analytics; an LOB within MA that distributes research and data developed by MIS as part of the ratings process, including in-depth research on major debt issuers, industry studies and commentary on topical credit-related events. Also, produces economic research and data and analytical tools such as quantitative credit risk scores as well as well as business intelligence and company information products.

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Term	Definition
Reform Act	Credit Rating Agency Reform Act of 2006
REIT	Real Estate Investment Trust
Relationship Revenue	For MIS represents recurring monitoring fees of a rated debt obligation and/or entities that issue such obligations, as well as revenue from programs such as commercial paper, medium-term notes and shelf registrations. For MIS Other represents subscription-based revenue. For MA, represents subscription-based revenue and software maintenance revenue
Retirement Plans	Moody s funded and unfunded pension plans, the healthcare plans and life insurance plans
SCDM	SCDM Financial, a leading provider of analytical tools for participants in securitization markets. Moody s acquired SCDM s structured finance data and analytics business in February 2017
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Series 2007-1 Notes	Principal amount of $300 million, 6.06% senior unsecured notes due in September 2017 pursuant to the 2007 Agreement; prepaid in March 2017
Settlement Charge	Charge of $863.8 million recorded in the fourth quarter of 2016 related to an agreement entered into on January 13, 2017 with the U.S. Department of Justice and the attorneys general of 21 U.S. states and the District of Columbia to resolve pending and potential civil claims related to credit ratings that MIS assigned to certain structured finance instruments in the financial crisis era
SFG	Structured finance group; an LOB of MIS
SG&A	Selling, general and administrative expenses
SSP	Standalone selling price
T&M	Time-and-Material
Tax Act	The Tax Cuts and Jobs Act enacted into U.S. law on December 22, 2017 which significantly amends the tax code in the U.S.
Total Debt	All indebtedness of the Company as reflected on the consolidated balance sheets
Transaction Revenue	For MIS, represents the initial rating of a new debt issuance as well as other one-time fees. For MIS Other, represents revenue from professional services as well as data services, research and analytical engagements. For MA, represents perpetual software license fees and revenue from risk management advisory projects, training and certification services, and research and analytical engagements
U.K.	United Kingdom
U.S.	United States
USD	U.S. dollar
UTBs	Unrecognized tax benefits
UTPs	Uncertain tax positions

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Term	**Definition**
VSOE	Vendor specific objective evidence; as defined in the ASC, evidence of selling price limited to either of the following: the price charged for a deliverable when it is sold separately, or for a deliverable not yet being sold separately, the price established by management having the relevant authority
2007 Agreement	Note purchase agreement dated September 7, 2007, relating to the Series 2007-1 Notes
2010 Indenture	Supplemental indenture and related agreements dated August 19, 2010, relating to the 2010 Senior Notes
2010 Senior Notes	Principal amount of $500 million, 5.50% senior unsecured notes due in September 2020 pursuant to the 2010 Indenture
2012 Indenture	Supplemental indenture and related agreements dated August 18, 2012, relating to the 2012 Senior Notes
2012 Senior Notes	Principal amount of $500 million, 4.50% senior unsecured notes due in September 2022 pursuant to the 2012 Indenture
2013 Indenture	Supplemental indenture and related agreements dated August 12, 2013, relating to the 2013 Senior Notes
2013 Senior Notes	Principal amount of the $500 million, 4.875% senior unsecured notes due in February 2024 pursuant to the 2013 Indenture
2014 Indenture	Supplemental indenture and related agreements dated July 16, 2014, relating to the 2014 Senior Notes
2014 Senior Notes (5-Year)	Principal amount of $450 million, 2.75% senior unsecured notes due in July 2019
2014 Senior Notes (30-Year)	Principal amount of $600 million, 5.25% senior unsecured notes due in July 2044
2015 Facility	Five-year unsecured revolving credit facility, with capacity to borrow up to $1 billion; backstops CP issued under the CP Program
2015 Indenture	Supplemental indenture and related agreements dated March 9, 2015, relating to the 2015 Senior Notes
2015 Senior Notes	Principal amount 500 million, 1.75% senior unsecured notes issued March 9, 2015 and due in March 2027
2017 Floating Rate Senior Notes	Principal amount of $300 million, floating rate senior unsecured notes due in September 2018
2017 Indenture	Collectively the supplemental indenture and related agreements dated March 2, 2017, relating to the 2017 Floating Rate Senior Notes and 2017 Notes due 2023 and 2028, and the supplemental indenture and related agreements dated June 12, 2017, relating to the 2017 Notes Due 2023 and 2028
2017 Notes Due 2023	Principal amount of $500 million, 2.625% senior unsecured notes due January 15, 2023
2017 Notes Due 2028	Principal amount $500 million, 3.250% senior unsecured notes due January 15, 2028
2017 Senior Notes	Principal amount of $500 million, 2.75% senior unsecured notes due in December 2021
2017 Term Loan	$500 million, three-year term loan facility entered into on June 6, 2017 for which the Company drew down $500 million on August 8, 2017 to fund the acquisition of Bureau van Dijk

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(Amounts in millions, except per share data)

	Three Months Ended March 31,	
	2018	**2017**
Revenue	**$ 1,126.7**	**$ 975.2**
Expenses		
Operating	314.9	275.3
Selling, general and administrative	271.1	220.7
Depreciation and amortization	49.1	32.5
Acquisition-Related Expenses	0.8	
Total expenses	635.9	528.5
Operating income	**490.8**	**446.7**
Non-operating (expense) income, net		
Interest expense, net	(50.7)	(47.4)
Other non-operating income (expense), net	1.0	(7.7)
CCXI Gain		59.7
Total non-operating (expense) income, net	**(49.7)**	**4.6**
Income before provision for income taxes	**441.1**	**451.3**
Provision for income taxes	64.3	105.4
Net income	**376.8**	**345.9**
Less: Net income attributable to noncontrolling interests	3.9	0.3
Net income attributable to Moody s	**$ 372.9**	**$ 345.6**
Earnings per share		
Basic	**$ 1.95**	**$ 1.81**
Diluted	**$ 1.92**	**$ 1.78**
Weighted average shares outstanding		
Basic	**191.4**	**191.1**

Diluted	**194.5**	**194.3**
Dividends declared per share attributable to Moody s common shareholders	$ 0.44	$

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

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MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Amounts in millions)

	Three Months Ended March 31, 2018 Pre-tax amounts	2018 Tax amounts	2018 After-tax amounts	2017 Pre-tax amounts	2017 Tax amounts	2017 After-tax amounts
Net Income			**$ 376.8**			$ 345.9
Other Comprehensive Income:						
Foreign Currency Adjustments:						
Foreign currency translation adjustments, net	**$ 121.6**	**$ 3.6**	**125.2**	$ 14.4	$ (2.3)	12.1
Cash Flow Hedges:						
Net realized and unrealized (loss) gain on cash flow hedges	**1.9**	**(0.4)**	**1.5**	(0.3)	0.1	(0.2)
Reclassification of gains included in net income	**(0.1)**		**(0.1)**	(1.4)	0.5	(0.9)
Available for sale securities:						
Net unrealized gains on available for sale securities				0.5		0.5
Pension and Other Retirement Benefits:						
Amortization of actuarial losses and prior service costs included in net income	**1.4**	**(0.4)**	**1.0**	2.4	(0.9)	1.5
Total Other Comprehensive Income	**$ 124.8**	**$ 2.8**	**127.6**	$ 15.6	$ (2.6)	13.0
Comprehensive Income			**504.4**			358.9
Less: comprehensive income attributable to noncontrolling interests			**8.9**			5.7
Comprehensive Income Attributable to Moody s			**$ 495.5**			**$** 353.2

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

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MOODY S CORPORATION

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

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

	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,277.3	$ 1,071.5
Short-term investments	100.5	111.8
Accounts receivable, net of allowances of $36.0 in 2018 and $36.6 in 2017	1,207.4	1,147.2
Other current assets	233.6	250.1
Total current assets	2,818.8	2,580.6
Property and equipment, net of accumulated depreciation of $731.8 in 2018 and $706.6 in 2017	321.6	325.1
Goodwill	3,831.5	3,753.2
Intangible assets, net	1,641.6	1,631.6
Deferred tax assets, net	142.5	143.8
Other assets	258.0	159.9
Total assets	**$ 9,014.0**	$ 8,594.2
LIABILITIES, NONCONTROLLING INTERESTS AND SHAREHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 532.6	$ 750.3
Commercial paper	89.9	129.9
Current portion of long-term debt	299.7	299.5
Deferred revenue	998.7	883.6
Total current liabilities	1,920.9	2,063.3
Non-current portion of deferred revenue	127.8	140.0
Long-term debt	5,118.0	5,111.1
Deferred tax liabilities, net	382.2	341.6
Unrecognized tax benefits	490.9	389.1
Other liabilities	554.2	664.0
Total liabilities	8,594.0	8,709.1
Contingencies (Note 16)		
Shareholders equity (deficit):		
Preferred stock, par value $.01 per share; 10,000,000 shares authorized; no shares issued and outstanding		
Series common stock, par value $.01 per share; 10,000,000 shares authorized; no shares issued and outstanding		
Common stock, par value $.01 per share; 1,000,000,000 shares authorized; 342,902,272 shares issued at March 31, 2018 and December 31, 2017, respectively.	3.4	3.4
Capital surplus	506.6	528.6
Retained earnings	7,913.0	7,465.4
Treasury stock, at cost; 150,981,594 and 151,932,157 shares of common stock at March 31, 2018 and December 31, 2017, respectively	(8,171.4)	(8,152.9)
Accumulated other comprehensive loss	(51.9)	(172.2)
Total Moody s shareholders equity (deficit)	199.7	(327.7)

Noncontrolling interests	220.3	212.8
Total shareholders equity (deficit)	420.0	(114.9)
Total liabilities, noncontrolling interests and shareholders equity (deficit)	**$ 9,014.0**	$ 8,594.2

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

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MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

	Three Months Ended March 31, 2018	2017
Cash flows from operating activities		
Net income	**$ 376.8**	$ 345.9
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	**49.1**	32.5
Stock-based compensation	**35.1**	28.4
CCXI Gain		(59.7)
Deferred income taxes	**(4.2)**	185.0
Changes in assets and liabilities:		
Accounts receivable	**(29.9)**	(61.9)
Other current assets	**47.8**	(128.3)
Other assets	**(14.5)**	(3.2)
Accounts payable and accrued liabilities	**(224.2)**	(988.6)
Deferred revenue	**167.7**	125.9
Unrecognized tax benefits and other non-current tax liabilities	**(17.9)**	0.9
Other liabilities	**5.7**	10.7
Net cash provided by (used in) operating activities	**391.5**	(512.4)
Cash flows from investing activities		
Capital additions	**(15.0)**	(18.7)
Purchases of investments	**(50.3)**	(34.5)
Sales and maturities of investments	**41.1**	76.8
Cash paid for acquisitions, net of cash acquired and equity investments		(5.0)
Cash received upon disposal of a subsidiary, net of cash transferred to purchaser	**5.7**	
Net cash (used in) provided by investing activities	**(18.5)**	18.6
Cash flows from financing activities		
Issuance of notes		798.5
Repayment of notes		(300.0)
Issuance of commercial paper	**219.6**	653.7
Repayment of commercial paper	**(259.6)**	(440.4)
Proceeds from stock-based compensation plans	**28.5**	22.1
Repurchase of shares related to stock-based compensation	**(42.0)**	(47.5)
Treasury shares	**(43.4)**	(55.0)
Dividends	**(84.1)**	(72.6)
Dividends to noncontrolling interests	**(1.1)**	(0.2)
Debt issuance costs and related fees	**(0.2)**	(4.9)
Net cash (used in) provided by financing activities	**(182.3)**	553.7
Effect of exchange rate changes on cash and cash equivalents	**15.1**	18.2
Increase in cash and cash equivalents	**205.8**	78.1
Cash and cash equivalents, beginning of period	**1,071.5**	2,051.5

Cash and cash equivalents, end of period	**$ 1,277.3**	$ 2,129.6

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

MOODY S CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Moody s is a provider of (i) credit ratings; (ii) credit, capital markets and economic research, data and analytical tools; (iii) software solutions that support financial risk management activities; (iv) quantitatively derived credit scores; (v) financial services training and certification services; (vi) offshore financial research and analytical services; and (vii) company information and business intelligence products. Moody s reports in two reportable segments: MIS and MA.

MIS, the credit rating agency, publishes credit ratings on a wide range of debt obligations and the entities that issue such obligations in markets worldwide. Revenue is primarily derived from the originators and issuers of such transactions who use MIS ratings in the distribution of their debt issues to investors. Additionally, MIS earns revenue from certain non-ratings-related operations which consist primarily of financial instrument pricing services in the Asia-Pacific region as well as revenue from ICRA s non-ratings operations. The revenue from these operations is included in the MIS Other LOB and is not material to the results of the MIS segment.

The MA segment 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 RD&A business, MA distributes research and data developed by MIS as part of its ratings process, including in-depth research on major debt issuers, industry studies and commentary on topical credit-related events. The RD&A business also produces economic research and data and analytical tools such as quantitative credit risk scores as well as business intelligence and company information products. Within its ERS business, MA provides software solutions as well as related risk management services. The PS business provides offshore analytical and research services along with financial training and certification programs.

These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the Company s consolidated financial statements and related notes in the Company s 2017 annual report on Form 10-K filed with the SEC on February 27, 2018. The results of interim periods are not necessarily indicative of results for the full year or any subsequent period. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Certain reclassifications have been made to prior period amounts to conform to the current presentation.

Adoption of New Accounting Standards

On January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606) using the modified retrospective approach which Moody s has elected to apply only to those contracts which were not completed as of January 1, 2018. Additionally, the Company has not retrospectively restated contract positions for contract modifications made prior to the adoption. ASU No. 2014-09 also includes updates related to the accounting for the deferral of incremental costs of obtaining or fulfilling a contract with a customer (ASC Subtopic 340-40). Hereunder, discussion of the provisions of ASC Topic 606 and ASC Subtopic 340-40 are both individually and collectively referred to as the New Revenue Accounting Standard. Results for reporting periods beginning on January 1, 2018 are presented under the guidance set forth in the New Revenue Accounting Standard, while prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance.

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The most significant impacts to the Company s financial statements from adopting the New Revenue Accounting Standard are primarily related to: i) the accounting for certain installed software subscription revenue in MA whereby the license rights within the arrangement are recognized at the inception of the contract based on SSP with the remainder recognized over the subscription period (compared to ASC Topic 605 whereby all installed software subscription revenue was previously recognized over the subscription period); ii) the accounting for certain ERS and ESA revenue arrangements where VSOE was not available under ASC Topic 605 now results in the acceleration of revenue recognition (compared to ASC Topic 605 whereby revenue was deferred due to lack of VSOE until all elements without VSOE had been delivered); iii) sales commissions incurred in the MA segment will be capitalized and amortized over an extended period which is generally based upon the average economic life of products / services sold and incorporates anticipated subscription renewals (compared to previous accounting guidance whereby capitalized sales commissions were amortized over the committed subscription period only); iv) the immediate expensing of software implementation project costs to fulfill a contract for its ERS and ESA businesses which under previous accounting guidance were capitalized and expensed when related project revenue was recognized; v) the capitalization of work-in-process costs for in-progress MIS ratings at the end of each reporting period which under ASC Topic 605 were expensed as incurred; vi) the timing of when revenue for certain MIS ratings products is recognized; and vii) the estimation of variable consideration at contract inception whereas under ASC Topic 605 companies were not required to consider the amount of consideration for which it expected to be entitled.

The Company does not anticipate that applying the provisions of the New Revenue Accounting Standard will have a material impact to its 2018 consolidated Net Income. However, there could be quarterly fluctuations in the financial results of both MIS and MA, or there could be increases or decreases in revenues and expenses which would largely offset and not be material to total consolidated Net Income for the full year.

The table below provides detail relating to the adjustment to the Company s retained earnings balance upon adoption of the New Revenue Accounting Standard:

Transition adjustment	Benefit to / (reduction of) January 1, 2018 Retained Earnings	Corresponding Balance Sheet Line Item
Recognition of MA deferred revenue / increase in MA unbilled receivables [(1)]	$108 million	Deferred revenue, Non-current portion of deferred revenue, Accounts receivable, Other assets
Increase to capitalized MA sales commissions [(2)]	$78 million	Other current assets, Other assets, Accounts payable and accrued liabilities
Capitalization of work-in-process for in-progress ratings	$9 million	Other current assets
Net impact of all other adjustments	$4 million	Various
Net increase in tax liability on the above	($43 million)	Deferred tax liabilities, net
Total post-tax adjustment	$156 million	

(1) Represents deferred revenue as of December 31, 2017 as well as amounts then unbilled that would have been recognized as revenue in 2017 or earlier if the New Revenue Standard was then in effect. These amounts will not be recognized as revenue in future statements of operations. Conversely, revenue will be recorded to the Company s statement of operations in 2018 under the New Revenue Accounting Standard, which otherwise would have been recognized in periods subsequent to 2018 if accounted for under ASC Topic 605.

(2) Represents sales commissions that would have been capitalized as of December 31, 2017 if the New Revenue Accounting Standard was then in effect, but had previously been expensed by the Company under the previous accounting guidance. These sales commissions, as well as sales commissions incurred in 2018 related to new sales and renewals, will be amortized to expense in the statements of operations beginning in 2018 over an extended period generally based upon the average economic life of the products sold or over the period in which implementation and advisory services will be provided.

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The table below presents the cumulative effect of the changes made to the Company s consolidated balance sheet at January 1, 2018 for the adoption of the New Revenue Accounting Standard:

	As reported December 31, 2017	Adjustment Due to New Revenue Accounting Standard	Balance at January 1, 2018
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,071.5	$	$ 1,071.5
Short-term investments	111.8		111.8
Accounts receivable, net of allowances	1,147.2	16.8	1,164.0
Other current assets	250.1	32.9	283.0
Total current assets	2,580.6	49.7	2,630.3
Property and equipment, net	325.1		325.1
Goodwill	3,753.2		3,753.2
Intangible assets, net	1,631.6		1,631.6
Deferred tax assets, net	143.8		143.8
Other assets	159.9	71.3	231.2
Total assets	8,594.2	121.0	8,715.2
LIABILITIES, NONCONTROLLING INTERESTS AND SHAREHOLDERS (DEFICIT)/EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities	750.3	(0.8)	749.5
Commercial paper	129.9		129.9
Current portion of long-term debt	299.5		299.5
Deferred revenue	883.6	(69.3)	814.3
Total current liabilities	2,063.3	(70.1)	1,993.2
Non-current portion of deferred revenue	140.0	(8.0)	132.0
Long-term debt	5,111.1		5,111.1
Deferred tax liabilities, net	341.6	42.7	384.3
Unrecognized tax benefits	389.1		389.1
Other liabilities	664.0	0.3	664.3
Total liabilities	8,709.1	(35.1)	8,674.0
Shareholders (deficit)/equity:			
Common stock	3.4		3.4
Capital surplus	528.6		528.6
Retained earnings	7,465.4	156.1	7,621.5
Treasury stock	(8,152.9)		(8,152.9)
Accumulated other comprehensive loss	(172.2)		(172.2)
Total Moody s shareholders (deficit) equity	(327.7)	156.1	(171.6)
Noncontrolling interests	212.8		212.8
Total shareholders (deficit) equity	(114.9)	156.1	41.2
Total liabilities, noncontrolling interests and shareholders (deficit) equity	$ 8,594.2	$ 121.0	$ 8,715.2

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The below table presents the impacts on the Company s statement of operations for the current reporting period from applying the provisions of the New Revenue Accounting Standard compared to the accounting standard in effect before the change:

	For the Three Months Ended March 31, 2018		
	As Reported	Under previous accounting guidance	Effect of Change Higher/(Lower)
Revenue	**$ 1,126.7**	**$ 1,126.4**	**$ 0.3**
Expenses			
Operating	314.9	315.5	(0.6)
Selling, general and administrative	271.1	271.5	(0.4)
Depreciation and amortization	49.1	49.1	
Acquisition-related expenses	0.8	0.8	
Total expenses	**635.9**	**636.9**	**(1.0)**
Operating income	**490.8**	**489.5**	**1.3**
Non-operating (expense) income, net			
Interest expense, net	(50.7)	(50.7)	
Other non-operating income (expense), net	1.0	1.0	
Total non-operating (expense) income, net	**(49.7)**	**(49.7)**	
Income before provision for income taxes	**441.1**	**439.8**	**1.3**
Provision for income taxes	64.3	63.5	0.8
Net income	376.8	376.3	0.5
Less: Net income attributable to noncontrolling interests	3.9	3.9	
Net income attributable to Moody s	**$ 372.9**	**$ 372.4**	**$ 0.5**
Earnings per share			
Basic	$ 1.95	$ 1.95	$
Diluted	$ 1.92	$ 1.91	$ 0.01
Weighted average shares outstanding			
Basic	191.4	191.4	
Diluted	194.5	194.5	

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The below table presents the impacts on the Company s consolidated balance sheet at the end of the current reporting period from applying the provisions of the New Revenue Accounting Standard compared to the accounting standard in effect before the change:

	As Reported March 31, 2018	Under previous accounting guidance March 31, 2018	Effect of Change Higher/(Lower)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,277.3	$ 1,277.3	$
Short-term investments	100.5	100.5	
Accounts receivable, net of allowances	1,207.4	1,183.0	24.4
Other current assets	233.6	212.4	21.2
Total current assets:	2,818.8	2,773.2	45.6
Property and equipment, net	321.6	321.6	
Goodwill	3,831.5	3,831.5	
Intangible assets, net	1,641.6	1,641.6	
Deferred tax assets, net	142.5	142.6	(0.1)
Other assets	258.0	182.8	75.2
Total assets	$ 9,014.0	$ 8,893.3	$ 120.7
LIABILITIES, NONCONTROLLING INTERESTS AND SHAREHOLDERS EQUITY			
Accounts payable and accrued liabilities	$ 532.6	$ 532.5	$ 0.1
Commercial paper	89.9	89.9	
Current portion of long-term debt	299.7	299.7	
Deferred revenue	998.7	1,065.6	(66.9)
Total current liabilities	1,920.9	1,987.7	(66.8)
Non-current portion of deferred revenue	127.8	135.0	(7.2)
Long-term debt	5,118.0	5,118.0	
Deferred tax liabilities, net	382.2	348.7	33.5
Unrecognized tax benefits	490.9	490.9	
Other liabilities	554.2	553.9	0.3
Total liabilities	8,594.0	8,634.2	(40.2)
Shareholders equity:			
Common stock	3.4	3.4	
Capital surplus	506.6	506.6	
Retained earnings	7,913.0	7,752.1	160.9
Treasury stock	(8,171.4)	(8,171.4)	
Accumulated other comprehensive loss	(51.9)	(51.9)	
Total Moody s shareholders equity	199.7	38.8	160.9
Noncontrolling interests	220.3	220.3	
Total shareholders equity	420.0	259.1	160.9
Total liabilities, noncontrolling interests and shareholders equity	$ 9,014.0	$ 8,893.3	$ 120.7

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The below table presents the impacts on various line items within the operating cash flow within the Company s statement of cash flows for the current reporting period from applying the provisions of the New Revenue Accounting Standard compared to the accounting standard in effect before the change.

	For the Three Months Ended March 31, 2018		
	As Reported	Under previous accounting guidance	Effect of Change
Cash flows from operating activities			
Net income	$ 376.8	$ 376.3	$ 0.5
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	49.1	49.1	
Stock-based compensation	35.1	35.1	
Deferred income taxes	(4.2)	4.0	(8.2)
Changes in assets and liabilities:			
Accounts receivable	(29.9)	(22.3)	(7.6)
Other current assets	47.8	36.1	11.7
Other assets	(14.5)	(10.6)	(3.9)
Accounts payable and accrued liabilities	(224.2)	(229.4)	5.2
Deferred revenue	167.7	164.5	3.2
Unrecognized tax benefits and other non-current tax liabilities	(17.9)	(17.9)	
Other liabilities	5.7	6.6	(0.9)
Net cash provided by operating activities	$ 391.5	$ 391.5	$

The New Revenue Accounting Standard did not have any impact on individual line items within investing or financing cash flows in the Company s consolidated statement of cash flows. In 2018, the adoption of the New Revenue Accounting Standard will likely result in higher cash taxes as the cumulative catch-up adjustment to retained earnings is taxable and there is expected to be acceleration of revenue recognition under the New Revenue Accounting Standard.

On January 1, 2018, the Company adopted ASU No. 2017-07, Compensation Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost . As required by this ASU, the components of net periodic pension costs were disaggregated in the statement of operations on a retrospective basis. The Company has continued to reflect the service cost component in either Operating or SG&A expenses in Moody s statement of operations. The other components of net benefit cost are presented within non-operating (expense) income, net, within the statement of operations. The adoption of this ASU has no impact on Net Income in the Company s statements of operations. The impact to the Company s statements of operations for the three months ended March 31, 2018 and March 31, 2017 related to the adoption of this ASU are set forth in the table below:

	For the Three Months Ended March 31, 2018			For the Three Months Ended March 31, 2017		
	As Reported	Under previous accounting guidance	Effect of Change Higher/(Lower)	As Adjusted	Under previous accounting guidance	Effect of Change Higher/(Lower)
Operating expenses	**$ 314.9**	**$ 316.3**	**$ (1.4)**	$ 275.3	$ 277.4	$ (2.1)
Selling, general and administrative expenses	**271.1**	**272.0**	**(0.9)**	220.7	221.9	(1.2)
Operating income	**490.8**	**488.5**	**2.3**	446.7	443.4	3.3
Interest expense, net	**(50.7)**	**(46.0)**	**4.7**	(47.4)	(42.4)	5.0
Other non-operating income (expense), net	**1.0**	**(1.4)**	**2.4**	(7.7)	(9.4)	(1.7)

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On January 1, 2018, the Company adopted ASU No. 2016-01 Financial Instruments Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). The amendments in this ASU update various aspects of recognition, measurement, presentation and disclosures relating to financial instruments. Upon adoption, the Company recorded a $2.3 million cumulative adjustment to reclassify net unrealized gains on investments in equity securities previously classified as available-for-sale under the previous guidance from AOCI to retained earnings. Beginning in the first quarter of 2018, the Company will measure equity investments with readily determinable fair values (except those accounted for under the equity method, those that result in consolidation of the investee and certain other investments) at fair value and recognize any changes in fair value in net income. The adoption of this ASU did not have material impact on the Company s financial statements for the three months ended March 31, 2018.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company adopted the New Revenue Accounting Standard on January 1, 2018 using the modified retrospective transition method. Below are the Company s revised accounting policies reflecting the provisions of the New Revenue Accounting Standard and ASU 2016-01 (as codified under ASC Topic 321) as further discussed in Note 1. All other significant accounting policies described in the Form 10-K for the year ended December 31, 2017 remain unchanged. Also refer to Note 3 of the condensed consolidated financial statements for certain quantitative disclosures relating to the Company s revenue from contracts with customers.

Revenue Recognition and Costs to Obtain or Fulfill a Contract with a Customer

Revenue recognition:

Revenue is recognized when control of promised goods or services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

When contracts with customers contain multiple performance obligations, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to each distinct performance obligation on a relative SSP basis. The Company determines the SSP by using the price charged for a deliverable when sold separately or uses management s best estimate of SSP for goods or services not sold separately based on the maximum number of observable data points, including: 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 trends.

Sales, usage-based, value added and other taxes are excluded from revenues.

MIS Revenue

In the MIS segment, revenue arrangements are generally comprised of two distinct performance obligations, an initial rating and the related monitoring service. Revenue attributed to initial ratings of issued securities is generally recognized when the rating is delivered to the issuer. 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 certain structured finance products, primarily CMBS, issuers can elect to pay all of the annual monitoring fees upfront. These fees are deferred and recognized over the future monitoring periods based on the expected lives of the rated securities.

MIS arrangements generally have standard contractual terms for which the stated payments are due at conclusion of the ratings process for initial ratings and either upfront or in arrears for monitoring services; and are signed by customers either on a per issue basis or at the beginning of the relationship with the customer. However, customer fee arrangements may be adjusted for which the Company accounts for as variable consideration at inception, which is constrained based on the Company s assessment of the realization of the adjustment amount.

The Company allocates the transaction price within arrangements that include both the initial rating and the related monitoring service based upon the relative SSP of each service. The Company generally uses management s best estimate based on observable pricing points in determining SSP for its initial ratings as the Company rarely provides initial ratings separately without providing related monitoring services. The SSP for monitoring fees in these arrangements are generally based upon directly observable selling prices where the monitoring service is sold separately.

MA Revenue

In the MA segment, products and services offered by the Company include hosted research and data subscriptions, installed software subscriptions, perpetual installed software licenses and related maintenance, or PCS, and professional services. Subscription and PCS contracts are generally invoiced in advance of the contractual coverage period, which is principally one year, but can range from 3-5 years; while perpetual software licenses are generally invoiced upon delivery and professional services are invoiced as those services are provided. Payment terms and conditions vary by contract type, but primarily include a requirement of payment within 30 to 60 days.

Revenue from research, data and other hosted subscriptions is recognized ratably over the related subscription period. A large portion of these services are invoiced in the months of November, December and January.

Revenue from the sale of a software license, when considered distinct from the related software implementation services, is generally recognized at the time the product master or first copy is delivered or transferred to the customer. However, in instances where the software license (perpetual or subscription) and related implementation services are considered to be one combined performance obligation, revenue is recognized on a percentage-of-completion basis (input method) as implementation services are performed over time, which is consistent with the pattern of recognition for the software implementation services if considered to be a separate distinct performance obligation. The Company exercises judgment in determining the level of integration and interdependency between the promise to grant the software license and the promise to deliver the related implementation services. This determination influences whether the software license is considered distinct and accounted for separately, or not distinct and accounted for together with the implementation services and recognized over time. PCS is generally recognized ratably over the contractual period commencing when the software license is fully delivered. Revenue from installed software subscriptions, which includes PCS, is bifurcated into a software license performance obligation and a PCS performance obligation, which follow the patterns of recognition described above.

For implementation services and other service projects within the ERS and ESA LOBs for which fees are fixed, the Company determined progress towards completion is most accurately measured on a percentage-of-completion basis (input method) as this approach utilizes the most directly observable data points and is therefore used to recognize the related revenue. For implementation services where price varies based on time expended, a time-based measure of progress towards completion of the performance obligation is utilized.

Revenue from professional services rendered within the PS LOB is generally recognized as the services are performed.

Products and services offered within the MA segment are sold either stand-alone or together in various combinations. In instances where an arrangement contains multiple performance obligations, the Company accounts for the individual performance obligations separately if they are considered distinct. Revenue is generally allocated to all performance obligations based upon the relative SSP at contract inception. Judgment is often required to determine the SSP for each distinct performance obligation. Revenue is recognized for each performance obligation based upon the conditions for revenue recognition noted above.

In the MA segment, customers usually pay a fixed fee for the products and services based on signed contracts. However, accounting for variable consideration is applied mainly for: i) estimates for cancellation rights and price concessions and ii) T&M based services.

The Company estimates the variable consideration associated with cancellation rights and price concessions based on the expected amount to be provided to customers and reduces the amount of revenue to be recognized. T&M based contracts represent about half of MA s service projects within the ERS and ESA LOBs. The Company provides agreed upon services at a contracted daily or hourly rate. The commitment represents a series of goods and services that are substantially the same and have the same pattern of transfer to the customer. As such, if T&M services are sold with other MA products, the Company allocates the variable consideration entirely to the T&M performance obligation if the services are sold at standard pricing or at a similar discount level compared to other performance obligations in the same revenue contract. If these criteria are not met, the Company estimates variable consideration for each performance obligation upfront.

Each form of variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal of any incremental revenue will not occur.

Costs to Obtain or Fulfill a Contract with a Customer:

Costs incurred to obtain customer contracts, such as sales commissions, are deferred and recorded within other current assets and other assets when such costs are determined to be incremental to obtaining a contract, would not have been incurred otherwise and the Company expects to recover those costs. These costs are amortized to expense consistent with the recognition pattern of the related revenue. Depending on the line of business to which the contract relates, this may be based upon the average economic life of the products sold or average period for which services are provided, inclusive of anticipated contract renewals. Determining the estimated economic life of the products sold requires judgment with respect to anticipated future technological changes. The Company had a balance of $95.5 million in such deferred costs as of March 31, 2018 and recognized $8.6 million of related amortization during the three-month period ended March 31, 2018, which is included within SG&A expenses in the consolidated statement of operations. Costs incurred to obtain customer contracts are only in the MA segment.

The Company also capitalizes work-in-process costs for in-progress MIS ratings, which is amortized consistent with the rendering of the related services to the customers. The Company had a balance of $10.2 million in such deferred costs as of March 31, 2018 and recognized $9.4 million of amortization of the costs deferred as of January 1, 2018 during the three-month period ended March 31, 2018, which is included within operating expenses in the consolidated statement of operations.

In addition, within the MA segment, the Company capitalizes royalty costs related to third-party information data providers associated with hosted company information and business intelligence products. The Company had a balance of $32.4 million in such deferred costs as of March 31, 2018 and recognized $14.2 million of related amortization during the three-month period ended March 31, 2018, which is included within operating expenses in the consolidated statement of operations.

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 certain short-term investments consisting primarily of certificates of deposit that are carried at cost, which approximates fair value due to their short-term maturities.

The Company also has certain investments in closed-ended and open-ended mutual funds in India which are accounted for as equity securities with readily determinable fair values under ASC Topic 321. Beginning in the first quarter of 2018, the Company will measure these investments at fair value with both realized gains and losses and unrealized holding gains and losses for these investments included in net income.

Prior to January 1, 2018, the investments in closed-ended and open-ended mutual funds in India were designated as available for sale under Topic 320 of the ASC. Accordingly, unrealized gains and losses on these investments were recorded to other comprehensive income and were reclassified out of accumulated other comprehensive income to the statement of operations when the investment matured or was sold using a specific identification method.

Also, the Company uses derivative instruments 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.

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.

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NOTE 3. REVENUES

Revenue by Category

The following table presents the Company s revenues disaggregated by LOB:

	Three Months Ended March 31, 2018	2017 (1)
MIS:		
Corporate finance (CFG)		
Investment-grade	**$ 81.1**	$ 72.1
High-yield	**57.9**	64.2
Bank loans	**108.1**	101.4
Other accounts (2)	**130.6**	115.1
Total CFG	**377.7**	352.8
Structured finance (SFG)		
Asset-backed securities	**28.2**	22.7
Residential mortgage backed securities	**24.3**	20.4
Commercial real estate finance	**33.2**	29.3
Structured credit	**43.4**	27.4
Other accounts	**0.6**	0.4
Total SFG	**129.7**	100.2
Financial institutions (FIG)		
Banking	**77.0**	79.1
Insurance	**28.3**	25.1
Managed investments	**5.7**	5.1
Other accounts	**3.3**	3.0
Total FIG	**114.3**	112.3
Public, project and infrastructure finance (PPIF)		
Public finance / sovereign	**46.9**	53.0
Project and infrastructure	**46.3**	45.1
Total PPIF	**93.2**	98.1
Total ratings revenue	**714.9**	663.4
MIS Other	**5.0**	4.8
Total external revenue	**719.9**	668.2
Intersegment royalty	**29.8**	26.0
Total MIS	**749.7**	694.2
MA:		
Research, data and analytics (RD&A)	**269.2**	175.4

Enterprise risk solutions (ERS)	**100.1**	95.9
Professional services (PS)	**37.5**	35.7
Total external revenue	**406.8**	307.0
Intersegment revenue	**5.0**	3.7
Total MA	**411.8**	310.7
Eliminations	**(34.8)**	(29.7)
Total MCO	**$ 1,126.7**	$ 975.2

(1) Prior period amounts have not been adjusted under the modified retrospective method of adoption for the New Revenue Accounting Standard.

(2) Other includes: recurring monitoring fees of a rated debt obligation and/or entities that issue such obligations as well as fees from programs such as commercial paper, medium term notes, and ICRA corporate finance revenue.

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The following table presents the Company s revenues disaggregated by LOB and geographic area:

	Three Months Ended March 31, 2018		
	United States	**International**	**Total**
MIS:			
Corporate finance (CFG)	**$ 246.7**	**$ 131.0**	**$ 377.7**
Structured finance (SFG)	**84.6**	**45.1**	**129.7**
Financial institutions (FIG)	**48.5**	**65.8**	**114.3**
Public, project and infrastructure finance (PPIF)	**53.4**	**39.8**	**93.2**
Total ratings revenue	**433.2**	**281.7**	**714.9**
MIS Other	**0.2**	**4.8**	**5.0**
Total	**433.4**	**286.5**	**719.9**
MA:			
Research, data and analytics (RD&A)	**112.6**	**156.6**	**269.2**
Enterprise risk solutions (ERS)	**38.5**	**61.6**	**100.1**
Professional services (PS)	**13.2**	**24.3**	**37.5**
Total	**164.3**	**242.5**	**406.8**
Total MCO	**$ 597.7**	**$ 529.0**	**$ 1,126.7**

	Three Months Ended March 31, 2017 [(1)]		
	United States	**International**	**Total**
MIS:			
Corporate finance (CFG)	$ 243.8	$ 109.0	$ 352.8
Structured finance (SFG)	65.0	35.2	100.2
Financial institutions (FIG)	50.6	61.7	112.3
Public, project and infrastructure finance (PPIF)	63.0	35.1	98.1
Total ratings revenue	422.4	241.0	663.4
MIS Other	0.1	4.7	4.8
Total	422.5	245.7	668.2
MA:			
Research, data and analytics (RD&A)	101.4	74.0	175.4
Enterprise risk solutions (ERS)	40.2	55.7	95.9
Professional services (PS)	13.7	22.0	35.7
Total	155.3	151.7	307.0
Total MCO	$ 577.8	$ 397.4	$ 975.2

(1)

Prior period amounts have not been adjusted under the modified retrospective method of adoption for the New Revenue Accounting Standard.

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The tables below summarize the split between transaction and relationship revenue. In the MIS segment, excluding MIS Other, transaction revenue represents the initial rating of a new debt issuance as well as other one-time fees while relationship revenue represents the recurring monitoring fees of a rated debt obligation and/or entities that issue such obligations, as well as revenue from programs such as commercial paper, medium-term notes and shelf registrations. In MIS Other, transaction revenue represents revenue from professional services and outsourcing engagements and relationship revenue represents subscription-based revenues. In the MA segment, relationship revenue represents subscription-based revenues and software maintenance revenue. Transaction revenue in MA represents perpetual software license fees and revenue from software implementation services, risk management advisory projects, training and certification services, and outsourced research and analytical engagements.

	Three Months Ended March 31,					
	2018			**2017 (2)**		
	Transaction	Relationship	Total	Transaction	Relationship	Total
Corporate Finance	**$ 274.9**	**$ 102.8**	**$ 377.7**	$ 260.6	$ 92.2	$ 352.8
	73%	**27%**	**100%**	74%	26%	100%
Structured Finance	**$ 83.1**	**$ 46.6**	**$ 129.7**	$ 57.5	$ 42.7	$ 100.2
	64%	**36%**	**100%**	57%	43%	100%
Financial Institutions	**$ 50.0**	**$ 64.3**	**$ 114.3**	$ 53.4	$ 58.9	$ 112.3
	44%	**56%**	**100%**	48%	52%	100%
Public, Project and Infrastructure Finance	**$ 54.4**	**$ 38.8**	**$ 93.2**	$ 59.2	$ 38.9	$ 98.1
	58%	**42%**	**100%**	60%	40%	100%
MIS Other	**$ 0.6**	**$ 4.4**	**$ 5.0**	$ 0.3	$ 4.5	$ 4.8
	12%	**88%**	**100%**	6%	94%	100%
Total MIS	**$ 463.0**	**$ 256.9**	**$ 719.9**	$ 431.0	$ 237.2	$ 668.2
	64%	**36%**	**100%**	65%	35%	100%
Moody s Analytics	**$ 60.8**[(1)]	**$ 346.0**	**$ 406.8**	$ 64.6	$ 242.4	$ 307.0
	15%	**85%**	**100%**	21%	79%	100%
Total Moody s Corporation	**$ 523.8**	**$ 602.9**	**$ 1,126.7**	$ 495.6	$ 479.6	$ 975.2
	46%	**54%**	**100%**	51%	49%	100%

(1) Revenue from software implementation services and risk management advisory projects, while classified by management as transactional revenue, is recognized over time under the New Revenue Accounting Standard (please also refer to the table below).

(2) Prior period amounts have not been adjusted under the modified retrospective method of adoption for the New Revenue Accounting Standard.

The following table presents the timing of revenue recognition:

	Three Months Ended March 31, 2018		
	MIS	**MA**	**Total**
Revenue recognized at a point in time	**$ 463.0**	**$ 15.5**	**$ 478.5**
Revenue recognized over time	**256.9**	**391.3**	**648.2**
Total	**$ 719.9**	**$ 406.8**	**$ 1,126.7**

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Contract balances, Unbilled receivables and Remaining performance obligations

Unbilled receivables

At March 31, 2018, accounts receivable included approximately $344.0 million of unbilled receivables related to the MIS segment. Certain MIS arrangements contain contractual terms whereby the customers are billed in arrears for annual monitoring services, requiring revenue to be accrued as an unbilled receivable as such services are provided. Additionally, there are other instances in which the timing of when the Company has the unconditional right to consideration and recognizes revenue prior to invoicing the customer, for which an unbilled receivable is recorded.

In addition, for certain MA arrangements, the timing of when the Company has the unconditional right to consideration and recognizes revenue occurs prior to invoicing the customer. Consequently, at March 31, 2018, accounts receivable included approximately $40.1 million of unbilled receivables related to the MA segment.

Historically, the Company has not had material differences between the estimated revenue and the actual billings.

Deferred revenue

The Company recognizes deferred revenue when a contract requires a customer to pay consideration to the Company in advance of when revenue related to that contract is recognized. This deferred revenue is relieved when the Company satisfies the related performance obligation and revenue is recognized.

Significant changes in the deferred revenue balances during the three months ended March 31, 2018 are as follows:

	Three Months Ended March 31, 2018		
	MIS	**MA**	**Total**
Balance at January 1, 2018 (after New Revenue Accounting Standard transition adjustment)	**$ 334.7**	**$ 611.6**	**$ 946.3**
Changes in deferred revenue			
Revenue recognized that was included in the deferred revenue balance at the beginning of the period	**(93.4)**	**(173.9)**	**(267.3)**
Increases due to amounts billable excluding amounts recognized as revenue during the period	**154.9**	**279.8**	**434.7**
Effect of exchange rate changes	**1.3**	**11.5**	**12.8**
Total Changes in deferred revenue	**62.8**	**117.4**	**180.2**
Balance at March 31, 2018	**$ 397.5**	**$ 729.0**	**$ 1,126.5**
Deferred revenue - current	$ 273.4	$ 725.3	$ 998.7
Deferred revenue - noncurrent	$ 124.1	$ 3.7	$ 127.8

Deferred revenue increased during the three months ended March 31, 2018 primarily due to the significant portion of contract renewals that occur during the first quarter within both segments.

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Remaining performance obligations

The following tables include the expected recognition period for the remaining performance obligations for each reportable segment as of March 31, 2018:

MIS

Total	Less than 1 year	1 - 5 years	6 - 10 Years	11 - 15 years	16-20 years	Over 20 Years
$ 150.5	**$ 21.9**	**$ 65.2**	**$ 43.6**	**$ 8.7**	**$ 4.5**	**$ 6.6**

The balances in the MIS table above largely reflect deferred revenue related to monitoring fees for certain structured finance products, primarily CMBS, where the issuers can elect to pay the monitoring fees for the life of the security in advance. With respect to the remaining performance obligations for the MIS segment, the Company has applied a practical expedient set forth in ASC Topic 606 permitting the omission from the table above for unsatisfied performance obligations relating to contracts with an original expected length of one year or less.

MA

Total	Less than 1 Year	1 - 2 Years	Over 2 Years
$ 1,418.6	**$ 1,089.0**	**$ 217.6**	**$ 112.0**

The balances in the MA table above include both amounts recorded as deferred revenue on the balance sheet as of March 31, 2018 as well as amounts not yet invoiced to customers as of March 31, 2018 largely reflecting future revenue related to signed multi-year arrangements for hosted and installed subscription based products.

NOTE 4. STOCK-BASED COMPENSATION

Presented below is a summary of the stock-based compensation cost and associated tax benefit included in the accompanying consolidated statements of operations:

	Three Months Ended March 31,	
	2018	**2017**
Stock-based compensation expense	**$ 35.1**	$ 28.4
Tax benefit	**$ 7.2**	$ 9.1

During the first three months of 2018, the Company granted 0.2 million employee stock options, which had a weighted average grant date fair value of $45.87 per share based on the Black-Scholes option-pricing model. The Company also granted 0.7 million shares of restricted stock in the first three months of 2018, which had a weighted average grant date fair value of $167.50 per share. Both the employee stock options and restricted stock generally vest ratably over a four-year period. Additionally, the Company granted 0.1 million shares of performance-based awards whereby the number of shares that ultimately vest are based on the achievement of certain non-market based performance metrics of the Company over a three-year period. The weighted average grant date fair value of these awards was $162.42 per share.

The following weighted average assumptions were used in determining the fair value for options granted in 2018:

Expected dividend yield	**1.05%**
Expected stock volatility	**25.6%**
Risk-free interest rate	**2.81%**
Expected holding period	**6.2 years**
Grant date fair value	**$ 45.87**

Unrecognized stock-based compensation expense at March 31, 2018 was $11.7 million and $220.1 million for stock options and unvested restricted stock, respectively, which is expected to be recognized over a weighted average period of 1.4 years and 1.8 years, respectively. Additionally, there was $43.1 million of unrecognized stock-based compensation expense relating to the aforementioned non-market based performance-based awards, which is expected to be recognized over a weighted average period of 1.1 years.

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

Exercise of stock options:	Three Months Ended March 31, 2018	2017
Proceeds from stock option exercises	**$ 26.6**	$ 20.6
Aggregate intrinsic value	**$ 61.9**	$ 21.6
Tax benefit realized upon exercise	**$ 15.0**	$ 7.9
Number of shares exercised	**0.5**	0.4

Vesting of restricted stock:	Three Months Ended March 31, 2018	2017
Fair value of shares vested	**$ 146.7**	$ 106.8
Tax benefit realized upon vesting	**$ 33.9**	$ 33.7
Number of shares vested	**0.9**	0.9

Vesting of performance-based restricted stock:	Three Months Ended March 31, 2018	2017
Fair value of shares vested	**$ 23.0**	$ 19.5
Tax benefit realized upon vesting	**$ 5.5**	$ 6.9
Number of shares vested	**0.1**	0.2

NOTE 5. INCOME TAXES

Moody s effective tax rate for the first quarter of 2018 was 14.6%, down from 23.4% for the prior-year period. The decline in the tax rate primarily reflects the impact of an enacted lower corporate tax rate in the U.S. pursuant to the Tax Act. Additionally, the ETR in 2018 includes an approximate $31 million benefit relating to Excess Tax Benefits on stock-based compensation as well as a net uncertain tax position benefit pursuant to statute of limitation lapses. The ETR in the first quarter of 2017 reflected the non-taxable CCXI Gain as well as approximately $19 million in Excess Tax Benefits on stock-based compensation.

On December 22, 2017, the Tax Cut and Jobs Act was signed into law which resulted in significant changes to U.S. corporate tax laws. The Tax Act includes a mandatory one-time deemed repatriation tax (transition tax) on previously untaxed accumulated earnings of foreign subsidiaries and beginning in 2018 reduces the statutory federal corporate income tax rate from 35% to 21%. Due to the complexities of the Tax Act, the SEC issued guidance requiring that companies provide a reasonable estimate of the impact of the Tax Act to the extent such reasonable estimate has been determined. Accordingly, as of December 31, 2017 the Company recorded a provisional estimate for the transition tax of $247.3 million, a portion of which will be payable over eight years, starting in 2018, and will not accrue interest. The above provisional estimate may be impacted by a number of additional considerations, including but not limited to the issuance of regulations and our ongoing analysis of the new law.

As a result of the Tax Act, all previously net undistributed foreign earnings have now been subject to U.S. tax. However, the Company intends to continue to indefinitely reinvest earnings outside the U.S. and accordingly the Company has not provided non-U.S. deferred income taxes on these indefinitely reinvested earnings. It is not practicable to determine the amount of non-U.S. 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 classifies interest related to UTBs in interest expense, net in its consolidated statements of operations. Penalties, if incurred, would be recognized in other non-operating (expense) income, net. The Company had an increase in its UTBs of $101.8 million ($109.6 million net of federal tax) during the first quarter of 2018.

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 2011 and 2012 are under examination and its returns for 2013 through 2016 remain open to examination. The Company s New York State tax returns for 2011 through 2014 are currently under examination and the Company s New York City tax return for 2014 is currently under examination. The Company s U.K. tax return for 2012 is currently under examination and its returns for 2013 through 2016 remain open to examination.

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For ongoing audits, it is possible the balance of UTBs could decrease in the next twelve months as a result of the settlement of these audits, which might involve the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also possible that new issues might be raised by tax authorities which could necessitate increases to the balance of UTBs. As the Company is unable to predict the timing or outcome of these audits, it is therefore unable to estimate the amount of changes to the balance of UTBs at this time. However, the Company believes that it has adequately provided for its financial exposure relating to all open tax years by tax jurisdiction in accordance with the applicable provisions of Topic 740 of the ASC regarding UTBs.

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

	Three Months Ended March 31,	
	2018	**2017**
Income taxes paid	**$ 44.2**	$ 23.4

NOTE 6. WEIGHTED AVERAGE SHARES OUTSTANDING

Below is a reconciliation of basic to diluted shares outstanding:

	Three Months Ended March 31,	
	2018	**2017**
Basic	**191.4**	191.1
Dilutive effect of shares issuable under stock-based compensation plans	**3.1**	3.2
Diluted	**194.5**	194.3
Anti-dilutive options to purchase common shares and restricted stock as well as contingently issuable restricted stock excluded from the table above	**0.7**	1.0

The calculation of diluted EPS requires certain assumptions regarding the use of both cash proceeds and assumed proceeds that would be received upon the exercise of stock options and vesting of restricted stock outstanding as of March 31, 2018 and 2017.

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NOTE 7. CASH EQUIVALENTS AND INVESTMENTS

The table below provides additional information on the Company s cash equivalents and investments:

	As of March 31, 2018					
				Balance sheet location		
	Cost	Gross Unrealized Gains	Fair Value	Cash and cash equivalents	Short-term investments	Other assets
Money market mutual funds	$ 24.8	$	$ 24.8	$ 24.8	$	$
Certificates of deposit and money market deposit accounts (1)	$ 281.7	$	$ 281.7	$ 176.6	$ 100.5	$ 4.6
Fixed maturity and open ended mutual funds (2)	$ 35.0	$ 4.7	$ 39.7	$	$	$ 39.7

	As of December 31, 2017					
				Balance sheet location		
	Cost	Gross Unrealized Gains	Fair Value	Cash and cash equivalents	Short-term investments	Other assets
Money market mutual funds	$ 42.2	$	$ 42.2	$ 42.2	$	$
Certificates of deposit and money market deposit accounts (1)	$ 351.4	$	$ 351.4	$ 238.6	$ 111.8	$ 1.0
Fixed maturity and open ended mutual funds (2)	$ 16.8	$ 4.3	$ 21.1	$	$	$ 21.1

(1) Consists of time deposits and money market deposit accounts. The remaining contractual maturities for the certificates of deposits classified as short-term investments were one to 12 month at both March 31, 2018 and December 31, 2017. The remaining contractual maturities for the certificates of deposits classified in other assets are 14 to 45 months at March 31, 2018 and 15 to 48 months at December 31, 2017. Time deposits with a maturity of less than 90 days at time of purchase are classified as cash and cash equivalents.

(2) Consists of investments in fixed maturity mutual funds and open-ended mutual funds. The remaining contractual maturities for the fixed maturity instruments range from three to four months and six months to seven months at March 31, 2018 and December 31, 2017 respectively.

As a result of the adoption of ASU 2016-01, as further discussed in Note 1 and Note 2, the money market mutual funds and the fixed maturity and open-ended mutual funds in the table above are deemed to be equity securities with readily determinable fair values with changes in the fair value recognized through net income under ASC Topic 321. The fair value of these instruments is determined using Level 1 inputs as defined in the ASC.

NOTE 8. ACQUISITIONS

The business combinations described below are accounted for using the acquisition method of accounting whereby assets acquired and liabilities assumed were recognized at fair value on the date of the transaction. Any excess of the purchase price over the fair value of the assets acquired and liabilities assumed was recorded to goodwill.

Bureau van Dijk

On August 10, 2017, a subsidiary of the Company acquired 100% of Yellow Maple I B.V., an indirect parent company of Bureau van Dijk Electronic Publishing B.V., a global provider of business intelligence and company information products. The cash payment of $3,542.0 million was funded with a combination of cash on hand, primarily offshore, and new debt financing. The acquisition extends Moody s position as a leader in risk data and analytical insight.

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

(Amounts in millions)		
Current assets		$ 158.4
Property and equipment, net		4.2
Intangible assets:		
Customer relationships (23 year weighted average life)	$ 998.7	
Product technology (12 year weighted average life)	258.5	
Trade name (18 year weighted average life)	82.3	
Database (10 year weighted average life)	12.9	
Total intangible assets (21 year weighted average life)		1,352.4
Goodwill		2,619.0
Other assets		5.9
Liabilities		
Deferred revenue	$ (101.1)	
Accounts payable and accrued liabilities	(48.6)	
Deferred tax liabilities, net	(329.8)	
Other liabilities	(118.4)	
Total liabilities		(597.9)
Net assets acquired		$ 3,542.0

The Company has performed a preliminary valuation analysis of the fair market value of assets and liabilities of the Bureau van Dijk business. The final purchase price allocation will be determined when the Company has completed and fully reviewed the detailed valuations. The final allocation could differ materially from the preliminary allocation. The final allocation may include changes in allocations to acquired intangible assets as well as goodwill and other changes to assets and liabilities including reserves for uncertain tax positions and deferred tax liabilities. The estimated useful lives of acquired intangibles assets are also preliminary. Additionally, at March 31, 2018, the Company has not finalized its allocation of certain of the goodwill acquired to other MA reporting units that are anticipated to benefit from synergies resulting from the acquisition.

Current assets in the table above include acquired cash of $36.0 million. Additionally, current assets include accounts receivable of approximately $88.0 million (net of an allowance for uncollectible accounts of 3.7 million).

The acquired deferred revenue balance of approximately $154 million was reduced by $53 million as part of acquisition accounting to establish the fair value of deferred revenue. This will reduce reported revenue by $53 million over the remaining contractual period of in-progress customer arrangements assumed as of the acquisition date. This resulted in approximately $10 million less in reported revenue for the three months ended March 31, 2018 with the remaining $7 million to reduce revenue in subsequent quarterly periods during 2018. Amortization of acquired intangible assets was approximately $19 million for the three months ended March 31, 2018.

Goodwill

Under the acquisition method of accounting for business combinations, the excess of the purchase price over the fair value of the net assets acquired is allocated to goodwill. Goodwill typically results through expected synergies from combining operations of an acquiree and an acquirer, anticipated new customer acquisition and products, as well as from intangible assets that do not qualify for separate recognition. The goodwill recognized as a result of this acquisition includes, among other things, the value of combining the complementary product portfolios of the Company and Bureau van Dijk, which is expected to extend the Company s reach to new and evolving market segments as well as cost savings synergies, expected new customer acquisitions and products.

Goodwill, which has been assigned to the MA segment, is not deductible for tax purposes.

Bureau van Dijk is a separate reporting unit for purposes of the Company s annual goodwill impairment assessment.

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Other Liabilities Assumed

In connection with the acquisition, the Company assumed liabilities relating to UTBs as well as deferred tax liabilities which relate to acquired intangible assets. These items are included in other liabilities in the table above.

Supplementary Unaudited Pro Forma Information

Supplemental information on an unaudited pro forma basis is presented below for the three months ended March 31, 2017 as if the acquisition of Bureau van Dijk occurred on January 1, 2016. The pro forma financial information is presented for comparative purposes only, based on certain estimates and assumptions, which the Company believes to be reasonable but not necessarily indicative of future results of operations or the results that would have been reported if the acquisition had been completed at January 1, 2016. The unaudited pro forma information includes amortization of acquired intangible assets, based on the preliminary purchase price allocation and an estimate of useful lives reflected above, and incremental financing costs resulting from the acquisition, net of income tax, which was estimated using the weighted average statutory tax rates in effect in the jurisdiction for which the pro forma adjustment relates.

(Amounts in millions)		**For three months ended March 31, 2017**
Pro forma Revenue	$	1,041.6
Pro forma Net Income attributable to Moody s	$	339.6

The unaudited pro forma results do not include any anticipated cost savings or other effects of the planned integration of Bureau van Dijk. Accordingly, the pro forma results above are not necessarily indicative of the results that would have been reported if the acquisition had occurred on the dates indicated, nor are the pro forma results indicative of results which may occur in the future. The Bureau van Dijk results included in the table above have been converted to U.S. GAAP from IFRS as issued by the IASB and have been translated to USD at rates in effect for the periods presented.

SCDM Financial

On February 13, 2017, a subsidiary of the Company acquired the structured finance data and analytics business of SCDM Financial. The aggregate purchase price was not material and the near term impact to the Company s operations and cash flow is not expected to be material. This business unit operates in the MA reportable segment and goodwill related to this acquisition has been allocated to the RD&A reporting unit.

NOTE 9. 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.

Derivatives and non-derivative instruments designated as accounting hedges:

Interest Rate Swaps

The Company has entered into interest rate swaps to convert the fixed interest rate on certain of its long-term debt to a floating interest rate based on the 3-month LIBOR. The purpose of these hedges is to mitigate the risk associated with changes in the fair value of the long-term debt, 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 debt. The changes in the fair value of the swaps and the underlying hedged item generally offset and the net cash settlements on the swaps are recorded each period within interest expense, net in the Company s consolidated statement of operations.

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The following table summarizes the Company s interest rate swaps designated as fair value hedges:

		Notional Amount		
Hedged Item	Nature of Swap	As of March 31, 2018	As of December 31, 2017	Floating Interest Rate
2010 Senior Notes due 2020	Pay Floating/Receive Fixed	**$500.0**	**$500.0**	3-month LIBOR
2014 Senior Notes due 2019	Pay Floating/Receive Fixed	**$450.0**	**$450.0**	3-month LIBOR
2012 Senior Notes due 2022	Pay Floating/Receive Fixed	**$ 80.0**	**$ 80.0**	3-month LIBOR

The following table summarizes the impact to the statement of operations of the Company s interest rate swaps designated as fair value hedges:

		Amount of Income Recognized in the Consolidated Statements of Operations Three Months Ended March 31,	
Derivatives Designated as Fair Value Accounting Hedges	Location on Consolidated Statement of Operations	2018	2017
Interest rate swaps	Interest expense, net	**$ (0.1)**	**$ 2.4**

Cross-currency swaps and net investment hedges

In conjunction with the issuance of the 2015 Senior Notes, the Company entered into a cross-currency swap to exchange 100 million for U.S. dollars on the date of the settlement of the notes. The purpose of this cross-currency swap was to mitigate FX risk on the remaining principal balance on the 2015 Senior Notes that initially was not designated as a net investment hedge. Under the terms of the swap, the Company paid the counterparty interest on the $110.5 million received at 3.945% per annum and the counterparty paid the Company interest on the 100 million paid at 1.75% per annum. These interest payments were settled in March of each year, beginning in 2016, until either the maturity of the cross-currency swap in 2027 or upon early termination at the discretion of the Company. The principal payments on this cross currency swap were to be settled in 2027, concurrent with the repayment of the 2015 Senior Notes at maturity or upon early termination at the discretion of the Company. In March 2016, the Company designated these cross-currency swaps as cash flow hedges. Accordingly, changes in fair value subsequent to the date the swaps were designated as cash flow hedges were recognized in OCI. Gains and losses on the swaps initially recognized in OCI were reclassified to the statement of operations in the period in which changes in the underlying hedged item affects net income. On December 18, 2017, the Company terminated the cross-currency swap and designated the full 500 million principal of the 2015 Senior Notes as a net investment hedge as discussed below.

The Company has designated 500 million of the 2015 Senior Notes Due 2027 as a net investment hedge. This hedge is intended to mitigate FX exposure related to euro net investments in certain foreign subsidiaries against changes in euro/USD exchange rates. This net investment hedge is designated as accounting hedges under the applicable sections of Topic 815 of the ASC and will end upon the repayment of the notes in 2027 unless terminated earlier at the discretion of the Company.

Hedge effectiveness is assessed based on the overall changes in the fair value of the hedge. For hedges that meet the effectiveness requirements, any change in the fair value is recorded in OCI in the foreign currency translation account. Any change in the fair value of the Company s outstanding net hedges that is the result of ineffectiveness would be recognized immediately in other non-operating (expense) income, net in the Company s consolidated statement of operations.

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The following table provides information on the gains/(losses) on the Company s net investment and cash flow hedges:

Non-Derivative Instruments in Net Investment Hedging Relationships	Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion), net of Tax		Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion), net of Tax		Amount of Gain/(Loss) Recognized Directly into Income (Ineffective Portion), net of tax	
	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
	2018	2017	**2018**	2017	**2018**	2017
Long-term debt	**$ (10.9)**	$ (3.6)	**$**	$	**$**	$
Total net investment hedges	**$ (10.9)**	$ (3.6)	**$**	$	**$**	$
Derivatives in Cash Flow Hedging Relationships						
Cross currency swap	**$ 1.5**	$ (0.2)	**$ 0.1***	$ 1.0*	**$ (0.5)****	$
Interest rate contracts				(0.1)		
Total cash flow hedges	**$ 1.5**	$ (0.2)	**$ 0.1**	$ 0.9	**$ (0.5)**	$
Total	**$ (9.4)**	$ (3.8)	**$ 0.1**	$ 0.9	**$ (0.5)**	$

* For the three months ended March, 31, 2018, reflects $0.1 million in gains recorded in other non-operating income (expense), net. For the three months ended March 31, 2017, reflects $1.5 million in gains recorded in other non-operating income (expense), net and $0.5 million relating to the tax effect of the aforementioned item.

** For the three months ended March, 31, 2018, reflects $0.7 million in losses recorded in other non-operating income (expense), net and $0.2 million relating to the tax effect of the aforementioned item.

The cumulative amount of realized and unrecognized net investment hedge and cash flow hedge gains (losses) recorded in AOCI is as follows:

	Cumulative Gains/(Losses), net of tax	
	March 31, 2018	**December 31, 2017**
Net investment hedges		
FX forwards	**$ 23.5**	$ 23.5
Long-term debt	**(35.6)**	(24.7)