MOODYS CORP /DE/
Form 10-K
February 27, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

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, NEW YORK 10007

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(ZIP CODE)

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

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
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 þ 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 þ

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 þ 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 þ 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 þ Accelerated Filer ¨ Non-accelerated Filer ¨ Smaller reporting company ¨

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

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.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement for use in connection with its annual meeting of stockholders scheduled to be held on April 15, 2014, are incorporated by reference into Part III of this Form 10-K.

The Index to Exhibits is included as Part IV, Item 15(3) of this Form 10-K.

* Calculated by excluding all shares held by executive officers and directors of the Registrant without conceding that all such persons are affiliates of the Registrant for purposes of federal securities laws.

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32.2	Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.DEF	XBRL Definitions Linkbase Document
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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GLOSSARY OF TERMS AND ABBREVIATIONS

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

Term	Definition
ACNielsen	ACNielsen Corporation a former affiliate of Old D&B
Adjusted Operating Income	Operating income excluding restructuring, depreciation and amortization and a goodwill impairment charge
Adjusted Operating Margin	Adjusted Operating Income divided by revenue
Amba	Amba Investment Services; a provider of investment research and quantitative analytics for global financial institutions; a subsidiary of the Company acquired 100% of Amba in December 2013.
Americas	Represents countries within North and South America, excluding the U.S.
Analytics	Moody s Analytics reportable segment of MCO formed in January 2008 which includes the non-rating commercial activities of MCO
AOCI	Accumulated other comprehensive income (loss); a separate component of shareholders equity (deficit); includes accumulated gains & losses on cash flow and net investment hedges, certain gains and losses relating to pension and other retirement benefits obligations and foreign currency translation adjustments.
ASC	The FASB Accounting Standards Codification; the sole source of authoritative GAAP as of July 1, 2009 except for rules and interpretive releases of the SEC, which are also sources of authoritative GAAP for SEC registrants
Asia-Pacific	Represents countries in Asia also including but not limited to: Australia and its proximate islands, China, India, Indonesia, Japan, Korea, Malaysia, Singapore and Thailand
ASU	The FASB Accounting Standards Updates to the ASC. It also provides background information for accounting guidance and the bases for conclusions on the changes in the ASC. ASUs are not considered authoritative until codified into the ASC
B&H	Barrie & Hibbert Limited, an acquisition completed in December 2011; part of the MA segment, a leading provider of risk management modeling tools for insurance companies worldwide
Basel II	Capital adequacy framework published in June 2004 by the Basel Committee on Banking Supervision
Basel III	A new global regulatory standard on bank capital adequacy and liquidity agreed by the members of the Basel Committee on Banking Supervision. Basel III was developed in a response to the deficiencies in financial regulation revealed by the global financial crisis. Basel III strengthens bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage.

Board	The board of directors of the Company
Bps	Basis points
Canary Wharf Lease	Operating lease agreement entered into on February 6, 2008 for office space in London, England, occupied by the Company in the second half of 2009
CDOs	Collateralized debt obligations
CFG	Corporate finance group; an LOB of MIS
CLO	Collateralized loan obligation
CMBS	Commercial mortgage-backed securities; part of CREF
Cognizant	Cognizant Corporation a former affiliate of Old D&B, which comprised the IMS Health and NMR businesses
Commission	European Commission
Common Stock	The Company s common stock
Company	Moody s Corporation and its subsidiaries; MCO; Moody s

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Term	Definition
Copal	Copal Partners; an acquisition completed in November 2011; part of the MA segment; leading provider of outsourced research and analytical services to institutional investors
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CP	Commercial paper
CP Notes	Unsecured CP notes
CP Program	The Company s CP program entered into on October 3, 2007
CRAs	Credit rating agencies
CREF	Commercial real estate finance which includes REITs, commercial real estate collateralized debt obligations and CMBS; part of SFG
CreditView	Research product offered by MA that provides credit professionals a comprehensive, consolidated and streamlined view of credit information
CSI	CSI Global Education, Inc.; an acquisition completed in November 2010; part of the MA segment; a provider of financial learning, credentials, and certification in Canada
D&B Business	Old D&B s Dun & Bradstreet operating company
DBPPs	Defined benefit pension plans
DCF	Discounted cash flow; a fair value calculation methodology whereby future projected cash flows are discounted back to their present value
Debt/EBITDA	Ratio of Total Debt to EBITDA
Directors Plan	The 1998 Moody s Corporation Non-Employee Directors Stock Incentive Plan
Distribution Date	September 30, 2000; the date which Old D&B separated into two publicly traded companies Moody s Corporation and New D&B
EBITDA	Earnings before interest, taxes, depreciation and amortization
ECB	European Central Bank
EMEA	Represents countries within Europe, the Middle East and Africa
EPS	Earnings per share
ERS	The enterprise risk solutions LOB within MA (formerly RMS); offers risk management software products as well as software implementation services and related risk management advisory engagements
ESMA	European Securities and Market Authority
ESP	Estimated Selling Price; estimate of selling price, as defined in the ASC, at which the vendor would transact if the deliverable were sold by the vendor regularly on a stand-alone basis
ESPP	The 1999 Moody s Corporation Employee Stock Purchase Plan
ETR	Effective tax rate
EU	European Union
EUR	Euros

Eurosystem	The monetary authority of the Eurozone, the collective of European Union member states that have adopted the euro as their official currency. The Eurosystem consists of the European Central Bank and the central banks of the member states that belong to the Eurozone
Excess Tax Benefit	The difference between the tax benefit realized at exercise of an option or delivery of a restricted share and the tax benefit recorded at the time that the option or restricted share is expensed under GAAP
Exchange Act	The Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation

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Term	Definition
FIG	Financial institutions group; an LOB of MIS
Fitch	Fitch Ratings, a part of the Fitch Group
Financial Reform Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Free Cash Flow	Net cash provided by operating activities less cash paid for capital additions
FSTC	Financial Services Training and Certifications; a reporting unit within the MA segment that includes on-line and classroom-based training services and CSI
FX	Foreign exchange
GAAP	U.S. Generally Accepted Accounting Principles
GBP	British pounds
IMS Health	A spin-off of Cognizant, which provides services to the pharmaceutical and healthcare industries
Intellectual Property	The Company s intellectual property, including but not limited to proprietary information, trademarks, research, software tools and applications, models and methodologies, databases, domain names, and other proprietary materials
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 Korean provider of fixed income securities pricing and consolidated subsidiary of the Company
Korea	Republic of South Korea
Legacy Tax Matter(s)	Exposures to certain potential tax liabilities assumed in connection with the 2000 Distribution
LIBOR	London Interbank Offered Rate
LOB	Line of Business
MA	Moody s Analytics a reportable segment of MCO formed in January 2008 which includes the non-rating commercial activities of MCO
Make Whole Amount	The prepayment penalty relating to the Series 2005-1 Notes and Series 2007-1 Notes; a premium based on the excess, if any, of the discounted value of the remaining scheduled payments over the prepaid principal
MCO	Moody s Corporation and its subsidiaries; the Company; Moody s
MD&A	Management s Discussion and Analysis of Financial Condition and Results of Operations
MIS	Moody s Investors Service a reportable segment of MCO
Moody s	Moody s Corporation and its subsidiaries; MCO; the Company
Net Income	Earnings attributable to Moody s Corporation, which excludes the portion of net income from consolidated entities attributable to non-controlling shareholders

New D&B	The New D&B Corporation which comprises the D&B business after September 30, 2000
NM	Not-meaningful percentage change (over 400%)
NMR	Nielsen Media Research, Inc.; a spin-off of Cognizant; a leading source of television audience measurement services
NRSRO	Nationally Recognized Statistical Rating Organization

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Term	Definition
OCI	Other comprehensive income (loss); includes gains and losses on cash flow and net investment hedges, certain gains and losses relating to pension and other retirement benefit obligations and foreign currency translation adjustments.
Old D&B	The former Dun and Bradstreet Company which distributed New D&B shares on September 30, 2000, and was renamed Moody s Corporation
Other Retirement Plans	The U.S. retirement healthcare and U.S. retirement life insurance plans
PPIF	Public, project and infrastructure finance; an LOB of MIS
Profit Participation Plan	Defined contribution profit participation plan that covers substantially all U.S. employees of the Company
PPP	Profit Participation Plan
PS	Professional Services ; an LOB of MA
RD&A	Research, Data and Analytics; an LOB within MA that distributes investor-oriented research and data, including in-depth research on major debt issuers, industry studies, commentary on topical credit events, economic research and analytical tools such as quantitative risk scores, and other analytical tools that are produced within MA
Redeemable Noncontrolling Interest	Represents minority shareholders interest in entities which are controlled but not wholly-owned by Moody s and for which Moody s obligation to redeem the minority shareholders interest is represented by a put/call relationship
Reform Act	Credit Rating Agency Reform Act of 2006
REITs	Real estate investment trusts
Relationship Revenue	In MIS, relationship revenue represents the recurring monitoring of a rated debt obligation and/or entities that issue such obligations, as well as revenue from programs such as commercial paper, medium-term notes and shelf registrations. For MA, revenue represents subscription-based revenue and maintenance revenue
Reorganization	The Company s business reorganization announced in August 2007 which resulted in two new reportable segments (MIS and MA) beginning in January 2008
Retirement Plans	Moody s funded and unfunded U.S. pension plans, the U.S. post-retirement healthcare plans and the U.S. post-retirement life insurance plans
RMBS	Residential mortgage-backed securities; part of SFG
RMS	The Risk Management Software LOB within MA which provides both economic and regulatory capital risk management software and implementation services. Now referred to as ERS
S&P	Standard & Poor s, a division of McGraw-Hill Financial, Inc.
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933

Series 2005-1 Notes	Principal amount of $300 million, 4.98% senior unsecured notes due in September 2015 pursuant to the 2005 Agreement
Series 2007-1 Notes	Principal amount of $300 million, 6.06% senior unsecured notes due in September 2017 pursuant to the 2007 Agreement
SFG	Structured finance group; an LOB of MIS
SG&A	Selling, general and administrative expenses
SIV	Structured Investment Vehicle
Stock Plans	The Old D&B s 1998 Key Employees Stock Incentive Plan and the Restated 2001 Moody s Corporation Key Employees Stock Incentive Plan
T&E	Travel and entertainment expenses

Term	Definition
Total Debt	Current and long-term portion of debt as reflected on the consolidated balance sheets, excluding current accounts payable and accrued liabilities incurred in the ordinary course of business
TPE	Third party evidence, as defined in the ASC, used to determine selling price based on a vendor s or any competitor s largely interchangeable products or services in standalone sales transactions to similarly situated customers
Transaction Revenue	For MIS, revenue representing the initial rating of a new debt issuance as well as other one-time fees. For MA, revenue represents software license fees and revenue from risk management advisory projects, training and certification services, and knowledge outsourcing engagements
U.K.	United Kingdom
U.S.	United States
USD	U.S. dollar
UTBs	Unrecognized tax benefits
UTPs	Uncertain tax positions
VSOE	Vendor specific objective evidence; evidence, as defined in the ASC, of selling price limited to either of the following: the price charged for a deliverable when it is sold separately, or for a deliverable not yet being sold separately, the price established by management having the relevant authority
WACC	Weighted average cost of capital
1998 Plan	Old D&B s 1998 Key Employees Stock Incentive Plan
2000 Distribution	The distribution by Old D&B to its shareholders of all of the outstanding shares of New D&B common stock on September 30, 2000
2000 Distribution Agreement	Agreement governing certain ongoing relationships between the Company and New D&B after the 2000 Distribution including the sharing of any liabilities for the payment of taxes, penalties and interest resulting from unfavorable IRS determinations on certain tax matters and certain other potential tax liabilities
2001 Plan	The Amended and Restated 2001 Moody s Corporation Key Employees Stock Incentive Plan
2005 Agreement	Note purchase agreement dated September 30, 2005 relating to the Series 2005-1 Notes
2007 Agreement	Note purchase agreement dated September 7, 2007 relating to the Series 2007-1 Notes
2007 Facility	Revolving credit facility of $1 billion entered into on September 28, 2007, expiring in 2012
2007 Restructuring Plan	The Company s 2007 restructuring plan approved December 31, 2007
2008 Term Loan	Five-year $150.0 million senior unsecured term loan entered into by the Company on May 7, 2008
2009 Restructuring Plan	The Company s 2009 restructuring plan approved March 27, 2009
2010 Indenture	Supplemental indenture and related agreements dated August 19, 2010, relating to the 2010 Senior Notes

2010 Senior Notes	Principal amount of $500.0 million, 5.50% senior unsecured notes due in September 2020 pursuant to the 2010 Indenture
2012 Facility	Revolving credit facility of $1 billion entered into on April 18, 2012, maturing in 2017
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 $500 million, 4.875% senior unsecured notes due in February 2024 pursuant to the 2013 Indenture

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Term	Definition
7WTC	The Company s corporate headquarters located at 7 World Trade Center
7WTC Lease	Operating lease agreement entered into on October 20, 2006

PART I

ITEM 1. BUSINESS

BACKGROUND

As used in this report, except where the context indicates otherwise, the terms Moody s or the Company refer to Moody s Corporation, a Delaware corporation, and its subsidiaries. The Company s executive offices are located at 7 World Trade Center at 250 Greenwich Street, New York, NY 10007 and its telephone number is (212) 553-0300.

THE COMPANY

Moody s is a provider of (i) credit ratings, (ii) credit, capital markets and economic related 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 reports in two reportable segments: MIS and MA. The MIS segment consists of all credit rating activity. All of Moody s other non-rating commercial activities are included within the MA segment. Financial information and operating results of these segments, including revenue, expenses and operating income, are included in Part II, Item 8. Financial Statements of this annual report, and are herein incorporated by reference.

MIS publishes credit ratings on a wide range of debt obligations and the entities that issue such obligations in markets worldwide, including various corporate and governmental obligations, structured finance securities and commercial paper programs. Revenue is derived from the originators and issuers of such transactions who use MIS ratings to support the distribution of their debt issues to investors. MIS provides ratings in more than 120 countries. Ratings are disseminated via press releases to the public through a variety of print and electronic media, including the Internet and real-time information systems widely used by securities traders and investors. As of December 31, 2013, MIS had ratings relationships with approximately 11,000 corporate issuers and approximately 21,000 public finance issuers. Additionally, the Company has rated and currently monitors ratings on approximately 76,000 structured finance obligations (representing approximately 12,000 transactions). The aforementioned amounts relating to the number of issuers and transactions represent issuers or transactions that had an active rating at any point during the year ended December 31, 2013.

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 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, commentary on topical credit related events and also provides economic research and credit data and analytical tools such as quantitative credit risk scores. Within its Enterprise Risk Solutions business, MA provides software solutions as well as related risk management services. Within its Professional Services business it provides outsourced research and analytical services along with financial training and certification programs. MA customers represent more than 3,900 institutions worldwide operating in approximately 120 countries. During 2013 Moody s research web site was accessed by over 230,000 individuals including 31,000 client users.

The Company operated as part of Old D&B until September 30, 2000, when Old D&B separated into two publicly traded companies Moody s Corporation and New D&B. At that time, Old D&B distributed to its shareholders shares of New D&B stock. New D&B comprised the business of Old D&B s Dun & Bradstreet operating company. The remaining business of Old D&B consisted solely of the business of providing ratings and related research and credit risk management services and was renamed Moody s Corporation. For purposes of governing certain ongoing

relationships between the Company and New D&B after the 2000 Distribution and to provide for an orderly transition, the Company and New D&B entered into various agreements including a distribution agreement, tax allocation agreement and employee benefits agreement.

PROSPECTS FOR GROWTH

Over recent decades, global fixed-income markets have grown significantly both in terms of the amount and the types of securities or other obligations outstanding. Beginning in mid-2007, there was a severe market disruption and associated financial crisis both in the

developed and emerging markets resulting in a global decline in issuance activity for some significant asset classes and weak economic performance in advanced economies. Since this financial crisis, many markets and economies have recovered and Moody s believes that the overall long-term outlook remains favorable for continued growth of the global fixed-income market and related financial information market, which includes information such as credit opinions, research, data, analytics, risk management tools and related services.

Moody s growth is influenced by a number of trends that impact financial information markets including:

» Health of the world s major economies;

» Debt capital markets activity;

» Disintermediation of credit markets;

» Fiscal and monetary policy of governments;

» Changing regulatory requirements; and

» Business investment spending.

Moody s is well positioned to benefit from a continued recovery in global fixed-income market activity and a more informed use of credit ratings as well as research and related analytical products in an environment with heightened attention to credit risk analysis and management. Moody s expects that these developments will support continued long-term demand for high-quality, independent credit opinions, research, data, analytics, risk management tools and related services.

Strong secular trends will continue to provide long-term growth opportunities. Moody s key growth drivers include debt market issuance driven by global GDP growth, continued disintermediation of fixed-income markets in both developed and emerging economies that drives issuance and demand for new products and services, growth in MA driven by further penetration of MA s client base and expansion of bank and insurance risk regulatory requirements, pricing opportunities aligned with value and advances in information technology.

Growth in global fixed income markets in a given year is dependent on many macroeconomic and capital market factors including interest rates, business investment spending, corporate refinancing needs, merger and acquisition activity, issuer profits, consumer borrowing levels and securitization activity. Rating fees paid by debt issuers account for most of the revenue of MIS. Therefore, a substantial portion of MIS s revenue is dependent upon the dollar-equivalent volume and number of ratable debt securities issued in the global capital markets. MIS s results can be affected by factors such as the performance and the prospects for growth of the major world economies, the fiscal and monetary policies pursued by their governments and the decisions of issuers to request MIS ratings to aid investors in their investment decisions. However, annual fee arrangements with frequent debt issuers, annual debt monitoring fees and annual fees from commercial paper and medium-term note programs, bank and insurance company financial strength ratings, mutual fund ratings, and other areas partially mitigate MIS s dependence on the

volume or number of new debt securities issued in the global fixed-income markets. Furthermore, the strong growth trend seen in the issuance of structured finance securities from the mid-1990 s reversed dramatically in 2008 due to market turmoil, with continued declines seen in 2009 and 2010, before stabilizing in 2011 with Moody s experiencing revenue growth in this market in 2012. In 2013, Moody s experienced revenue growth in the U.S. structured credit and commercial real estate subsectors of the structured finance market, but also experienced a decline in non-U.S. structured finance revenue, most notably in EMEA. Despite significant declines from peak market issuance levels, Moody s believes that structured finance securities will continue to play a role in global fixed-income markets and will provide opportunities for longer term revenue growth. Moody s will continue to monitor this market and adapt to meet the changing needs of its participants.

The pace of change in technology and communication over the past two decades makes information about investment alternatives widely available throughout the world and facilitates issuers ability to place securities outside their national markets and investors capacity to obtain information about securities issued outside their national markets. Technology also allows issuers and investors the ability to more readily obtain information about new financing techniques and new types of securities that they may wish to purchase or sell, which in the absence of the appropriate technology may not be readily or easily obtainable. This availability of information promotes the ongoing integration and expansion of financial markets worldwide giving issuers and investors access to a wider range of established and newer capital markets. As technology provides broader access to worldwide markets, it also results in a greater need for credible, globally comparable opinions about credit risk, data, analytics and related services. Additionally, information technology also provides opportunities to further build a global platform to support Moody s continued expansion in developing markets.

An ongoing trend in the world s capital markets is the disintermediation of financial systems. Issuers increasingly raise capital in the global public capital markets, in addition to, or in substitution for, traditional financial intermediaries. Moreover, financial intermediaries have sold assets in the global public capital markets, in addition to, or instead of, retaining those assets. Credit market disruptions, which began in mid-2007, temporarily slowed the trend of disintermediation globally. Moody s believes that debt capital markets offer advantages in capacity and efficiency compared to the traditional banking systems and that the trend of increased disintermediation will continue. In fact, disintermediation continued in the past year because of the ongoing low interest rate environment and ongoing

bank deleveraging, which has encouraged a number of corporations and other entities to seek alternative funding in the bond markets. Moody s also observes disintermediation in key emerging markets where economic growth may outpace internal banking system capacity. Thus, disintermediation is expected to continue over the longer-term, with Moody s continuing to target investment and resources to those markets where disintermediation and bond issuance is expected to remain robust.

In response to the credit market disruptions beginning in mid-2007 and, ongoing volatility in the global capital markets, and new regulatory requirements, financial institutions are investing in people, processes and systems to enhance risk management and compliance functions. Regulations such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, Basel II, Basel III, Solvency II and others may stimulate demand for MA products. Financial institutions are also investing in advanced qualitative and quantitative tools and services to support their management of complex balance sheets and diverse portfolios. MA offers a suite of risk management products and services to address these needs, including but not limited to risk management software, economic analysis, training and professional services.

Legislative bodies and regulators in the U.S., Europe and selective other jurisdictions continue to conduct regulatory reviews of CRAs, which may result in, for example, an increased number of competitors, changes to the business model or restrictions on certain business activities of MIS, removal of references to ratings in certain regulations, or increased costs of doing business for MIS. Therefore, in order to broaden the potential for expansion of non-ratings services, Moody s reorganized in January 2008 into two distinct businesses: MIS, consisting solely of the ratings business, and MA, which conducts all non-ratings activities including the sale of credit research produced by MIS and the production and sale of other economic and credit-related products and services. The reorganization broadens the opportunities for expansion by MA into activities that may have otherwise been restricted for MIS, due to the potential for conflicts of interest with the ratings business. At present, Moody s is unable to assess the nature and effect that any regulatory changes may have on future growth opportunities.

Moody s operations are subject to various risks, as more fully described in Part I, Item 1A Risk Factors, inherent in conducting business on a global basis. Such risks include currency fluctuations and possible nationalization, expropriation, exchange and price controls, changes in the availability of data from public sector sources, limits on providing information across borders and other restrictive governmental actions.

COMPETITION

The MIS business competes with other CRAs and with investment banks and brokerage firms that offer credit opinions and research. Many users of MIS s ratings also have in-house credit research capabilities. MIS s largest competitor in the global credit rating business is Standard & Poor s Ratings Services (S&P), a division of McGraw Hill Financial. There are some rating markets, based on industry, geography and/or instrument type, in which Moody s has made investments and obtained market positions superior to S&P, while in other markets, the reverse is true.

In addition to S&P, MIS s competitors include Fitch Ratings, Dominion Bond Rating Service, A.M. Best Company, Japan Credit Rating Agency Ltd., Kroll Bond Rating Agency Inc., Morningstar Inc. and Egan-Jones Ratings Company. In Europe, examples of competitors include Euler Hermes Rating, Feri EuroRating Services AG, Creditreform Rating AG, ICAP Group and Companhia Portuguesa de Rating. There are additional competitors in other regions and countries, for example, in China, where Moody s operates through a joint venture. These competitors include China Lianhe Credit Rating Co Ltd., Shanghai Brilliance Credit Rating & Investors Service Co Ltd., Dagong Global Credit Rating Co Ltd. and Pengyuan Credit Rating Co Ltd.

MA competes broadly in the financial information industry against diversified competitors such as Thomson Reuters, Bloomberg, S&P Capital IQ, Fitch Solutions, Dun & Bradstreet, IBM, Wolters Kluwer, Sungard, SAS, Fiserv, MSCI and Markit Group among others. MA s main competitors within RD&A include S&P Capital IQ, CreditSights, Thomson Reuters, Intex, IHS Global Insight, BlackRock Solutions, FactSet and other providers of fixed income analytics, valuations, economic data and research. In ERS, MA faces competition from both large software providers such as IBM Algorithmics, SunGard, SAS, Oracle, Misys, Oliver Wyman, Verisk and various other vendors and in-house solutions. Within PS, MA competes with Omega Performance, DC Gardner, and a host of financial training and education firms, and with Evalueserve, CRISIL Global Research & Analytics, and other providers of outsourced research and professional services.

MOODY S STRATEGY

Moody s corporate strategy is to be the world s most respected authority servicing financial risk-sensitive markets. The key aspects to implement this strategy are to:

» Defend and enhance the core ratings and research business of MIS;

» Build MA s position as a leading provider of risk management solutions to financial institutions; and

» Invest in strategic growth opportunities.

Moody s will make investments to defend and enhance its core businesses in an attempt to position the Company to fully capture market opportunities resulting from global debt capital market expansion and increased business investment spending. Moody s will also make strategic investments to achieve scale in attractive financial information markets, move into attractive product and service adjacencies where the Company can leverage its brand, extend its thought leadership and expand its geographic presence in high growth emerging markets.

To broaden the Company s potential, MA provides a wide range of products and services to enable financial institutions to better manage risk. As such, MA adds to the Company s value proposition in three ways. First, MA s subscription businesses provide a significant base of recurring revenue to offset cyclicality in ratings issuance volumes that may result in volatility to MIS revenues. Second, MA products and services, such as financial training and professional services on research and risk management best practices, provide opportunities for entry into emerging markets before debt capital markets fully develop and present growth opportunities for the ratings business. Finally, MA s integrated risk management software platform embeds Moody s solutions deep into the technology infrastructure of banks and insurance companies worldwide.

Moody s invests in initiatives to implement the Company s strategy, including internally-led organic development and targeted acquisitions. Example initiatives include:

» Enhancements to ratings quality and product extensions;

» Investments that extend ownership and participation in JVs and strategic alliances;

» Headcount growth to meet customer demand for new products and services;

» Selective, bolt-on acquisitions that accelerate the ability to grow Moody s businesses; and

» Expansion in emerging markets.

The 2013 acquisition of Amba Investment Services is illustrative of Moody s strategy to pursue selective, bolt-on acquisitions and expand product and service offerings for our customers. Founded in 2003, Amba provides outsourced investment research and analytics to financial institutions, including asset managers, investment banks, broker-dealers, insurance and alternative investment firms. The acquisition bolsters the research and analytical capabilities offered by MA through Copal.

REGULATION

MIS and many of the securities that it rates are subject to extensive regulation in both the U.S. and in other countries (including by state and local authorities). Thus, existing and proposed laws and regulations can impact the Company s operations and the markets for securities that it rates. Additional laws and regulations have been adopted but not yet implemented or have been proposed or are being considered. Each of the existing, adopted, proposed and potential laws and regulations can increase the costs and legal risk associated with the issuance of credit ratings and may negatively impact Moody s operations or profitability, the Company s ability to compete, or result in changes in the demand for credit ratings, in the manner in which ratings are utilized and in the manner in which Moody s operates.

In the EU, the CRA industry is registered and supervised through a pan-European regulatory framework which is a compilation of three sets of legislative actions. In 2009, the European Parliament passed a new regulation (CRA1) that established an oversight regime for the CRA industry in the EU. CRA1, which required the registration, formal regulation and periodic inspection of CRAs operating in the EU, became fully effective in September 2010. MIS applied for registration in August 2010 and was granted registration in October 2011. In January 2011, CRA2 established the European Securities and Markets Authority. ESMA has had direct supervisory responsibility for the registered CRA industry throughout the EU since July 2011.

In the summer of 2013, a new set of rules that augmented the CRAs supervisory framework went into effect. Commonly referred to as CRA3, these new rules, among other things:

» impose various additional procedural requirements with respect to ratings of sovereign issuers;

» require member states to adopt laws imposing liability on CRAs for an intentional or grossly negligent failure to abide by the applicable regulations;

» impose mandatory rotation requirements on CRAs hired by issuers of securities for ratings of resecuritizations, which may limit the number of years a CRA can issue ratings for such securities of a particular issuer;

» impose restrictions on CRAs or their shareholders if certain ownership thresholds are crossed; and

» impose additional procedural and substantive requirements on the pricing of services.

Certain of the provisions of CRA3 will be subject to ESMA rule-making and it is expected that process will happen within the year.

In December 2012, the Staff of the SEC s Trading and Markets Division published a Report to Congress on Assigned Credit Ratings. In the report, commonly referred to as the Franken Amendment Study, the SEC Staff identified several potential courses of action without endorsing any of them and noted that any changes through SEC rulemaking would require additional study of relevant information. The timing regarding the remainder of the SEC s rulemaking under the Financial Reform Act remains uncertain.

In light of the regulations that have gone into effect in both the EU and the US (as well as many other countries), from time to time and as a matter of course pursuant to their enabling legislation these regulatory authorities have and will continue to publish reports that describe their oversight activities over the industry. In addition, other legislation and regulation relating to credit rating and research services is being considered by local, national and multinational bodies and this type of activity is likely to continue in the future. Finally, in certain countries, governments may provide financial or other support to locally-based rating agencies. For example, governments may from time to time establish official rating agencies or credit ratings criteria or procedures for evaluating local issuers. If enacted, any such legislation and regulation could change the competitive landscape in which MIS operates. The legal status of rating agencies has been addressed by courts in various decisions and is likely to be considered and addressed in legal proceedings from time to time in the future. Management of the Company cannot predict whether these or any other proposals will be enacted, the outcome of any pending or possible future legal proceedings, or regulatory or legislative actions, or the ultimate impact of any such matters on the competitive position, financial position or results of operations of Moody s.

INTELLECTUAL PROPERTY

Moody s and its affiliates own and control a variety of intellectual property, including but not limited to proprietary information, trademarks, research, software tools and applications, models and methodologies, databases, domain names, and other proprietary materials that, in the aggregate, are of material importance to Moody s business. Management of Moody s believes that each of the trademarks and related corporate names, marks and logos containing the term Moody s are of material importance to the Company.

The Company, primarily through MA, licenses certain of its databases, software applications, credit risk models, training courses in credit risk and capital markets, research and other publications and services that contain Intellectual Property to its customers. These licenses are provided pursuant to standard fee-bearing agreements containing customary restrictions and intellectual property protections.

In addition, Moody s licenses certain technology and other intellectual property rights owned and controlled by others. Specifically, Moody s licenses financial information (such as market and index data, financial statement data, third party research, default data, and security identifiers) as well as software development tools and libraries. The Company obtains such technology and intellectual property rights from generally available commercial sources. Most of such technology and intellectual property is available from a variety of sources. Although certain financial information (particularly security identifiers and certain pricing or index data) is available only from a limited number of sources, Moody s does not believe it is dependent on any one data source for a material aspect of its business.

The Company considers its Intellectual Property to be proprietary, and Moody s relies on a combination of copyright, trademark, trade secret, patent, non-disclosure and other contractual safeguards for protection. Moody s also pursues instances of third-party infringement of its Intellectual Property in order to protect the Company s rights. The Company owns a single, non-material patent. None of the Intellectual Property is subject to a specific expiration date,

except to the extent that the copyright in items that the Company authors (such as credit reports, research, and other written opinions) expires pursuant to relevant law, currently 95 years from first publication in the US; and the single patent that Moody s owns expires in 2028.

The names of Moody s products and services referred to herein are trademarks, service marks or registered trademarks or service marks owned by or licensed to Moody s or one or more of its subsidiaries.

EMPLOYEES

As of December 31, 2013 the number of full-time equivalent employees of Moody s was approximately 8,400.

AVAILABLE INFORMATION

Moody s investor relations Internet website is http://ir.moodys.com/. Under the SEC Filings tab at this website, the Company makes available free of charge its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after they are filed with, or furnished to, the SEC.

The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and other information statements that the Company files electronically with the SEC. The SEC s internet site is http://www.sec.gov/.

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Executive Officers of the Registrant

Name, Age and Position	Biographical Data
Mark E. Almeida, 54 *President, Moody s Analytics*	Mr. Almeida has served as President of Moody s Analytics since January 2008. Prior to this position, Mr. Almeida was Senior Vice President of Moody s Corporation from August 2007 to January 2008, Senior Managing Director of the Investor Services Group (ISG) at Moody s Investors Service, Inc. from December 2004 to January 2008 and was Group Managing Director of ISG from June 2000 to December 2004. Mr. Almeida joined Moody s Investors Service, Inc. in April 1988 and has held a variety of positions with the company in both the U.S. and overseas.
Richard Cantor, 56 *Chief Risk Officer*	Mr. Cantor has served as Chief Risk Officer of Moody s Corporation since December 2008 and as Chief Credit Officer of Moody s Investors Service, Inc. since November 2008. From July 2008 to November 2008, Mr. Cantor served as Acting Chief Credit Officer. Prior thereto, Mr. Cantor was Managing Director of Moody s Credit Policy Research Group from June 2001 to July 2008, after serving as Senior Vice President in the Financial Guarantors Rating Group. Mr. Cantor joined Moody s in 1997 from the Federal Reserve Bank of New York, where he served as Assistant Vice President in the Research Group and was Staff Director at the Discount Window. Prior to the Federal Reserve, Mr. Cantor taught Economics at UCLA and Ohio State and has taught on an adjunct basis at the business schools of Columbia University and New York University.
Robert Fauber, 43 *Senior Vice President,* *Corporate Development*	Mr. Fauber has served as Senior Vice President Corporate Development of Moody s Corporation since April 2009 and Head of the MIS Commercial Group since January 2013. Mr. Fauber served as Vice President-Corporate Development from September 2005 to April 2009. Prior to joining Moody s, Mr. Fauber served in several roles at Citigroup from 1999 to 2005, including most recently, Director of Planning and Business Development for Citigroup s Alternative Investments division. Prior to that, Mr. Fauber worked as a Director in Corporate Strategy & Business Development for Citigroup and a Vice President and Associate in the Financial Sponsor and Telecom investment banking groups at the firm s Salomon Smith Barney subsidiary. From 1992-1996, Mr. Fauber worked at NationsBank (now Bank of America), working in the middle market commercial banking group and also ran the firm s Global Finance college recruiting program in 1997.
John J. Goggins, 53 *Executive Vice President and General Counsel*	Mr. Goggins has served as the Company s Executive Vice President and General Counsel since April 2011 and the Company s Senior Vice President and General Counsel from October 2000 until April 2011. Mr. Goggins joined Moody s Investors Service, Inc. in February 1999 as Vice President and Associate General Counsel. Prior thereto, he served as counsel at Dow Jones & Company from 1995 to 1999, where he was responsible for securities, acquisitions and general corporate matters. Prior to Dow Jones, he was an associate at Cadwalader, Wickersham & Taft from 1985 to 1995, where he specialized in mergers and acquisitions.
Linda S. Huber, 55	Ms. Huber has served as the Company s Executive Vice President and Chief Financial Officer since May 2005. Prior thereto, she served as Executive Vice

Executive Vice President and Chief Financial Officer	President and Chief Financial Officer at U.S. Trust Company, a subsidiary of Charles Schwab & Company, Inc., from 2003 to 2005. Prior to U.S. Trust, she was Managing Director at Freeman & Co. from 1998 through 2002. She served PepsiCo as Vice President of Corporate Strategy and Development from 1997 until 1998 and as Vice President and Assistant Treasurer from 1994 until 1997. She served as Vice President in the Energy Investment Banking Group at Bankers Trust Company from 1991 until 1994 and as an Associate in the Energy Group at First Boston Corporation from 1986 through 1990. She also held the rank of Captain in the U.S. Army where she served from 1980 to 1984.

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Name, Age and Position	Biographical Data
Michel Madelain, 58 *President and Chief Operating Officer, Moody s Investors Service*	Mr. Madelain has served as President of Moody s Investors Service Inc. since November 2010 and as Chief Operating Officer since May 2008. Prior to this, Mr. Madelain served as Executive Vice President, Fundamental Ratings from September 2007 to May 2008, with responsibility for all Global Fundamental Ratings, including Corporate Finance, Financial Institutions, Public Finance and Infrastructure Finance. He managed the Financial Institutions group from March 2007 until September 2007. Mr. Madelain served as Group Managing Director, EMEA Corporate Ratings from November 2000 to March 2007 and prior thereto held several Managing Director positions in the U.S. and U.K. Fundamental Rating Groups. Prior to joining Moody s in 1994, Mr. Madelain served as a Partner of Ernst & Young, Auditing Practice. Mr. Madelain is qualified as a Chartered Accountant in France.
Joseph (Jay) McCabe, 63 *Senior Vice President, Corporate Controller*	Mr. McCabe has served as the Company s Senior Vice President Corporate Controller since December 2005. Mr. McCabe joined Moody s in July 2004 as Vice President and Corporate Controller. Before joining the Company, he served as Vice President Corporate Controller at PPL Corporation, an energy and utility holding company, from 1994 to 2003. Prior to PPL Corporation, he served Deloitte & Touche as Partner from 1984 to 1993 and as a member of the firm s audit practice from 1973 to 1984.
Raymond W. McDaniel, Jr., 56 *President and Chief Executive Officer*	Mr. McDaniel has served as the President and Chief Executive Officer of the Company since April 2012, and served as the Chairman and Chief Executive Officer from April 2005 until April 2012. He currently serves on the MIS Committee of the Board of Directors. Mr. McDaniel served as the Company s President from October 2004 until April 2005 and the Company s Chief Operating Officer from January 2004 until April 2005. He has served as Chairman and Chief Executive Officer of Moody s Investors Service, Inc., a subsidiary of the Company, since October 2007 and held the additional title of President from November 2001 to August 2007 and December 2008 to November 2010. Mr. McDaniel served as the Company s Executive Vice President from April 2003 to January 2004, and as Senior Vice President, Global Ratings and Research from November 2000 until April 2003. He served as Senior Managing Director, Global Ratings and Research, of Moody s Investors Service from November 2000 until November 2001 and as Managing Director, International from 1996 to November 2000. Mr. McDaniel currently is a Director of John Wiley & Sons, Inc.
Lisa S. Westlake, 52 *Senior Vice President and Chief Human Resource Officer*	Ms. Westlake has served as the Company s Senior Vice President and Chief Human Resources Officer since November 2008. Prior to this position, Ms. Westlake served as Vice President Investor Relations from December 2006 to November 2008 and Managing Director Finance from September 2004 to December 2006. Prior to joining the Company, Ms. Westlake was a senior consultant with the Schiff Consulting Group from 2003 to 2004. From 1996 to 2003 Ms. Westlake worked at American Express Company where she held several different positions such as Vice President and Chief Financial Officer for the OPEN Small Business Network, Vice President and Chief Financial Officer for Establishment Services and Vice President and Chief Financial Officer for Relationship Services. From 1989 to 1995 Ms. Westlake held a range of financial

management positions at Dun & Bradstreet Corporation and its subsidiary at the time, IMS International. From 1984 to 1987 Ms. Westlake served at Lehman Brothers in both the investment banking and municipal trading areas.

Blair L. Worrall, 57

Senior Vice President, Ratings Delivery and Data

Mr. Worrall has served as Senior Vice President Ratings Delivery and Data since February 2013 and Head of MIS Ratings Transaction Services since January 2014. Mr. Worrall served as Senior Vice President Internal Audit from April 2011 to February 2013 and as Vice President Internal Audit from September 2007 to April 2011. He served as the Controller for MIS from November 2004 until September 2007. Prior to joining the Company, Mr. Worrall was Vice President, Accounting for RCN Corporation from 2002 to 2004 and held various finance positions at Dow Jones & Company, Inc. from 1979 to 2001.

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ITEM 1A. RISK FACTORS

The following risk factors and other information included in this annual report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known to the Company or that the Company s management currently deems minor or insignificant also may impair its business operations. If any of the following risks occur, Moody s business, financial condition, operating results and cash flows could be materially and adversely affected. These risk factors should be read in conjunction with the other information in this annual report on Form 10-K.

U.S. Laws and Regulations Affecting the Credit Rating Industry are Rapidly Evolving and May Negatively Impact the Nature and Economics of the Company s Business

Moody s operates in a highly regulated industry and is subject to extensive regulation by federal, state and local authorities in the U.S., including the Reform Act and the Financial Reform Act. These regulations are complex, continually evolving and have tended to become more stringent over time. See Regulation in Part 1, Item 1 of this annual report on Form 10-K for more information. These laws and regulations:

» seek to encourage, and may result in, increased competition among rating agencies and in the credit rating business;

» may result in alternatives to credit ratings or changes in the pricing of credit ratings;

» restrict the use of information in the development or maintenance of credit ratings;

» increase regulatory oversight of the credit markets and CRA operations;

» limit the number of years a CRA can rate the securities of a particular issuer;

» provide for direct jurisdiction of the SEC over CRAs that seek NRSRO status, and grant authority to the SEC to inspect the operations of CRAs; and

» authorize the adoption of enhanced oversight standards, new pleading standards and enhanced liability for CRAs, which may result in increases in the number of legal proceedings claiming liability for losses suffered by investors on rated securities and aggregate legal defense costs.

These laws and regulations, and any future rulemaking, could result in reduced demand for credit ratings and increased costs, which Moody s may be unable to pass through to customers. In addition, there may be uncertainty over the scope, interpretation and administration of such laws and regulations. The Company may be required to incur significant expenses in order to ensure compliance and mitigate the risk of fines, penalties or other sanctions. Legal proceedings could become increasingly lengthy and there may be uncertainty over and exposure to liability. It is difficult to accurately assess the future impact of legislative and regulatory requirements on Moody s business and its customers businesses, and they may affect MIS s communications with issuers as part of the rating assignment process, alter the manner in which MIS s ratings are developed, assigned and communicated, affect the manner in which MIS

or its customers or users of credit ratings operate, impact the demand for MIS s ratings and alter the economics of the credit ratings business, including by restricting or mandating business models for rating agencies. Further, speculation concerning the impact of legislative and regulatory initiatives and the increased uncertainty over potential liability and adverse legal or judicial determinations may affect Moody s stock price. Although these recent and pending legislative and regulatory initiatives apply to rating agencies and credit markets generally, they may affect Moody s in a disproportionate manner. Each of these developments increase the costs and legal risk associated with the issuance of credit ratings and may have a material adverse effect on Moody s operations, profitability and competitiveness, the demand for credit ratings and the manner in which such ratings are utilized.

Financial Reforms Outside the U.S. Affecting the Credit Rating Industry May Negatively Impact the Nature and Economics of the Company s Business

In addition to the extensive and evolving U.S. laws and regulations governing the industry, foreign jurisdictions have taken measures to increase regulation of rating agencies and the markets for ratings. In particular, the EU has adopted a new regulatory framework for rating agencies operating in the EU, and introduced a common EU regulatory approach to oversight of CRAs. The EU has established conditions for the issuance of credit ratings, rules on the organization and conduct of CRAs including restrictions on certain activities deemed to create a conflict of interest and special requirements for the rating of structured finance instruments. ESMA has direct supervisory authority for CRAs in the EU.

The amendments adopted by the European Parliament to its existing CRA regulations (generally referred to as CRA3) became effective on June 20, 2013. As adopted, CRA3, among other things, imposes: (i) various additional procedural requirements with respect to ratings of sovereign issuers; (ii) requirements that member states to adopt laws imposing liability on CRAs for an intentional or grossly negligent failure to abide by the applicable regulations; (iii) mandatory rotation requirements on CRAs hired by issuers of securities for ratings on resecuritizations, which may limit the number of years a CRA can issue ratings for such securities of a particular issuer; (iv) restrictions on CRAs or their shareholders if certain ownership thresholds are crossed; (v) additional procedural and substantive requirements on the pricing of services.

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EU financial reforms could have a significant negative effect on Moody s operations, profitability or ability to compete, or the markets for its products and services, including in ways that Moody s presently is unable to predict. In particular, exposure to increased liability under the EU regulations may further increase costs and legal risks associated with the issuance of credit ratings and materially and adversely impact Moody s results of operations. In addition, compliance with the amended EU regulations may increase costs of operations.

Further, Moody s believes there is still potential for additional rulemaking by the EU and other jurisdictions that can significantly impact operations or the markets for Moody s products and services, such as regulations affecting the need for debt securities to be rated, establishing criteria for credit ratings or limiting the entities authorized to provide credit ratings. Moody s cannot predict the extent of such future laws and regulations, and the effect that they will have on Moody s business or the potential for increased exposure to liability could be significant. Financial reforms in the EU and other foreign jurisdictions may have a material adverse effect on Moody s business, operating results and financial condition.

The Company Faces Exposure to Litigation Related to Rating Opinions

Moody s faces exposure to litigation related to MIS s ratings actions, as well as other business practices. As a result of difficult economic times and turbulent markets in recent years, the market value of credit-dependent instruments has declined and defaults have increased. This development has led to a significant increase in the number of legal proceedings that Moody s is facing, including class actions and other litigation, government investigations and inquiries concerning events in the U.S. subprime residential mortgage sector and the credit markets more broadly. Legal proceedings impose additional expenses on the Company and require the attention of senior management to an extent that may significantly reduce their ability to devote time addressing other business issues. Risks relating to legal proceedings may be heightened in foreign jurisdictions that lack the legal protections or liability standards comparable to those that exist in the U.S. In addition, new laws and regulations have been and may continue to be enacted that establish lower liability standards, shift the burden of proof or relax pleading requirements, thereby increasing the risk of successful litigations in the U.S. and in foreign jurisdictions. These litigation risks are often difficult to assess or quantify. Moody s may not have adequate insurance or reserves to cover these risks, and the existence and magnitude of these risks often remains unknown for substantial periods of time. Furthermore, to the extent that Moody s is unable to achieve dismissals at an early stage and litigation matters proceed to trial, the aggregate legal defense costs incurred by Moody s increase substantially, as does the risk of an adverse outcome. See Contingencies for more information regarding ongoing investigations and civil litigation that the Company currently faces. Due to the number of these proceedings and the significant amount of damages sought, there is a risk that Moody s will be subject to judgments, settlements, fines, penalties or other adverse results that could have a material adverse effect on its business, operating results and financial condition.

The Company is Exposed to Legal, Economic and Regulatory Risks of Operating in Foreign Jurisdictions

Moody s conducts operations in various countries outside the U.S. and derives a significant portion of its revenue from foreign sources. Changes in the economic condition of the various foreign economies in which the Company operates may have an impact on the Company s business. For example, economic uncertainty in the Eurozone or elsewhere could affect the number of securities offerings undertaken within those particular areas. In addition, operations abroad expose Moody s to a number of legal, economic and regulatory risks such as:

» restrictions on the ability to convert local currency into USD;

» exposure to exchange rate movements between foreign currencies and USD;

» the costs of repatriating cash held by entities outside the U.S.;

» U.S. laws affecting overseas operations including domestic and foreign export and import restrictions, tariffs and other trade barriers;

» differing legal or civil liability, compliance and regulatory standards;

» uncertain and evolving laws and regulations applicable to the financial services industries;

» economic, political and geopolitical market conditions;

» the possibility of nationalization, expropriation, price controls and other restrictive governmental actions;

» competition with local rating agencies that have greater familiarity, longer operating histories and/or support from local governments or other institutions;

» reduced protection for intellectual property rights;

» longer payment cycles and possible problems in collecting receivables;

» differing accounting principles and standards;

» difficulties and delays in translating documentation into foreign languages; and

» potentially adverse tax consequences.

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Additionally, Moody s is subject to complex U.S. and foreign laws and regulations, such as the Foreign Corrupt Practices Act, the U.K. Bribery Act and other anti-bribery and anti-corruption laws. Although the Company has implemented internal controls, policies and procedures and employee training and compliance programs to deter prohibited practices, such measures may not be effective in preventing employees, contractors or agents from violating or circumventing such internal policies and violating applicable laws and regulations. Any determination that the Company has violated anti-bribery or anti-corruption laws could have a material adverse effect on Moody s financial condition. Compliance with international and U.S. laws and regulations that apply to the Company s international operations increases the cost of doing business in foreign jurisdictions. Violations of such laws and regulations may result in fines and penalties, criminal sanctions, administrative remedies, restrictions on business conduct and could have a material adverse effect on Moody s reputation, its ability to attract and retain employees, its business, operating results and financial condition.

Moody s Operations and Infrastructure May Malfunction or Fail

Moody s ability to conduct business may be materially and adversely impacted by a disruption in the infrastructure that supports its businesses and the communities in which Moody s is located, including New York City, the location of Moody s headquarters, and major cities worldwide in which Moody s has offices. This may include a disruption involving physical or technological infrastructure used by the Company or third parties with or through whom Moody s conducts business, whether due to human error, natural disasters, power loss, telecommunication failures, break-ins, sabotage, intentional acts of vandalism, acts of terrorism, political unrest, war or otherwise. Moody s efforts to secure and plan for potential disruptions of its major operating systems may not be successful. The Company relies on third-party providers to provide certain essential services. While the Company believes that such providers are reliable, the Company has limited control over the performance of such providers. To the extent any of the Company s third-party providers ceases to provide these services in an efficient, cost-effective manner or fail to adequately expand its services to meet the Company s needs and the needs of the Company s customers, the Company could experience lower revenues and higher costs. The Company also does not have fully redundant systems for most of its smaller office locations and low-risk systems, and its disaster recovery plan does not include restoration of non-essential services. If a disruption occurs in one of Moody s locations or systems and its personnel in those locations or those who rely on such systems are unable to utilize other systems or communicate with or travel to other locations, such persons ability to service and interact with Moody s clients and customers may suffer. We cannot predict with certainty all of the adverse effects that could result from our failure, or the failure of a third party, to efficiently address and resolve these delays and interruptions. A disruption to Moody s operations or infrastructure may have a material adverse effect on its business, operating results and financial condition.

The Company is Exposed to Risks Related to Cybersecurity and Protection of Confidential Information

The Company s operations rely on the secure processing, storage and transmission of confidential, sensitive and other types of information in the Company s computer systems and networks and those of its third party vendors. The cyber risks we face range from cyber-attacks common to most industries, to more advanced threats that target the Company because of its prominence in the global marketplace, or due to its ratings of sovereign debt. Breaches of our or our vendors technology and systems, whether from circumvention of security systems, denial-of-service attacks or other cyber-attacks, hacking, computer viruses or malware, employee error, malfeasance, physical breaches or other actions, may cause material interruptions or malfunctions in the Company s or such vendors web sites, applications or data processing, or may compromise the confidentiality and integrity of material information regarding the Company or our business or customers. Measures that Moody s takes to avoid or mitigate material incidents can be expensive, and may be insufficient, circumvented, or may become obsolete. Any material incidents could cause the Company to experience reputational harm, loss of customers, regulatory actions, sanctions or other statutory penalties, litigation or financial losses that are either not insured against or not fully covered through any insurance maintained by the

Company. Any of the foregoing may have a material adverse effect on Moody s business, operating results or financial condition.

Changes in the Volume of Debt Securities Issued in Domestic and/or Global Capital Markets and Changes in Interest Rates and Other Volatility in the Financial Markets May Negatively Impact the Nature and Economics of the Company s Business

Moody s business is impacted by general economic conditions and volatility in the U.S. and world financial markets. Furthermore, issuers of debt securities may elect to issue securities without ratings or securities which are rated or evaluated by non-traditional parties such as financial advisors, rather than traditional CRAs, such as MIS. A majority of Moody s credit-rating-based revenue is transaction-based, and therefore it is especially dependent on the number and dollar volume of debt securities issued in the capital markets. Accordingly, any market volatility or conditions that either reduce investor demand for debt securities or issuers willingness or ability to issue such securities could reduce the number and dollar-equivalent volume of debt issuances for which Moody s provides ratings services and thereby have an adverse effect on the fees derived from the issuance of ratings. Therefore, no assurance can be given as to the amount of revenues that may be derived from Moody s ratings services.

Credit market disruptions and economic slowdown and uncertainty have in the past negatively impacted the volume of debt securities issued in global capital markets and the demand for credit ratings. Economic and government factors such as a long-term continuation of difficult economic conditions, uncertainty regarding the U.S. debt ceiling and a worsening of the sovereign debt crisis in Europe may have an adverse impact on the Company s business. Future debt issuances could be negatively affected by a sharp increase in long-term

interest rates or factors which cause instability or volatility in the global capital markets, such as significant regulatory, political or economic events, the use of alternative sources of credit, including financial institutions and government sources, and defaults of significant issuers. Changes in the markets for such securities and in the role and regulation of rating agencies may materially and adversely affect the Company.

The timing, nature, extent and sustainability of any recovery in the credit and other financial markets is uncertain, and a prolonged period of market decline or weakness could have a material adverse effect on the business. Moody s initiatives to reduce costs may not be sufficient and further cost reductions may be difficult or impossible to obtain in the short term, due in part to rent, technology, compliance and other fixed costs associated with some of the Company s operations as well as the need to monitor outstanding ratings. Further, the cost-reduction initiatives undertaken to date could make it difficult for the Company to rapidly expand operations in order to accommodate any unexpected increase in the credit markets and the resulting demand for ratings. Volatility in the financial markets, including changes in the volumes of debt securities and changes in interest rates, may have a material adverse effect on the business, operating results and financial condition.

The Company Faces Increased Pricing Pressure from Competitors and/or Customers

There is intense price competition in the credit rating, research, credit risk management markets, outsourced research and analytical services and financial training and certification services. Competition for customers and market share has spurred more aggressive tactics by some competitors in areas such as pricing and services, as well as increased competition from non-NRSROs that evaluate debt risk for issuers or investors. At the same time, bankruptcies, consolidation of customers, particularly those involved in structured finance products, and other factors affecting demand may enhance the market power of competitors. Tepid economic growth is also intensifying the competitive pressures as to pricing. While Moody s seeks to compete primarily on the basis of the quality of its products and services, it may lose market share if its pricing is not sufficiently competitive with its current and future competitors. In addition, the Reform Act was designed to encourage competition among rating agencies. The formation of additional NRSROs may increase pricing, as well as other competitive, pressures. Any inability of Moody s to compete successfully with respect to the pricing of its products and services could have a material adverse impact on its business, operating results and financial condition.

The Company is Exposed to Reputation and Credibility Concerns

Moody s reputation and the strength of its brand are key competitive strengths. To the extent that the rating agency business as a whole or Moody s, relative to its competitors, suffers a loss in credibility, Moody s business could be significantly impacted. Factors that may have already affected credibility and could potentially continue to have an impact in this regard include the appearance of a conflict of interest, the performance of securities relative to the rating assigned to such securities, the timing and nature of changes in ratings, a major compliance failure, negative perceptions or publicity and increased criticism by users of ratings, regulators and legislative bodies, including as to the ratings process and its implementation with respect to one or more securities. Operational errors, whether by Moody s or a Moody s competitor, could also harm the reputation of the Company or the credit rating industry. Damage to reputation and credibility could have a material adverse impact on Moody s business, operating results and financial condition.

The Introduction of Competing Products or Technologies by Other Companies May Negatively Impact the Nature and Economics of the Company s Business

The markets for credit ratings, research, credit risk management services, outsourced research and analytical services and financial training and certification services are highly competitive. The ability to provide innovative products and

technologies that anticipate customers changing requirements and utilize emerging technological trends is a key factor in maintaining market share. Moody s competitors include both established companies with significant financial resources, brand recognition, market experience and technological expertise, and smaller companies which may be better poised to quickly adopt new or emerging technologies or respond to customer requirements. Competitors may develop quantitative methodologies or related services for assessing credit risk that customers and market participants may deem preferable, more cost-effective or more valuable than the credit risk assessment methods currently employed by Moody s, or may price or market their products in manners that differ from those utilized by Moody s. Customers or others may develop alternative, proprietary systems for assessing credit risk. Such developments could affect demand for Moody s products and services and its growth prospects. In addition, the increased availability in recent years of free or relatively inexpensive Internet information may reduce the demand for Moody s products and services. Moody s growth prospects also could be adversely affected by Moody s failure to make necessary or optimal capital infrastructure expenditures and improvements and the inability of its information technologies to provide adequate capacity and capabilities to meet increased demands of producing quality ratings and research products at levels achieved by competitors. Any inability of Moody to compete successfully may have a material adverse effect on its business, operating results and financial condition.

The Company Has a Significant Amount of Intangible Assets

At December 31, 2013, Moody s had $665.2 million of goodwill and $221.6 million of intangible assets on its balance sheet. Approximately 99% of these intangibles reside in the MA business and are allocated to the four reporting units within MA: RD&A; ERS; Financial Services Training and Certifications; and Copal Amba. Failure to achieve business objectives and financial projections in any of these reporting units could result in an asset impairment charge, which would result in a non-cash charge to operating expenses. Goodwill

and intangible assets with indefinite lives are tested for impairment on an annual basis and also when events or changes in circumstances indicate that impairment may have occurred. Determining whether an impairment of goodwill exists can be difficult as a result of increased uncertainty and current market dynamics, and requires significant management estimates and judgment. In addition, the potential for goodwill impairment is increased during periods of economic uncertainty. An asset impairment charge could have a material adverse effect on Moody s business, operating results and financial condition.

Possible Loss of Key Employees and Related Compensation Cost Pressures May Negatively Impact the Company

Moody s success depends upon its ability to recruit, retain and motivate highly skilled, experienced financial analysts and other professionals. Competition for skilled individuals in the financial services industry is intense, and Moody s ability to attract high quality employees could be impaired if it is unable to offer competitive compensation and other incentives or if the regulatory environment mandates restrictions on or disclosures about individual employees that would not be necessary in competing analytical industries. As greater focus has been placed on executive compensation at public companies, in the future, Moody s may be required to alter its compensation practices in ways that could adversely affect its ability to attract and retain talented employees. Investment banks, investors and competitors may seek to attract analyst talent by providing more favorable working conditions or offering significantly more attractive compensation packages than Moody s. Moody s also may not be able to identify and hire the appropriate qualified employees in some markets outside the U.S. with the required experience or skills to perform sophisticated credit analysis. There is a risk that even if the Company invests significant resources in attempting to attract, train and retain qualified personnel, it will not succeed in its efforts, and its business could be harmed.

Moody s is highly dependent on the continued services of Raymond W. McDaniel, Jr., the President and Chief Executive Officer, and other senior officers and key employees. The loss of the services of skilled personnel for any reason and Moody s inability to replace them with suitable candidates quickly or at all, as well as any negative market perception resulting from such loss, could have a material adverse effect on Moody s business, operating results and financial condition.

Moody s Acquisitions and Other Strategic Transactions May Not Produce Anticipated Results

Moody s has made and expects to continue to make acquisitions or enter into other strategic transactions to strengthen its business and grow the Company. Such transactions present significant challenges and risks. The market for acquisition targets and other strategic transactions is highly competitive, especially in light of industry consolidation, which may affect Moody s ability to complete such transactions. If Moody s is unsuccessful in completing such transactions or if such opportunities for expansion do not arise, its business, operating results and financial condition could be materially adversely affected.

If such transactions are completed, the anticipated growth and other strategic objectives of such transactions may not be fully realized, and a variety of factors may adversely affect any anticipated benefits from such transactions. For instance, the process of integration may require more resources than anticipated, the Company may assume unintended liabilities, there may be unexpected regulatory and operating difficulties and expenditures, the Company may fail to retain key personnel of the acquired business and such transactions may divert management s focus from other business operations. The anticipated benefits from an acquisition or other strategic transaction may not be realized fully, or may take longer to realize than expected. As a result, the failure of acquisitions and other strategic transactions to perform as expected may have a material adverse effect on Moody s business, operating results and financial condition.

The Trading Price of Moody s Stock Could be Affected by Third Party Actions

Ownership of Moody s stock is highly concentrated with a significant portion of shares held by a few institutional stockholders. Due to this concentrated stockholder base, the trading price of Moody s stock could be affected considerably by actions of significant stockholders to increase or decrease their positions in Moody s stock. As a result, the actions of these institutional stockholders could create high stock volatility.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Moody s corporate headquarters is located at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, with approximately 797,537 square feet of leased space. As of December 31, 2013, Moody s operations were conducted from 15 U.S. offices and 60 non-U.S. office locations, all of which are leased. These properties are geographically distributed to meet operating and sales requirements worldwide. These properties are generally considered to be both suitable and adequate to meet current operating requirements.

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ITEM 3. LEGAL PROCEEDINGS

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 MIS 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.

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 and contingencies, 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Information in response to this Item is set forth under the captions below.

MOODY S PURCHASES OF EQUITY SECURITIES

For the Three Months Ended December 31, 2013

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares That May yet be Purchased Under the Program[2]
October 1 31	1,148,051	$ 70.56	1,147,301	$ 848.7 million
November 1 30	324,646	$ 73.98	323,759	$ 824.7 million
December 1 31	547,183	$ 74.21	546,536	$ 784.1 million
Total	2,019,880	$ 72.10	2,017,596	

(1) Includes the surrender to the Company of 750 shares, 887 shares and 647 shares of common stock in October, November and December, respectively, to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

(2) As of the last day of each of the months. On February 12, 2013, the Board authorized a $1 billion share repurchase program. Also, 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 either of the remaining authorizations.

During the fourth quarter of 2013, Moody s issued 0.9 million shares under employee stock-based compensation plans.

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COMMON STOCK INFORMATION AND DIVIDENDS

The Company s common stock trades on the New York Stock Exchange under the symbol MCO . The table below indicates the high and low sales price of the Company s common stock and the dividends declared and paid for the periods shown. The number of registered shareholders of record at January 31, 2014 was 2,557. A substantially greater number of the Company s common stock is held by beneficial holders whose shares are held of record by banks, brokers and other financial institutions.

	Price Per Share				Dividends Per Share			
		High		Low		Declared		Paid
2013:								
First quarter	**$**	**55.58**	**$**	**40.67**	**$**		**$**	**0.20**
Second quarter	**$**	**69.70**	**$**	**51.31**		**0.20**		**0.20**
Third quarter	**$**	**71.74**	**$**	**59.69**		**0.25**		**0.25**
Fourth quarter	**$**	**79.15**	**$**	**66.91**		**0.53**		**0.25**
Year ended December 31, 2013					**$**	**0.98**	**$**	**0.90**
2012:								
First quarter	$	42.67	$	34.35	$		$	0.16
Second quarter	$	43.05	$	33.86		0.16		0.16
Third quarter	$	46.26	$	35.13		0.16		0.16
Fourth quarter	$	51.63	$	43.23		0.36		0.16
Year Ended December 31, 2012					$	0.68	$	0.64

During 2011, the Company paid a quarterly dividend of $0.115 per share of Moody s common stock in the first quarter and $0.14 per share of Moody s common stock in each of the remaining quarters, resulting in dividends paid per share during the year ended December 31, 2011 of $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.

EQUITY COMPENSATION PLAN INFORMATION

The table below sets forth, as of December 31, 2013, certain information regarding the Company s equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights[2] (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding Securities Reflected in Column (a) (c)
Equity compensation plans approved by security holders	13,935,606[1]	$ 45.00	25,767,878[3]
Equity compensation plans not approved by security holders		$	
Total	13,935,606	$ 45.00	25,767,878

(1) Includes 11,080,277 options and unvested restricted shares outstanding under the Company s 2001 Key Employees Stock Incentive Plan, 835,364 options and unvested restricted shares outstanding under the Company s 1998 Key Employees Stock Incentive Plan, and 23,477 options and unvested restricted shares outstanding under the 1998 Non-Employee Directors Stock Incentive Plan. This number also includes a maximum of 1,996,488 performance shares outstanding under the Company s 2001 Key Employees Stock Incentive Plan, which is the maximum number of shares issuable pursuant to performance share awards assuming the maximum payout at 200% of the target award for performance shares granted in 2011 and the maximum payout at 225% of the target award for performance shares granted in 2012 and 2013. Assuming payout at target, the number of shares to be issued upon the vesting of outstanding performance share awards is 924,834.

(2) Does not reflect unvested restricted shares or performance share awards included in column (a) because these awards have no exercise price.

(3) Includes 21,777,186 shares available for issuance as under the 2001 Stock Incentive Plan, of which all may be issued as options and 14,000,000 may be issued as restricted stock, performance shares or other stock-based awards under the 2001 Stock Incentive Plan and 975,208 shares available for issuance as options, shares of restricted stock or performance shares under the 1998 Directors Plan, and 3,015,484 shares available for issuance under the Company s Employee Stock Purchase Plan. No new grants may be made under the 1998 Stock Incentive Plan, which expired by its terms in June 2008.

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PERFORMANCE GRAPH

The following graph compares the total cumulative shareholder return of the Company to the performance of Standard & Poor s Stock 500 Composite Index and the Russell 3000 Financial Services Index. Both of the aforementioned indexes are easily accessible to the Company s shareholders in newspapers, the internet and other readily available sources for purposes of the following graph.

The comparison assumes that $100.00 was invested in the Company s common stock and in each of the foregoing indices on December 31, 2008. The comparison also assumes the reinvestment of dividends, if any. The total return for the common stock was 323% during the performance period as compared with a total return during the same period of 99% for the Russell 3000 Financial Services Index and 128% for the S&P 500 Composite Index.

Comparison of Cumulative Total Return

Moody s Corporation, Russell 3000 Financial Services Index and S&P 500 Composite Index

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Moody s Corporation, the S&P 500 Index,

and the Russell 3000 Financial Services Index

	Year Ended December 31,					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Moody s Corporation	$ 100.00	$ 135.58	$ 136.62	$ 176.18	$ 267.54	$ 423.30
S&P 500 Composite Index	$ 100.00	$ 126.46	$ 145.51	$ 148.59	$ 172.37	$ 228.18
Russell 3000 Financial Services Index	$ 100.00	$ 117.61	$ 132.42	$ 116.64	$ 147.64	$ 198.52

The comparisons in the graph above are provided in response to disclosure requirements of the SEC and are not intended to forecast or be indicative of future performance of the Company s common stock.

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ITEM 6. SELECTED FINANCIAL DATA

The Company s selected consolidated financial data should be read in conjunction with Item 7. MD&A and the Moody s Corporation consolidated financial statements and notes thereto.

	Year Ended December 31,				
amounts in millions, except per share data	**2013**	**2012**	**2011**	**2010**	**2009**
Results of operations					
Revenue	**$ 2,972.5**	$ 2,730.3	$ 2,280.7	$ 2,032.0	$ 1,797.2
Operating and SG&A expenses	**1,644.5**	1,547.2	1,313.1	1,192.8	1,028.1
Depreciation and amortization	**93.4**	93.5	79.2	66.3	64.1
Goodwill impairment		12.2			
Restructuring				0.1	17.5
Operating income	**1,234.6**	1,077.4	888.4	772.8	687.5
Non-operating (expense) income, net [1]	**(65.3)**	(53.4)	(48.6)	(58.4)	(41.3)
Income before provision for income taxes	**1,169.3**	1,024.0	839.8	714.4	646.2
Provision for income taxes	**353.4**	324.3	261.8	201.0	239.1
Net income [2]	**815.9**	699.7	578.0	513.4	407.1
Less: Net income attributable to noncontrolling interests	**11.4**	9.7	6.6	5.6	5.1
Net income attributable to Moody s [2]	**$ 804.5**	$ 690.0	$ 571.4	$ 507.8	$ 402.0
Earnings per share					
Basic	**$ 3.67**	$ 3.09	$ 2.52	$ 2.16	$ 1.70
Diluted	**$ 3.60**	$ 3.05	$ 2.49	$ 2.15	$ 1.69
Weighted average shares outstanding					
Basic	**219.4**	223.2	226.3	235.0	236.1
Diluted	**223.5**	226.6	229.4	236.6	237.8
Dividends declared per share	**$ 0.98**	$ 0.68	$ 0.58	$ 0.43	$ 0.405
Operating margin	**41.5%**	39.5%	39.0%	38.0%	38.3%

	December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Balance sheet data					
Total assets	**$ 4,395.1**	$ 3,960.9	$ 2,876.1	$ 2,540.3	$ 2,003.3
Long-term debt	**$ 2,101.8**	$ 1,607.4	$ 1,172.5	$ 1,228.3	$ 746.2
Total shareholders equity (deficit)	**$ 347.9**	$ 396.6	$ (158.4)	$ (298.4)	$ (596.1)

	NON-GAAP FINANCIAL MEASURES [3] Year Ended				
	2013	**2012**	**2011**	**2010**	**2009**
Adjusted Operating Income	**$ 1,328.0**	$ 1,183.1	$ 967.6	$ 839.2	$ 769.1

Adjusted Operating Margin	**44.7%**	43.3%	42.4%	41.3%	42.8%
Non-GAAP Diluted EPS attributable to Moody s common shareholders	**$ 3.65**	$ 2.99	$ 2.46	$ 2.13	$ 1.70
Free cash flow	**$ 884.5**	$ 778.1	$ 735.6	$ 574.3	$ 553.1

(1) The 2013, 2012, 2011, 2010 and 2009 amounts include benefits of $22.8 million, $17.2 million, $10.1 million, $2.5 million, and $6.5 million, respectively, related to the favorable resolution of certain Legacy Tax Matters.

(2) The 2013, 2012, 2011, 2010 and 2009 amounts include benefits of $21.3 million, $12.8 million, $7.0 million, $4.6 million and $8.2 million, respectively, related to the resolution of certain Legacy Tax Matters.

(3) Refer to Non-GAAP measures in Item 7 of this Form 10K for a discussion of the Company s non-GAAP financial measures

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis of financial condition and results of operations should be read in conjunction with the Moody s Corporation consolidated financial statements and notes thereto included elsewhere in this annual report on Form 10-K.

This MD&A contains Forward-Looking Statements. See Forward-Looking Statements commencing on page 58 and Item 1A. Risk Factors commencing on page 17 for a discussion of uncertainties, risks and other factors associated with these statements.

THE COMPANY

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

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

The MA segment, which includes all of the Company s non-rating commercial activities, develops a wide range of products and services that primarily 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. It also provides fixed income pricing services in the Asia-Pacific region. The RD&A business also produces economic research as well as data and analytical tools such as quantitative credit risk scores. Within its ERS business, MA provides software solutions as well as related risk management services. The PS business provides outsourced research and analytical services and financial training and certification programs.

CRITICAL ACCOUNTING ESTIMATES

Moody s discussion and analysis of its financial condition and results of operations are based on the Company s consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires Moody s to make estimates and judgments that affect reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the dates of the financial statements and revenue and expenses during the reporting periods. These estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, Moody s evaluates its estimates, including those related to revenue recognition, accounts receivable allowances, contingencies, goodwill and intangible assets, pension and other retirement benefits, UTPs and stock-based compensation. Actual results may differ from these estimates under different assumptions or conditions. The following accounting estimates are considered critical because they are particularly dependent on management s judgment about matters that are uncertain at the time the accounting estimates are made and changes to those estimates could have a material impact on the Company s consolidated results of operations or financial condition.

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 the guidance of 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, 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 delivered item 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

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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 the Company s market strategy from that of its peers and the potential that products and services offered by the Company may contain a significant level of differentiation and/or customization such that the comparable pricing of products with similar functionality cannot be obtained, the Company generally is unable to reliably determine TPE. Based on the selling price hierarchy established by ASU 2009-13, when the Company is unable to establish selling price using VSOE or TPE, the Company will establish an ESP. ESP is the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. The Company establishes its best estimate of ESP considering internal factors relevant to its pricing practices such as costs and margin objectives, standalone sales prices of similar products, percentage of the fee charged for a primary product or service relative to a related product or service, and customer segment and geography. Additional consideration is also given to market conditions such as competitor pricing strategies and market trend. The Company reviews its determination of VSOE, TPE and ESP on an annual basis or more frequently as needed.

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

Multiple element revenue arrangements in the MIS segment are generally comprised of an initial rating and the related monitoring service. 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.

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 monitoring period, however, revenue is recognized 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. Software maintenance revenue is recognized ratably over the annual maintenance period. Revenue from services rendered within the professional services line of business is generally recognized as the services are performed. If uncertainty exists regarding customer acceptance of the product or service, revenue is not recognized

until acceptance occurs. A large portion of annual research and data subscriptions as well as annual software maintenance is invoiced in November, December and January of each year.

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 previously described.

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 Allowance

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 charged against the allowance. Moody s evaluates its accounts receivable allowance by reviewing and assessing historical collection and adjustment experience and the current aging 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. This process involves a high degree of judgment and estimation and could involve significant dollar amounts. Accordingly, Moody s results of operations can be affected by adjustments to the allowance. Management believes that the allowance for uncollectible accounts receivable is adequate to cover anticipated adjustments and write-offs under current conditions. However, significant changes in any of the above factors, or actual write-offs or adjustments that differ from the estimated amounts could impact the Company s consolidated results of operations.

Contingencies

Accounting for contingencies, including those matters described in the Contingencies section of this MD&A , commencing on page 56 is highly subjective and requires the use of judgments and estimates in assessing their magnitude and likely outcome. In many cases, the outcomes of such matters will be determined by third parties, including governmental or judicial bodies. The provisions made in the consolidated financial statements, as well as the related disclosures, represent management s best estimates of the then current status of such matters and their potential outcome based on a review of the facts and in consultation with outside legal counsel where deemed appropriate. The Company regularly reviews contingencies and as new information becomes available may, in the future, adjust its associated liabilities.

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 and contingencies, 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, 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 the Contingencies section of this MD&A, were both cases from the 2008/2009 claims period, and accordingly the defense cost for these matters were insured 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 knowl-

edge 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.

Goodwill and Other Acquired Intangible Assets

On July 31 of each year, Moody s evaluates its goodwill for impairment at the reporting unit level, defined as an operating segment or one level below an operating segment.

At July 31, 2013, the Company had five primary reporting units: one in MIS that encompasses all of Moody s ratings operations and four reporting units within MA: RD&A, ERS, FSTC and Copal. 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 licenses and related maintenance and implementation services. 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. Copal, which was acquired in the fourth quarter of 2011, provides outsourced research and analytical services and was a separate reporting unit since its acquisition. On December 10, 2013, a subsidiary of the Company acquired Amba Investment Services which was combined with Copal to form the Copal Amba reporting unit.

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. At July 31, 2013, the Company performed the second step of the goodwill impairment test on all reporting units, which resulted in no impairment of goodwill.

Determining the fair value of a reporting unit or an indefinite-lived acquired intangible asset involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and appropriate comparable market metrics. The Company bases its fair value estimates on reasonable assumptions. However, as these estimates and assumptions are unpredictable and inherently uncertain, actual future results may differ from these estimates. In addition, the Company also makes certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of its reporting units.

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. Other

assets and liabilities, including applicable corporate assets, are allocated to the extent they are related to the operation of respective reporting units.

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Sensitivity Analyses and Key Assumptions for Deriving the Fair Value of a Reporting Unit

The following table identifies the amount of goodwill allocated to each reporting unit as of December 31, 2013 as well as the amount by which the net assets of each reporting unit would exceed the fair value under Step 2 of the goodwill impairment test as prescribed in ASC Topic 350 as of July 31, 2013, assuming hypothetical reductions in their fair values.

		Sensitivity Analysis			
		Deficit Caused by a Hypothetical Reduction to Fair Value			
	Goodwill	**10%**	**20%**	**30%**	**40%**
MIS	$ 11.8	$	$	$	$
RD&A	163.7				
ERS	219.4			(43.7)	(92.3)
FSTC	107.6	(11.6)	(28.7)	(45.9)	(63.0)
Copal Amba *	162.7				
Totals	$ 665.2	$ (11.6)	$ (28.7)	$ (89.6)	$ (155.3)

* Prior to the acquisition of Amba, a hypothetical reduction to the fair value of the Copal reporting unit of up to 40% would not have resulted in the reporting unit s carrying value to exceed its fair value.

As can be seen from the table above, the reporting unit most at risk for potential impairment is the FSTC reporting unit and failure to meet its financial projections could result in further goodwill impairment (there was a goodwill impairment charge of $12.2 million for this reporting unit in the fourth quarter of 2012). This business is, in part, sensitive to the staffing levels and profitability of the global financial services industry, particularly in Canada and EMEA.

The ERS reporting unit also carries some risk of potential impairment. Management of the ERS reporting unit is currently focused on expanding market penetration as well as enhancing the scalability of its products and services. While the business continues to expand its customer footprint, operating margins are expected to remain lower than previously anticipated.

There could be a future goodwill impairment charge if FSTC fails or ERS significantly fails to meet its current financial projections.

Methodologies and significant estimates utilized in determining the fair value of reporting units:

The following is a discussion regarding the Company s methodology for determining the fair value of its reporting units as of July 31, 2013.

The fair value of each reporting unit was estimated using a discounted cash flow methodology and comparable public company and precedent transaction multiples. The DCF analysis requires significant estimates, including projections of future operating results and cash flows of each reporting unit, which is based on internal budgets and strategic

plans, expected long-term growth rates, terminal values, weighted average cost of capital and the effects of external factors and market conditions. Changes in these estimates and assumptions could materially affect the estimated fair value of each reporting unit which could result in an impairment charge to reduce the carrying value of goodwill, which could be material to the Company s financial position and results of operations. Moody s allocates newly acquired goodwill to reporting units based on the reporting unit expected to benefit from the acquisition. The Company evaluates its reporting units on an annual basis, or more frequently if there are changes in the reporting structure of the Company due to acquisitions or realignments.

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The sensitivity analyses on the future cash flows and WACC assumptions described below are as of July 31, 2013. The following discusses the key assumptions utilized in the discounted cash flow valuation methodology which requires significant management judgment:

» *Future cash flow assumptions*: The projections for future cash flows utilized in the models are derived from historical experience and assumptions regarding future growth and profitability of each reporting unit. These projections are consistent with the Company s operating and strategic plan. Cash flows for the five years subsequent to the date of the quantitative goodwill impairment analysis were utilized in the determination of fair value for each reporting unit. The growth rates utilized in the projections assumed a gradual increase in revenue from financial service customers based on a continued improvement in the global economy and capital markets, new customer acquisition and new products. Beyond five years a terminal value was determined using a perpetuity growth rate based on inflation and real GDP growth rates. A sensitivity analysis of the growth rates was performed on all reporting units. For all reporting units, a 10% decrease in the growth rates used would not have resulted in the carrying value of the reporting unit exceeding its respective estimated fair value.

» *WACC*: The WACC is the rate used to discount each reporting unit s estimated future cash flows. The WACC is calculated based on the proportionate weighting of the cost of debt and equity. The cost of equity is based on a risk-free interest rate adjusted for an equity risk factor which is derived from public companies similar to the reporting unit and which captures the perceived risks and uncertainties associated with the reporting unit s cash flows. The cost of debt component is calculated as the weighted average cost associated with all of the Company s outstanding borrowings as of the date of the impairment test and was immaterial to the computation of the WACC. The cost of debt and equity is weighted based on the debt to market capitalization ratio of publicly traded companies with similarities to the reporting unit being tested. The WACC for all reporting units ranged from 10% to 11.5% as of July 31, 2013. Differences in the WACC used between reporting units is primarily due to distinct risks and uncertainties regarding the cash flows of the different reporting units. A sensitivity analysis of the WACC was performed on all reporting units as of July 31, 2013. For the FSTC reporting unit, an increase in the WACC of one percentage point would have resulted in the carrying value of the reporting unit exceeding its estimated fair value by approximately $5 million under step one of the goodwill impairment test as prescribed in ASC Topic 350. For the remaining reporting units, an increase in the WACC of one percentage point would not result in the carrying value of the reporting unit exceeding its fair value

Amortizable intangible assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 the 2013 that would indicate the need for an adjustment of the remaining useful lives of these amortizable intangible assets.

Pension and Other Retirement Benefits

The expenses, assets and liabilities that Moody s reports for its Retirement Plans are dependent on many assumptions concerning the outcome of future events and circumstances. These assumptions include the following:

» future compensation increases, based on the Company s long-term actual experience and future outlook

» long-term return on pension plan assets, based on historical portfolio results and the expected future average annual return for each major asset class within the plan s portfolio (which is principally comprised of equity and fixed-income investments)

» future healthcare cost trends, based on historical market data, near-term outlooks and assessments of likely long-term trends

» discount rates, based on current yields on high-grade corporate long-term bonds

The discount rates selected to measure the present value of the Company s benefit obligation for its Retirement Plans as of December 31, 2013 were derived using a cash flow matching method whereby the Company compares each plan s projected payment obligations by year with the corresponding yield on the Citibank pension discount curve. The cash flows by plan are then discounted back to present value to determine the discount rate applicable to each plan.

Moody s major assumptions vary by plan and assumptions used are set forth in Note 12 to the consolidated financial statements. In determining these assumptions, the Company consults with outside actuaries and other advisors as deemed appropriate. While the Company believes that the assumptions used in its calculations are reasonable, differences in actual experience or changes in assumptions could have a significant effect on the expenses, assets and liabilities related to the Company s Retirement Plans.

When actual plan experience differs from the assumptions used, actuarial gains or losses arise. Excluding differences between the expected long-term rate of return assumption and actual experience on plan assets, the Company amortizes, as a component of annual pension expense, total outstanding gains or losses over the estimated average future working lifetime of active plan participants to the extent that the gain/loss exceeds 10% of the greater of the beginning-of-year projected benefit obligation or the market-related value

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of plan assets. For Moody s Retirement Plans, the total actuarial losses as of December 31, 2013 that have not been recognized in annual expense are $95.2 million, and Moody s expects to recognize a net periodic expense of $6.0 million in 2014 related to the amortization of actuarial losses.

For Moody s funded U.S. pension plan, the differences between the expected long-term rate of return assumption and actual experience could also affect the net periodic pension expense. As permitted under ASC Topic 715, the Company spreads the impact of asset experience over a five-year period for purposes of calculating the market-related value of assets that is used in determining the expected return on assets component of annual expense and in calculating the total unrecognized gain or loss subject to amortization. As of December 31, 2013, the Company has an unrecognized asset gain of $8.2 million, of which $1.8 million will be recognized in the market-related value of assets that is used to calculate the expected return on assets component of 2015 expense.

The table below shows the estimated effect that a one percentage-point decrease in each of these assumptions will have on Moody s 2014 operating income. These effects have been calculated using the Company s current projections of 2014 expenses, assets and liabilities related to Moody s Retirement Plans, which could change as updated data becomes available.

	Assumption Used for 2014	Estimated Impact on 2014 Operating Income (Decrease)/Increase	
Weighted Average Discount Rates*	4.71%/4.45%	$	(9.8)
Weighted Average Assumed Compensation Growth Rate	4.00%	$	2.0
Assumed Long-Term Rate of Return on Pension Assets	6.80%	$	(2.1)

*Weighted average discount rates of 4.71% and 4.45% for pension plans and Other Retirement Plans, respectively.
A one percentage-point increase in assumed healthcare cost trend rates will not affect 2014 projected expenses. Based on current projections, the Company estimates that expenses related to Retirement Plans will be $29.6 million in 2014 compared with $34.6 million in 2013. The expected expense decrease in 2014 reflects the effects of lower benefit obligations primarily due to higher discount rate assumptions, and lower amortization of actuarial losses.

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 stock options and restricted stock. The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model that uses assumptions and estimates that the Company believes are reasonable. Some of the assumptions and estimates, such as share price volatility and expected option holding period, are based in part on Moody s experience during the period since becoming a public company. The use of different assumptions and estimates in the Black-Scholes option pricing model could produce materially different estimated fair values for option awards and related expense.

An increase in the following assumptions would have had the following estimated effect on operating income in 2013 (dollars in millions):

	Assumption Used for 2009-2013 employee stock options	Increase in Assumption	Estimated impact on Operating Income in 2013 Increase/(Decrease)	
Average Expected Dividend Yield	1.4% - 2.1%	0.1%	$	0.1
Average Expected Share Price Volatility	37.7% - 48.7%	5%	$	(1.2)
Expected Option Holding Period	5.6 - 7.6 years	1.0 year	$	(0.6)

Income Taxes

The Company is subject to income taxes in the U.S. and various foreign jurisdictions. The Company s tax assets and liabilities are affected by the amounts charged for services provided and expenses incurred as well as other tax matters such as intercompany transactions. 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 is subject to tax audits in various jurisdictions which involve Legacy Tax and other tax matters. The Company regularly assesses the likely outcomes of such audits in order to determine the appropriateness of liabilities for UTPs. The Company classifies interest related to income taxes as a component of interest expense in the Company s consolidated financial statements and associated penalties, if any, as part of other non-operating expenses.

For UTPs, ASC Topic 740 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. As the determination of liabilities related to UTPs and associated interest and penalties requires significant estimates to be made by the Company, there can be no assurance that the Company will accurately predict the outcomes of these audits, and thus the eventual outcomes could have a material impact on the Company s operating results or financial condition.

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.

Other Estimates

In addition, there are other accounting estimates within Moody s consolidated financial statements, including recoverability of deferred tax assets, anticipated dividend distributions from non-U.S. subsidiaries and valuation of investments in affiliates. Management believes the current assumptions and other considerations used to estimate amounts reflected in Moody s consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in Moody s consolidated financial statements, the resulting changes could have a material adverse effect on Moody s consolidated results of operations or financial condition.

See Note 2 to the consolidated financial statements for further information on significant accounting policies that impact Moody s.

OPERATING SEGMENTS

The Company is organized into two reportable segments at December 31, 2013: 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 financial analysis and 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.

In December 2013, a subsidiary of the Company acquired Amba, a provider of investment research and quantitative analytics for global financial institutions. In the fourth quarter of 2011, subsidiaries of the Company acquired B&H and a majority interest in Copal. B&H is a provider of insurance risk management tools. Copal is an outsourced research and consulting business. Amba, B&H and Copal are part of the MA segment and B&H s revenue is included in the ERS LOB while Amba and Copal s revenue is included in the PS LOB.

The following is a discussion of the results of operations of these segments, including the intersegment royalty revenue for MIS and expense 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 developed by MIS. The discussion also includes intersegment fees charged to MIS from MA for the use of certain MA products and services in MIS s ratings process. These fees charged by MA are generally equal to the costs incurred by MA to provide these products and services. Overhead charges and corporate expenses which exclusively benefit one segment are fully charged to that segment. Additionally, overhead costs and corporate expenses of the Company which benefit both segments are generally 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 prior year comparative periods have been reclassified to conform to the new presentation. These reclassifications were not material.

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Year ended December 31, 2013 compared with year ended December 31, 2012

Executive Summary

Moody s revenue in 2013 totaled $2,972.5 million, an increase of $242.2 million compared to 2012 and reflected good growth in both reportable segments, most notably in the high-yield and bank loan sectors of CFG within MIS and within all LOBs within MA. Total expenses, which included the settlement of the Abu Dhabi and Rhinebridge litigation matters more fully discussed in the Contingencies section of this MD&A, increased $85.0 million compared to the prior year which included a $12.2 million goodwill impairment charge relating to the Company s FSTC reporting unit within MA. The increase in expenses also reflected higher salaries and benefit costs of $56.2 million primarily relating to headcount growth and annual compensation increases. These increases were partially offset by lower incentive compensation costs of $30.3 million. Operating income of $1,234.6 million increased $157.2 million compared to 2012 and resulted in an operating margin of 41.5% in 2013, compared to 39.5% in the prior year. Adjusted Operating Income of $1,328.0 million in 2013 increased $144.9 million compared to 2012 resulting in an Adjusted Operating Margin of 44.7% compared to 43.3% in the prior year period. Diluted EPS of $3.60 in 2013, which includes a $0.14 charge in the first quarter related to the aforementioned settlement of two litigation matters and a $0.09 benefit from a Legacy Tax Matter in the fourth quarter of 2013, increased $0.55 over the prior year period, which included a $0.06 benefit relating to a Legacy Tax Matter. Excluding the litigation settlement in the first quarter of 2013 and the benefits from Legacy Tax Matters in both years, Non-GAAP Diluted EPS was $3.65, or $0.66 higher than $2.99 in 2012.

	Year Ended December 31,		% Change Favorable (Unfavorable)
	2013	**2012**	
Revenue:			
United States	**$ 1,626.5**	$ 1,472.4	10%
International:			
EMEA	**862.8**	800.2	8%
Asia-Pacific	**286.1**	266.5	7%
Americas	**197.1**	191.2	3%
Total International	**1,346.0**	1,257.9	7%
Total	**2,972.5**	2,730.3	9%
Expenses:			
Operating	**822.4**	795.0	(3%)
SG&A	**822.1**	752.2	(9%)
Goodwill impairment charge		12.2	100%
Depreciation and amortization	**93.4**	93.5	
Total	**1,737.9**	1,652.9	(5%)
Operating income	**$ 1,234.6**	$ 1,077.4	15%

Adjusted Operating Income [1]	**$**	**1,328.0**	$	1,183.1	12%
Interest income (expense), net	**$**	**(91.8)**	$	(63.8)	(44%)
Other non-operating income (expense), net	**$**	**26.5**	$	10.4	155%
Net income attributable to Moody s	**$**	**804.5**	$	690.0	17%
Diluted EPS attributable to Moody s common shareholders	**$**	**3.60**	$	3.05	18%
Non-GAAP Diluted EPS attributable to Moody s common shareholders	**$**	**3.65**	$	2.99	22%
Operating margin		**41.5%**		39.5%	
Adjusted Operating Margin [1]		**44.7%**		43.3%	

(1) Adjusted Operating Income, Adjusted Operating Margin and Non-GAAP Diluted EPS attributable to Moody s common shareholders are non-GAAP financial measures. Refer to the section entitled Non-GAAP Financial Measures of this Management Discussion and Analysis for further information regarding these measures.

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

	December 31,		
	2013	**2012**	**% Change**
United States	**2,847**	2,609	9%
International	**5,517***	4,149	33%
Total	**8,364**	6,758	24%

* Total as of December 31, 2013 includes 971 staff from the fourth quarter 2013 acquisition of Amba, of which a significant portion are based in low cost jurisdictions.

Global revenue of $2,972.5 million in 2013 increased $242.2 million compared to 2012 reflecting good growth in both reportable segments. The increase in ratings revenue reflects benefits from changes in the mix of fee type, new fee initiatives and certain pricing increases, primarily in the U.S., coupled with higher global rated issuance volumes for high-yield corporate debt and bank loans. The growth in MA reflects higher revenue across all LOBs, most notably in RD&A, which benefited from solid demand for data and analytic products, and in ERS which was driven by the completion of certain software implementations. Transaction revenue accounted for 50% of global MCO revenue in both 2013 and 2012.

U.S. revenue of $1,626.5 million increased $154.1 million over 2012, reflecting growth across all ratings LOBs, most notably in CFG and SFG, coupled with growth in all LOBs within MA.

Non-U.S. revenue increased $88.1 million compared to 2012, reflecting higher CFG revenue in all regions coupled with increases in MA revenue within the EMEA and Asia-Pacific regions. These increases were partially offset by declines in all asset classes in SFG within the EMEA region.

Operating expenses were $822.4 million in 2013, an increase of $27.4 million from 2012 and reflected growth in both compensation and non-compensation costs. The increase in compensation costs of approximately $11 million reflects higher salaries and related employee benefits of approximately $30 million primarily resulting from increases in headcount as well as the impact of annual compensation increases. These increases were partially offset by lower incentive compensation of approximately $21 million due to lower achievement against full-year targeted results in 2013 compared to 2012. The growth in non-compensation expenses of approximately $17 million is primarily due to an increase in costs relating to ongoing IT initiatives coupled with higher variable costs correlated with business growth.

SG&A expenses of $822.1 million in 2013 increased $69.9 million from 2012 with the primary driver of the expense growth reflecting the settlement of the Abu Dhabi and Rhinebridge litigation matters more fully discussed in the Contingencies section of this MD&A. The remaining increase in SG&A expenses reflects growth in compensation costs of approximately $18 million primarily due to higher salaries and related employee benefits of approximately $26 million resulting from annual compensation increases and headcount growth in sales personnel within MA as well as in overhead support areas. The growth in salaries and related employee benefits was partially offset by lower incentive compensation of $10 million due to lower achievement against full-year targeted results in 2013 compared to 2012. Additionally, there was a decline in non-compensation expenses (excluding the aforementioned settlement

for litigation matters) which primarily reflected lower legal defense costs in 2013 following the first quarter litigation settlement. These declines were partially offset by higher costs for ongoing IT initiatives coupled with higher contingent consideration costs of approximately $7 million relating to the acquisition of Copal.

Operating income of $1,234.6 million increased $157.2 million from 2012. Adjusted Operating Income was $1,328.0 million in 2013 and increased $144.9 million compared to 2012. Operating margin and Adjusted Operating Margin of 41.5% and 44.7%, respectively, increased 200bps and 140bps, respectively, compared to the prior year. The increased margins reflected good revenue growth in both reportable segments outpacing operating expense growth.

Interest income (expense), net in 2013 was ($91.8) million, a $28.0 million increase in expense compared to 2012. This increase is due to higher interest on borrowings reflecting the issuance of the 2012 Senior Notes and the 2013 Senior Notes in August 2012 and 2013, respectively, partially offset by lower interest expense due to the final repayment of the 2008 Term Loan in May 2013. Also, the increase in expense reflects an approximate $7 million reversal of interest on UTPs in 2012 related to the settlement of state and local tax audits.

Other non-operating income (expense), net was $26.5 million in 2013, a $16.1 million increase in income compared to 2012 and reflected approximately $6 million in FX losses in 2012 compared to immaterial gains in 2013. The FX losses in 2012 primarily related to the decline of the euro relative to the British pound in the prior year. Also contributing to the increase in income was a higher Legacy Tax benefit in 2013 compared to 2012 ($19.2 million in 2013 compared to $12.8 million in 2012).

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The Company s ETR was 30.2% in 2013, down from 31.7% in 2012. The decrease was primarily due to U.S. tax legislation enacted in early 2013 which retroactively extended certain tax benefits to the 2012 tax year and prospectively extended these benefits to the 2013 tax year as well as tax benefits on the aforementioned litigation settlement charge.

Net Income in 2013 was $804.5 million, or $3.60 per diluted share, and included a $0.14 charge related to the aforementioned litigation settlement in the first quarter of 2013 as well as a $0.09 benefit relating to the resolution of a Legacy Tax Matter. This is an increase of $114.5 million, or $0.55 per diluted share, compared to 2012, which included a $0.06 benefit relating to a Legacy Tax Matter. Excluding the charge for the litigation settlement in 2013 and the Legacy Tax benefits in both years, Non-GAAP Diluted EPS of $3.65 in 2013 was $0.66 higher than in the same period of the prior year.

SEGMENT RESULTS

Moody s Investors Service

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

	Year Ended December 31,		% Change Favorable
	2013	**2012**	**(Unfavorable)**
Revenue:			
Corporate finance (CFG)	**$ 996.8**	$ 857.6	16%
Structured finance (SFG)	**382.5**	381.0	
Financial institutions (FIG)	**338.8**	325.5	4%
Public, project and infrastructure finance (PPIF)	**341.3**	322.7	6%
Total external revenue	**2,059.4**	1,886.8	9%
Intersegment royalty	**78.6**	71.5	10%
Total MIS Revenue	**2,138.0**	1,958.3	9%
Expenses:			
Operating and SG&A (external)	**1,011.0**	955.8	(6%)
Operating and SG&A (intersegment)	**11.6**	11.8	2%
Adjusted Operating Income	**1,115.4**	990.7	13%
Depreciation and amortization	**46.6**	44.2	(5%)
Operating income	**$ 1,068.8**	$ 946.5	13%

Adjusted Operating Margin	**52.2%**	50.6%
Operating margin	**50.0%**	48.3%

The following is a discussion of external MIS revenue and operating expenses:

Global MIS revenue of $2,059.4 million in 2013 increased $172.6 million compared to 2012, reflecting growth in all ratings LOBs excluding SFG, which was flat compared to the prior year. The drivers of the growth include changes in the mix of fee type, new fee initiatives and certain pricing increases, primarily in the U.S. and an increase in rated issuance volumes for speculative-grade corporate debt and bank loans, particularly in the first half of 2013, coupled with higher U.S. CMBS and REIT issuance. These increases were partially offset by declines across all asset classes within SFG in EMEA. Transaction revenue for MIS was 62% of total MIS revenue in both 2013 and 2012.

In the U.S., revenue was $1,216.7 million in 2013, an increase of $103.9 million, or 9% compared to 2012 reflecting changes in the mix of fee type, new fee initiatives and certain pricing increases as well as strong growth in rated issuance volumes for bank loans, CMBS, REITs and CLOs. Higher revenue from monitoring fees in CFG also contributed to the growth.

Non-U.S. revenue was $842.7 million in 2013, an increase of $68.7 million compared to 2012 reflecting changes in the mix of fee type, new fee initiatives and certain pricing increases as well as higher revenue from rating high-yield corporate debt and bank loans across all regions. Partially offsetting these increases were declines in rated issuance volumes across most asset classes in SFG within the EMEA region.

Global CFG revenue of $996.8 million in 2013 increased $139.2 million from 2012 reflecting changes in the mix of fee type, new fee initiatives and certain pricing increases, primarily in the U.S. as well as growth in rated issuance volumes for high-yield corporate debt and bank loans, particularly in the first half of 2013. The increase in high-yield corporate debt and bank loans largely reflected issuers taking advantage of the overall low interest rate environment to issue new debt as well as to refinance existing borrowings combined

with increased investor appetite for higher-yielding fixed income securities. Monitoring and program fee revenue also increased due to growth in the number of outstanding rated issuances. Transaction revenue represented 73% of total CFG revenue in 2013, compared to 74% in 2012. In the U.S., revenue in 2013 was $613.2 million, or $51.4 million higher than 2012. Internationally, revenue of $383.6 million in 2013 increased $87.8 million compared to 2012.

Global SFG revenue of $382.5 million in 2013 was flat compared to 2012 reflecting an increase in rated issuance volumes for CMBS, REITs and CLOs in the U.S. coupled with the favorable impact of changes in the mix of fee type, new fee initiatives and certain pricing increases. These increases were offset by declines across all asset classes in EMEA. Transaction revenue was 60% of total SFG revenue in 2013 compared to 58% in 2012. In the U.S., revenue of $244.7 million increased $37.3 million compared to the same period in 2012, reflecting the aforementioned growth in CLO, CMBS and REIT rated issuance volumes due to favorable market conditions. Non-U.S. revenue in 2013 of $137.8 million decreased $35.8 million compared to 2012 reflecting declines across all asset classes in the EMEA region, most notably in RMBS and ABS. The decline in EMEA RMBS and ABS was primarily due to depressed issuance levels reflecting banks use of unsecured financing in preference to securitized funding conduits, coupled with their balance sheets being well funded from the ECB and other government sponsored funding programs (e.g. the ECB s long-term refinancing operation).

Global FIG revenue of $338.8 million in 2013 was $13.3 million higher compared to 2012 due to benefits from changes in the mix of fee type, new fee initiatives and pricing increases as well as growth in banking-related revenue in the U.S. The growth in banking-related revenue reflects higher issuance volumes from specialty finance, financial leasing and securities holding companies due to favorable market conditions. Additionally, the increase reflected higher insurance revenue, most notably in EMEA, primarily reflecting issuers opportunistically refinancing debt amidst favorable interest rate conditions coupled with issuance to fund M&A activity in the sector, particularly in the first half of 2013. Transaction revenue was 35% of total FIG revenue in 2013 compared to 37% in the same period in 2012. In the U.S. and internationally, revenue was $143.4 million and $195.4 million, respectively, in 2013, or 6% and 3% higher, respectively, compared to 2012.

Global PPIF revenue was $341.3 million in 2013, an increase of $18.6 million compared to 2012, reflecting benefits from changes in the mix of fee type, new fee initiatives and pricing increases as well as increases in U.S. project and infrastructure finance rated issuance volumes. Partially offsetting these increases was a decline in U.S. public finance issuance reflecting lower municipal bond refunding volumes due to higher borrowing costs associated with increases in benchmark interest rates for U.S. Treasury Bonds beginning in May 2013. Transaction revenue was 60% and 61% of total PPIF revenue in 2013 and 2012, respectively. In the U.S., revenue in 2013 was $215.4 million and increased $6.8 million compared to 2012. Outside the U.S., PPIF revenue increased $11.8 million compared to 2012.

Operating and SG&A expenses in 2013 increased $55.2 million compared to 2012 primarily due to growth in non-compensation costs of approximately $56 million, for which the primary driver was the settlement of the Abu Dhabi and Rhinebridge litigation matters more fully discussed in the Contingencies section of this MD&A. Compensation costs were flat compared to the prior year reflecting higher salaries and related employee benefits costs of approximately $31 million resulting from annual compensation increases, headcount growth in the ratings LOBs as well as in support areas such as IT, finance and human resources for which the costs are allocated to each segment based on a revenue-split methodology. This increase was offset by an approximate $32 million decline in incentive compensation which was primarily due to lower achievement against full-year targeted results in 2013 compared to 2012.

Adjusted Operating Income in 2013, which includes intersegment royalty revenue, intersegment expenses and the aforementioned litigation settlement charge was $1,115.4 million, an increase of $124.7 million compared to 2012. Operating income in 2013 of $1,068.8 million increased $122.3 million from 2012. Adjusted Operating Margin and

operating margin were 52.2% and 50.0%, respectively, or 160bps and 170 bps higher compared to 2012.

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Moody s Analytics

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

	Year Ended December 31,		% Change Favorable
	2013	**2012**	**(Unfavorable)**
Revenue:			
Research, data and analytics (RD&A)	**$ 532.0**	$ 493.2	8%
Enterprise risk solutions (ERS)	**262.5**	242.6	8%
Professional services (PS)	**118.6**	107.7	10%
Total external revenue	**913.1**	843.5	8%
Intersegment revenue	**11.6**	11.8	(2%)
Total MA Revenue	**924.7**	855.3	8%
Expenses:			
Operating and SG&A (external)	**633.5**	591.4	(7%)
Operating and SG&A (intersegment)	**78.6**	71.5	(10%)
Adjusted Operating Income	**212.6**	192.4	10%
Depreciation and amortization	**46.8**	49.3	5%
Goodwill impairment charge		12.2	100%
Operating income	**$ 165.8**	$ 130.9	27%
Adjusted Operating Margin	**23.0%**	22.5%	
Operating margin	**17.9%**	15.3%	

The following is a discussion of external MA revenue and operating expenses:

Global MA revenue increased $69.6 million compared to 2012, with good growth across all LOBs. Recurring revenue comprised 78% and 77% of total MA revenue in 2013 and 2012, respectively.

In the U.S., revenue of $409.8 million in 2013 increased $50.2 million, and reflected growth across all three LOBs. International revenue of $503.3 million in 2013 was $19.4 million higher than in 2012.

Global RD&A revenue, which comprised 58% of total external MA revenue in both 2013 and 2012, increased $38.8 million over the prior year period. The growth was primarily due to increased sales of the CreditView product and

solid growth from other data and analytic products as well as general market price increases.

Global ERS revenue in 2013 increased $19.9 million over 2012, primarily due to revenue from the sale and implementation of regulatory and compliance software to various financial institutions. This growth is primarily due to demand for solutions to comply with an increasingly complex regulatory environment in the banking industry. Revenue in ERS is subject to quarterly volatility resulting from the variable nature of project timing and the concentration of revenue in a relatively small number of engagements.

Revenue from PS, which included approximately $2 million in revenue from the acquisition of Amba, increased $10.9 million compared to 2012, reflecting growth in revenue from Copal being partially offset by softness in the FSTC reporting unit. This growth in revenue from Copal reflects further penetration into the market for outsourced research and analytical services. If the FSTC reporting unit does not achieve its financial forecast it could result in a goodwill impairment charge in future quarters.

Operating and SG&A expenses in 2013 increased $42.1 million compared to 2012 reflecting both higher compensation and non-compensation costs of approximately $29 million and $13 million, respectively. The increase in compensation costs reflects higher headcount to support business growth coupled with annual compensation increases as well as higher headcount in support areas for which the costs are allocated to each segment based on a revenue-split methodology. The increase in non-compensation expenses is primarily due to higher contingent consideration costs of approximately $7 million relating to the acquisition of Copal and higher professional service fees of approximately $7 million related to product delivery.

Adjusted Operating Income was $212.6 million in 2013 and increased $20.2 million compared to the same period in 2012. Operating income of $165.8 million in 2013, which includes intersegment revenue and expenses, increased $34.9 million compared to the same period in 2012, which included a $12.2 million goodwill impairment charge. Adjusted Operating Margin for 2013 was 23.0%, compared

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to 22.5% in 2012. Operating margin was 17.9%, or 260bps higher compared to the prior year, with the higher margin in 2013 reflecting the absence of the aforementioned goodwill impairment charge and good revenue growth outpacing expense growth.

Year ended December 31, 2012 compared with year ended December 31, 2011

Executive Summary

Moody s revenue in 2012 totaled $2,730.3 million, an increase of $449.6 million compared to 2011 and reflected strong growth in both reportable segments. Excluding the unfavorable impact from changes in FX translation rates, revenue in 2012 increased $495.5 million compared to 2011. Total expenses were $1,652.9 million, and increased $260.6 million compared to the prior year and reflected both higher compensation and non-compensation costs, a full-year of expenses related to the fourth quarter 2011 acquisitions of Copal and B&H and a $12.2 million goodwill impairment charge relating to the Company s FSTC reporting unit within MA. Operating income of $1,077.4 million in 2012, which included the aforementioned goodwill impairment charge, increased $189.0 million compared to 2011 and resulted in an operating margin of 39.5% in 2012 compared to 39.0% in the prior year period. Adjusted Operating Income of $1,183.1 million in 2012 increased $215.5 million compared to 2011 resulting in an Adjusted Operating Margin of 43.3% compared to 42.4% in the prior year period. Diluted EPS of $3.05 in 2012, which included a $0.06 per share benefit related to the favorable resolution of a Legacy Tax Matter, increased $0.56 over the prior year period, which included a $0.03 per share benefit related to favorable resolutions of Legacy Tax Matters as well as other tax benefits totaling $0.09 per share. Excluding the aforementioned impacts related to the favorable resolutions of Legacy Tax Matters in both years, Non-GAAP Diluted EPS in 2012 increased $0.53 per share compared to the prior year.

Moody s Corporation

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

	Year Ended December 31,		
	2012	**2011**	**% Change Favorable (Unfavorable)**
Revenue:			
United States	$ **1,472.4**	$ 1,177.0	25%
International:			
EMEA	**800.2**	708.4	13%
Asia-Pacific	**266.5**	233.0	14%
Americas	**191.2**	162.3	18%
Total International	$ **1,257.9**	$ 1,103.7	14%
Total	**2,730.3**	2,280.7	20%

Expenses:			
Operating	**795.0**	683.5	(16%)
SG&A	**752.2**	629.6	(19%)
Goodwill impairment charge	**12.2**		NM
Depreciation and amortization	**93.5**	79.2	(18%)
Total	**1,652.9**	1,392.3	(19%)
Operating income	**$ 1,077.4**	$ 888.4	21%
Adjusted Operating Income [1]	**$ 1,183.1**	$ 967.6	22%
Interest income (expense), net	**$ (63.8)**	$ (62.1)	(3%)
Other non-operating income (expense), net	**$ 10.4**	$ 13.5	(23%)
Net income attributable to Moody s	**$ 690.0**	$ 571.4	21%
Diluted EPS attributable to Moody s common shareholders	**$ 3.05**	$ 2.49	22%
Non-GAAP Diluted EPS attributable to Moody s common shareholders [1]	**$ 2.99**	$ 2.46	22%
Operating margin	**39.5%**	39.0%	
Adjusted Operating Margin [1]	**43.3%**	42.4%	

(1) Adjusted Operating Income, Adjusted Operating Margin and Non-GAAP Diluted EPS attributable to Moody s Common Shareholders are non-GAAP financial measures. Refer to the section entitled Non-GAAP Financial Measures of this Management Discussion and Analysis for further information regarding these measures.

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

	December 31,		
	2012	**2011**	**% Change**
United States	**2,609**	2,465	6%
International	**4,149**	3,661	13%
Total	**6,758 ***	6,126 *	10%

* Includes approximately 1,600 and 1,300 personnel as of December 31, 2012 and 2011, respectively, relating to the 2011 MA acquisitions, of which a majority are in low-cost jurisdictions.

Global revenue of $2,730.3 million in 2012 increased $449.6 million compared to 2011 reflecting strong growth in both segments. The increase in ratings revenue compared to 2011 reflects growth across all ratings LOBs, most notably in CFG. The growth in MA reflects higher revenue across all LOBs and includes revenue from Copal and B&H, which were acquired in the fourth quarter of 2011. Transaction revenue accounted for 50% and 46% of global MCO revenue in 2012 and 2011, respectively.

U.S. revenue of $1,472.4 million increased $295.4 million over 2011, primarily reflecting growth across all ratings LOBs, most notably in CFG, coupled with growth in all LOBs within MA. Also contributing to the growth were changes in the mix of fee type, new fee initiatives and certain pricing increases in the MIS segment.

Non-U.S. revenue increased $154.2 million over 2011, reflecting strong growth in PS and ERS revenue within MA due to the acquisitions of Copal and B&H in the fourth quarter of 2011 as well as higher MIS revenue from rating investment-grade and speculative-grade corporate debt. Changes in FX translation rates had an approximate $45 million unfavorable impact on non-U.S. revenue in 2012.

Operating expenses were $795.0 million in 2012, an increase of $111.5 million from 2011 and reflected an increase in both compensation and non-compensation costs. The increase in compensation costs of approximately $96 million reflects higher salaries and related employee benefits resulting from increases in headcount which includes the fourth quarter 2011 acquisitions of Copal and B&H as well as higher headcount in both the MIS and MA base business. Also contributing to the increase in salaries and related employee benefits was the impact of annual merit increases. Additionally, the increase in compensation expense is due to higher incentive compensation reflecting greater achievement against full-year targeted results compared to achievement in the prior year period. The increase in non-compensation costs of approximately $16 million is primarily due to higher costs to support investment in IT infrastructure.

SG&A expenses of $752.2 million in 2012 increased $122.6 million from 2011 and reflected increases in both compensation and non-compensation expenses. Compensation costs increased approximately $73 million primarily due to higher salaries and related employee benefits which reflects annual merit increases and headcount growth in sales personnel within MA as well as in the support areas of compliance and IT. Also, the growth in compensation expenses reflects a full-year of costs for Copal and B&H which were acquired in the fourth quarter of 2011. Additionally, the increase in compensation expense is due to higher incentive compensation reflecting greater

achievement against full-year targeted results compared to achievement in the prior year period. Non-compensation expenses increased approximately $49 million over 2011 primarily reflecting higher legal defense costs for certain matters which are more fully discussed in the Contingencies section of this MD&A below. The increase compared to 2011 also reflects a full-year of expenses relating to the fourth quarter 2011 acquisitions of Copal and B&H as well as investments in IT infrastructure and higher variable costs to support business growth.

The goodwill impairment charge of $12.2 million relates to the FSTC reporting unit within MA. This impairment resulted from a decline in projected cash flows for this reporting unit as many individuals and global financial institutions have reduced spending on training and certification services amidst macroeconomic uncertainties in North America and EMEA.

Depreciation and amortization of $93.5 million in 2012 increased $14.3 million from 2011 reflecting higher amortization of: i) internal use software; and ii) intangible assets acquired as part of the fourth quarter 2011 acquisitions of Copal and B&H.

Operating income of $1,077.4 million increased $189.0 million from 2011, reflecting revenue growth outpacing the increase in total expenses. Adjusted Operating Income was $1,183.1 million in 2012 and increased $215.5 million compared to 2011. Operating margin and Adjusted Operating Margin in 2012 of 39.5% and 43.3%, respectively, increased 50bps and 90bps, respectively, compared to the prior year, and reflected revenue growth exceeding expense growth. Changes in FX translation rates had an approximate $30 million unfavorable impact on both operating income and Adjusted Operating Income in 2012.

Interest income (expense), net in 2012 was ($63.8) million, a $1.7 million increase in expense compared to 2011. This increase is primarily due to higher interest on borrowings reflecting the issuance of the 2012 Senior Notes in the third quarter of 2012 partially offset by an approximate $7 million reversal of interest on UTPs in 2012 due to the settlement of state and local tax audits.

Other non-operating income (expense), net was $10.4 million in 2012, or $3.1 million lower compared to 2011 and reflected approximately $6 million in FX losses in 2012 compared to FX gains of approximately $3 million in 2011. The FX losses in 2012 related primarily to the decline of the euro relative to the British pound. The FX losses were partially offset by a higher Legacy Tax benefit in 2012 compared to 2011 ($12.8 million in 2012 compared to $6.4 million in 2011).

The Company s ETR was 31.7% in 2012, up slightly from 31.2% in 2011. The increase was primarily due to the reversal of UTPs in the prior year resulting from a foreign tax ruling as well as benefits from the settlement of state tax audits in 2011. These items were partially offset by the favorable impact of tax planning initiatives in 2012.

Net Income in 2012 was $690.0 million, or $3.05 per diluted share and included a $12.8 million benefit from the favorable settlement of a Legacy Tax Matter and a $12.2 million goodwill impairment charge. This is an increase of $118.6 million, or $0.56 per diluted share, compared to 2011 when Net Income included a $7.0 million net benefit, or $0.03 per diluted share, relating to the favorable resolution of a Legacy Tax Matter as well as other tax benefits totaling $0.09. Excluding benefits from the favorable resolutions of Legacy Tax Matters in both 2012 and 2011, Non-GAAP Diluted EPS increased $0.53 per diluted share, compared to the prior year.

SEGMENT RESULTS

Moody s Investors Service

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

	Year Ended December 31,		
	2012	**2011**	**% Change Favorable (Unfavorable)**
Revenue:			
Corporate finance (CFG)	**$ 857.6**	$ 652.1	32%
Structured finance (SFG)	**381.0**	344.6	11%
Financial institutions (FIG)	**325.5**	294.9	10%
Public, project and infrastructure finance (PPIF)	**322.7**	277.3	16%
Total external revenue	**1,886.8**	1,568.9	20%
Intersegment royalty	**71.5**	65.8	9%
Total MIS Revenue	**1,958.3**	1,634.7	20%
Expenses:			
Operating and SG&A (external)	**955.8**	821.7	(16%)
Operating and SG&A (intersegment)	**11.8**	10.6	(11%)
Adjusted Operating Income	**990.7**	802.4	23%

Depreciation and amortization		**44.2**		41.2	(7%)
Operating income	**$**	**946.5**	$	761.2	24%
Adjusted Operating Margin		**50.6%**		49.1%	
Operating margin		**48.3%**		46.6%	

The following is a discussion of external MIS revenue and operating expenses:

Global MIS revenue of $1,886.8 million in 2012 increased $317.9 million compared to 2011 and reflected growth in all ratings LOBs. The growth over the prior year period reflected robust rated issuance volumes for high-yield corporate debt and bank loans as well as investment-grade corporate debt. Additionally, the growth reflects higher rated issuance within public finance. The growth also reflected changes in the mix of fee type, new fee initiatives and certain pricing increases, primarily in the U.S. Transaction revenue for MIS was 62% and 58% in 2012 and 2011, respectively.

In the U.S., revenue was $1,112.9 million in 2012, an increase of $233.8 million, or 27% compared to 2011. The increase reflects the aforementioned robust rated issuance volumes in the high-yield and investment-grade corporate debt sectors as well as the public finance sector. The increase also reflects growth in rated issuance volumes for CMBS within SFG and the aforementioned changes in the mix of fee type, new fee initiatives and certain pricing increases.

Non-U.S. revenue was $773.9 million in 2012, an increase of $84.1 million compared to 2011. The growth over 2011 reflects higher rated issuance volumes for investment grade corporate debt as well as high-yield corporate debt and bank loans across all regions. Additionally, there was higher banking-related revenue across all regions coupled with higher infrastructure finance issuance in EMEA. Also contributing to the growth over 2011 were benefits from changes in the mix of fee type, new fee initiatives and certain pricing increases. Partially offsetting these increases were declines across most asset classes within SFG in the EMEA region. Changes in FX translation rates had an approximate $37 million unfavorable impact on non-U.S. MIS revenue in 2012.

Global CFG revenue of $857.6 million in 2012 increased $205.5 million from 2011 reflecting growth in rated issuance volumes for high-yield and investment-grade corporate debt across all regions as well as an increase in both monitoring fees as well as fees for commercial paper and medium term note programs. Also contributing to the growth in revenue were changes in the mix of fee type, new fee initiatives and certain pricing increases, primarily in the U.S. The aforementioned higher rated issuance volumes for investment grade corporate debt largely reflected issuers taking advantage of the overall low interest rate environment to issue new debt as well as refinance existing borrowings. The increase in U.S. rated issuance volumes in the high-yield sector reflects the current low interest rate environment coupled with an increase in investor demand for higher-yielding securities. Transaction revenue represented 74% of total CFG revenue in 2012, compared to 71% in 2011. In the U.S., revenue in 2012 was $561.8 million, or $139.5 million higher than 2011. Internationally, revenue of $295.8 million in 2012 increased $66.0 million compared to 2011. Unfavorable changes in FX translation rates had an approximate $14 million impact on international CFG revenue in 2012.

Global SFG revenue of $381.0 million in 2012 increased $36.4 million compared to 2011 and reflected higher rated issuance volumes across most asset classes in the U.S. These increases were partially offset by revenue declines in all asset classes in the EMEA region. The aforementioned increases in the U.S. resulted in transaction revenue increasing to 58% of total SFG revenue in 2012 compared to 52% in 2011. In the U.S., revenue of $207.4 million increased $45.8 million compared to 2011, reflecting growth in REIT, CMBS, collateralized loan obligation and asset-backed securities rated issuance volumes. The growth in these asset classes reflects the current low interest rate environment and narrow credit spreads for these securities. The growth in CMBS rated issuance volumes also reflects increasing activity in bank conduit operations. Non-U.S. revenue in 2012 of $173.6 million decreased $9.4 million compared to 2011. This decrease was primarily due to lower asset-backed securities issuance in EMEA reflecting strong issuance in 2011 when issuers were requesting a second rating for these securities in the first quarter of 2011, which was a new requirement by the ECB for existing asset-backed securities that could be used as collateral in Eurosystem credit operations. The decrease also reflects lower covered bond issuance in the EMEA region reflecting continued macroeconomic uncertainties in Europe. Unfavorable changes in FX translation rates had an approximate $11 million impact on international SFG revenue in 2012.

Global FIG revenue of $325.5 million in 2012 was $30.6 million higher compared to 2011 reflecting higher banking-related issuance in the U.S. as well as the Asia and Americas regions coupled with benefits from changes in the mix of fee type, new fee initiatives and pricing increases, primarily in the U.S. Also contributing to the increase was higher insurance revenue in the U.S. reflecting issuers opportunistically refinancing debt amidst favorable interest rate conditions coupled with issuance to fund M&A activity in the sector. Transaction revenue was 37% of total FIG revenue in 2012 compared to 34% in 2011. In the U.S. and internationally, revenue was $135.0 million and $190.5 million, respectively, for 2012, or 14% and 8% higher, respectively, compared to 2011. Unfavorable changes in FX translation rates had an approximate $8 million impact on international FIG revenue in 2012.

Global PPIF revenue was $322.7 million in 2012, an increase of $45.4 million compared to 2011, primarily reflecting both increases in U.S. public and project finance rated issuance volumes as well as the favorable impact of the aforementioned changes in the mix of fee type, new fee initiatives and pricing increases, primarily in the U.S.

Revenue generated from new transactions was 61% and 58% of total PPIF revenue in 2012 and 2011, respectively. In the U.S., revenue in 2012 was $208.7 million and increased $32.2 million compared to 2011 and reflected higher rated issuance volumes in PFG and project finance as well as the aforementioned pricing increases. The increase in rated issuance volumes within PFG reflects issuers opportunistically refinancing obligations ahead of scheduled maturities in the current low interest rate environment as well as a challenging prior year period when issuance had declined reflecting the expiration of the Build America Bond Program in the fourth quarter of 2010. Outside the U.S., PPIF revenue increased 13% compared to 2011 due to growth in infrastructure finance rated issuance volumes in the EMEA region which reflects a partial easing of macroeconomic concerns following the ECB s bond purchasing program announced in the third quarter of 2012. Unfavorable changes in FX translation rates had an approximate $5 million impact on international PPIF revenue in 2012.

Operating and SG&A expenses in 2012 increased $134.1 million compared to 2011 and reflected increases in compensation and non-compensation costs of approximately $87 million and $47 million, respectively. The increase in compensation costs reflects higher salaries and employee benefits resulting from annual merit increases, headcount growth in the ratings LOBs as well as in support areas such as IT, finance and human resources for which the costs are allocated to each segment based on a revenue-split methodology. The increase in compensation costs is also due to higher incentive compensation which reflects greater achievement against full-year 2012 targeted results compared to achievement in 2011. Compensation costs also increased due to higher pension expense resulting from a decrease in the discount rate used to value the Company s obligation and higher amortization of actuarial losses. The increase in non-

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compensation expenses reflected higher costs resulting from the Company s continued investment in improving IT infrastructure and regulatory and compliance initiatives coupled with higher variable costs reflecting improving business conditions. Additionally, the increase in non-compensation expenses reflects higher legal defense costs relating to ongoing matters, which are more fully discussed in the Contingencies section of this MD&A.

Adjusted Operating Income in 2012 was $990.7 million, an increase of $188.3 million compared to 2011. Operating income in 2012 of $946.5 million, which includes intersegment royalty revenue and intersegment expenses, increased $185.3 million from 2011 and reflects the $323.6 million increase in total MIS revenue outpacing the $135.3 million increase in total expenses. Adjusted Operating Margin and operating margin and were 50.6% and 48.4%, respectively, or 150bps and 180bps higher compared to 2011 reflecting revenue growth exceeding the increase in expenses.

Moody s Analytics

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

	Year Ended December 31,		% Change Favorable
	2012	**2011**	**(Unfavorable)**
Revenue:			
Research, data and analytics (RD&A)	**$ 493.2**	$ 453.9	9%
Enterprise risk solutions (ERS)	**242.6**	196.1	24%
Professional services (PS)	**107.7**	61.8	74%
Total external revenue	**843.5**	711.8	19%
Intersegment revenue	**11.8**	10.6	11%
Total MA Revenue	**855.3**	722.4	18%
Expenses:			
Operating and SG&A (external)	**591.4**	491.4	(20%)
Operating and SG&A (intersegment)	**71.5**	65.8	(9%)
Adjusted Operating Income	**192.4**	165.2	16%
Depreciation and amortization	**49.3**	38.0	(30%)
Goodwill impairment charge	**12.2**		NM
Operating income	**$ 130.9**	$ 127.2	3%
Adjusted Operating Margin	**22.5%**	22.9%	
Operating margin	**15.3%**	17.6%	

The following is a discussion of external MA revenue and operating expenses:

Global MA revenue increased $131.7 million compared to 2011, with 60% of the growth generated internationally, and included revenue from Copal and B&H which were acquired in the fourth quarter of 2011. Recurring revenue comprised 77% of total MA revenue in 2012 compared to 80% in 2011.

In the U.S., revenue of $359.6 million in 2012 increased $61.6 million, and reflected growth across all three LOBs. International revenue of $483.9 million in 2012 was $70.1 million higher than in 2011, and reflected growth across all LOBs.

Global RD&A revenue, which comprised 58% and 64% of MA external revenue in 2012 and 2011, respectively, increased $39.3 million in 2012. The growth was primarily due to increased sales of credit research via the CreditView product and solid growth from other data and analytic products. Global ERS revenue in 2012 increased $46.5 million over 2011, due to revenue from the acquisition of B&H in the fourth quarter of 2011 coupled with good growth in the base business. Revenue from the PS LOB increased $45.9 million compared to 2011, with substantially all of the growth reflecting the acquisition of Copal in the fourth quarter of 2011. Revenue in the ERS and PS LOBs are subject to quarterly volatility resulting from the variable nature of project timing and the concentration of revenue in a relatively small number of engagements.

Operating and SG&A expenses in 2012 increased $100.0 million compared to 2011 reflecting both higher compensation and non-compensation costs of approximately $82 million and $18 million, respectively. The increase in compensation costs reflects an increase in headcount relating to the acquisitions of Copal and B&H in the fourth quarter of 2011 as well as to support business growth coupled with annual merit increases. The increase in non-compensation costs reflects expenses related to the acquisitions of Copal and B&H which were acquired in the fourth quarter of 2011, as well as increases in certain variable costs that are correlated with business growth.

Depreciation and amortization of $49.3 million in 2012 increased $11.3 million from 2011 reflecting higher amortization related to intangible assets acquired as part of the fourth quarter 2011 acquisitions of Copal and B&H.

The goodwill impairment charge of $12.2 million relates to the FSTC reporting unit within MA. This impairment resulted from lower than expected projected growth for this reporting unit as many individuals and global financial institutions have reduced spending on training and certification services amidst macroeconomic uncertainties in North America and EMEA.

Adjusted Operating Income was $192.4 million in 2012, including intersegment revenue and expenses, and increased $27.2 million compared to 2011. Adjusted Operating Margin for 2012 was 22.5%, compared to 22.9% in 2011. Operating income of $130.9 million in 2012, which includes intersegment revenue and expenses, increased $3.7 million compared to 2011 and resulted in an operating margin of 15.3%, a decline of 230bps from the prior year reflecting the aforementioned increase in depreciation and amortization and goodwill impairment charge being partially offset by strong total revenue growth.

MARKET RISK

Foreign exchange risk:

Moody s maintains a presence in 30 countries outside the U.S. In 2013, approximately 48% and 59% of the Company s revenue and expenses, respectively, were in currencies other than the U.S. dollar, principally in the GBP and the euro. As such, the Company is exposed to market risk from changes in FX rates. As of December 31, 2013, approximately 55% of Moody s assets were located outside the U.S. making the Company susceptible to fluctuations in FX rates. The effects of translating assets and liabilities of non-U.S. operations with non-U.S. functional currencies to the U.S. dollar are charged or credited to the cumulative translation adjustment account in the consolidated statements of shareholders equity (deficit).

The effects of revaluing assets and liabilities that are denominated in currencies other than an entity s functional currency are charged to other non-operating income (expense), net in the Company s consolidated statements of operations. Accordingly, the Company enters into foreign exchange forwards to mitigate the change in fair value on certain assets and liabilities denominated in currencies other than an entity s functional currency. If foreign currencies in the Company s foreign exchange forward portfolio were to devalue 10% compared to the U.S. dollar, there would be an approximate $7 million unfavorable impact to the fair value of the forward contracts. Additionally, if foreign currencies in the Company s foreign exchange forward portfolio were to devalue 10% compared to the euro, there would be an approximate $4 million favorable impact to the fair value of the forward contracts. The change in fair value of the foreign exchange forward contracts would be offset by FX revaluation gains or losses in future earnings on underlying assets and liabilities denominated in currencies other than an entity s functional currency. Additional information on the Company s forward contracts can be found in Note 5 to the consolidated financial statements located in Item 8 of this Form 10K.

Additionally, 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. 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. For the year ended December 31, 2013 all gains and losses on these derivatives designated as net investment hedges were recognized in OCI. If all foreign currencies in the Company s net investment hedge portfolio were to appreciate 10% compared to the U.S. dollar, there would be an approximate $29 million unfavorable impact to the currency translation adjustment component of AOCI.

Moody s aggregate cash and cash equivalents and short term investments of $2,106.3 million at December 31, 2013 consisted of approximately $881 million denominated in currencies other than the U.S. dollar. As such, a decrease in the value of foreign currencies against the U.S. dollar, particularly the euro and GBP, could reduce the reported amount of cash and cash equivalents and short-term investments.

Credit and Interest rate risk:

The Company s interest rate risk ma