

MOODYS CORP /DE/
Form 10-Q
July 28, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2016

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)

Edgar Filing: MOODYS CORP /DE/ - Form 10-Q

Delaware
(State of Incorporation)

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

7 World Trade Center at

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

10007
(Zip Code)

Registrant's telephone number, including area code:

(212) 553-0300

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

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

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

Large accelerated filer Accelerated filer

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

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

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

Title of Each Class	Shares Outstanding at June 30, 2016
Common Stock, par value \$0.01 per share	192.3 million

Table of Contents**MOODY S CORPORATION****INDEX TO FORM 10-Q**

	Page(s)
<u>Glossary of Terms and Abbreviations</u>	3-7
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2016 and 2015</u>	8
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Six Months Ended June 30, 2016 and 2015</u>	9
<u>Consolidated Balance Sheets (Unaudited) at June 30, 2016 and December 31, 2015</u>	10
<u>Consolidated Statements of Cash Flows (Unaudited) for the Six months ended June 30, 2016 and 2015</u>	11
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	12-35
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
<u>The Company</u>	36
<u>Critical Accounting Estimates</u>	36
<u>Reportable Segments</u>	36-37
<u>Results of Operations</u>	37-48
<u>Liquidity and Capital Resources</u>	49-53
<u>Recently Issued Accounting Pronouncements</u>	54
<u>Contingencies</u>	54
<u>Regulation</u>	54-55
<u>Forward-Looking Statements</u>	55-56
Item 4. <u>Controls and Procedures</u>	56
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	57
Item 1A. <u>Risk Factors</u>	57
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
Item 5. <u>Other Information</u>	57
Item 6. <u>Exhibits</u>	58
<u>SIGNATURES</u>	59
Exhibits Filed Herewith	
31.1 Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
31.2 Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
32.1 Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2 Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
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	

Table of Contents**GLOSSARY OF TERMS AND ABBREVIATIONS**

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

TERM	DEFINITION
Adjusted Operating Income	Operating income excluding depreciation and amortization
Adjusted Operating Margin	Operating margin excluding depreciation and amortization
Amba	Amba Investment Services; a provider of outsourced investment research and quantitative analytics for global financial institutions; a majority owned subsidiary of the Company acquired 100% of Amba in December 2013
Americas	Represents countries within North and South America, excluding the U.S.
AOCI	Accumulated other comprehensive income (loss); a separate component of shareholders' equity
ASC	The FASB Accounting Standards Codification; the sole source of authoritative GAAP as of July 1, 2009 except for rules and interpretive releases of the SEC, which are also sources of authoritative GAAP for SEC registrants
Asia-Pacific	Represents countries in Asia including but not limited to: Australia, China, India, Indonesia, Japan, Korea, Malaysia, Singapore, Sri Lanka and Thailand
ASU	The FASB Accounting Standards Update to the ASC. It also provides background information for accounting guidance and the bases for conclusions on the changes in the ASC. ASUs are not considered authoritative until codified into the ASC
BlackBox	BlackBox Logic; a leading provider of Residential Mortgage-Backed securities loan level data. The Company acquired the customer base and products of BlackBox Logic in December 2015
Board	The board of directors of the Company
BPS	Basis points
Brexit	Abbreviation of 'British exit', which refers to the June 23, 2016 referendum by British voters to exit the European Union
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
CFG	Corporate finance group; an LOB of MIS
CLO	Collateralized loan obligation
CMBS	Commercial mortgage-backed securities; part of the CREF asset class within SFG
Commission	European Commission
Common Stock	The Company's common stock
Company	Moody's Corporation and its subsidiaries; MCO; Moody's
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
Copal Amba	Operating segment and reporting unit created in January 2014 that consists of all operations from Copal as well as the operations of Amba. The Copal Amba operating segment provides outsourced research and analytical services to the global financial and corporate sectors
Council	Council of the European Union
CRAs	Credit rating agencies
CRA3	

Edgar Filing: MOODYS CORP /DE/ - Form 10-Q

Regulation (EU) No 462/2013 of the European Parliament and of the Council, which updated the regulatory regimes imposing additional procedural requirements on CRAs

CREF

Commercial real estate finance which includes REITs, commercial real estate CDOs and mortgage-backed securities; part of SFG

Table of Contents

CSI	CSI Global Education, Inc.; an acquisition completed in November 2010; part of the MA segment; a provider of financial learning, credentials, and certification services primarily in Canada
D&A	Depreciation and amortization
DBPP	Defined benefit pension plans
ECCA	Economics and Consumer Credit Analytics; a business within the RD&A LOB which provides economic and consumer credit trend analytics
EMEA	Represents countries within Europe, the Middle East and Africa
EPS	Earnings per share
Equilibrium	A leading provider of credit rating and research services in Peru and Panama; acquired by Moody's in May 2015
ERS	The enterprise risk solutions LOB within MA, which offers risk management software products as well as software implementation services and related risk management advisory engagements
ESMA	European Securities and Markets Authority
ETR	Effective tax rate
EU	European Union
EUR	Euros
Excess Tax Benefits	The difference between the tax benefit realized at exercise of an option or delivery of a restricted share and the tax benefit recorded at the time the option or restricted share is expensed under GAAP
Exchange Act	The Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FIG	Financial institutions group; an LOB of MIS
Financial Reform Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
Free Cash Flow	Net cash provided by operating activities less cash paid for capital additions
FSTC	Financial Services Training and Certifications; 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
GGY	Gilliland Gold Young; a leading provider of advanced actuarial software for the global insurance industry. The Company acquired GGY on March 1, 2016
ICRA	ICRA Limited; a leading provider of credit ratings and research in India. The Company previously held 28.5% equity ownership and in June 2014, increased that ownership stake to just over 50% through the acquisition of additional shares
IT	Information technology
KIS	Korea Investors Service, Inc; a leading Korean rating agency and consolidated subsidiary of the Company

Table of Contents

KIS Pricing	Korea Investors Service Pricing, Inc; a leading Korean provider of fixed income securities pricing and consolidated subsidiary of the Company
Lewtan	Lewtan Technologies; a leading provider of analytical tools and data for the global structured finance market; part of the RD&A LOB within MA; an acquisition completed in October 2014
LIBOR	London Interbank Offered Rate
LOB	Line of business
MA	Moody s Analytics a reportable segment of MCO formed in January 2008 which provides a wide range of products and services that support financial analysis and risk management activities of institutional participants in global financial markets; consists of three LOBs RD&A, ERS and PS
M&A	Mergers and acquisitions
MCO	Moody s Corporation and its subsidiaries; the Company; Moody s
MD&A	Management s Discussion and Analysis of Financial Condition and Results of Operations
MIS	Moody s Investors Service a reportable segment of MCO; consists of five LOBs SFG, CFG, FIG, PPIF and MIS Other
MIS Other	Consists of non-ratings revenue from ICRA, KIS Pricing and KIS Research. These businesses are components of MIS; MIS Other is an LOB of MIS
Moody s	Moody s Corporation and its subsidiaries; MCO; the Company
Net Income	Net income attributable to Moody s Corporation, which excludes net income from consolidated noncontrolling interests belonging to the minority interest holder
NM	Percentage change is not meaningful
Non-GAAP	A financial measure not in accordance with GAAP; these measures, when read in conjunction with the Company s reported results, can provide useful supplemental information for investors analyzing period-to-period comparisons of the Company s performance, facilitate comparisons to competitors operating results and to provide greater transparency to investors of supplemental information used by management in its financial and operational decision making
NRSRO	Nationally Recognized Statistical Rating Organization
OCI	Other comprehensive income (loss); includes gains and losses on cash flow and net investment hedges, unrealized gains and losses on available for sale securities, certain gains and losses relating to pension and other retirement benefit obligations and foreign currency translation adjustments
Other Retirement Plan	The U.S. retirement healthcare and U.S. retirement life insurance plans
PPIF	Public, project and infrastructure finance; an LOB of MIS
Profit Participation Plan	Defined contribution profit participation plan that covers substantially all U.S. employees of the Company
PS	Professional Services, an LOB within MA that provides outsourced research and analytical services as well as financial training and certification programs

Table of Contents

RD&A	Research, Data and Analytics; an LOB within MA that produces, sells and distributes research, data and related content. Includes products generated by MIS, such as analyses on major debt issuers, industry studies, and commentary on topical credit events, as well as economic research, data, quantitative risk scores, and other analytical tools that are produced within MA
Reform Act	Credit Rating Agency Reform Act of 2006
REIT	Real Estate Investment Trust
Relationship Revenue	Represents MIS 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 MIS Other represents subscription-based revenue. For MA, represents subscription-based and maintenance revenue
Retirement Plans	Moody s funded and unfunded pension plans, the healthcare plans and life insurance plans
SAV	Structured Analytics and Valuation; a business within the RD&A LOB which provides data and analytics for securitized assets
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Series 2007-1 Notes	Principal amount of \$300 million, 6.06% senior unsecured notes due in September 2017 pursuant to the 2007 Agreement
SFG	Structured finance group; an LOB of MIS
SG&A	Selling, general and administrative expenses
Total Debt	All indebtedness of the Company as reflected on the consolidated balance sheets
Transaction Revenue	For MIS, represents the initial rating of a new debt issuance as well as other one-time fees. For MIS Other, represents revenue from professional services and outsourcing engagements. For MA, represents software license fees and revenue from risk management advisory projects, training and certification services, and outsourced research and analytical 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; as defined in the ASC, evidence of selling price limited to either of the following: the price charged for a deliverable when it is sold separately, or for a deliverable not yet being sold separately, the price established by management having the relevant authority
2007 Agreement	Note purchase agreement dated September 7, 2007, relating to the Series 2007-1 Notes
2010 Indenture	Supplemental indenture and related agreements dated August 19, 2010, relating to the 2010 Senior Notes
2010 Senior Notes	Principal amount of \$500 million, 5.50% senior unsecured notes due in September 2020 pursuant to the 2010 Indenture
2012 Facility	Revolving credit facility of \$1 billion entered into on April 18, 2012; was replaced with the 2015 Facility
2012 Indenture	Supplemental indenture and related agreements dated August 18, 2012, relating to the 2012 Senior Notes

Table of Contents

2012 Senior Notes	Principal amount of \$500 million, 4.50% senior unsecured notes due in September 2022 pursuant to the 2012 Indenture
2013 Indenture	Supplemental indenture and related agreements dated August 12, 2013, relating to the 2013 Senior Notes
2013 Senior Notes	Principal amount of the \$500 million, 4.875% senior unsecured notes due in February 2024 pursuant to the 2013 Indenture
2014 Indenture	Supplemental indenture and related agreements dated July 16, 2014, relating to the 2014 Senior Notes
2014 Senior Notes (5-Year)	Principal amount of \$450 million, 2.75% senior unsecured notes due in July 2019
2014 Senior Notes (30-Year)	Principal amount of \$600 million, 5.25% senior unsecured notes due in July 2044
2015 Facility	Five-year unsecured revolving credit facility, with capacity to borrow up to \$1 billion; replaces the 2012 Facility
2015 Indenture	Supplemental indenture and related agreements dated March 9, 2015, relating to the 2015 Senior Notes
2015 Senior Notes	Principal amount 500 million, 1.75% senior unsecured notes issued March 9, 2015 and due in March 2027
7WTC	The Company's corporate headquarters located at 7 World Trade Center in New York, NY
7WTC Lease	Operating lease agreement entered into on October 20, 2006

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

(Amounts in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	\$ 928.9	\$ 918.1	\$ 1,745.0	\$ 1,783.7
Expenses				
Operating	258.9	243.9	508.1	488.3
Selling, general and administrative	228.6	227.0	461.5	448.3
Depreciation and amortization	31.2	27.9	61.1	56.5
Total expenses	518.7	498.8	1,030.7	993.1
Operating income	410.2	419.3	714.3	790.6
Non-operating (expense) income, net				
Interest income (expense), net	(34.3)	(31.9)	(68.4)	(61.2)
Other non-operating income (expense), net	3.0	(8.2)	8.6	(5.7)
Total non-operating (expense) income, net	(31.3)	(40.1)	(59.8)	(66.9)
Income before provisions for income taxes	378.9	379.2	654.5	723.7
Provision for income taxes	120.8	115.1	209.8	228.3
Net income	258.1	264.1	444.7	495.4
Less: Net income attributable to noncontrolling interests	2.6	2.4	4.8	3.6
Net income attributable to Moody s	\$ 255.5	261.7	439.9	491.8
Earnings per share attributable to Moody s common shareholders				
Basic	\$ 1.32	1.30	2.27	2.43
Diluted	\$ 1.30	1.28	2.24	2.39
Weighted average number of shares outstanding				
Basic				