MOODYS CORP /DE/
Form 10-Q
July 30, 2015
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-Q

(Mark one)

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

**For the quarterly period ended June 30, 2015**

**Or**

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

**For the transition period from to**

**Commission file number 1-14037**

# Moody s Corporation

**(Exact name of registrant as specified in its charter)**

| **Delaware** | **13-3998945** |
|---|---|

| (State of Incorporation) | (I.R.S. Employer Identification No.) |
|---|---|
| **7 World Trade Center at** | |
| **250 Greenwich Street, New York, N.Y.** | **10007** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

**Registrant s telephone number, including area code:**

**(212) 553-0300**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x | 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 x

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, 2015 |
|---|---|
| Common Stock, par value $0.01 per share | 200.3 million |

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**MOODY S CORPORATION**

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Exhibits Filed Herewith

| | |
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| 10.1 | First Amendment to the Moody s Corporation Retirement Account |
| 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 |

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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 |
|---|---|
| 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 |
| 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 |
| CDO | Collateralized debt obligation |
| 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 |
| 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 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 | 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 |
| 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&B Business | Old D&B s Dun & Bradstreet operating company |
| DBPP | Defined benefit pension plans |
| Debt/EBITDA | Ratio of Total Debt to EBITDA |
| EBITDA | Earnings before interest, taxes, depreciation and amortization |
| EMEA | Represents countries within Europe, the Middle East and Africa |
| EPS | Earnings per share |
| Equilibrium | A leading provider of credit rating and research services in Peru and Panama; acquired by Moody s in May 2015 |

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| TERM | DEFINITION |
|---|---|
| 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 |
| European Ratings Platform | Central credit ratings website administered by ESMA |
| 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 |
| ICRA | ICRA Limited.; a leading provider of credit ratings and research in India. The Company previously held 28.51% equity ownership and in June 2014, increased that ownership stake to 50.06% through the acquisition of additional shares |
| ICRA Acquisition | The June 2014 purchase of an additional 21.55% ownership interest in ICRA resulting in majority ownership and consolidation if ICRAs financial statements; ICRAs results are consolidated into Moody s financial statements on a three-month lag and accordingly the Company began including the results of operations for ICRA in its consolidated financial statements beginning in the fourth quarter of 2014 |
| ICRA Gain | Gain relating to the step-acquisition of ICRA; U.S. GAAP requires the remeasurement to fair value of the previously held non-controlling shares held upon obtaining a controlling interest in a step-acquisition. This remeasurement of the Company s equity investment in ICRA to fair value resulted in a pre-tax gain of $102.8 million ($78.5 million after tax) in the second quarter of 2014. |
| IRS | Internal Revenue Service |
| IT | Information technology |
| KIS | Korea Investors Service, Inc; a leading Korean rating agency and consolidated subsidiary of the Company |
| KIS Pricing | Korea Investors Service Pricing, Inc; a leading Korean provider of fixed income securities pricing and consolidated subsidiary of the Company |
| Legacy Tax Matter(s) | Exposures to certain potential tax liabilities assumed in connection with the 2000 Distribution |
| 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 |

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| TERM | DEFINITION |
|---|---|
| Make Whole Amount | The prepayment penalty amount relating to the Series 2007-1 Notes, 2010 Senior Notes, 2012 Senior Notes, 2013 Senior Notes, 2014 Senior Notes (5-year) and 2014 Senior Notes (30-year) which is a premium based on the excess, if any, of the discounted value of the remaining scheduled payments over the prepaid principal |
| MCO | Moody s Corporation and its subsidiaries; the Company; Moody s |
| MD&A | Management s Discussion and Analysis of Financial Condition and Results of Operations |
| MIS | Moody s Investors Service a reportable segment of MCO; consists of 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 managed by MIS; MIS Other is an LOB of MIS |
| Moody s | Moody s Corporation and its subsidiaries; MCO; the Company |
| Net Income | Net income attributable to Moody s Corporation, which excludes net income from consolidated noncontrolling interests belonging to the minority interest holder |
| New D&B | The New D&B Corporation which is comprised of the D&B Business |
| NM | Percentage change is not meaningful |
| NRSRO | Nationally Recognized Statistical Rating Organization |
| 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 |
| 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 |
| 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 |
| 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 in the control of the minority shareholders |
| Reform Act | Credit Rating Agency Reform Act of 2006 |
| REIT | Real Estate Investment Trust |
| Relationship Revenue | In MIS, excluding MIS Other, relationship revenue represents the recurring monitoring of a rated debt obligation and/or entities that issue such obligations, as well as revenue from programs such as commercial paper, medium-term notes and shelf registrations. In MIS Other, relationship revenue represents subscription-based revenue. For MA, relationship revenue represents subscription-based revenue and maintenance revenue |
| Retirement Plans | Moody s funded and unfunded pension plans, the retirement healthcare plans and retirement life insurance plans |
| SEC | U.S. Securities and Exchange Commission |
| Securities Act | Securities Act of 1933 |

| | |
|---|---|
| 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 |

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| TERM | DEFINITION |
|---|---|
| Transaction Revenue | For MIS, excluding MIS Other, revenue representing the initial rating of a new debt issuance as well as other one-time fees. In MIS Other, transaction revenue represents revenue from professional services and outsourcing engagements. For MA, revenue 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 |
| U.S. Shared National Credit Program | Interagency program designed to evaluate large and complex syndicated credits. The program is administered by the three federal banking regulatory agencies which include the Federal Reserve System, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (FDIC). |
| 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 |
| WebEquity | WebEquity Solutions LLC; a leading provider of cloud-based loan origination solutions for financial institutions; part of the ERS LOB within MA; an acquisition completed in July 2014 |
| 2000 Distribution | The distribution by Old D&B to its shareholders of all the outstanding shares of New D&B common stock on September 30, 2000 |
| 2000 Distribution Agreement | Agreement governing certain ongoing relationships between the Company and New D&B after the 2000 Distribution including the sharing of any liabilities for the payment of taxes, penalties and interest resulting from unfavorable IRS rulings on certain tax matters and certain other potential tax liabilities |
| 2007 Agreement | Note purchase agreement dated September 7, 2007, relating to the Series 2007-1 Notes |
| 2008 Term Loan | Five-year $150 million senior unsecured term loan entered into by the Company on May 7, 2008 |
| 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, maturing in 2017 |
| 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 $300 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 |

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**MOODY S CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Revenue** | **$ 918.1** | **$ 873.5** | **$ 1,783.7** | **$ 1,640.7** |
| Expenses | | | | |
| Operating | 243.9 | 222.1 | 488.3 | 438.1 |
| Selling, general and administrative | 227.0 | 217.4 | 448.3 | 412.5 |
| Depreciation and amortization | 27.9 | 22.3 | 56.5 | 45.4 |
| **Total expenses** | **498.8** | **461.8** | **993.1** | **896.0** |
| **Operating income** | **419.3** | **411.7** | **790.6** | **744.7** |
| Non-operating (expense) income, net | | | | |
| Interest income (expense), net | (31.9) | (26.0) | (61.2) | (49.8) |
| Other non-operating income (expense), net | (8.2) | (3.3) | (5.7) | (0.9) |
| ICRA Gain | | 102.8 | | 102.8 |
| **Total non-operating (expense) income, net** | **(40.1)** | **73.5** | **(66.9)** | **52.1** |
| **Income before provisions for income taxes** | **379.2** | **485.2** | **723.7** | **796.8** |
| Provision for income taxes | 115.1 | 160.8 | 228.3 | 250.7 |
| Net income | 264.1 | 324.4 | 495.4 | 546.1 |
| Less: Net income attributable to noncontrolling interests | 2.4 | 5.2 | 3.6 | 8.9 |
| **Net income attributable to Moody s** | **$ 261.7** | **$ 319.2** | **$ 491.8** | **$ 537.2** |
| Earnings per share attributable to Moody s common shareholders | | | | |
| Basic | $ 1.30 | $ 1.51 | $ 2.43 | $ 2.52 |
| Diluted | $ 1.28 | $ 1.48 | $ 2.39 | $ 2.47 |
| Weighted average number of shares outstanding | | | | |
| Basic | 201.3 | 212.0 | 202.0 | 213.0 |

| | | | | |
|---|---|---|---|---|
| Diluted | 204.4 | 215.7 | 205.4 | 217.1 |
| Dividends declared per share attributable to Moody s common shareholders | $ 0.34 | $ 0.28 | $ 0.34 | $ 0.28 |

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

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**MOODY S CORPORATION**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

**(Amounts in millions)**

| | Three Months Ended June 30, 2015 | | | Three Months Ended June 30, 2014 | | |
|---|---|---|---|---|---|---|
| | Pre-tax amounts | Tax amounts | After-tax amounts | Pre-tax amounts | Tax amounts | After-tax amounts |
| Net income | | | **$ 264.1** | | | $ 324.4 |
| **Other comprehensive income (loss):** | | | | | | |
| **Foreign currency translation:** | | | | | | |
| Foreign currency translation adjustments | **$ 39.8** | **$** | **39.8** | $ 14.1 | $ | 14.1 |
| Foreign currency translation adjustments - reclassification of losses included in net income | | | | 4.4 | | 4.4 |
| **Net investment hedges:** | | | | | | |
| Net realized and unrealized gain (loss) on net investment hedges | **(13.1)** | **5.4** | **(7.7)** | (2.7) | 1.1 | (1.6) |
| **Available for sale securities:** | | | | | | |
| Net unrealized gains on available for sale securities | **1.0** | | **1.0** | | | |
| Reclassification of gains included in net income | **(0.2)** | | **(0.2)** | | | |
| **Pension and Other Retirement Benefits:** | | | | | | |
| Amortization of actuarial losses and prior service costs included in net income | **3.1** | **(1.1)** | **2.0** | 2.0 | (0.8) | 1.2 |
| Net actuarial losses and prior service costs | **10.9** | **(4.2)** | **6.7** | (6.9) | 2.8 | (4.1) |
| Total other comprehensive income | **$ 41.5** | **$ 0.1** | **41.6** | $ 10.9 | $ 3.1 | 14.0 |
| Comprehensive income | | | **305.7** | | | 338.4 |
| Less: comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest | | | **2.4** | | | 5.2 |
| **Comprehensive income attributable to Moody s** | | | **$ 303.3** | | | $ 333.2 |

| | Six Months Ended June 30, 2015 | | | Six Months Ended June 30, 2014 | | |
|---|---|---|---|---|---|---|
| | Pre-tax amounts | Tax amounts | After-tax amounts | Pre-tax amounts | Tax amounts | After-tax amounts |
| Net income | | | **$ 495.4** | | | $ 546.1 |
| **Other comprehensive income (loss):** | | | | | | |
| **Foreign currency translation:** | | | | | | |
| Foreign currency translation adjustments | **$ (69.6)** | **$** | **(69.6)** | $ 9.3 | $ | 9.3 |
| Foreign currency translation adjustments - reclassification of losses included in net income | **(0.1)** | | **(0.1)** | 4.4 | | 4.4 |
| **Net investment hedges:** | | | | | | |
| Net realized and unrealized gain (loss) on net investment hedges | **18.5** | **(7.3)** | **11.2** | (6.3) | 2.6 | (3.7) |
| **Available for sale securities:** | | | | | | |
| Net unrealized gains on available for sale securities | **2.1** | | **2.1** | | | |
| Reclassification of gains included in net income | **(0.2)** | | **(0.2)** | | | |
| **Pension and Other Retirement Benefits:** | | | | | | |
| Amortization of actuarial losses and prior service costs included in net income | **6.9** | **(2.6)** | **4.3** | 3.7 | (2.3) | 1.4 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net actuarial gains (losses) and prior service costs | **10.9** | **(4.2)** | **6.7** | (6.9) | 2.8 | (4.1) |
| Total other comprehensive income (loss) | **$ (31.5)** | **$ (14.1)** | **(45.6)** | $ 4.2 | $ 3.1 | 7.3 |
| Comprehensive income | | | **449.8** | | | 553.4 |
| Less: comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest | | | **3.6** | | | 8.9 |
| **Comprehensive income attributable to Moody s** | | | **$ 446.2** | | | $ 544.5 |

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

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**MOODY S CORPORATION**

**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,538.6 | $ 1,219.5 |
| Short-term investments | 508.9 | 458.1 |
| Accounts receivable, net of allowances of $29.1 in 2015 and $29.4 in 2014 | 801.3 | 792.4 |
| Deferred tax assets, net | 39.6 | 43.9 |
| Other current assets | 175.6 | 172.5 |
| Total current assets | 3,064.0 | 2,686.4 |
| Property and equipment, net of accumulated depreciation of $489.4 in 2015 and $451.5 in 2014 | 304.6 | 302.3 |
| Goodwill | 1,006.8 | 1,021.1 |
| Intangible assets, net | 322.6 | 345.5 |
| Deferred tax assets, net | 145.7 | 167.8 |
| Other assets | 155.8 | 145.9 |
| Total assets | **$ 4,999.5** | $ 4,669.0 |
| **LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 422.1 | $ 557.6 |
| Deferred tax liabilities, net | 17.6 | 17.5 |
| Deferred revenue | 685.1 | 624.6 |
| Total current liabilities | 1,124.8 | 1,199.7 |
| Non-current portion of deferred revenue | 132.4 | 132.2 |
| Long-term debt | 3,106.1 | 2,547.3 |
| Deferred tax liabilities, net | 90.1 | 95.7 |
| Unrecognized tax benefits | 208.2 | 220.3 |
| Other liabilities | 441.3 | 430.9 |
| Total liabilities | 5,102.9 | 4,626.1 |
| Contingencies (Note 14) | | |
| Shareholders (deficit) equity: | | |
| Preferred stock, par value $.01 per share; 10,000,000 shares authorized; no shares issued and outstanding | | |
| Series common stock, par value $.01 per share; 10,000,000 shares authorized; no shares issued and outstanding | | |
| Common stock, par value $.01 per share; 1,000,000,000 shares authorized; 342,902,272 shares issued at June 30, 2015 and December 31, 2014, respectively. | 3.4 | 3.4 |
| Capital surplus | 396.7 | 383.9 |
| Retained earnings | 6,468.4 | 6,044.3 |
| Treasury stock, at cost; 142,552,956 and 138,539,128 shares of common stock at June 30, 2015 and December 31, 2014, respectively | (6,918.9) | (6,384.2) |
| Accumulated other comprehensive loss | (280.8) | (235.2) |

| | | |
|---|---|---|
| Total Moody s shareholders deficit | (331.2) | (187.8) |
| Noncontrolling interests | 227.8 | 230.7 |
| Total shareholders (deficit) equity | (103.4) | 42.9 |
| Total liabilities and shareholders (deficit) equity | **$ 4,999.5** | $ 4,669.0 |

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

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**MOODY S CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**(Amounts in millions)**

| | Six months ended June 30, | |
|---|---|---|
| | **2015** | **2014** |
| **Cash flows from operating activities** | | |
| Net income | $ 495.4 | $ 546.1 |
| Reconciliation of net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 56.5 | 45.4 |
| Stock-based compensation expense | 44.4 | 40.6 |
| Deferred income taxes | 10.6 | 46.2 |
| Excess tax benefits from stock-based compensation plans | (41.1) | (45.2) |
| ICRA Gain | | (102.8) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (11.8) | (45.8) |
| Other current assets | (3.3) | (56.1) |
| Other assets | (3.5) | 3.3 |
| Accounts payable and accrued liabilities | (35.0) | (26.6) |
| Deferred revenue | 63.0 | 62.2 |
| Unrecognized tax benefits and other non-current tax liabilities | (12.1) | 5.8 |
| Other liabilities | 31.3 | (15.1) |
| **Net cash provided by operating activities** | **594.4** | **458.0** |
| **Cash flows from investing activities** | | |
| Capital additions | (40.7) | (38.8) |
| Purchases of short-term investments | (289.2) | (39.8) |
| Sales and maturities of short-term investments | 221.9 | 45.7 |
| Cash paid for acquisitions, net of cash required | (4.6) | (80.5) |
| Receipts for settlement of net investment hedges | 20.8 | |
| **Net cash used in investing activities** | **(91.8)** | **(113.4)** |
| **Cash flows from financing activities** | | |
| Issuance of notes | 552.8 | |
| Repayments of notes | | |
| Proceeds from stock-based compensation plans | 55.0 | 91.3 |
| Repurchase of shares for payroll tax withholdings related to stock-based compensation | (59.1) | (51.1) |
| Cost of treasury shares repurchased | (600.7) | (459.7) |
| Excess tax benefits from settlement of stock-based compensation plans | 41.1 | 45.2 |
| Payment of dividends | (137.2) | (119.2) |
| Payment of dividends to noncontrolling interests | (3.7) | (7.7) |
| Debt issuance costs and related fees | (5.8) | |
| **Net cash used in financing activities** | **(157.6)** | **(501.2)** |
| **Effect of exchange rate changes on cash and cash equivalents** | **(25.9)** | **14.4** |

| | | |
|---|---|---|
| **Net increase (decrease) in cash and cash equivalents** | **319.1** | **(142.2)** |
| Cash and cash equivalents, beginning of the period | 1,219.5 | 1,919.5 |
| **Cash and cash equivalents, end of the period** | **$ 1,538.6** | **$ 1,777.3** |

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

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**MOODY S CORPORATION**

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

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

## NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Moody s is a provider of (i) credit ratings, (ii) credit, capital markets and economic research, data and analytical tools, (iii) software solutions and related risk management services, (iv) quantitative credit risk measures, financial services training and certification services and (v) outsourced research and analytical services. 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 primarily derived from the originators and issuers of such transactions who use MIS ratings in the distribution of their debt issues to investors. Additionally, MIS earns revenue from certain non-ratings-related operations which consist primarily of the distribution of research and fixed income pricing services in the Asia-Pacific region and outsourced services. The revenue from these operations is included in the MIS Other LOB and is not material to the results of the MIS segment.

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

These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the Company s consolidated financial statements and related notes in the Company s 2014 annual report on Form 10-K filed with the SEC on February 25, 2015. The results of interim periods are not necessarily indicative of results for the full year or any subsequent period. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

## NOTE 2. STOCK-BASED COMPENSATION

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Stock-based compensation cost | **$ 21.7** | $ 20.3 | **$ 44.4** | **$ 40.6** |
| Tax benefit | **$ 6.7** | $ 6.5 | **$ 14.6** | **$ 12.8** |

During the first six months of 2015, the Company granted 0.3 million employee stock options, which had a weighted average grant date fair value of $36.08 per share based on the Black-Scholes option-pricing model. The Company also granted 0.9 million shares of restricted stock in the first six months of 2015, which had a weighted average grant date fair value of $98.03 per share and generally vest ratably over a four-year period. Additionally, the Company granted approximately 0.2 million shares of performance-based awards whereby the number of shares that ultimately vest are based on the achievement of certain non-market based performance metrics of the Company over a three-year period. The weighted average grant date fair value of these awards was $94.08 per share.

The following weighted average assumptions were used in determining the fair value for options granted in 2015:

| | |
|---|---|
| Expected dividend yield | **1.39%** |
| Expected stock volatility | **39.4%** |
| Risk-free interest rate | **1.88%** |
| Expected holding period | **6.9 years** |
| Grant date fair value | **$ 36.08** |

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Unrecognized compensation expense at June 30, 2015 was $12.6 million and $132.0 million for stock options and unvested restricted stock, respectively, which is expected to be recognized over a weighted average period of 1.3 years and 1.8 years, respectively. Additionally, there was $20.6 million of unrecognized compensation expense relating to the aforementioned non-market based performance-based awards, which is expected to be recognized over a weighted average period of 1.1 years.

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

| | Six Months Ended June 30, | |
|---|---|---|
| **Exercise of stock options:** | **2015** | **2014** |
| Proceeds from stock option exercises | **$ 51.9** | $ 89.0 |
| Aggregate intrinsic value | **$ 49.9** | $ 69.2 |
| Tax benefit realized upon exercise | **$ 17.9** | $ 25.3 |
| Number of shares exercised | **1.0** | 2.0 |

| | Six Months Ended June 30, | |
|---|---|---|
| **Vesting of restricted stock:** | **2015** | **2014** |
| Fair value of shares vested | **$ 110.8** | $ 91.9 |
| Tax benefit realized upon vesting | **$ 35.6** | $ 32.0 |
| Number of shares vested | **1.1** | 1.2 |

| | Six Months Ended June 30, | |
|---|---|---|
| **Vesting of performance-based restricted stock:** | **2015** | **2014** |
| Fair value of shares vested | **$ 43.1** | $ 38.0 |
| Tax benefit realized upon vesting | **$ 15.6** | $ 14.8 |
| Number of shares vested | **0.5** | 0.5 |

**NOTE 3. INCOME TAXES**

Moody s effective tax rate was 30.4% and 33.1% for the three months ended June 30, 2015 and 2014, respectively, and 31.5% for both the six month periods ended June 30, 2015 and 2014. The decrease in the quarterly ETR was the result of a state tax ruling and a change in New York City tax law, both relating to income apportionment, which were the principal reasons for the $14.3 million ($8.5 million net of federal tax) decrease in UTPs during the second quarter of 2015. For the first six months of 2015 UTPs decreased $12.1 million ($7.6 million net of federal tax). The Company classifies interest related to UTPs in interest expense, net in its consolidated statements of operations. Penalties, if incurred, would be recognized in other non-operating (expense) income, net.

Moody s Corporation and subsidiaries are subject to U.S. federal income tax as well as income tax in various state, local and foreign jurisdictions. The Company s U.S. federal income tax returns for the years 2008 through 2010 are under examination and its returns for 2011 through 2013 remain open to examination. The Company s New York State tax returns for 2011 through 2013 are currently under examination and the Company s New York City tax return for 2013 is currently under examination. The Company s U.K. tax return for 2012 is currently under examination and its tax return for 2013 remains open to examination.

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

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| Income taxes paid | **$ 191.1** | $ 216.7 |

**NOTE 4. WEIGHTED AVERAGE SHARES OUTSTANDING**

Below is a reconciliation of basic to diluted shares outstanding:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Basic | **201.3** | **212.0** | **202.0** | **213.0** |
| Dilutive effect of shares issuable under stock-based compensation plans | **3.1** | **3.7** | **3.4** | **4.1** |
| Diluted | **204.4** | **215.7** | **205.4** | **217.1** |
| Anti-dilutive options to purchase common shares and restricted stock as well as contingently issuable restricted stock which are excluded from the table above | **0.8** | 0.7 | **0.8** | 0.7 |

The calculation of diluted EPS requires certain assumptions regarding the use of both cash proceeds and assumed proceeds that would be received upon the exercise of stock options and vesting of restricted stock outstanding as of June 30, 2015 and 2014. These assumed proceeds include Excess Tax Benefits and any unrecognized compensation of the awards.

**NOTE 5. CASH EQUIVALENTS AND INVESTMENTS**

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

| | As of June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | | Gross Unrealized | | Balance sheet location | | |
| | Cost | Gains | Fair Value | Cash and cash equivalents | Short-term investments | Other assets |
| Money market mutual funds | $ 135.2 | $ | $ 135.2 | $ 135.2 | $ | $ |
| Certificates of deposit and money market deposit accounts [1] | $ 1,203.7 | $ | $ 1,203.7 | $ 679.3 | $ 508.9 | $ 15.5 |
| Fixed maturity and open ended mutual funds [2] | $ 42.3 | $ 2.8 | $ 45.1 | $ | $ | $ 45.1 |

| | As of December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | Gross Unrealized | | Balance sheet location | | |
| | Cost | Gains | Fair Value | Cash and cash equivalents | Short-term investments | Other assets |
| Money market mutual funds | $ 149.7 | $ | $ 149.7 | $ 149.7 | $ | $ |
| Certificates of deposit and money market deposit accounts [1] | $ 842.5 | $ | $ 842.5 | $ 380.1 | $ 458.1 | $ 4.3 |
| Fixed maturity and open ended mutual funds [2] | $ 47.1 | $ 0.9 | $ 48.0 | $ | $ | $ 48.0 |

(1) Consists of time deposits and money market deposit accounts. The remaining contractual maturities for the certificates of deposits classified as short-term investments were one month to eight months and one month to ten months at June 30, 2015 and December 31, 2014, respectively. Time deposits with a maturity of less than 90 days at time of purchase are classified as cash and cash equivalents.

(2) Consists of investments in fixed maturity mutual funds and open-ended mutual funds. The remaining contractual maturities for the fixed maturity instruments range from one month to 25 months and two months to 23 months at June 30, 2015 and December 31, 2014, respectively.

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The money market mutual funds as well as the fixed maturity and open ended mutual funds in the table above are deemed to be available for sale under ASC Topic 320 and the fair value of these instruments is determined using Level 1 inputs as defined in the ASC.

The total proceeds received in the six months ended June 30, 2015 for maturities of fixed maturity mutual funds was $3.6 million. The gross realized gains on these maturities were immaterial.

**NOTE 6. ACQUISITIONS**

The business combinations described below are accounted for using the acquisition method of accounting whereby assets acquired and liabilities assumed were recognized at fair value on the date of the transaction. Any excess of the purchase price over the fair value of the assets acquired and liabilities assumed was recorded to goodwill. The Company has not presented proforma combined results because the impact on previously reported statements of operations would not have been material. These acquisitions are discussed below in more detail.

**Equilibrium**

On May 21, 2015, a subsidiary of the Company acquired 100% of Equilibrium, a provider of credit rating and research services in Peru and Panama. The aggregate purchase price was not material and the near term impact to the Company s operations and cash flows is not expected to be material. Equilibrium operates in the MIS reportable segment and goodwill related to this acquisition has been allocated to the MIS reporting unit.

**Lewtan Technologies**

On October 27, 2014, a subsidiary of the Company acquired 100% of Lewtan Technologies, a leading provider of analytical tools and data for the global structured finance market. The acquisition of Lewtan will bolster MA s Structured Analytics and Valuations (SAV) business within its RD&A LOB, which provides an extensive data and analytics library for securitized assets. The aggregate purchase price and the near term impact to the Company s operations and cash flows is not material. Lewtan operates in the RD&A LOB of MA and goodwill related to this acquisition was allocated to the RD&A reporting unit.

**WebEquity Solutions, LLC**

On July 17, 2014, a subsidiary of the Company acquired 100% of WebEquity Solutions, LLC, a leading provider of cloud-based loan origination solutions for financial institutions. The cash payment of $130.5 million was funded with cash. This acquisition will enhance MA s risk management product portfolio.

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

| | | |
|---|---|---|
| Current assets | | $ 3.0 |
| Property and equipment, net | | 2.3 |
| Intangible assets: | | |
| Client relationships (18 year weighted average life) | $ 42.8 | |
| Software (15 year weighted average life) | 11.5 | |
| Trade name (4 year weighted average life) | 0.5 | |
| Total intangible assets (17 year weighted average life) | | 54.8 |
| Goodwill | | 77.6 |
| Liabilities assumed | | (7.2) |
| Net assets acquired | | $ 130.5 |

The acquired goodwill, which has been assigned to the MA segment, is tax deductible.

As of the date of the acquisition, WebEquity is part of the ERS reporting unit.

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**ICRA Limited**

On June 26, 2014, a subsidiary of the Company acquired 2,154,722 additional shares of ICRA Limited, a publicly traded company in India. ICRA is a leading provider of credit ratings and research in India and will extend MIS s reach in the growing domestic debt market in India as well as other emerging markets in the region. The acquisition of the additional shares increased Moody s ownership stake in ICRA from 28.5% to 50.06%, resulting in a controlling interest in ICRA. Accordingly, the Company consolidated ICRA s financial statements. Moody s consolidates ICRA s financial statements on a three month lag.

Prior to the acquisition of the additional shares, Moody s accounted for its investment in ICRA on an equity basis whereby the Company recorded its proportional share of the investment s net income or loss as part of other non-operating income (expense), net. The acquisition of the additional shares has resulted in the Company consolidating ICRA into its financial statements. As a result of this consolidation and in accordance with ASC 805, the carrying value of the Company s equity investment in ICRA was remeasured to fair value as of the acquisition date resulting in a pre-tax gain of $102.8 million ($78.5 million after-tax) in second quarter of 2014. The fair value of the Company s equity investment was based on ICRA s quoted market price on the date of acquisition.

The table below details the total consideration relating to the ICRA step-acquisition:

| | |
|---|---|
| Cash paid | $ 86.0 |
| Fair value of equity interest in ICRA prior to obtaining a controlling interest | 124.9 |
| Total consideration | $ 210.9 |

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

| | | |
|---|---|---|
| Current assets | | $ 25.4 |
| Property and equipment, net | | 15.1 |
| Intangible assets: | | |
| Trade name (36 year weighted average life) | $ 46.8 | |
| Client relationships (19 year weighted average life) | 33.8 | |
| Other (17 year weighted average life)* | 18.3 | |
| Total intangible assets (26 year weighted average life) | | 98.9 |
| Goodwill | | 296.7 |
| Other assets | | 56.3 |
| Liabilities | | (62.7) |
| Fair value of non-controlling interest assumed | | (218.8) |
| Net assets acquired | | $ 210.9 |

* Primarily consists of acquired technical know-how and ratings methodologies

Current assets in the table above include acquired cash of approximately $5 million. Additionally, current assets includes gross accounts receivable of approximately $14 million, of which an immaterial amount is not expected to be collectible. Goodwill, which has been assigned to the MIS segment, is not deductible for tax.

The fair value of the non-controlling interest was determined based on the quoted market price per share of ICRA on the date that the Company acquired the controlling stake.

ICRA operates as its own reporting unit for purposes of the Company s annual goodwill impairment assessment.

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

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

**Derivatives and non-derivative instruments designated as accounting hedges:**

***Interest Rate Swaps***

In the second quarter of 2014, the Company entered into interest rate swaps with a total notional amount of $250 million to convert the fixed interest rate on the 2010 Senior Notes to a floating interest rate based on the 3-month LIBOR. In the third quarter of 2014, the Company entered into interest rate swaps with a total notional amount of $250 million to convert the fixed interest rate on the remaining balance of the 2010 Senior Notes to a floating interest rate based on the 3-month LIBOR. The purpose of these hedges is to mitigate the risk associated with changes in the fair value of the 2010 Senior Notes, thus the Company has designated these swaps as fair value hedges. The fair value of the swaps is adjusted quarterly with a corresponding adjustment to the carrying value of the 2010 Senior Notes. The changes in the fair value of the hedges and the underlying hedged item generally offset and the net cash settlements on the swaps are recorded each period within interest income (expense), net, in the Company s consolidated statement of operations.

In the third quarter of 2014, the Company entered into interest rate swaps with a total notional amount of $250 million to convert the fixed interest rate on a portion of the 2014 Senior Notes (5-year) to a floating interest rate based on the 3-month LIBOR. In the first quarter of 2015, the Company entered into interest rate swaps with a total notional amount of $200 million to convert the fixed interest rate on the remaining balance of the 2014 Senior Notes (5-year) to a floating interest rate based on the 3-month LIBOR. The purpose of these hedges is to mitigate the risk associated with changes in the fair value of the 2014 Senior Notes (5-year), thus the Company has designated these swaps as fair value hedges. The fair value of the swaps is adjusted quarterly with a corresponding adjustment to the carrying value of the 2014 Senior Notes (5-year). The changes in the fair value of the hedges and the underlying hedged item generally offset and the net cash settlements on the swaps are recorded each period within interest income (expense), net, in the Company s consolidated statement of operations.

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

| | | Amount of income/(expense) recognized in the consolidated statements of operations | | | |
|---|---|---|---|---|---|
| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
| Derivatives designated as fair value accounting hedges | Location on Statement of Operations | 2015 | 2014 | 2015 | 2014 |
| Interest rate swaps | Interest income(expense), net | **$ 4.1** | $ 2.0 | **$ 7.6** | $ 0.5 |

***Net investment hedges***

The Company entered into foreign currency forward contracts that are designated as net investment hedges and additionally has designated 400 million of the 2015 Senior Notes as a net investment hedge. These hedges are intended to mitigate FX exposure related to non-U.S. dollar net investments in certain foreign subsidiaries against changes in foreign exchange rates. These net investment hedges are designated as accounting hedges under the applicable sections of Topic 815 of the ASC.

Hedge effectiveness is assessed based on the overall changes in the fair value of the hedge on a pre-tax basis. For hedges that meet the effectiveness requirements, any change in the fair value for the hedge is recorded in AOCI. Any change in the fair value of these hedges that is the result of ineffectiveness is recognized immediately in other non-operating (expense) income in the Company s consolidated statement of operations.

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The following table summarizes the notional amounts of the Company s outstanding net investment hedges:

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Notional amount of net investment hedges:** | | |
| Long-term debt designated as net investment hedge | **400.0** | |
| Contracts to sell euros for USD | | 50.0 |
| Contracts to sell Japanese yen for USD | **¥ 19,400** | ¥ 19,400 |

The outstanding contracts to sell Japanese yen for USD expire in November 2015. The hedge relating to the portion of the 2015 Senior Notes that was designated as a net investment hedge will end upon the repayment of the notes in 2027 unless terminated earlier at the discretion of the Company.

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

| Derivatives in Net Investment Hedging Relationships | Amount of Gain/(Loss) Recognized in AOCI on Derivative (Effective Portion) Three Months Ended June 30, 2015 | 2014 |
|---|---|---|
| FX forwards | **$ 2.1** | $ (1.6) |
| Long-term debt | **(9.7)** | |
| Total | **$ (7.6)** | $ (1.6) |

| | Six Months Ended June 30, 2015 | 2014 |
|---|---|---|
| FX forwards | **$ 13.4** | $ (3.7) |
| Long-term debt | **(2.1)** | |
| Total | **$ 11.3** | $ (3.7) |

The cumulative amount of realized and unrecognized net investment hedge gains recorded in AOCI is as follows:

| | Gains/(Losses), net of tax June 30, 2015 | December 31, 2014 |
|---|---|---|
| FX forwards | **$ 34.3** | $ 20.9 |
| Long-term debt | **(2.1)** | |
| Total gains on net investment hedges | **$ 32.2** | $ 20.9 |

**Derivatives not designated as accounting hedges:**

***Foreign exchange forwards***

The Company also enters into foreign exchange forwards to mitigate the change in fair value on certain assets and liabilities denominated in currencies other than a subsidiary s functional currency. These forward contracts are not designated as accounting hedges under the applicable

sections of Topic 815 of the ASC. Accordingly, changes in the fair value of these contracts are recognized immediately in other non-operating (expense) income, net in the Company s consolidated statements of operations along with the FX gain or loss recognized on the assets and liabilities denominated in a currency other than the subsidiary s functional currency. These contracts have expiration dates at various times through October 2015.

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Notional amount of currency pair:** | | |
| Contracts to purchase USD with euros | **$** | $ 38.5 |
| Contracts to sell USD for euros | **$ 47.3** | $ 51.5 |
| Contracts to purchase USD with GBP | **$** | $ 0.2 |
| Contracts to purchase USD with other foreign currencies | **$** | $ 1.2 |
| Contracts to purchase euros with other foreign currencies | **36.4** | 34.0 |
| Contracts to purchase euros with GBP | **28.4** | 25.0 |
| Contracts to sell euros for GBP | **26.4** | 38.2 |

***Cross-currency swaps***

In conjunction with the issuance of the 2015 Senior Notes, the Company entered into a cross-currency swap to exchange 100 million for U.S. dollars on the date of the settlement of the notes. The purpose of this cross-currency swap is to mitigate FX risk on the remaining principal balance on the 2015 Senior Notes that was not designated as a net investment hedge as more fully discussed above. The Company has not designated these cross-currency swaps as accounting hedges. Accordingly, changes in fair value on these swaps is recognized immediately in other non-operating (expense), income, net in the Company s consolidated statements of operations along with the FX gain or loss recognized on the 100 million principal of the 2015 Senior Notes that was not designated as a net investment hedge. Under the terms of the swap, the Company will pay the counterparty interest on the $110.5 million received at 3.945% per annum and the counterparty will pay the Company interest on the 100 million paid at 1.75% per annum. These interest payments will be settled in March of each year, beginning in 2016, until either the maturity of the cross-currency swap in 2027 or upon early termination at the discretion of the Company. The principal payments on this cross currency swap will be settled in 2027, concurrent with the repayment of the 2015 Senior Notes.

The following table summarizes the impact to the consolidated statements of operations relating to the net gain (loss) on the Company s derivatives which are not designated as hedging instruments:

| | | Three Months Ended June 30, | |
|---|---|---|---|
| **Derivatives not designated as accounting hedges** | **Location on Statement of Operations** | **2015** | **2014** |
| Cross-currency swap | Other non-operating income (expense), net | **$ (0.3)** | $ |
| Foreign exchange forwards | Other non-operating income (expense), net | **2.5** | 1.3 |
| Total | | **$ 2.2** | $ 1.3 |

| | | Six Months Ended June 30, | |
|---|---|---|---|
| **Derivatives not designated as accounting hedges** | **Location on Statement of Operations** | **2015** | **2014** |
| Cross-currency swap | Other non-operating income (expense), net | **$ (5.3)** | $ |
| Foreign exchange forwards | Other non-operating income (expense), net | **(1.9)** | 0.9 |
| Total | | **$ (7.2)** | $ 0.9 |

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The table below shows the classification between assets and liabilities on the Company s consolidated balance sheets for the fair value of the derivative instrument as well as the carrying value of its nonderivative debt instruments designated and qualifying as net investment hedges:

| | | Derivative Instruments | |
|---|---|---|---|
| | Balance Sheet Location | June 30, 2015 | December 31, 2014 |
| **Assets:** | | | |
| *Derivatives designated as accounting hedges:* | | | |
| FX forwards on net investment in certain foreign subsidiaries | Other current assets | **$ 20.0** | $ 18.8 |
| Interest rate swaps | Other assets | **9.0** | 17.4 |
| Total derivatives designated as accounting hedges | | **29.0** | 36.2 |
| *Derivatives not designated as accounting hedges:* | | | |
| FX forwards on certain assets and liabilities | Other current assets | **0.5** | 5.6 |
| Total assets | | **$ 29.5** | $ 41.8 |
| **Liabilities:** | | | |
| *Derivatives and non-derivative instruments designated as accounting hedges:* | | | |
| Interest rate swaps | Other non-current liabilities | **$ 0.6** | $ |
| Long-term debt designated as net investment hedge | Long-term debt | **445.7** | |
| *Derivatives not designated as accounting hedges:* | | | |
| Cross-currency swap | Other non-current liabilities | **4.5** | |
| FX forwards on certain assets and liabilities | Accounts payable and accrued liabilities | **1.2** | 2.1 |
| Total liabilities | | **$ 452.0** | $ **2.1** |

**NOTE 8. GOODWILL AND OTHER ACQUIRED INTANGIBLE ASSETS**

The following table summarizes the activity in goodwill for the periods indicated:

| | Six Months Ended June 30, 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | MIS | | | MA | | | Consolidated | | |
| | Gross goodwill | Accumulated impairment charge | Net goodwill | Gross goodwill | Accumulated impairment charge | Net goodwill | Gross goodwill | Accumulated impairment charge | Net goodwill |
| Balance at beginning of year | $ 298.7 | $ | $ 298.7 | $ 734.6 | $ (12.2) | $ 722.4 | $ 1,033.3 | $ (12.2) | $ 1,021.1 |
| Additions/adjustments | 4.9 | | 4.9 | 2.9 | | 2.9 | 7.8 | | 7.8 |
| Foreign currency translation adjustments | (4.0) | | (4.0) | (18.1) | | (18.1) | (22.1) | | (22.1) |
| Ending balance | $ 299.6 | $ | $ 299.6 | $ 719.4 | $ (12.2) | $ 707.2 | $ 1,019.0 | $ (12.2) | $ 1,006.8 |

| | Year ended December 31, 2014 | | |
|---|---|---|---|
| | MIS | MA | Consolidated |

| | Gross goodwill | Accumulated impairment charge | Net goodwill | Gross goodwill | Accumulated impairment charge | Net goodwill | Gross goodwill | Accumulated impairment charge | Net goodwill |
|---|---|---|---|---|---|---|---|---|---|
| Balance at beginning of year | $ 11.4 | $ | $ 11.4 | $ 666.0 | $ (12.2) | $ 653.8 | $ 677.4 | $ (12.2) | $ 665.2 |
| Additions/adjustments | 296.7 | | 296.7 | 101.1 | | 101.1 | 397.8 | | 397.8 |
| Foreign currency translation adjustments | (9.4) | | (9.4) | (32.5) | | (32.5) | (41.9) | | (41.9) |
| Ending balance | $ 298.7 | $ | $ 298.7 | $ 734.6 | $ (12.2) | $ 722.4 | $ 1,033.3 | $ (12.2) | $ 1,021.1 |

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The 2015 additions/adjustments for the MIS segment in the table above relate to the acquisition of Equilibrium. The 2015 additions/adjustments for the MA segment reflect an adjustment to an indemnification asset recognized as part of the Copal acquisition and an adjustment of deferred revenue balances recognized as part of the Lewtan acquisition.

The 2014 additions/adjustments for the MIS segment in the table above relate to the ICRA Acquisition in the second quarter of 2014 as further discussed in Note 6. The 2014 additions/adjustments for the MA segment in the table above relate to the acquisition of WebEquity in the third quarter of 2014 and Lewtan in the fourth quarter of 2014 as well as adjustments for Amba which was acquired in the fourth quarter of 2013.

Acquired intangible assets and related amortization consisted of:

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Customer relationships | **$ 305.2** | $ 310.4 |
| Accumulated amortization | **(104.9)** | (98.1) |
| Net customer relationships | **200.3** | 212.3 |
| Trade secrets | **30.2** | 30.6 |
| Accumulated amortization | **(22.0)** | (20.9) |
| Net trade secrets | **8.2** | 9.7 |
| Software | **77.2** | 79.8 |
| Accumulated amortization | **(45.3)** | (43.0) |
| Net software | **31.9** | 36.8 |
| Trade names | **75.2** | 76.5 |
| Accumulated amortization | **(14.9)** | (13.3) |
| Net trade names | **60.3** | 63.2 |
| Other | **44.6** | 44.8 |
| Accumulated amortization | **(22.7)** | (21.3) |
| Net other | **21.9** | 23.5 |
| Total acquired intangible assets, net | **$ 322.6** | $ 345.5 |

Other intangible assets primarily consist of databases, covenants not to compete, and acquired ratings methodologies and models.

Amortization expense relating to acquired intangible assets is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Amortization expense | **$ 8.0** | $ 6.3 | **$ 16.5** | $ 13.6 |

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

| **Year Ending December 31,** | |
|---|---|
| 2015 (after June 30) | **$ 15.5** |
| 2016 | **30.3** |
| 2017 | **26.4** |
| 2018 | **20.9** |
| 2019 | **19.1** |
| Thereafter | **210.4** |
| Total estimated future amortization | **$ 322.6** |

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**NOTE 9. FAIR VALUE**

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

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

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

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

The table below presents information about items which are carried at fair value at June 30, 2015 and December 31, 2014:

| | Fair Value Measurement as of June 30, 2015 | | | |
|---|---|---|---|---|
| **Description** | **Balance** | **Level 1** | **Level 2** | **Level 3** |
| **Assets:** | | | | |
| Derivatives [(a)] | **$ 29.5** | **$** | **$ 29.5** | **$** |
| Money market mutual funds | **135.2** | **135.2** | | |
| Fixed maturity and open ended mutual funds [(b)] | **45.1** | **45.1** | | |
| Total | **$ 209.8** | **$ 180.3** | **$ 29.5** | **$** |
| **Liabilities:** | | | | |
| Derivatives [(a)] | **$ 6.3** | **$** | **$ 6.3** | **$** |
| Contingent consideration arising from acquisitions [(c)] | **2.0** | | | **2.0** |
| Total | **$ 8.3** | **$** | **$ 6.3** | **$ 2.0** |

| | Fair Value Measurement as of December 31, 2014 | | | |
|---|---|---|---|---|
| **Description** | **Balance** | **Level 1** | **Level 2** | **Level 3** |
| **Assets:** | | | | |
| Derivatives [(a)] | **$ 41.8** | **$** | **$ 41.8** | **$** |
| Money market mutual funds | **149.7** | **149.7** | | |
| Fixed maturity and open ended mutual funds [(b)] | **48.0** | **48.0** | | |
| Total | **$ 239.5** | **$ 197.7** | **$ 41.8** | **$** |
| **Liabilities:** | | | | |
| Derivatives [(a)] | **$ 2.1** | **$** | **$ 2.1** | **$** |
| Contingent consideration arising from acquisitions [(c)] | **2.1** | | | **2.1** |
| Total | **$ 4.2** | **$** | **$ 2.1** | **$ 2.1** |

(a) Represents interest rate swaps, FX forwards on certain assets and liabilities as well as cross-currency swaps as more fully described in Note 7 to the financial statements.

(b) Represents investments in fixed maturity mutual funds and open ended mutual funds. The remaining contractual maturities for the fixed maturity instruments range from one month to 25 months and two months to 23 months at June 30, 2015 and December 31, 2014, respectively.

(c) Represents contingent consideration liabilities pursuant to the agreements for the CSI acquisition.

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The following table summarizes the changes in the fair value of the Company s Level 3 liabilities:

| | Contingent Consideration Six Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| Balance as of January 1 | **$ 2.1** | $ 17.5 |
| Total losses (realized and unrealized): | | |
| Included in earnings | | (0.2) |
| Foreign currency translation adjustments | **(0.1)** | (0.1) |
| Balance as of June 30 | **$ 2.0** | $ 17.2 |

The $2.0 million of contingent consideration is classified in accounts payable and accrued liabilities within the Company s consolidated balance sheet.

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

**Derivatives:**

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

**Fixed maturity and open ended mutual funds:**

The fixed maturity mutual funds and open ended mutual funds primarily represent exchange traded funds in India and are classified as securities available-for-sale. Accordingly, any unrealized gains and losses are recognized through OCI until the instruments mature or are sold.

**Money market mutual funds:**

The money market mutual funds represent publicly traded funds with a stable $1 net asset value.

**Contingent consideration:**

At June 30, 2015, the Company has a contingent consideration obligation related to the acquisition of CSI which is carried at estimated fair value, and is based on certain non-financial metrics set forth in the acquisition agreement. At June 30, 2014, the Company also had contingent consideration obligations related to the acquisitions of Copal and Amba. These obligations were measured using Level 3 inputs as defined in the ASC. The Company records the obligations for these contingent consideration arrangements on the date of each respective acquisition based on management s best estimates of the achievement of the metrics and the value of the obligations are adjusted quarterly.

The contingent consideration obligation for CSI is based on the achievement of a contractual milestone by January 2016. The Company utilizes a discounted cash flow methodology to value this obligation. The future expected cash flow for this obligation is discounted using an interest rate available to borrowers with similar credit risk profiles to that of the Company. The most significant unobservable input involved in the measurement of this obligation is the probability that the milestone will be reached by January 2016. At June 30, 2015, the Company expects that this milestone will be reached by the aforementioned date.

For certain of the contingent consideration obligations relating to the acquisition of Copal, a portion of the contingent cash payments were based on revenue and EBITDA growth for certain of the Copal entities. This growth was calculated by comparing revenue and EBITDA in the year immediately prior to the exercise of the put/call option to acquire the remaining 33% ownership interest of Copal Partners Limited, to revenue and EBITDA in Copal s fiscal year ended March 31, 2011. Payments of $12.2 million under this arrangement were made in the fourth quarter of

2014 pursuant to the Company exercising its call option to acquire the remaining shares of Copal Amba. The Company had utilized discounted cash flow methodologies to value these obligations prior to their settlement in 2014. The expected future cash flows for these obligations were discounted using a risk-free interest rate plus a credit spread based on the option adjusted spread of the Company s publicly traded debt as of the valuation date plus sovereign and size risk premiums. The most significant unobservable input involved in the measurement of these obligations was the projected future financial results of the applicable Copal Amba entities.

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For the contingent consideration obligations relating to the acquisition of Amba, the payment was based on the acquired entity achieving a revenue target for its fiscal year ended March 31, 2014 which was met resulting in a $4.3 million payment in the third quarter of 2014.

**NOTE 10. OTHER BALANCE SHEET AND STATEMENT OF OPERATIONS INFORMATION**

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Other current assets: | | |
| Prepaid taxes | **$ 70.3** | $ 65.4 |
| Prepaid expenses | **56.6** | 59.9 |
| Other | **48.7** | 47.2 |
| Total other current assets | **$ 175.6** | $ 172.5 |

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Other assets: | | |
| Investments in joint ventures | **$ 22.2** | $ 21.6 |
| Deposits for real-estate leases | **12.6** | 11.3 |
| Indemnification assets related to acquisitions | **19.8** | 23.5 |
| Fixed maturity and open ended mutual funds | **45.1** | 48.0 |
| Other | **56.1** | 41.5 |
| Total other assets | **$ 155.8** | $ 145.9 |

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Accounts payable and accrued liabilities: | | |
| Salaries and benefits | **$ 65.5** | $ 86.5 |
| Incentive compensation | **74.8** | 155.2 |
| Profit sharing contribution | | 9.3 |
| Customer credits, advanced payments and advanced billings | **24.3** | 17.0 |
| Self-insurance reserves for wholly-owned insurance subsidiary | **28.9** | 21.5 |
| Dividends | **6.3** | 75.0 |
| Professional service fees | **51.4** | 47.0 |
| Interest accrued on debt | **48.2** | 45.0 |
| Accounts payable | **16.6** | 19.4 |
| Income taxes | **23.5** | 16.1 |
| Pension and other retirement employee benefits | **5.1** | 5.1 |
| Other | **77.5** | 60.5 |
| Total accounts payable and accrued liabilities | $ **422.1** | $ 557.6 |

| | June 30, 2015 | December 31, 2014 |
|---|---|---|

| | | |
|---|---|---|
| Other liabilities: | | |
| Pension and other retirement employee benefits | **$ 245.5** | $ 244.8 |
| Deferred rent-non-current portion | **101.5** | 104.2 |
| Interest accrued on UTPs | **27.3** | 20.8 |
| Legacy and other tax matters | **8.8** | 8.6 |
| Other | **58.2** | 52.5 |
| Total other liabilities | **$ 441.3** | $ 430.9 |

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Changes in the Company s self-insurance reserves for claims insured by the Company s wholly-owned insurance subsidiary, which primarily relate to legal defense costs for claims from prior years, are as follows:

| | Six Months Ended June 30, 2015 | Year Ended December 31, 2014 |
|---|---|---|
| **Balance January 1,** | **$ 21.5** | $ 27.6 |
| Accruals (reversals), net | **11.4** | 5.8 |
| Payments | **(4.0)** | (11.9) |
| **Balance** | **$ 28.9** | $ 21.5 |

**Noncontrolling Interests:**

The following table summarizes the changes in the Company s noncontrolling interests:

| | Six Months Ended June 30, 2015 | Year Ended December 31, 2014 |
|---|---|---|
| | Noncontrolling Interests | |
| **Balance January 1,** | $ **230.7** | $ 10.9 |
| Net earnings | **3.6** | 7.9 |
| Dividends | **(6.5)** | (6.9) |
| ICRA noncontrolling interest* | | 218.8 |
| **Balance** | $ **227.8** | $ 230.7 |

* Represents the fair value of the ICRA noncontrolling interest as of the day majority control was acquired.

**Other Non-Operating (Expense) Income:**

The following table summarizes the components of other non-operating (expense) income:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| FX loss | **$ (12.2)** | **$** (7.1) | **$ (12.2)** | **$** (6.1) |
| Joint venture income | **3.4** | 3.5 | **5.3** | 5.3 |
| Other | **0.6** | 0.3 | **1.2** | (0.1) |
| Total | **$ (8.2)** | $ (3.3) | $ **(5.7)** | $ (0.9) |

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

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

| | Three Months Ended June 30, 2015 | Six Months Ended June 30, 2015 | Affected line in the consolidated statement of operations |
|---|---|---|---|
| **Gains/(losses) on foreign currency translation adjustments** | | | |
| Liquidation of foreign subsidiary | **$** | **$ 0.1** | Other non-operating income (expense), net |
| **Total gains/(losses) on foreign currency translation adjustments** | | **0.1** | |
| **Gains/(losses) on available for sale securities:** | | | |
| Gains on available for sale securities | **0.2** | **0.2** | Other income |
| **Total gains on available for sale securities** | **0.2** | **0.2** | |
| **Pension and other retirement benefits** | | | |
| Amortization of actuarial losses and prior service costs included in net income | **(2.0)** | **(4.3)** | Operating expense |
| Amortization of actuarial losses and prior service costs included in net income | **(1.1)** | **(2.6)** | SG&A expense |
| Total before income taxes | **(3.1)** | **(6.9)** | |
| Income tax effect of item above | **1.1** | **2.6** | Provision for income taxes |
| **Total pension and other retirement benefits** | **(2.0)** | **(4.3)** | |
| **Total losses included in Net Income attributable to reclassifications out of AOCI** | $ **(1.8)** | **$ (4.0)** | |

| | Three Months Ended June 30, 2014 | Six Months Ended June 30, 2014 | Affected line in the consolidated statement of operations |
|---|---|---|---|
| **Gains/(losses) on foreign translation adjustments** | | | |
| Loss on foreign currency translation adjustment pursuant to ICRA step-acquisition | $ (4.4) | $ (4.4) | ICRA gain |
| **Total gains/(losses) on foreign translation adjustments** | (4.4) | (4.4) | |
| **Pension and other retirement benefits** | | | |
| Amortization of actuarial losses and prior service costs included in net income | (1.2) | (2.5) | Operating expense |

| | | | | | |
|---|---|---|---|---|---|
| Amortization of actuarial losses and prior service costs included in net income | | (0.8) | | (1.2) | SG&A expense |
| Total before income taxes | | (2.0) | | (3.7) | |
| Income tax effect of item above | | 0.8 | | 2.3 | Provision for income taxes |
| **Total pension and other retirement benefits** | | (1.2) | | (1.4) | |
| **Total losses included in Net Income attributable to reclassifications out of AOCI** | $ | (5.6) | $ | (5.8) | |

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The following table shows changes in AOCI by component (net of tax):

| | Three Months Ended | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | June 30, 2015 | | | | | June 30, 2014 | | | | |
| | Gains/(Losses) on Net Investment Hedges | Pension and Other Retirement Benefits | Foreign Currency Translation Adjustments | Gains on Available for Sale Securities | Total | Gains/(Losses) on Net Investment Hedges | Pension and Other Retirement Benefits | Foreign Currency Translation Adjustments | Gains on Available for Sale Securities | Total |
| Balance March 31, | **$ 39.8** | **$ (103.1)** | **$ (261.1)** | **$ 2.0** | **$ (322.4)** | $ (0.6) | $ (53.0) | $ (7.7) | $ | $ (61.3) |
| Other comprehensive income/(loss) before reclassifications | **(7.7)** | **6.7** | **39.8** | **1.0** | **39.8** | (1.6) | (4.1) | 14.1 | | 8.4 |
| Amounts reclassified from AOCI | | **2.0** | | **(0.2)** | **1.8** | | 1.2 | 4.4 | | 5.6 |
| Other comprehensive income/(loss) | **(7.7)** | **8.7** | **39.8** | **0.8** | **41.6** | (1.6) | (2.9) | 18.5 | | 14.0 |
| Balance June 30, | **$ 32.1** | **$ (94.4)** | **$ (221.3)** | **$ 2.8** | **$ (280.8)** | $ (2.2) | $ (55.9) | $ 10.8 | $ | $ (47.3) |

| | Six Months Ended | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | June 30, 2015 | | | | | June 30, 2014 | | | | |
| | Gains/(Losses) on Net Investment Hedges | Pension and Other Retirement Benefits | Foreign Currency Translation Adjustments | Gains on Available for Sale Securities | Total | Gains/(Losses) on Net Investment Hedges | Pension and Other Retirement Benefits | Foreign Currency Translation Adjustments | Gains on Available for Sale Securities | Total |
| Balance December 31, | **$ 20.9** | **$ (105.4)** | **$ (151.6)** | **$ 0.9** | **$ (235.2)** | $ 1.5 | $ (53.2) | $ (2.9) | $ | $ (54.6) |
| Other comprehensive income/(loss) before reclassifications | **11.2** | **6.7** | **(69.6)** | **2.1** | **(49.6)** | (3.7) | (4.1) | 9.3 | | 1.5 |
| Amounts reclassified from AOCI | | **4.3** | **(0.1)** | **(0.2)** | **4.0** | | 1.4 | 4.4 | | 5.8 |
| Other comprehensive income/(loss) | **11.2** | **11.0** | **(69.7)** | **1.9** | **(45.6)** | (3.7) | (2.7) | 13.7 | | 7.3 |
| Balance June 30, | **$ 32.1** | **$ (94.4)** | **$ (221.3)** | **$ 2.8** | **$ (280.8)** | $ (2.2) | $ (55.9) | $ 10.8 | $ | $ (47.3) |

**NOTE 12. PENSION AND OTHER RETIREMENT BENEFITS**

Moody s maintains funded and unfunded noncontributory Defined Benefit Pension Plans. The U.S. plans provide defined benefits using a cash balance formula based on years of service and career average salary for its employees or final average pay for selected executives. The Company also provides certain healthcare and life insurance benefits for retired U.S. employees. The retirement healthcare plans are contributory; the life insurance plans are noncontributory. Moody s funded and unfunded U.S. pension plans, the U.S. retirement healthcare plans and the U.S. retirement life insurance plans are collectively referred to herein as the Retirement Plans . The U.S. retirement healthcare plans and the U.S. retirement life insurance plans are collectively referred to herein as the Other Retirement Plans .

Effective January 1, 2008, the Company no longer offers DBPPs to U.S. employees hired or rehired on or after January 1, 2008. New U.S. employees will instead receive a retirement contribution of similar benefit value under the Company s Profit Participation Plan. Current participants of the Company s DBPPs continue to accrue benefits based on existing plan formulas.

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

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | Pension Plans | | Other Retirement Plans | |
| | 2015 | 2014 | 2015 | 2014 |
| **Components of net periodic expense** | | | | |
| Service cost | **$ 5.0** | $ 4.6 | **$ 0.6** | $ 0.4 |
| Interest cost | **4.2** | 4.2 | **0.3** | 0.3 |
| Expected return on plan assets | **(3.6)** | (3.5) | | |
| Amortization of net actuarial loss from earlier periods | **2.8** | 1.8 | **0.1** | |
| Amortization of net prior service costs from earlier periods | **0.2** | 0.1 | | |
| Net periodic expense | **$ 8.6** | $ 7.2 | **$ 1.0** | $ 0.7 |

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | Pension Plans | | Other Retirement Plans | |
| | 2015 | 2014 | 2015 | 2014 |
| **Components of net periodic expense** | | | | |
| Service cost | **$ 10.8** | $ 9.2 | **$ 1.1** | $ 0.8 |
| Interest cost | **8.5** | 8.2 | **0.5** | 0.5 |
| Expected return on plan assets | **(7.2)** | (7.0) | | |
| Amortization of net actuarial loss from earlier periods | **6.2** | 3.3 | **0.2** | |
| Amortization of net prior service costs from earlier periods | **0.4** | 0.3 | | |
| Net periodic expense | **$ 18.7** | $ 14.0 | **$ 1.8** | $ 1.3 |

The Company made payments of $0.9 million related to its unfunded U.S. DBPPs and made $0.6 million to its U.S. other retirement plans during the six months ended June 30, 2015. The Company made a contribution in July 2015 of $21.7 million to its funded pension plan and anticipates making payments of $3.2 million related to its unfunded U.S. DBPPs and $0.2 million to its U.S. other retirement plans, respectively, during the remainder of 2015.

**NOTE 13. INDEBTEDNESS**

The following table summarizes total indebtedness:

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Notes Payable: | | |
| 6.06% Series 2007-1 Notes due 2017 | **$ 300.0** | $ 300.0 |
| 5.50% 2010 Senior Notes, due 2020, net of unamortized discount of $1.8 million in 2015 and $2.0 million in 2014; also includes a fair value adjustment on an interest rate hedge of $6.5 million in 2015 and $5.8 million in 2014 | **504.7** | 503.8 |
| 4.50% 2012 Senior Notes, due 2022, net of unamortized discount of $3.0 million in 2015 and $3.1 million in 2014 | **497.0** | 496.9 |
| 4.875% 2013 Senior Notes, due 2024, net of unamortized discount of $2.4 million in 2015 and 2.5 million in 2014 | **497.6** | 497.5 |
| 2.75% 2014 Senior Notes (5-Year), due 2019, net of unamortized discount of $0.6 million in 2015 and $0.7 million in 2014; also includes a fair value adjustment on an interest rate hedge of $1.9 million in 2015 and $1.4 million in 2014 | **451.3** | 450.7 |

| | | | |
|---|---|---|---|
| 5.25% 2014 Senior Notes (30-Year), due 2044, net of unamortized discount of $1.6 million in 2015 and 2014 | **298.4** | | 298.4 |
| 1.75% 2015 Senior Notes, due 2027 | **557.1** | | |
| Total long-term debt | **$ 3,106.1** | $ | **2,547.3** |

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On May 11, 2015, the Company entered into a five-year senior, unsecured revolving credit facility with the capacity to borrow up to $1 billion. This replaces the $1 billion five-year 2012 Facility that was scheduled to expire in April 2017. Interest on borrowings under the facility is payable at rates that are based on the LIBOR plus a premium that can range from 79.5 basis points to 120 basis points per annum depending on the Company s ratio of total debt to EBITDA. The Company also pays quarterly facility fees, regardless of borrowing activity under the 2015 Facility. The quarterly fees for the 2015 Facility can range from 8 basis points of the facility amount to 17.5 basis points, depending on the Company s Debt/ EBITDA ratio. The 2015 Facility contains covenants that, among other things, restrict the ability of the Company and its subsidiaries, without the approval of lenders, to engage in mergers, consolidations, asset sales, transactions with affiliates, sale and leaseback transactions or to incur liens, as set forth in the facility agreement. The 2015 Facility also contains a financial covenant that requires the Company to maintain a Debt/EBITDA ratio of not more than 4 to 1 at the end of any fiscal quarter. Upon the occurrence of certain financial or economic events, significant corporate events or certain other events of default constituting a default under the 2015 Facility, all loans outstanding under the 2015 Facility (including accrued interest and fees payable thereunder) may be declared immediately due and payable and all lending commitments under the 2015 Facility may be terminated. In addition, certain other events of default under the 2015 Facility would automatically result in amounts outstanding becoming immediately due and payable and the termination of all lending commitments.

On March 9, 2015, the Company issued 500 million aggregate principal amount of senior unsecured notes in a public offering. The 2015 Senior Notes bear interest at a fixed rate of 1.75% and mature on March 9, 2027. Interest on the 2015 Senior Notes is due annually on March 9 of each year, commencing March 9, 2016. The Company may prepay the 2015 Senior Notes, in whole or in part, at any time at a price equal to 100% of the principal amount being prepaid, plus accrued and unpaid interest and a Make-Whole Amount. Additionally, at the option of the holders of the notes, the Company may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event, as defined in the 2015 Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The 2015 Indenture contains covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur or create liens and enter into sale and leaseback transactions. In addition, the 2015 Indenture contains a covenant that limits the ability of the Company to consolidate or merge with another entity or to sell all or substantially all of its assets to another entity. The 2015 Indenture contains customary default provisions. In addition, an event of default will occur if the Company or certain of its subsidiaries fail to pay the principal of any indebtedness (as defined in the 2015 Indenture) when due at maturity in an aggregate amount of $50 million or more, or a default occurs that results in the acceleration of the maturity of the Company s or certain of its subsidiaries indebtedness in an aggregate amount of $50 million or more. Upon the occurrence and during the continuation of an event of default under the 2015 Indenture, the 2015 Senior Notes may become immediately due and payable either automatically or by the vote of the holders of more than 25% of the aggregate principal amount of all of the notes then outstanding. The Company has designated 400 million of the 2015 Senior Notes as a net investment hedge as more fully discussed in Note 7.

The Company has entered into interest rate swaps on the 2010 Senior Notes and the 2014 Senior Notes (5-Year) which are more fully discussed in Note 7 above.

At June 30, 2015, the Company was in compliance with all covenants contained within all of the debt agreements. The 2015 Facility, the 2015 Senior Notes, the 2014 Senior Notes (5-year), the 2014 Senior Notes (30-year), the Series 2007-1 Notes, the 2010 Senior Notes, the 2012 Senior Notes and the 2013 Senior Notes all contain cross default provisions. These provisions state that default under one of the aforementioned debt instruments could in turn permit lenders under other debt instruments to declare borrowings outstanding under those instruments to be immediately due and payable. As of June 30, 2015, there were no such cross defaults.

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**Interest expense, net**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Income | **$ 2.3** | $ 1.7 | **$ 4.2** | $ 3.3 |
| Expense on borrowings | **(30.7)** | (25.6) | **(59.0)** | (51.7) |
| UTPs and other tax related liabilities [(1)] | **(3.5)** | (2.1) | **(6.7)** | (1.5) |
| Capitalized | | | **0.3** | 0.1 |
| Total | **$ (31.9)** | $ (26.0) | **$ (61.2)** | $ (49.8) |

(1) The six months ended June 30, 2014 amount includes a $2.0 million reversal of an interest accrual relating to the favorable resolution of an international tax matter.

The following table shows the cash paid for interest:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| Interest paid | **$ 53.3** | $ 60.5 |

The Company s long-term debt is recorded at its carrying amount, which represents the issuance amount plus or minus any issuance premium or discount, except for the 2010 Senior Notes and the 2014 Senior Notes (5-Year) which are recorded at the carrying amount adjusted for the fair value of an interest rate swap used to hedge the fair value of the note. The fair value and carrying value of the Company s long-term debt as of June 30, 2015 and December 31, 2014 are as follows:

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Series 2007-1 Notes | **$ 300.0** | **$ 328.6** | $ 300.0 | $ 334.6 |
| 2010 Senior Notes | **504.7** | **559.4** | 503.8 | 564.4 |
| 2012 Senior Notes | **497.0** | **531.1** | 496.9 | 537.1 |
| 2013 Senior Notes | **497.6** | **535.5** | 497.5 | 548.4 |
| 2014 Senior Notes (5-Year) | **451.3** | **454.6** | 450.7 | 454.3 |
| 2014 Senior Notes (30-Year) | **298.4** | **309.1** | 298.4 | 333.9 |
| 2015 Senior Notes | **557.1** | **518.9** | | |
| Total | **$ 3,106.1** | **$ 3,237.2** | $ 2,547.3 | $ 2,772.7 |

The fair value of the Company s long-term debt is estimated using discounted cash flows with inputs based on prevailing interest rates available to the Company for borrowings with similar maturities. Accordingly, the inputs used to estimate the fair value of the Company s long-term debt are classified as Level 2 inputs within the fair value hierarchy.

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**NOTE 14. CONTINGENCIES**

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 regulatory standards. Moody s periodically receives and is continuing to address subpoenas and inquiries from various governmental authorities, including the U.S. Department of Justice and states attorneys general, 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.

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, Commonwealth of Pennsylvania Public School Employees Retirement System ( PSERS ) and Commerzbank AG ( Commerzbank ), 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 trial court s denial of class certification. According to pleadings filed by plaintiffs in earlier proceedings, PSERS and Commerzbank AG seek, respectively, $5.75 million and $69.6 million in compensatory damages in connection with the two claims at issue on the appeal. In October 2014, the Second Circuit affirmed the denial of class certification and the dismissal of PSERS claim but reversed a ruling of the trial court that had excluded certain evidence relevant to Commerzbank s principal argument on appeal. The Second Circuit did not reverse the dismissal of Commerzbank s claim but instead certified a legal question concerning Commerzbank s argument to the New York Court of Appeals. The New York Court of Appeals subsequently agreed to hear the certified question, and on June 30, 2015, the Court of Appeals ruled in Moody s favor. The case has now been returned to the Second Circuit for final disposition of the appeal, and a decision is expected in the near future.

On July 9, 2009, the California Public Employees Retirement System ( CalPERS ) filed an action in the Superior Court of California in San Francisco (the Superior Court ) asserting two common-law causes of action, negligent misrepresentation and negligent interference with prospective economic advantage. The complaint named as defendants the Company, MIS, The McGraw-Hill Companies, Fitch, Inc., and various subsidiaries of Fitch, Inc. (CalPERS subsequently released the Fitch entities from the case). The action relates to the plaintiff s purchase of securities issued by three structured investment vehicles ( SIVs ) known as Cheyne Finance, Sigma Finance, and Stanfield Victoria Funding. The plaintiff s complaint seeks unspecified compensatory damages arising from alleged losses in connection with investments that purportedly totaled approximately $1.3 billion; in subsequent court filings, the plaintiff claimed to have suffered unrealized losses of approximately $779 million.

The central allegation against the defendants is that the credit ratings assigned to the securities issued by the SIVs were inaccurate and that the methodologies used by the rating agencies had no reasonable basis. In August 2009, the defendants removed the action to federal court, but the case was remanded to state court in November 2009 based on a finding that CalPERS is an arm of the State. In April 2010, in response to a motion by the defendants, the Superior Court dismissed the claim for negligent interference with prospective economic advantage but declined to dismiss the claim for negligent misrepresentation. In October 2010, the defendants filed a special motion to dismiss the remaining negligent misrepresentation claim under California s anti-SLAPP statute, which limits the maintenance of lawsuits based on speech on matters of public interest. In January 2012, the Superior Court denied the anti-SLAPP motion, ruling that, although the ratings qualify as protected speech activity under California law, the plaintiff had provided sufficient evidence in support of its claims to proceed. The defendants appealed this decision to the California Court of Appeal, which affirmed the Superior Court s rulings in May 2014, and in September 2014, the Supreme Court of California declined to review the Court of Appeal s decision. The action has been returned to the Superior Court, and discovery has begun. On March 11, 2015, pursuant to a settlement agreement in which S&P agreed to pay CalPERS $125 million, S&P was dismissed from the action.

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In November 2008, Pursuit Partners, LLC and Pursuit Investment Management, LLC filed an amended complaint adding the Company as a defendant to an existing action, which was then pending in the Superior Court of Connecticut in Stamford against UBS AG, UBS Securities LLC, and a UBS employee (collectively, UBS ). The Company was served in January 2009, and in October 2011, the Company s rating agency subsidiary, MIS, was substituted for the Company as a defendant. The action arises out of UBS s sale of five collateralized debt obligations ( CDOs ) to the plaintiffs, who purchased them on the secondary market in 2007 on behalf of two investment funds under their management. With respect to UBS, the plaintiffs allege, among other things, that UBS made material misrepresentations and omissions in pre-sale communications with the plaintiffs. With respect to MIS, the plaintiffs allege, among other things, that, prior to the plaintiffs purchases, MIS provided UBS with non-public information about potential downgrades of the ratings of the CDOs while maintaining inappropriate investment-grade ratings on the CDOs. As to all defendants, plaintiffs seek compensatory damages for alleged investment losses of approximately $44 million, as well as, among other things, attorney s fees, costs, interest, and punitive damages. Plaintiffs initial complaint against the Company asserted claims for fraud, violation of the Connecticut Uniform Securities Act ( CUSA ), aiding and abetting fraud and civil theft by UBS, negligent/reckless conduct, unjust enrichment, and civil conspiracy. In March 2012, the court granted MIS s motion to strike the claim for unjust enrichment but denied MIS s motion to strike the other claims. In June 2012, after the close of discovery, MIS moved to dismiss all claims against it for lack of standing and also moved for summary judgment. In October 2012, the court granted the motion to dismiss, but in July 2014, the court granted the plaintiffs motion for reconsideration and reinstated the action. In October 2014, MIS filed a new motion to dismiss on jurisdictional grounds, which was denied on February 11, 2015. MIS s motion for summary judgment, originally filed in June 2012, was denied on June 17, 2015. Trial is scheduled to begin on August 18, 2015, in the Superior Court of Connecticut in Waterbury.

For claims, litigation and proceedings and governmental investigations and inquires 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.

**Legacy Tax Matters**

Moody s continues to have exposure to potential liabilities arising from Legacy Tax Matters. As of June 30, 2015, Moody s has recorded liabilities for Legacy Tax Matters totaling $11.1 million. This includes liabilities and accrued interest due to New D&B arising from the 2000 Distribution Agreement. It is possible that the ultimate liability for Legacy Tax Matters could be greater than the liabilities recorded by the Company, which could result in additional charges that may be material to Moody s future reported results, financial position and cash flows.

**NOTE 15. SEGMENT INFORMATION**

The Company is organized into three operating segments: (i) MIS, (ii) MA and (iii) Copal Amba. The Copal Amba operating segment has been aggregated with the MA operating segment based on the fact that it has similar economic characteristics to MA. Accordingly, the Company reports in two reportable segments: MIS and MA.

In January 2014, the Company revised its operating segments to create the new Copal Amba operating segment. The new operating segment consists of all operations from Copal and the operations of Amba which was acquired in December 2013. The Copal Amba operating segment provides offshore research and analytic services to the global financial and corporate sectors. The Company has determined that the Copal Amba and MA operating segments have similar economic characteristics as set forth in ASC 280. As such, Copal Amba has been combined with MA to form the MA reportable segment and Copal Amba s revenue is reported in the PS LOB.

In the fourth quarter of 2014, pursuant to the acquisition of ICRA, Moody s realigned certain components of its reportable segments to better align with the current management structure of the Company. The effect of this realignment was to combine non-ratings ICRA operations with certain immaterial research and fixed income pricing operations in the Asia-Pacific region that were previously reported in the RD&A LOB of MA. All of these operations are managed by MIS and their revenue is now reported in the new MIS Other LOB. All operating expenses from

these operations are reported in the MIS reportable segment. The impact of this realignment did not have a significant impact on previously reported results for the reportable segments and all prior year comparative periods have been restated to reflect this realignment.

The MIS segment now consists of five LOBs. The corporate finance, structured finance, financial institutions and public, project and infrastructure finance LOBs 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 MIS Other LOB primarily consists of the distribution of research and fixed income pricing services in the Asia-Pacific region as well as ICRA non-ratings revenue.

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The MA segment develops a wide range of products and services that support the risk management activities of institutional participants in global financial markets. The MA segment consists of three LOBs RD&A, ERS and PS.

In July 2014, a subsidiary of the Company acquired WebEquity, a leading provider of cloud-based loan origination solutions for financial institutions. WebEquity is part of the MA reportable segment and its revenue is included in the ERS LOB. In October 2014, the Company acquired Lewtan, a leading provider of analytical tools and data for the global structured finance market. Lewtan is part of the MA reportable segment and its revenue is included in the RD&A LOB.

Revenue for MIS and expenses for MA include an intersegment royalty charged to MA for the rights to use and distribute content, data and products developed by MIS. The royalty rate charged by MIS approximates the fair value of the aforementioned content, data and products and is generally based on comparable market transactions. Also, revenue for MA and expenses for MIS include an intersegment fee charged to MIS from MA for certain MA products and services utilized in MIS s ratings process. These fees charged by MA are generally equal to the costs incurred by MA to produce these products and services. Additionally, overhead costs and corporate expenses of the Company which exclusively benefit only one segment, are fully charged to that segment. Overhead costs and corporate expenses of the Company which benefit both segments are allocated to each segment based on a revenue-split methodology. Overhead expenses include costs such as rent and occupancy, information technology and support staff such as finance, human resources and information technology. Eliminations in the table below represent intersegment revenue/expense. Moody s does not report the Company s assets by reportable segment as this metric is not used by the chief operating decision maker to allocate resources to the segments. Consequently, it is not practical to show assets by reportable segment.

**Financial Information by Segment**

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

| | Three Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | | | 2014 | | | |
| | MIS | MA | Eliminations | Consolidated | MIS | MA | Eliminations | Consolidated |
| Revenue | **$ 662.9** | **$ 282.0** | **$ (26.8)** | **$ 918.1** | $ 646.9 | $ 251.8 | $ (25.2) | $ 873.5 |
| Operating, SG&A | **287.0** | **210.7** | **(26.8)** | **470.9** | 271.7 | 193.0 | (25.2) | 439.5 |
| Adjusted Operating Income | **375.9** | **71.3** | | **447.2** | 375.2 | 58.8 | | 434.0 |
| Less: | | | | | | | | |
| Depreciation and amortization | **15.8** | **12.1** | | **27.9** | 11.4 | 10.9 | | 22.3 |
| Operating income | **$ 360.1** | **$ 59.2** | **$** | **$ 419.3** | $ 363.8 | $ 47.9 | $ | $ 411.7 |

| | Six Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | | | 2014 | | | |
| | MIS | MA | Eliminations | Consolidated | MIS | MA | Eliminations | Consolidated |
| Revenue | **$ 1,287.5** | **$ 548.6** | **$ (52.4)** | **$ 1,783.7** | $ 1,197.5 | $ 493.2 | $ (50.0) | $ 1,640.7 |
| Operating, SG&A | **568.3** | **420.7** | **(52.4)** | **936.6** | 520.3 | 380.3 | (50.0) | 850.6 |
| Adjusted Operating Income | **719.2** | **127.9** | | **847.1** | 677.2 | 112.9 | | 790.1 |
| Less: | | | | | | | | |
| Depreciation and amortization | **31.8** | **24.7** | | **56.5** | 22.8 | 22.6 | | 45.4 |
| Operating income | **$ 687.4** | **$ 103.2** | **$** | **$ 790.6** | $ 654.4 | $ 90.3 | $ | $ 744.7 |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **MIS:** | | | | |
| Corporate finance (CFG) | **$ 319.6** | $ 320.9 | **$ 618.3** | $ 585.3 |
| Structured finance (SFG) | **121.2** | 110.6 | **222.5** | 205.9 |
| Financial institutions (FIG) | **90.4** | 92.2 | **184.2** | 177.6 |
| Public, project and infrastructure finance (PPIF) | **99.9** | 98.0 | **200.6** | 178.7 |
| Total ratings revenue | **631.1** | 621.7 | **1,225.6** | 1,147.5 |
| MIS Other | **8.1** | 3.3 | **15.9** | 6.6 |
| Total external revenue | **639.2** | 625.0 | **1,241.5** | 1,154.1 |
| Intersegment royalty | **23.7** | 21.9 | **46.0** | 43.4 |
| Total | **662.9** | 646.9 | **1,287.5** | **1,197.5** |
| **MA:** | | | | |
| Research, data and analytics (RD&A) | **157.5** | 141.4 | **307.1** | 279.0 |
| Enterprise risk solutions (ERS) | **83.2** | 67.2 | **160.3** | 127.0 |
| Professional services (PS) | **38.2** | 39.9 | **74.8** | 80.6 |
| Total external revenue | **278.9** | 248.5 | **542.2** | 486.6 |
| Intersegment revenue | **3.1** | 3.3 | **6.4** | 6.6 |
| Total | **282.0** | 251.8 | **548.6** | 493.2 |
| Eliminations | **(26.8)** | (25.2) | **(52.4)** | (50.0) |
| Total MCO | **$ 918.1** | $ 873.5 | **$ 1,783.7** | $ 1,640.7 |

Consolidated Revenue Information by Geographic Area:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| United States | **$ 545.9** | $ 461.1 | **$ 1,045.7** | $ 886.7 |
| International: | | | | |
| EMEA | **217.4** | 263.3 | **445.0** | 483.9 |
| Asia-Pacific | **99.2** | 88.6 | **185.3** | 158.5 |
| Americas | **55.6** | 60.5 | **107.7** | 111.6 |
| Total International | **372.2** | 412.4 | **738.0** | 754.0 |
| Total | **$ 918.1** | $ 873.5 | **$ 1,783.7** | $ 1,640.7 |

**NOTE 16. RECENTLY ISSUED ACCOUNTING STANDARDS**

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers . This ASU outlines a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The Company is currently evaluating its adoption options and the impact that adoption of this update will have on its consolidated financial statements. Currently, the Company believes this ASU will have an impact on: i) the capitalization of certain contract implementation costs for its ERS business; ii) the accounting for certain ratings monitoring fees received in advance of service being rendered; iii) the accounting for certain license and maintenance revenue in MA; iv) the accounting for certain ERS revenue arrangements where VSOE is not available and v) the accounting for contract acquisition costs. In April 2015, the FASB proposed to defer the effective date of the ASU for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted up to the original effective date of December 15, 2016. This proposal was subject to the FASB s normal due process requirements which included a 30-day public comment period on the proposed ASU. In July 2015, the FASB reaffirmed its decision to defer the effective date of ASU No. 2014-09 by one year. A final ASU relating to this deferral is expected in the third quarter of 2015.

In April 2015, the FASB issued ASU No. 2015-05 Customer s Accounting for Fees Paid in a Cloud Computing Arrangement . This ASU provides guidance on accounting for fees paid by a customer in a cloud computing arrangement. In accordance with the ASU, a cloud computing arrangement that contains a software license should be accounted for consistently with the acquisition of other software licenses. If no software license is present in the contract, the entity should account for the arrangement as a service contract. The Company can elect to apply this ASU either retrospectively or prospectively effective for annual and interim reporting periods beginning after December 15, 2015, and early adoption is permitted. The Company is currently evaluating the impact that adoption of this update will have on its consolidated financial statements.

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In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs . This ASU simplifies the presentation of debt issuance costs in financial statements and requires a company to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization costs will continue to be reported as interest expense. The ASU is effective retrospectively for annual and interim reporting periods beginning after December 15, 2015, and early adoption is permitted. The adoption of this ASU will impact the presentation of debt issuance costs in the Company s consolidated balance sheets.

In May 2015, the FASB issued ASU No. 2015-07 Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) . This ASU removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value per share as a practical expedient. ASU No. 2015-07 is effective retrospectively for fiscal years beginning after December 15, 2015, with early adoption permitted. The adoption of this ASU will only impact the presentation of the Company s pension assets invested in common/collective trust funds in the fair value hierarchy disclosures.

**NOTE 17. SUBSEQUENT EVENT**

On July 13, 2015, the Board approved the declaration of a quarterly dividend of $0.34 per share of Moody s common stock, payable on September 10, 2015 to shareholders of record at the close of business on August 20, 2015.

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**Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

This Management s Discussion and Analysis of Financial Condition and Results of Operations contains Forward-Looking Statements. See Forward-Looking Statements commencing on page 56 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. 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 primarily derived from the originators and issuers of such transactions who use MIS ratings in the distribution of their debt issues to investors. Additionally, MIS earns revenue from certain non-ratings-related operations which consist primarily of the distribution of research and fixed income pricing services in the Asia-Pacific region and from ICRA non-ratings services. The revenue from these operations is included in the MIS Other LOB and is not material to the results of the MIS segment.

The MA segment develops a wide range of products and services that 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. 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 accounting principles generally accepted in the United States. The preparation of these financial statements requires Moody s to make estimates and judgments that affect reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the dates of the financial statements and revenue and expenses during the reporting periods. These estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, Moody s evaluates its estimates, including those related to revenue recognition, accounts receivable allowances, contingencies, restructuring, goodwill and acquired intangible assets, pension and other retirement benefits, stock-based compensation, and income taxes. Actual results may differ from these estimates under different assumptions or conditions. Item 7, MD&A, in the Company s annual report on Form 10-K for the year ended December 31, 2014, includes descriptions of some of the judgments that Moody s makes in applying its accounting estimates in these areas. Since the date of the annual report on Form 10-K, there have been no material changes to the Company s critical accounting estimates.

**Reportable Segments**

The Company is organized into two reportable segments at June 30, 2015: MIS and MA.

The MIS segment is primarily comprised of all of the Company s ratings operations. The MIS segment consists of five LOBs CFG, SFG, FIG, PPIF and MIS Other. The ratings LOBs 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 MIS Other LOB consists of certain non-ratings operations managed by MIS which consists of non-rating revenue from ICRA as well as certain research and fixed income pricing service operations in the Asia-Pacific region.

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. The MA segment consists of three lines of business RD&A, ERS and PS.

In June 2014, a subsidiary of the Company acquired a controlling stake in ICRA, a leading provider of credit ratings and research in India. ICRA is part of the MIS reportable segment and its ratings revenue is included in the respective ratings LOBs of MIS while its non-ratings revenue is included in the MIS Other LOB. ICRA s results are reported on a three month lag. In July 2014, a subsidiary of the Company acquired WebEquity, a leading provider of cloud-based loan origination solutions for financial institutions. WebEquity is part of the MA reporting

segment and its revenue is included in the ERS LOB. In October 2014, the Company acquired Lewtan, a leading provider of analytical tools and data for the global structured finance market. Lewtan is part of the MA reportable segment and its revenue is included in the RD&A LOB.

Pursuant to the ICRA Acquisition, the Company realigned certain components of its reportable segments in the fourth quarter of 2014. This realignment resulted in the creation of the MIS Other LOB which now consists of non-ratings revenue from ICRA as well as certain research and

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fixed income pricing revenue in the Asia-Pacific region which was previously reported in the RD&A LOB of MA. These businesses are all managed by MIS and the expenses from these operations are included in the MIS reportable segment. All prior period results for both MIS and MA have been restated to reflect this realignment and the impact of the realignment was not significant to MIS s or MA s previously reported results.

The following is a discussion of the results of operations of the Company and its reportable segments. Total MIS revenue and total MA expenses include 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. Total MA revenue and total MIS expenses include 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.

**RESULTS OF OPERATIONS**

***Three months ended June 30, 2015 compared with three months ended June 30, 2014***

*Executive Summary*

Moody s revenue in the second quarter of 2015 totaled $918.1 million, an increase of $44.6 million, or 5%, compared to 2014 and reflected growth in both MIS and MA. Excluding the impact of changes in FX translation rates, primarily due to the strengthening of the U.S. dollar to the euro and British pound, revenue grew 10% over the prior year.

External MIS revenue was 2% higher than the prior year. Excluding the impact of unfavorable changes in FX translation rates, MIS revenue grew 7% reflecting growth in rated issuance volumes for U.S. investment-grade corporate debt coupled with benefits from changes in the mix of fee type, new fee initiatives and certain pricing increases. Additionally, the increase reflected higher SFG revenue in the U.S., most notably in structured credit, CREF and RMBS coupled with higher U.S. public finance refunding volumes and revenue from the ICRA Acquisition. These increases were partially offset by declines in revenue from rating high-yield corporate debt and bank loans in EMEA as well as declines in investment-grade rated issuance volumes in the EMEA and Americas regions. Changes in FX translation rates had an approximate $30 million unfavorable impact on MIS revenue compared to the prior year.

External MA revenue was 12% higher than the prior year. Excluding the impact of unfavorable changes in FX translation rates, MA revenue grew 18% reflecting growth in ERS and RD&A. Revenue grew in all product areas of ERS, with particular strength in the Asset, Liability & Capital as well as the Credit Assessment & Origination products. In RD&A, revenue growth was primarily driven by credit research and licensing of ratings data. The 2014 acquisitions of WebEquity and Lewtan also contributed to the growth in ERS and RD&A, respectively. These results were partially offset by an approximate $13 million unfavorable impact due to changes in FX translation rates.

Total expenses increased $37.0 million, or 8%, compared to the second quarter of 2014. The growth in operating expenses primarily reflected:

higher compensation costs of $18.0 million associated with headcount growth (both from acquisitions and business growth) and annual compensation increases.

higher non-compensation expenses of $13.4 million primarily reflecting an increase in costs for various IT infrastructure and other operational enhancement projects as well as higher variable costs associated with business growth.

The increase in both compensation and non-compensation expense reflects operating costs from the ICRA Acquisition as well as the acquisitions of WebEquity and Lewtan.

Changes in FX translation rates had an approximate $21 million favorable impact on total expenses compared to the prior year. Excluding the favorable impact relating to changes in FX translation rates, total expenses increased 13% compared to the prior year.

Operating income of $419.3 million in the second quarter of 2015 increased $7.6 million compared to 2014 and resulted in an operating margin of 45.7%, compared to 47.1% in the prior year. Adjusted Operating Income of $447.2 million in the second quarter of 2015 increased $13.2 million compared to 2014, resulting in an Adjusted Operating Margin of 48.7% compared to 49.7% in the prior year period. Unfavorable changes in FX translation rates negatively impacted operating income by approximately 5%. The decrease in margins is primarily due continued investment in the Company s operations as well as the acquisition of companies that operate at margins below Moody s historical margins.

The ETR in the second quarter of 2015 was 270 BPS lower than the prior year primarily due to benefits resulting from a favorable state tax ruling and a change in local tax law relating to income apportionment.

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The decrease in non-operating income (expense) compared to the prior year is primarily due to the ICRA Gain in 2014 partially offset by higher interest expense reflecting the issuance of the 2014 Senior Notes (5-Year) and the 2014 Senior Notes (30-Year) in July 2014 as well as and the 2015 Senior Notes in March 2015. Additionally, there was approximately $5 million in higher FX losses compared to the prior year.

Diluted EPS of $1.28 in the second quarter of 2015 decreased $0.20 from 2014, which included a $0.36 benefit related to the ICRA Gain. Excluding the ICRA Gain in the prior year period, Diluted EPS in the second quarter of 2015 was $0.16 higher than 2014 Non-GAAP Diluted EPS of $1.12.

***Moody s Corporation***

| | Three months ended June 30, | | % Change Favorable (Unfavorable) |
|---|---|---|---|
| | **2015** | **2014** | |
| Revenue: | | | |
| United States | **$ 545.9** | $ 461.1 | 18% |
| International: | | | |
| EMEA | **217.4** | 263.3 | (17%) |
| Asia-Pacific | **99.2** | 88.6 | 12% |
| Americas | **55.6** | 60.5 | (8%) |
| Total International | **372.2** | 412.4 | (10%) |
| Total | **918.1** | 873.5 | 5% |
| Expenses: | | | |
| Operating | **243.9** | 222.1 | (10%) |
| SG&A | **227.0** | 217.4 | (4%) |
| Depreciation and amortization | **27.9** | 22.3 | (25%) |
| Total | **498.8** | 461.8 | (8%) |
| Operating income | **$ 419.3** | $ 411.7 | 2% |
| Adjusted Operating Income [(1)] | **$ 447.2** | $ 434.0 | 3% |
| Interest income (expense), net | **$ (31.9)** | $ (26.0) | (23%) |
| Other non-operating income (expense), net | **$ (8.2)** | $ (3.3) | (148%) |
| ICRA Gain | **$** | $ 102.8 | (100%) |
| Net income attributable to Moody s | **$ 261.7** | $ 319.2 | (18%) |
| Diluted EPS attributable to Moody s common shareholders | **$ 1.28** | $ 1.48 | (14%) |
| Non-GAAP EPS attributable to Moody s common shareholders | **$ 1.28** | $ 1.12 | 14% |
| Operating margin | **45.7%** | 47.1% | |
| Adjusted Operating Margin[(1)] | **48.7%** | 49.7% | |

(1) Adjusted Operating Income, Adjusted Operating Margin and Non-GAAP 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:

| | June 30, | | % Change |
|---|---|---|---|
| | 2015 | 2014 | |
| United States | **3,257** | 2,888 | 13% |
| International | **6,906** | 6,904 | |
| Total | **10,163** | 9,792 | 4% |

Global revenue of $918.1 million in the second quarter of 2015 increased $44.6 million, or 5%, compared to 2014 reflecting growth in both MIS and MA. Excluding the unfavorable impact of changes in FX translation rates, global revenue grew 10% over the prior year. The increase in MIS revenue reflects strong growth in U.S. investment-grade rated issuance volumes and U.S. public finance refunding volumes. Also contributing to the growth in MIS were increases across most SFG asset classes in the U.S., revenue from the ICRA Acquisition and benefits from changes in the mix of fee type, new fee initiatives and certain pricing increases. These increases were partially offset by declines in rated issuance volumes for high-yield corporate debt and bank loans in EMEA as well as an approximate $30 million unfavorable impact due to changes in FX translation rates. The growth in MA reflects increases in ERS and RD&A. Revenue grew in all product areas of ERS, with particular strength in the Asset, Liability & Capital as well as Credit Assessment & Origination products. In RD&A, revenue growth was driven primarily by credit research and licensing of ratings data. The acquisitions of WebEquity and Lewtan in the second half of 2014 also contributed to growth in ERS and RD&A, respectively. Changes in FX translation rates had an approximate $13 million unfavorable impact on MA revenue compared to the prior year. Transaction revenue accounted for 52% of global MCO revenue in the second quarter of 2015 compared to 53% in the prior year.

U.S. revenue of $545.9 million in the second quarter of 2015 increased $84.8 million over the prior year, reflecting growth across all LOBs in both reportable segments.

Non-U.S. revenue of $372.2 million decreased $40.2 million compared to the second quarter of 2014. This decrease is due to declines in all ratings LOBs which reflects approximately $41 million relating to unfavorable changes in FX translation rates coupled with declines in rated issuance volumes for high-yield corporate debt and bank loans in the EMEA region.

Operating expenses were $243.9 million in the second quarter of 2015 and increased $21.8 million from 2014 primarily due to an approximate $13 million increase in compensation costs reflecting higher salaries and related employee benefits resulting from the impact of annual compensation increases and higher headcount due to business growth and from the Company s 2014 acquisitions. Non-compensation expenses increased approximately $9 million compared to the prior year reflecting higher costs to support the Company s IT and operational infrastructure and higher variable costs to support business growth. The increases above include a favorable impact relating to changes in FX translation rates compared to the prior year.

SG&A expenses of $227.0 million in the second quarter of 2015 increased $9.6 million from the prior year period reflecting both higher compensation and non-compensation costs of approximately $5 million each. The growth in compensation costs was primarily due to higher salaries and related employee benefits resulting from annual compensation increases, headcount growth in MIS and MA as well as in overhead support areas coupled with higher headcount from acquisitions. The increase in non-compensation expenses reflects higher costs to support the Company s IT and operational infrastructure as well as higher rent and occupancy costs reflecting additional floors leased at the Company s 7WTC headquarters coupled with various other real estate expansion projects worldwide. Additionally, the increase reflects incremental non-compensation expenses from the ICRA Acquisition as well as the acquisitions of WebEquity and Lewtan in 2014. The increases above include a favorable impact relating to changes in FX translation rates compared to the prior year.

Operating income of $419.3 million increased $7.6 million from the second quarter of 2014. Adjusted Operating Income was $447.2 million in the second quarter of 2015 and increased $13.2 million compared to 2014. Operating margin decreased 140 BPS compared to the second quarter of 2014. Adjusted Operating Margin in the second quarter of 2015 of 48.7% decreased 100 BPS compared to the prior year. The decrease in margins is primarily due to the Company s continued investment in operations as well as the acquisition of companies that operate at margins below Moody s historical margins.

Interest income (expense), net in the second quarter of 2015 was ($31.9) million, a $5.9 million increase in expense compared to 2014. This increase reflects higher interest on borrowings due to the issuance of the 2014 Senior Notes (5-Year) and 2014 Senior Notes (30-Year) in July

2014 as well as the issuance of the 2015 Senior Notes.

Other non-operating income (expense), net was ($8.2) million in the second quarter of 2015, a $4.9 million increase in expense compared to 2014. The increase in expense is primarily due to approximately $12 million in FX losses in the second quarter of 2015 compared to FX losses of approximately $7 million in the prior year. The FX losses were mainly due to the weakening of the U.S. dollar to the euro and British pound in the second quarter of 2015.

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The Company s ETR was 30.4% in the second quarter of 2015, compared with 33.1% in 2014 with the decrease primarily due to a state tax ruling and a change in local tax law relating to income apportionment.

Net Income in the second quarter of 2015 was $261.7 million, or $1.28 per diluted share. This is a decrease of $57.5 million, or $0.20 per diluted share, compared to 2014 which included a net benefit of $78.5 million related to the ICRA Gain. Excluding the ICRA Gain in the second quarter of 2014, Diluted EPS of $1.28 in the second quarter of 2015 was $0.16 higher than Non-GAAP Diluted EPS of $1.12 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:

| | Three months ended June 30, 2015 | 2014 | % Change Favorable (Unfavorable) |
|---|---|---|---|
| Revenue: | | | |
| Corporate finance (CFG) | **$ 319.6** | $ 320.9 | |
| Structured finance (SFG) | **121.2** | 110.6 | 10% |
| Financial institutions (FIG) | **90.4** | 92.2 | (2%) |
| Public, project and infrastructure finance (PPIF) | **99.9** | 98.0 | 2% |
| Total ratings revenue | **631.1** | **621.7** | 2% |
| MIS Other | **8.1** | **3.3** | 145% |
| Total external revenue | **639.2** | **625.0** | 2% |
| Intersegment royalty | **23.7** | 21.9 | 8% |
| Total | **662.9** | **646.9** | 2% |
| Expenses: | | | |
| Operating and SG&A (external) | **283.9** | 268.4 | (6%) |
| Operating and SG&A (intersegment) | **3.1** | 3.3 | 6% |
| Adjusted Operating Income | **375.9** | 375.2 | |
| Depreciation and amortization | **15.8** | 11.4 | (39%) |
| Operating income | **$ 360.1** | $ 363.8 | (1%) |
| Adjusted Operating Margin | **56.7%** | 58.0% | |
| Operating margin | **54.3%** | 56.2% | |

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

Global MIS revenue of $639.2 million in the second quarter of 2015 increased $14.2 million, or 2%, compared to 2014. Excluding unfavorable changes in FX translation rates, MIS revenue grew 7% over the prior year reflecting growth across all LOBs. The growth reflects higher rated issuance volumes for investment-grade corporate debt as well as benefits from the mix of fee type, new fee initiatives and certain pricing increases, primarily in the U.S. Additionally, the growth reflects higher refunding volumes in U.S. public finance and higher U.S. SFG revenue

across most asset classes coupled with higher monitoring fee revenue. The 2015 results include revenue from the ICRA Acquisition. These increases were partially offset by approximately $30 million relating to unfavorable changes in FX translation rates coupled with declines in rated issuance volumes for high-yield corporate debt and bank loans in EMEA. Transaction revenue for MIS was 64% in both the second quarter of 2015 and 2014.

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In the U.S., revenue was $412.0 million in the second quarter of 2015, an increase of $59.5 million compared to 2014 reflecting growth in rated issuance volumes for investment-grade corporate debt as well as higher public finance refunding volumes. Additionally, the growth reflects increases across most asset classes in SFG. Also contributing to the increase were changes in the mix of fee type, new fee initiatives and certain pricing increases coupled with higher monitoring fees in SFG and CFG.

Non-U.S. revenue was $227.2 million in the second quarter of 2015, a decrease of $45.3 million compared to 2014 with the decrease reflecting approximately $28 million relating to unfavorable changes in FX translation rates. The decrease also reflects lower rated issuance volumes for high-yield corporate debt and bank loans in EMEA compared to a strong prior year comparative period coupled with current macroeconomic and geopolitical uncertainties in the region. Partially offsetting these declines were benefits from changes in the mix of fee type, new fee initiatives and certain pricing increases, higher monitoring fees in CFG and revenue from ICRA.

Global CFG revenue of $319.6 million in the second quarter of 2015 was flat compared to 2014. Excluding unfavorable changes in FX translation rates, revenue increased 4% over the prior year. The growth in revenue on a constant currency basis reflects benefits from changes in the mix of fee type, new fee initiatives and certain pricing increases as well as robust U.S. investment-grade rated issuance volumes in the second quarter of 2015 due to elevated M&A activity in the sector. Additionally, higher monitoring fee revenue across all regions due to growth in the number of outstanding rated entities and revenue from ICRA both contributed to the growth in constant currency revenue. These increases were partially offset by declines in rated issuance volumes for high-yield corporate debt and bank loans in EMEA compared to a strong prior year comparative period and reflecting current macroeconomic and geopolitical concerns in the region. Transaction revenue represented 73% and 74% of total CFG revenue in the second quarter of 2015 and 2014, respectively. Changes in FX translation rates had an approximate $13 million unfavorable impact on revenue compared to the prior year. In the U.S., revenue was $216.4 million, or $33.2 million higher than the prior year. Internationally, revenue of $103.2 million decreased $34.5 million compared to the prior year.

Global SFG revenue of $121.2 million in the second quarter of 2015 increased $10.6 million, or 10%, compared to 2014 primarily reflecting growth across most asset classes in the U.S. being partially offset by an approximate $6 million unfavorable impact due to changes in FX translation rates. Excluding the aforementioned impact from FX translation rates, revenue increased 15% over the prior year. In the U.S., revenue of $87.2 million increased $14.4 million compared to the second quarter of 2014. The growth in U.S. resulted from higher structured credit revenue reflecting higher monitoring fees due to growth in the number of monitored credits as well as improved market coverage in the current year. The U.S. growth also reflects higher RMBS revenue resulting from a significant increase in the number of deals in this asset class and improved market coverage. Additionally, the U.S. growth reflects increases in CMBS revenue resulting from MIS rating larger sized deals in 2015. The growth over 2014 also reflects changes in the mix of fee type, new fee initiatives and certain pricing increases. Non-U.S. revenue in the second quarter of 2015 of $34.0 million decreased $3.8 million reflecting unfavorable changes in FX translation rates partially offset by higher covered bond activity in EMEA compared to a weak comparative period as well as higher ABS revenue in Asia-Pacific. Transaction revenue was 66% of total SFG revenue in the second quarter of 2015 compared to 63% in the prior year.

Global FIG revenue of $90.4 million in the second quarter of 2015 was $1.8 million lower compared to 2014. Excluding the unfavorable impact of changes in FX translation rates, FIG revenue grew 6% compared to the prior year. In the U.S., revenue was $38.0 million, or 10% higher than the prior year, primarily reflecting higher revenue in the banking sector coupled with the favorable impact of changes in the mix of fee type, new fee initiatives and certain pricing increases. These increases were partially offset by declines in insurance revenue reflecting U.S. insurers being currently well funded. Internationally, revenue was $52.4 million in the second quarter of 2015, or $5.1 million lower compared to 2014. This decrease reflected the aforementioned unfavorable impact from changes in FX translation rates and lower rated issuance volumes in the insurance sector in EMEA due to insurers in the region being currently well funded. These decreases were partially offset by revenue from ICRA and benefits from changes in the mix of fee type, new fee initiatives and certain pricing increases. Transaction revenue was 36% of total FIG revenue in the second quarter of 2015 compared to 35% in the same period in 2014.

Global PPIF revenue was $99.9 million in the second quarter of 2015 and increased $1.9 million, or 2%, compared to 2014. Excluding the unfavorable impact from changes in FX translation rates, PPIF revenue grew 6% over the prior year. In the U.S., revenue in the second quarter of 2015 was $67.7 million, an increase of $5.9 million compared to 2014 reflecting higher U.S. public finance refunding volumes due to current low benchmark interest rates. Additionally, the growth reflects benefits from changes in the mix of fee type, new fee initiatives and pricing increases. These increases were partially offset by decreases in infrastructure finance revenue reflecting an unfavorable issuance mix coupled with lower project finance revenue. Outside the U.S., PPIF revenue decreased $4.0 million compared to 2014, with the decline primarily due to unfavorable changes in FX translation rates. Transaction revenue was 62% and 63% of total PPIF revenue in second quarter of 2015 and 2014, respectively.

Operating and SG&A expenses in the second quarter of 2015 increased $15.5 million compared to 2014 primarily reflecting higher compensation and non-compensation costs of approximately $9 million and $7 million, respectively. The increase in compensation costs reflects annual compensation increases, headcount growth in the ratings LOBs and from the ICRA Acquisition 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

non-compensation expenses includes approximately $4 million in higher costs to support the Company s IT systems and operational infrastructure as well as higher variable costs to support business growth. Additionally, there were higher rent and occupancy costs for additional leased floors at 7WTC and various other global real estate expansion projects coupled with ICRA expenses. Changes in FX translation rates had an approximate $12 million favorable impact on MIS expenses in the second quarter of 2015 compared to the prior year.

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Adjusted Operating Income and operating income in the second quarter of 2015, which includes intersegment royalty revenue and intersegment expenses, were $375.9 million and $360.1 million, respectively, and both were flat compared to 2014. Adjusted Operating Margin and operating margin were 56.7% and 54.3%, respectively, or 130BPS and 190BPS lower compared to the second quarter of 2014.

***Moody s Analytics***

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

| | Three months ended June 30, 2015 | 2014 | % Change Favorable (Unfavorable) |
|---|---|---|---|
| Revenue: | | | |
| Research, data and analytics (RD&A) | **$ 157.5** | $ 141.4 | 11% |
| Enterprise risk solutions (ERS) | **83.2** | 67.2 | 24% |
| Professional services (PS) | **38.2** | 39.9 | (4%) |
| Total external revenue | **278.9** | 248.5 | 12% |
| Intersegment revenue | **3.1** | 3.3 | (6%) |
| Total MA Revenue | **282.0** | 251.8 | 12% |
| Expenses: | | | |
| Operating and SG&A (external) | **187.0** | 171.1 | (9%) |
| Operating and SG&A (intersegment) | **23.7** | 21.9 | (8%) |
| Adjusted Operating Income | **71.3** | 58.8 | 21% |
| Depreciation and amortization | **12.1** | 10.9 | (11%) |
| Operating income | **$ 59.2** | $ 47.9 | 24% |
| Adjusted Operating Margin | **25.3%** | 23.4% | |
| Operating margin | **21.0%** | 19.0% | |

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

Global MA revenue increased $30.4 million compared to the second quarter of 2014 reflecting growth in ERS and RD&A, which included revenue from the acquisitions of WebEquity and Lewtan, respectively. Excluding unfavorable changes in FX translation rates, MA revenue grew 18% compared to the prior year. Recurring revenue comprised 76% of total MA revenue in both the second quarter of 2015 and 2014.

In the U.S., revenue of $133.9 million in the second quarter of 2015 increased $25.3 million reflecting growth in RD&A and ERS, which included revenue from Lewtan and WebEquity, respectively.

Non-U.S. revenue of $145.0 million in the second quarter of 2015 was $5.1 million higher than in 2014 reflecting growth in RD&A and ERS, partially offset by an approximate $13 million unfavorable impact due to changes in FX rates.

Global RD&A revenue of $157.5 million, which comprised 56% and 57% of total external MA revenue in the second quarter of 2015 and 2014, respectively, increased $16.1 million, or 11%, over the prior year period. Excluding an approximate $8 million unfavorable impact due to changes in FX translation rates, RD&A revenue grew 17% compared to the prior year. The growth in revenue on a constant currency basis, which was most notable in the U.S. and EMEA, reflected the acquisition of Lewtan in the fourth quarter of 2014 as well as strong sales of credit research and licensing of ratings data. In the U.S., revenue of $89.9 million increased 19% over the prior year. Non-U.S. revenue of $67.6

million increased 2% and included the unfavorable impact from changes in FX translation rates.

Global ERS revenue in the second quarter of 2015 of $83.2 million increased $16.0 million, or 24%, over 2014. Excluding unfavorable changes in FX translation rates, ERS revenue grew 30%. Revenue growth was primarily due to project delivery across all product offerings with particular strength in the Asset, Liability & Capital as well as Credit Assessment & Origination products and also reflects revenue from the acquisition of WebEquity in the third quarter of 2014. These increases were partially offset by an approximate $4 million unfavorable impact related to changes in FX translation rates. Revenue in ERS is subject to quarterly volatility resulting from the variable nature of project timing and the concentration of software implementation and license revenue in a relatively small number of engagements. In the U.S., revenue of $31.3 million increased 44% compared to the prior year. Non-U.S. revenue of $51.9 million increased 14% and included the aforementioned unfavorable impact from changes in FX translation rates.

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Revenue from PS of $38.2 million in the second quarter of 2015 decreased $1.7 million compared to the second quarter of 2014. Excluding unfavorable changes in FX translation rates, revenue was 1% lower than the prior year primarily reflecting the Company s exiting of certain Copal Amba product lines late in 2014. In the U.S., revenue of $12.7 million increased 10%. Non-U.S. revenue of $25.5 million decreased 10% compared to the prior year and included an approximate $1 million unfavorable impact due to changes in FX translation rates.

Operating and SG&A expenses in the second quarter of 2015 increased $15.9 million compared to 2014. The expense growth reflects an approximate $9 million increase in compensation costs primarily due to higher headcount to support business growth as well as higher headcount in support areas, for which the costs are allocated to each segment based on a revenue-split methodology. Headcount from the acquisitions of WebEquity and Lewtan as well as annual merit increases also contributed to the compensation expense growth. Additionally, the expense growth reflects an approximate $7 million increase in non-compensation expenses primarily due to costs related to ERS product development and project delivery as well as higher costs relating to various IT and operational infrastructure projects. Furthermore, the non-compensation expense growth reflects costs from the acquisitions of Lewtan and WebEquity in 2014. Changes in FX translation rates had an approximate $9 million favorable impact on MA expenses in the second quarter of 2015 compared to the prior year.

Adjusted Operating Income was $71.3 million in the second quarter of 2015 and increased $12.5 million compared to the same period in 2014. Operating income of $59.2 million in the second quarter of 2015 increased $11.3 million compared to the same period in 2014. Adjusted Operating Margin for the second quarter of 2015 was 25.3%, compared to 23.4% in 2014. Operating margin was 21.0% compared to 19.0% in the prior year. Adjusted Operating Income and operating income both include intersegment revenue and expense.

**Results of Operations**

***Six months ended June 30, 2015 compared with six months ended June 30, 2014***

*Executive Summary*

Moody s revenue in the first half of 2015 totaled $1,783.7 million, an increase of $143.0 million, or 9%, compared to 2014. Excluding an approximate $83 million unfavorable impact from changes in FX translation rates, primarily due to the strengthening of the U.S. dollar to the euro and British pound, revenue grew 14% over the prior year and reflected double-digit growth in both MIS and MA on a constant currency basis.

External MIS revenue was 8% higher compared to the prior year. Excluding the impact from unfavorable changes in FX translation rates, external MIS revenue grew 13% over the prior year. This growth primarily reflects increases in investment-grade and speculative-grade rated issuance volumes in the U.S. Additionally, the growth reflected higher refunding volumes in U.S. public finance, increases across most asset classes in U.S. SFG and the favorable impact of changes in the mix of fee type, new fee initiatives and certain pricing increases. Also, the increase reflects higher banking revenue in the U.S. as well as revenue from the ICRA Acquisition. These increases were partially offset by declines in bank loan revenue in the U.S. and EMEA as well as an approximate $58 million unfavorable impact due to changes in FX translation rates.

External MA revenue grew 11% compared to the prior year reflecting growth in ERS and RD&A. Excluding the impact from unfavorable changes in FX translation rates, MA revenue grew 17%. This growth reflects increases in all product areas of ERS, with particular strength in the Asset, Liability & Capital as well as the Credit Assessment & Origination products. In RD&A, revenue growth was primarily driven by credit research and licensing of ratings data. The 2014 acquisitions of WebEquity and Lewtan also contributed to growth in ERS and RD&A, respectively. These results were partially offset by an approximate $25 million unfavorable impact due to changes in FX translation rates.

Total expenses increased $97.1 million, or 11%, compared to the prior year and primarily reflected:

higher compensation costs of approximately $55 million associated with headcount growth, including those from acquired companies, and annual compensation increases;

higher non-compensation expenses of approximately $31 million reflecting an increase in costs for various IT infrastructure and other operational enhancement projects. Additionally, the increase reflected higher variable costs associated with business growth and operating costs from the ICRA Acquisition and the WebEquity and Lewtan acquisitions.

Changes in FX translation rates had an approximate $40 million favorable impact on total expenses compared to prior year. Excluding the favorable FX impact, total expenses increased 15%.

Operating income of $790.6 million increased $45.9 million compared to 2014 and resulted in an operating margin of 44.3%, compared to 45.4% in the prior year. Adjusted Operating Income of $847.1 million in the first half of 2015 increased $57.0 million compared to 2014, resulting in an Adjusted Operating Margin of 47.5% compared to 48.2% in the prior year period. The decrease in the margins is due to continued investment in the Company s operations as well as the acquisition of companies which operate at a margin below Moody s historical margin. Unfavorable changes in FX translation rates negatively impacted operating income by approximately 6%.

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The ETR was flat compared to 2014. The 2015 ETR includes benefits resulting from a favorable state tax ruling and a change in local tax law relating to income apportionment. The 2014 ETR included a benefit related to the reversal of UTPs resulting from the favorable resolution of certain international tax matters.

Diluted EPS of $2.39 in the first half of 2015 decreased $0.08 compared to 2014 which included $0.36 related to the ICRA Gain. Excluding the ICRA Gain in the prior year, Diluted EPS increased $0.28 primarily due to the aforementioned growth in operating income coupled with a 5% decline in the diluted weighted average number of shares outstanding reflecting the Company s share repurchase program, partially offset by higher non-operating expenses.

***Moody s Corporation***

| | Six months ended June 30, 2015 | 2014 | % Change Favorable (Unfavorable) |
|---|---|---|---|
| Revenue: | | | |
| United States | **$ 1,045.7** | $ 886.7 | 18% |
| International: | | | |
| EMEA | **445.0** | 483.9 | (8%) |
| Asia-Pacific | **185.3** | 158.5 | 17% |
| Americas | **107.7** | 111.6 | (3%) |
| Total International | **738.0** | 754.0 | (2%) |
| Total | **1,783.7** | 1,640.7 | 9% |
| Expenses: | | | |
| Operating | **488.3** | 438.1 | (11%) |
| SG&A | **448.3** | 412.5 | (9%) |
| Depreciation and amortization | **56.5** | 45.4 | (24%) |
| Total | **993.1** | 896.0 | (11%) |
| Operating income | **$ 790.6** | $ 744.7 | 6% |
| Adjusted Operating Income [(1)] | **$ 847.1** | $ 790.1 | 7% |
| Interest income (expense), net | **$ (61.2)** | $ (49.8) | (23%) |
| Other non-operating income (expense), net | **$ (5.7)** | $ (0.9) | NM |
| ICRA Gain | **$** | $ 102.8 | (100%) |
| Net income attributable to Moody s | **$ 491.8** | $ 537.2 | (8%) |
| Diluted EPS attributable to Moody s common shareholders | **$ 2.39** | $ 2.47 | (3%) |
| Non-GAAP EPS attributable to Moody s common shareholders | **$ 2.39** | $ 2.11 | 13% |
| Operating margin | **44.3%** | 45.4% | |
| Adjusted Operating Margin[(1)] | **47.5%** | 48.2% | |

(1) Adjusted Operating Income, Adjusted Operating Margin and Non-GAAP 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.

Global revenue of $1,783.7 million in the first half of 2015 increased $143.0 million, or 9%, compared to 2014. Excluding the unfavorable impact from changes in FX translation rates, global revenue grew 14% compared to 2014 and reflected double-digit growth in both MIS and

MA. The increase in MIS revenue primarily reflects growth in rated issuance volumes for investment-grade corporate debt in the U.S. and EMEA as well as higher speculative-grade corporate debt volumes in the U.S. Additionally, the growth reflects higher U.S. public finance refunding volumes and growth in banking revenue. Also contributing to the growth in MIS were changes in the mix of fee type, new fee initiatives and certain pricing increases, primarily in the U.S. as well as revenue from the ICRA Acquisition. These increases were partially offset by declines in high-yield corporate debt issuance in EMEA, lower bank loan issuance in the U.S. and EMEA and an approximate $58 million unfavorable impact to MIS

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revenue due to changes FX rates. The growth in MA reflects increases in ERS and RD&A. Revenue grew in all product areas of ERS, with particular strength in the Asset, Liability & Capital as well as the Credit Assessment & Origination products. In RD&A, revenue growth was driven primarily by credit research and licensing of ratings data. The acquisitions of WebEquity in the third quarter of 2014 and of Lewtan in the fourth quarter of 2014 also contributed to growth in ERS and RD&A, respectively. Changes in FX rates had an approximate $25 million unfavorable impact on MA revenue compared to the prior year. Transaction revenue accounted for 52% of global MCO revenue in the first half of 2015 compared to 51% in the prior year.

U.S. revenue of $1,045.7 million in the first half of 2015 increased $159.0 million over the prior year reflecting growth across all LOBs in both reportable segments.

Non-U.S. revenue of $738.0 million decreased $16.0 million compared to the first half of 2014 reflecting declines in ratings revenue in EMEA primarily due to unfavorable changes in FX translation rates coupled with declines in high-yield corporate debt and bank loan issuance resulting from current macroeconomic and geopolitical uncertainties in the region. These declines were partially offset by higher ratings revenue in Asia-Pacific, which includes revenue from ICRA, as well as growth across all regions in MA. Changes in FX translation rates had an approximate $81 million unfavorable impact on non-U.S. revenue compared to the prior year.

Operating expenses were $488.3 million in the first half of 2015 and increased $50.2 million from 2014 primarily due to an approximate $33 million increase in compensation costs reflecting higher salaries, related employee benefits and incentive compensation resulting from the impact of annual compensation increases as well as higher headcount due to business growth and from acquisitions. Additionally, higher pension costs contributed to the compensation expense growth reflecting a lower discount rate used to value the obligations and the use of a new mortality table. Non-compensation expenses increased approximately $17 million compared to the prior year reflecting higher costs to support the Company s IT and operational infrastructure and higher variable costs to support business growth. The increases above include a favorable impact relating to changes in FX translation rates compared to the prior year.

SG&A expenses of $448.3 million in the first half of 2015 increased $35.8 million compared to the prior year period reflecting higher compensation and non-compensation expenses of approximately $22 million and $14 million, respectively. The growth in compensation costs was primarily due to higher salaries, related employee benefits and incentive compensation resulting from annual compensation increases, headcount growth in MIS and MA as well as in overhead support areas coupled with higher headcount from acquisitions. Additionally, higher pension costs contributed to the compensation expense growth reflecting a lower discount rate used to value the obligations and the use of a new mortality table. The increase in non-compensation expenses reflects higher costs to support the Company s IT and operational infrastructure as well as higher rent and occupancy costs reflecting additional floors leased at the Company s 7WTC headquarters coupled with various other real estate expansion projects worldwide. Additionally, the increase reflects non-compensation expenses from ICRA as well as expenses from the acquisitions of WebEquity and Lewtan in the second half of 2014. The increases above include a favorable impact relating to changes in FX translation rates compared to the prior year.

Operating income of $790.6 million increased $45.9 million from the first half of 2014. Adjusted Operating Income was $847.1 million in the first half of 2015 and increased $57.0 million compared to 2014. Operating margin decreased 110 BPS compared to the first half of 2014. Adjusted Operating Margin in the first half of 2015 of 47.5% decreased 70 BPS compared to the prior year. The decrease in the margins is due to continued investment in the Company s operations as well as the acquisition of companies which operate at a margin below Moody s historical margin. Unfavorable changes in FX translation rates negatively impacted operating income by approximately 6%.

Interest income (expense), net in the first half of 2015 was ($61.2) million, an $11.4 million increase in net expense compared to 2014. This increase reflects $7.3 million in higher interest on borrowings due to the issuance of the 2014 Senior Notes (5-Year) and 2014 Senior Notes (30-Year) in July 2014 as well as the issuance of the 2015 Senior Notes. The increase also reflects higher interest on UTPs of approximately $5 million.

Other non-operating income (expense), net was ($5.7) million in the first half of 2015, a $4.8 million increase in expense compared to 2014 primarily due to higher FX losses in 2015. The FX losses in 2015 primarily reflect the decline of the euro to the British pound as well as the decline of the U.S. dollar to the Russian ruble in the first half of 2015 coupled with losses on the Company s cross-currency swap more fully discussed in Note 7 to the condensed consolidated financial statements.

The Company s ETR was 31.5% in the first half of 2015, or flat compared to 2014. The 2015 ETR includes benefits from a state tax ruling and a change in local tax law relating to income apportionment. The 2014 ETR includes a benefit related to the reversal of UTPs resulting from the favorable resolution of certain international tax matters.

Net Income in the first half of 2015 was $491.8 million, or $2.39 per diluted share. This is a decrease of $45.4 million, or $0.08 per diluted share, compared to 2014 which included the ICRA Gain of $78.5 million. Excluding the impact of the ICRA Gain in the prior year, diluted EPS increased $0.28 primarily due to the aforementioned growth in operating income coupled with a 5% decline in the diluted weighted average number of shares outstanding reflecting the Company s share repurchase program. These items which favorably impacted Diluted EPS were partially offset by higher non-operating expenses.

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**Segment Results**

***Moody s Investors Service***

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

| | Six months ended June 30, 2015 | 2014 | % Change Favorable (Unfavorable) |
|---|---|---|---|
| Revenue: | | | |
| Corporate finance (CFG) | **$ 618.3** | $ 585.3 | 6% |
| Structured finance (SFG) | **222.5** | 205.9 | 8% |
| Financial institutions (FIG) | **184.2** | 177.6 | 4% |
| Public, project and infrastructure finance (PPIF) | **200.6** | 178.7 | 12% |
| Total ratings revenue | **1,225.6** | **1,147.5** | 7% |
| MIS Other | **15.9** | 6.6 | 141% |
| Total external revenue | **1,241.5** | **1,154.1** | 8% |
| Intersegment royalty | **46.0** | 43.4 | 6% |
| Total | **1,287.5** | **1,197.5** | 8% |
| Expenses: | | | |
| Operating and SG&A (external) | **561.9** | 513.7 | (9%) |
| Operating and SG&A (intersegment) | **6.4** | 6.6 | 3% |
| Adjusted Operating Income | **719.2** | 677.2 | 6% |
| Depreciation and amortization | **31.8** | 22.8 | (39%) |
| Operating income | **$ 687.4** | $ 654.4 | 5% |
| Adjusted Operating Margin | **55.9%** | 56.6% | |
| Operating margin | **53.4%** | 54.6% | |

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

Global MIS revenue of $1,241.5 million in the first half of 2015 increased $87.4 million, or 8%, compared to 2014. Excluding unfavorable changes in FX translation rates, MIS revenue grew 13% over the prior year reflecting growth across all LOBs. Transaction revenue for MIS was 64% in the first half of 2015 compared to 62% in the prior year.

In the U.S., revenue of $783.5 million increased $115.3 million compared to 2014 primarily reflecting higher rated issuance volumes for investment-grade and speculative-grade corporate debt as well as higher public finance refunding volumes. The increase also reflects growth across most asset classes in SFG coupled with higher banking revenue. Additionally, changes in the mix of fee type, new fee initiatives and certain pricing increases contributed to the growth compared to the prior year. These increases were partially offset by lower bank loan rated issuance volumes compared to the prior year.

Non-U.S. revenue was $458.0 million in the first half of 2015, a decrease of $27.9 million compared to 2014 reflecting declines in bank loans and high-yield corporate debt as well as lower indicative ratings revenue in the EMEA region. Additionally, changes in FX translation rates had

an approximate $56 million unfavorable impact compared to the prior year. These decreases were partially offset by the favorable impact of changes in the mix of fee type, new fee initiatives and certain pricing increases and higher investment-grade revenue in EMEA and Asia-Pacific coupled with revenue from the ICRA Acquisition.

Global CFG revenue of $618.3 million in the first half of 2015 increased $33.0 million, or 6%, from 2014. Excluding unfavorable changes in FX translation rates, revenue grew 10% over the prior year primarily due to benefits from changes in the mix of fee type, new fee initiatives and certain pricing increases, primarily in the U.S. as well as higher rated issuance volumes for investment-grade corporate debt in the U.S. and EMEA. The growth in rated issuance volumes for investment-grade corporate debt reflects an increase in M&A activity and continued

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favorable market conditions. The growth also reflects higher U.S. speculative-grade rated issuance volumes in the first quarter of 2015 due to opportunistic issuance in the current low interest rate environment as well as to fund M&A and general corporate needs. Additionally, revenue from the ICRA Acquisition and higher monitoring fees reflecting growth in the number of outstanding rated issuances contributed to the increase over the prior year. These increases were partially offset by a decline in bank loan revenue in the U.S. as issuers utilized alternative methods to fund liquidity needs and banks reduced supply to adhere more closely to the U.S. Shared National Credit Program regarding highly leveraged transactions. The increases were also partially offset by declines in high-yield corporate debt and bank loan issuance in the second quarter of 2015 in EMEA which reflects current macroeconomic and geopolitical uncertainties in the region. Additionally, there was an approximate $25 million unfavorable impact due to changes in FX translation rates. Transaction revenue represented 72% of total CFG revenue in the first half of 2015, compared to 73% in the prior year period. In the U.S., revenue in the first half of 2015 was $408.5 million, or $54.6 million higher than the prior year. Non-U.S. revenue of $209.8 million in the first half of 2015 decreased $21.6 million compared to the prior year and included the aforementioned unfavorable impact due to changes in FX translation rates.

Global SFG revenue of $222.5 million in the first half of 2015 increased $16.6 million, or 8% compared to 2014. Excluding the impact of unfavorable changes in FX translation rates, SFG revenue grew 14% mostly due to higher CMBS, structured credit and RMBS revenue in the U.S. The growth in CMBS issuance was primarily due to higher refinancing activity reflecting a large volume of maturing instruments in 2015 coupled with larger sized deals being rated. The growth in structured credit revenue was due to higher monitoring fees resulting from growth in the number of monitored instruments as well as an increase in deal count and improved market coverage compared to the prior year. The growth in U.S. RMBS revenue reflects a significant increase in deals rated and improved market coverage over the prior year. Also contributing to the growth was the favorable impact of changes in the mix of fee type, new fee initiatives and certain pricing increases. Partially offsetting these increases was an approximate $12 million unfavorable impact from changes in FX translation rates compared to the prior year. Transaction revenue was 64% of total SFG revenue in the first half of 2015 compared to 61% in the prior year. In the U.S., revenue of $157.9 million increased $22.4 million compared to the first half of 2014. Non-U.S. revenue in the first half of 2015 of $64.6 million decreased $5.8 million compared to the prior year and included the aforementioned unfavorable impact from changes in FX translation rates.

Global FIG revenue of $184.2 million in the first half of 2015 grew $6.6 million, or 4%, compared to 2014. Excluding unfavorable changes in FX translation rates, FIG revenue grew 11% due to higher rated issuance volumes in the U.S. banking and insurance sectors reflecting issuers continuing to take advantage of favorable market conditions. Additionally, the growth reflects the favorable impact of changes in the mix of fee type, new fee initiatives and certain pricing increases as well as revenue from the ICRA Acquisition. These increases were partially offset by an approximate $13 million unfavorable impact from changes in FX rates as well as a decline in revenue from ratings managed investments in the U.S. compared to a strong prior year period. Transaction revenue was 38% of total FIG revenue in the first half of 2015 compared to 35% in the same period in 2014. In the U.S., revenue was $79.4 million, or 14% higher compared to the prior year. Non-U.S. revenue was $104.8 million in the first half of 2015, or $3.3 million lower compared to 2014 and included the aforementioned unfavorable impact from changes in FX translation rates.

Global PPIF revenue of $200.6 million increased $21.9 million, or 12%, compared to 2014. Excluding unfavorable changes in FX translation rates, PPIF revenue grew 17% compared to the prior year. The growth reflects higher U.S. public finance refunding volumes due to continued low benchmark interest rates as well as the favorable impact of changes in the mix of fee type, new fee initiatives and certain pricing increases. These increases were partially offset by lower U.S. infrastructure finance revenue compared to a strong prior year comparative period as well as an approximate $8 million unfavorable impact from changes in FX translation rates. Transaction revenue was 63% of total PPIF revenue for the first half of 2015 compared to 59% in the prior year. In the U.S., revenue in the first half of 2015 was $133.0 million and increased $23.7 million compared to 2014. Non-U.S. PPIF revenue of $67.6 million decreased $1.8 million compared to 2014 and included the aforementioned unfavorable impact from changes in FX translation rates.

Operating and SG&A expenses in the first half of 2015 increased $48.2 million compared to 2014 reflecting both higher compensation and non-compensation costs of approximately $30 million and $18 million, respectively. The increase in compensation costs reflects annual compensation increases, headcount growth in the ratings LOBs and from the ICRA Acquisition 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 non-compensation expenses reflects approximately $7 million in higher costs to support the Company s IT systems and operational infrastructure. Also, there was approximately $3 million in higher rent and occupancy costs for additional leased floors at 7WTC coupled with various other global real estate expansion projects coupled with higher legal costs for ongoing matters. The growth in non-compensation costs also reflects expenses from ICRA. Changes in FX translation rates had an approximate $24 million favorable impact on MIS expenses in the first half of 2015 compared to the prior year.

Adjusted Operating Income and operating income in the first half of 2015, which includes intersegment royalty revenue and intersegment expenses, were $719.2 million and $687.4 million, respectively, and increased $42.0 million and $33.0 million, respectively, compared to 2014. Adjusted Operating Margin and operating margin were 55.9% and 53.4%, respectively, compared to 56.6% and 54.6% in the prior year, respectively.

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***Moody s Analytics***

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

| | Six months ended June 30, 2015 | 2014 | % Change Favorable (Unfavorable) |
|---|---|---|---|
| Revenue: | | | |
| Research, data and analytics (RD&A) | **$ 307.1** | $ 279.0 | 10% |
| Enterprise risk solutions (ERS) | **160.3** | 127.0 | 26% |
| Professional services (PS) | **74.8** | 80.6 | (7%) |
| Total external revenue | **542.2** | 486.6 | 11% |
| Intersegment revenue | **6.4** | 6.6 | (3%) |
| Total MA Revenue | **548.6** | 493.2 | 11% |
| Expenses: | | | |
| Operating and SG&A (external) | **374.7** | 336.9 | (11%) |
| Operating and SG&A (intersegment) | **46.0** | 43.4 | (6%) |
| Adjusted Operating Income | **127.9** | 112.9 | 13% |
| Depreciation and amortization | **24.7** | 22.6 | (9%) |
| Operating income | **$ 103.2** | $ 90.3 | 14% |
| Adjusted Operating Margin | **23.3%** | 22.9% | |
| Operating margin | **18.8%** | 18.3% | |

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

Global MA revenue of $542.2 million increased $55.6 million, or 11% compared to the first half of 2014. Excluding unfavorable changes in FX translation rates, MA revenue grew 17% reflecting growth in RD&A and ERS which included revenue from the acquisitions of Lewtan and WebEquity, respectively. Recurring revenue comprised 76% and 77% in the first half of 2015 and 2014, respectively.

In the U.S., revenue of $262.2 million in the first half of 2015 increased $43.7 million, and reflected growth in RD&A and ERS, which included revenue from Lewtan and WebEquity, respectively, as well as modest growth in PS.

Non-U.S. revenue of $280.0 million in the first half of 2015 was $11.9 million higher than in 2014 reflecting growth in all regions within RD&A and ERS partially offset by an approximate $25 million unfavorable impact from changes in FX translation rates.

Global RD&A revenue of $307.1 million, which comprised 57% of total external MA revenue in both the first half of 2015 and 2014, increased $28.1 million, or 10% over the prior year period. Excluding unfavorable changes in FX translation rates, RD&A revenue grew 15% over the prior year. The growth was most notable in the U.S. and EMEA, primarily due to strong sales of credit research, licensing of ratings data, and economic analysis and data. The acquisition of Lewtan in late 2014 also contributed to growth over the prior year. In the U.S., revenue of $174.0 million in the first half of 2015 increased $24.4 million compared to 2014. Internationally, revenue of $133.1 million increased $3.7 million, or 3%, compared to the first half of 2014, and included an approximate $14 million unfavorable impact related to unfavorable changes in FX translation rates.

Global ERS revenue in the first half of 2015 of $160.3 million increased $33.3 million, or 26% over 2014. Excluding unfavorable changes in FX translation rates, ERS revenue grew 33% over the prior year primarily due to strong project delivery across all product offerings with particular strength in the Asset, Liability & Capital as well as the Credit Assessment & Origination products. The revenue growth also reflects the acquisition of WebEquity in the second half of 2014. Revenue in ERS is subject to quarterly volatility resulting from the variable nature of project timing and the concentration of software implementation services and license revenue in a relatively small number of engagements. In the U.S., revenue of $62.1 million in the first half of 2015 increased $18.6 million compared to 2014. Non-U.S. revenue of $98.2 million increased $14.7 million, or 18%, compared to the first half of 2014 and included an approximate $8 million unfavorable impact relating to unfavorable changes in FX translation rates.

Revenue from PS of $74.8 million decreased $5.8 million, or 7%, compared to the first half of 2014. Excluding the unfavorable impact from changes in FX translation rates, PS revenue declined 4% compared to the prior year primarily due to the Company s exiting of certain Copal

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Amba product lines late in 2014. In the U.S., revenue of $26.1 million in the first half of 2015 increased $0.7 million compared to 2014. Non-U.S. revenue of $48.7 million decreased $6.5 million compared to the first half of 2014 and included approximately $3 million in unfavorable impacts related to changes in FX translation rates.

Operating and SG&A expenses of $374.7 million in the first half of 2015 increased $37.8 million compared to 2014. The expense growth reflects an approximate $25 million increase in compensation costs primarily due to higher headcount to support business growth as well as higher headcount in support areas, for which the costs are allocated to each segment based on a revenue- split methodology. Headcount from the acquisitions of WebEquity and Lewtan as well as annual merit increases also contributed to the compensation expense growth. Additionally, there was an approximate $13 million increase in non-compensation expenses primarily due to costs related to ERS product development and project delivery as well as the inclusion of Lewtan and WebEquity expenses. Changes in FX translation rates had an approximate $16 million favorable impact on MA expenses in the first half of 2015 compared to the prior year.

Adjusted Operating Income was $127.9 million in the first half of 2015 and increased $15.0 million compared to the same period in 2014. Operating income of $103.2 million in the first half of 2015 increased $12.9 million compared to the same period in 2014. Adjusted Operating Margin for the first half of 2015 was 23.3%, compared to 22.9% in 2014. Operating margin was 18.8% compared to 18.3% in the prior year. Adjusted Operating Income and operating income both include intersegment revenue and expense.

**Liquidity and Capital Resources**

***Cash Flow***

The Company is currently financing its operations, capital expenditures and share repurchases from cash flow from operating and financing activities. The following is a summary of the changes in the Company s cash flows followed by a brief discussion of these changes:

| | Six Months Ended June 30, | | $ Change Favorable (Unfavorable) |
|---|---|---|---|
| | **2015** | **2014** | |
| Net cash provided by operating activities | **$ 594.4** | $ 458.0 | $ 136.4 |
| Net cash used in investing activities | **$ (91.8)** | $ (113.4) | $ 21.6 |
| Net cash used in financing activities | **$ (157.6)** | $ (501.2) | $ 343.6 |
| Free Cash Flow* | **$ 553.7** | $ 419.2 | $ 134.5 |

* Free Cash Flow is a non-GAAP financial measure. Refer to the section Non-GAAP Financial Measures of this MD&A for further information on this financial measure.

**Net cash provided by operating activities**

Net cash flows from operating activities increased $136.4 million compared to the prior year. The following non-cash items, partially offset by a decrease in net income of $50.7 million (prior year net income included the non-cash net-of-tax ICRA Gain), impacted cash provided by operating activities in the first six months of 2015 compared to the same period in 2014:

- a $35.6 million decrease in deferred tax expense reflecting an increase in deferred tax liabilities in 2014 relating to the ICRA Gain. The decrease also reflects a reversal of deferred tax assets in 2014 relating to a tax payment to settle a local tax matter;
- an $11.1 million increase in depreciation and amortization primarily reflecting intangible assets acquired in Company s 2014 acquisitions as well as higher capital expenditures in the full-year ended December 31, 2014
- a $102.8 million increase reflecting the non-cash ICRA Gain in the prior year.

In addition to the items discussed above, the following working capital changes resulted in higher net cash flows provided by operating activities:

an approximate $77 million increase relating to the timing of tax payments;

approximately $21 million in higher contributions to the Company s funded U.S. pension plan in the first half of 2014 compared to 2015;

a $34.0 million increase from changes in accounts receivable primarily reflecting overall business growth;

*partially offset by:*

an approximate $28 million decrease primarily relating to higher incentive compensation payouts in 2015 compared to 2014 which reflected greater achievement against full-year targeted results in 2014 compared to achievement in 2013 as well as higher headcount.

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The remaining increase in cash flow from operations is due to changes in various other assets and liabilities.

**Net cash used in investing activities**

The $21.6 million decrease in cash used in investing activities is primarily due to:

- cash paid, net of cash acquired, of $80.5 million to acquire additional equity shares of ICRA Limited. The acquisition of these shares resulted in the Company obtaining a controlling interest in ICRA;
- cash received of $20.8 million in the first half of 2015 related to settlements of certain of the Company s net investment hedges;

*partially offset by:*

- higher net purchases of investments of $73.2 million reflecting the Company s investment of excess non-U.S. cash balances.

**Net cash used in financing activities**

The $343.6 million decrease in cash used in financing activities was attributed to:

- proceeds of $552.8 million from the issuance of the 2015 Senior Notes, which are more fully discussed in the Indebtedness section below;

*partially offset by:*

- treasury shares repurchased of $600.7 million in the first half of 2015 compared to $459.7 million repurchased in the prior year period;
- a decrease in proceeds received from the exercise of employee stock options of $36.3 million. The 2015 proceeds reflect approximately 1 million options exercised at an average strike price of $52/share compared to 2 million options exercised at an average strike price of $46/share in the prior year;
- higher dividends paid to MCO shareholders of $18.0 million reflecting $0.68 per share paid in the first half of 2015 compared to $0.56 per share paid in the same period of the prior year partially offset by lower shares outstanding.

**Cash and short-term investments held in non-U.S. jurisdictions**

The Company s aggregate cash and cash equivalents and short-term investments of $2.0 billion at June 30, 2015 consisted of approximately $1.4 billion located outside of the U.S., of which approximately 51% is denominated in euros and British pounds. Approximately 95% of the cash and cash equivalents and short-term investments in the Company s non-U.S. operations are held by entities whose undistributed earnings are indefinitely reinvested in the Company s foreign operations. Accordingly, the Company has not provided deferred income taxes on these indefinitely reinvested earnings. A future distribution or change in assertion regarding reinvestment by the foreign subsidiaries relating to these earnings could result in additional tax liability to the Company. It is not practicable to determine the amount of the potential additional tax liability due to complexities in the tax laws and in the hypothetical calculations that would have to be made. The Company manages both its U.S. and international cash flow to maintain sufficient liquidity in all regions to effectively meet its operating needs.

**Indebtedness**

At June 30, 2015, Moody s had $3.1 billion of outstanding debt and $1.0 billion of additional capacity available under the 2015 Facility. At June 30, 2015, the Company was in compliance with all covenants contained within all of the debt agreements. The 2015 Facility, the Series 2007-1 Notes, the 2010 Senior Notes, the 2012 Senior Notes, the 2013 Senior Notes, the 2014 Senior Notes (5-year), the 2014 Senior Notes (30-year) and the 2015 Senior Notes all contain cross default provisions. These provisions state that default under one of the aforementioned debt instruments could in turn permit lenders under other debt instruments to declare borrowings outstanding under those instruments to be immediately due and payable. As of June 30, 2015, there were no such cross defaults.

On March 9, 2015, the Company issued 500 million aggregate principal amount of senior unsecured notes in a public offering which bear interest at a fixed rate of 1.75% and mature on March 9, 2027. The terms of the 2015 Senior Notes are more fully described in Note 13 to the condensed consolidated financial statements.

Pursuant to the issuance of the 2015 Notes, the Company has designated 400 million of the principal as a net investment hedge against foreign currency exposure relating to its net investment in its subsidiaries whose functional currency is the euro. The Company also entered into a 100 million cross currency swap (swapping euros for U.S. dollars) to hedge FX risk on the remaining principal balance that was not designated as a net investment hedge. These hedging instruments are more fully described in Note 7 to the condensed consolidated financial statements.

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On May 11, 2015, the Company entered into a five-year unsecured revolving credit facility with the capacity to borrow up to $1 billion. The 2015 Facility replaces the $1 billion 2012 Facility which was scheduled to expire in April 2017 and is more fully described in Note 13 to the condensed consolidated financial statements. At June 30, 2015, there were no borrowings outstanding under this facility.

The repayment schedule for the Company s borrowings is as follows:

| Year Ended December 31, | Series 2007-1 Notes | 2010 Senior Notes | 2012 Senior Notes | 2013 Senior Notes | 2014 Senior Notes (5-Year) | 2014 Senior Notes (30-Year) | 2015 Senior Notes [1] | Total |
|---|---|---|---|---|---|---|---|---|
| 2015 (after June 30,) | $ | $ | $ | $ | $ | $ | $ | $ |
| 2016 | | | | | | | | |
| 2017 | 300.0 | | | | | | | 300.0 |
| 2018 | | | | | | | | |
| 2019 | | | | | 450.0 | | | 450.0 |
| Thereafter | | 500.0 | 500.0 | 500.0 | | 300.0 | 557.1 | 2,357.1 |
| Total | $ 300.0 | $ 500.0 | $ 500.0 | $ 500.0 | $ 450.0 | $ 300.0 | $ 557.1 | $ 3,107.1 |

[1] Based on end of quarter FX rates

Management may consider pursuing additional long-term financing when it is appropriate in light of cash requirements for operations, share repurchases and other strategic opportunities, which would result in higher financing costs.

***Other Material Future Cash Requirements***

The Company believes that it has the financial resources needed to meet its cash requirements and expects to have positive operating cash flow for the next twelve months. Cash requirements for periods beyond the next twelve months will depend, among other things, on the Company s profitability and its ability to manage working capital requirements. The Company may also borrow from various sources.

The Company remains committed to using its strong cash flow to create value for shareholders by investing in growing areas of the business, reinvesting in ratings quality initiatives, making selective acquisitions, repurchasing stock and paying a dividend, all in manner consistent with maintaining sufficient liquidity after giving effect to any additional indebtedness that may be incurred. In July 2015, the Board of Directors of the Company declared a quarterly dividend of $0.34 per share of Moody s common stock, payable on September 10, 2015 to shareholders of record at the close of business on August 20, 2015. The continued payment of dividends at this rate, or at all, is subject to the discretion of the Board. In December 2014, the Board authorized an additional $1.0 billion of share repurchase authority which has a remaining repurchase authority of approximately $963 million at June 30, 2015. Full-year 2015 total share repurchases are expected to be approximately $1 billion, subject to available cash, market conditions and other ongoing capital allocation decisions.

On February 6, 2008, the Company entered into an operating lease agreement to occupy six floors of an office tower located in the Canary Wharf district of London, England. The Canary Wharf Lease has an initial term of 17.5-years with a total of 15 years of renewal options. The total base rent of the Canary Wharf Lease over its initial 17.5-year term is approximately £134 million, and the Company began making base rent payments in 2011. In addition to the base rent payments the Company will be obligated to pay certain customary amounts for its share of operating expenses and tax obligations. The total remaining lease payments as of June 30, 2015 are approximately £97 million, of which approximately £9 million will be paid in the next twelve months. Payments under this lease agreement are included in the contractual obligations table below.

On October 20, 2006, the Company entered into an operating lease agreement with 7 World Trade Center, LLC for 589,945 square-feet of an office building located at 7WTC at 250 Greenwich Street, New York, New York, which is serving as Moody s headquarters. The 7WTC Lease has an initial term of 21 years with a total of 20 years of renewal options. The total base rent of 7WTC Lease over its initial 21-year term is approximately $536 million including rent credits from the World Trade Center Rent Reduction Program promulgated by the Empire State Development Corporation. On March 28, 2007, the 7WTC lease agreement was amended for the Company to lease an additional 78,568 square-feet at 7WTC. The additional base rent is approximately $106 million over a 20-year term. The total remaining lease payments as of June 30, 2015, including the aforementioned rent credits, are approximately $432 million, of which approximately $32 million will be paid

during the next twelve months. Payments under this lease agreement are included in the contractual obligations table below.

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On October 21, 2013, the Company entered into a fourteen-year lease for three additional floors at its 7WTC headquarters. The total remaining net commitment for this lease is approximately $61 million. The lease became effective in January 2014 and the net cash outlay during the next twelve months will be approximately $4 million. Payments under this lease agreement are included in the contractual obligations table below.

The Company made a $21.7 million contribution to its U.S. defined benefit funded pension plan in July 2015.

**Off-Balance Sheet Arrangements**

At June 30, 2015, Moody s did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as special purpose or variable interest entities where Moody s is the primary beneficiary, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, Moody s is not exposed to any financing, liquidity market or credit risk that could arise if it had engaged in such relationships.

**Contractual Obligations**

The following table presents payments due under the Company s contractual obligations as of June 30, 2015:

| | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| (in millions) | **Total** | **Less Than 1 Year** | **1 - 3 Years** | **3 -5 Years** | **Over 5 Years** |
| Indebtedness [1] | **$ 4,251.4** | $ 115.3 | $ 521.3 | $ 641.0 | $ 2,973.8 |
| Operating lease obligations | **797.8** | 88.9 | 157.4 | 132.7 | 418.8 |
| Purchase obligations | **105.3** | 67.3 | 37.1 | 0.9 | |
| Contingent consideration related to acquisitions | **2.0** | 2.0 | | | |
| Pension obligations [2] | **152.9** | 28.4 | 16.0 | 43.3 | 65.2 |
| Total [3] | **$ 5,309.4** | $ 301.9 | $ 731.8 | $ 817.9 | $ 3,457.8 |

(1) Reflects principal payments, related interest and applicable fees due on the Series 2007-1 Notes, the 2010 Senior Notes, the 2012 Senior Notes, the 2013 Senior Notes, the 2014 Senior Notes (5-year), the 2014 Senior Notes (30-year), the 2015 Senior Notes and the 2015 Facility as described in Note 13 to the condensed consolidated financial statements.

(2) Reflects projected benefit contributions to the Company s funded U.S. DBPP and payments relating to the Company s U.S. unfunded DBPPs and Retirement and Other Plans described in Note 12 to the condensed consolidated financial statements

(3) The table above does not include the Company s net long-term tax liabilities of $217.9 million relating to UTP and Legacy Tax Matters, since the expected cash outflow of such amounts by period cannot be reasonably estimated.

**Dividends**

On July 13, 2015, the Board approved the declaration of a quarterly dividend of $0.34 per share of Moody s common stock, payable on September 10, 2015 to shareholders of record at the close of business on August 20, 2015.

**Non-GAAP Financial Measures:**

In addition to its reported results, Moody s has included in this MD&A certain adjusted results that the SEC defines as non-GAAP financial measures. Management believes that such non-GAAP financial measures, when read in conjunction with the Company s reported results, can provide useful supplemental information for investors analyzing period to period comparisons of the Company s performance, facilitate comparisons to competitors operating results and can provide greater transparency to investors of supplemental information used by management in its financial and operational decision-making. These non-GAAP measures, as defined by the Company, are not necessarily comparable to similarly defined measures of other companies. Furthermore, these non-GAAP measures should not be viewed in isolation or used as a substitute for other GAAP measures in assessing the operating performance or cash flows of the Company. Below are brief descriptions of the Company s non-GAAP financial measures accompanied by a reconciliation of the non-GAAP measure to its most directly comparable GAAP measure:

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*Constant Currency Measures*:

The Company presents revenue and expense growth on a constant currency basis because management deems this metric to be a useful measure of assessing the operations of the Company in times of FX rate volatility. Constant currency measures exclude the impact of changes in FX rates on operating results. The Company calculates the dollar impact of foreign exchange as the difference between the translation of its current period non-USD functional currency results using prior comparative period weighted average FX translation rates and current year as reported results. Growth rates on a constant currency basis are determined based on the difference between current period revenue and expenses translated using prior period comparative weighted average exchange rates and prior period as reported results divided by prior period as reported results. Below is a reconciliation of the Company s as reported revenue and expense changes to the changes on a constant currency basis:

| | Three Months Ended June 30, 2015 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CFG Revenue $ | CFG Revenue % | SFG Revenue $ | SFG Revenue % | FIG Revenue $ | FIG Revenue % | PPIF Revenue $ | PPIF Revenue % | MIS Other Revenue $ | MIS Other Revenue % | Total MIS Revenue $ | Total MIS Revenue % |
| Reported change | $ (1.3) | | $ 10.6 | 10% | $ (1.8) | (2%) | $ 1.9 | 2% | $ 4.8 | 145% | **$ 14.2** | **2%** |
| FX impact | 12.8 | 4% | 6.2 | 5% | 6.9 | 8% | 3.5 | 4% | 0.2 | 7% | **29.6** | **5%** |
| Constant currency change | $ 11.5 | 4% | $ 16.8 | 15% | $ 5.1 | 6% | $ 5.4 | 6% | $ 5.0 | 152% | **$ 43.8** | **7%** |

| | RD&A Revenue $ | RD&A Revenue % | ERS Revenue $ | ERS Revenue % | PS Revenue $ | PS Revenue % | Total MA Revenue $ | Total MA Revenue % |
|---|---|---|---|---|---|---|---|---|
| Reported change | $ 16.1 | 11% | $ 16.0 | 24% | $ (1.7) | (4%) | **$ 30.4** | **12%** |
| FX impact | 7.5 | 6% | 4.4 | 6% | 1.3 | 3% | **13.2** | **6%** |
| Constant currency change | $ 23.6 | 17% | $ 20.4 | 30% | $ (0.4) | (1%) | **$ 43.6** | **18%** |

| | MCO Revenue $ | MCO Revenue % | MCO Expense $ | MCO Expense % |
|---|---|---|---|---|
| Reported change | **$ 44.6** | **5%** | **$ 37.0** | **8%** |
| FX impact | **42.8** | **5%** | **20.8** | **5%** |
| Constant currency change | **$ 87.4** | **10%** | **$ 57.8** | **13%** |

| | Six Months Ended June 30, 2015 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | CFG Revenue $ | CFG Revenue % | SFG Revenue $ | SFG Revenue % | FIG Revenue $ | FIG Revenue % | PPIF Revenue $ | PPIF Revenue % | MIS Other Revenue $ | MIS Other Revenue % | Total MIS Revenue $ | Total MIS Revenue % |
| Reported change | $ 33.0 | 6% | $ 16.6 | 8% | $ 6.6 | 4% | $ 21.9 | 12% | $ 9.3 | 141% | **$ 87.4** | **8%** |
| FX impact | 24.8 | 4% | 11.8 | 6% | 13.2 | 7% | 8.2 | 5% | 0.3 | 4% | **58.3** | **5%** |
| Constant currency change | $ 57.8 | 10% | $ 28.4 | 14% | $ 19.8 | 11% | $ 30.1 | 17% | $ 9.6 | 145% | **$ 145.7** | **13%** |

| | RD&A Revenue $ | RD&A Revenue % | ERS Revenue $ | ERS Revenue % | PS Revenue $ | PS Revenue % | Total MA Revenue $ | Total MA Revenue % |
|---|---|---|---|---|---|---|---|---|
| Reported change | $ 28.1 | 10% | $ 33.3 | 26% | $ (5.8) | (7%) | **$ 55.6** | **11%** |
| FX impact | 14.0 | 5% | 8.4 | 7% | 2.6 | 3% | **25.0** | **6%** |
| Constant currency change | $ 42.1 | 15% | $ 41.7 | 33% | $ (3.2) | (4%) | **$ 80.6** | **17%** |

| | MCO Revenue $ | MCO Revenue % | MCO Expense $ | MCO Expense % |
|---|---|---|---|---|
| Reported change | **$ 143.0** | **9%** | **$ 97.1** | **11%** |
| FX impact | **83.3** | **5%** | **39.5** | **4%** |
| Constant currency change | **$ 226.3** | **14%** | **$ 136.6** | **15%** |

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*Adjusted Operating Income and Adjusted Operating Margin*:

The Company presents Adjusted Operating Income because management deems this metric to be a useful measure of assessing the operating performance of Moody s, measuring the Company s ability to service debt, fund capital expenditures, and expand its business. Adjusted Operating Income excludes depreciation and amortization because companies utilize productive assets of different ages and use different methods of both acquiring and depreciating productive assets. Management believes that the exclusion of this item, detailed in the reconciliation below, allows for a more meaningful comparison of the Company s results from period to period and across companies. The Company defines Adjusted Operating Margin as Adjusted Operating Income divided by revenue:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Operating income** | **$ 419.3** | $ 411.7 | **$ 790.6** | $ 744.7 |
| Adjustments: | | | | |
| Depreciation and amortization | **27.9** | 22.3 | **56.5** | 45.4 |
| **Adjusted Operating Income** | **$ 447.2** | $ 434.0 | **$ 847.1** | $ 790.1 |
| Operating margin | **45.7%** | 47.1% | **44.3%** | 45.4% |
| Adjusted Operating Margin | **48.7%** | 49.7% | **47.5%** | 48.2% |

| | Full-Year Ended December 31, 2015 |
|---|---|
| **Operating margin guidance** | Approximately 43% |
| **Depreciation and amortization** | Approximately 3% |
| **Adjusted Operating Margin guidance** | Approximately 46% |

*Free Cash Flow:*

The Company defines free cash flow as net cash provided by operating activities minus payments for capital additions. Management believes that free cash flow is a useful metric in assessing the Company s cash flows to service debt, pay dividends and to fund acquisitions and share repurchases. Management deems capital expenditures essential to the Company s product and service innovations and maintenance of Moody s operational capabilities. Accordingly, capital expenditures are deemed to be a recurring use of Moody s cash flow. Below is a reconciliation of the Company s net cash flows from operating activities to free cash flow:

| | Six months ended June 30, | |
|---|---|---|
| | **2015** | **2014** |
| **Net cash flows provided by operating activities** | **$ 594.4** | $ 458.0 |
| Capital additions | **(40.7)** | (38.8) |
| **Free cash flow** | **$ 553.7** | $ 419.2 |
| **Net cash used in investing activities** | **$ (91.8)** | $ (113.4) |
| **Net cash used in financing activities** | **$ (157.6)** | $ (501.2) |

| | Full year ended December 31, 2015 |
|---|---|
| | Approximately $1.1 billion |

| | |
|---|---|
| **Net cash flows provided by operating activities guidance** | |
| Capital additions guidance | Approximately $100 - $110 million |
| **Free cash flow guidance** | Approximately $1.0 billion |

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**2015 Outlook**

Moody s outlook for 2015 is based on assumptions about many macroeconomic and capital market factors, including interest rates, foreign currency exchange rates, corporate profitability and business investment spending, merger and acquisition activity, consumer borrowing and securitization, and the amount of debt issued. These assumptions are subject to some degree of uncertainty, and results for the year could differ materially from our current outlook. Moody s guidance, which is presented in the table below, assumes foreign currency translation at end-of-quarter exchange rates.

| | Full-year 2015 Moody s Corporation guidance | |
|---|---|---|
| **MOODY S CORPORATION** | **Current guidance as of the filing of this Form 10-Q** | **Last publicly disclosed guidance on May 1, 2015** |
| Revenue | growth in the mid-single-digit percent range | NC |
| Operating Expenses | growth in the mid-single-digit percent range | NC |
| Depreciation & amortization | Approximately $120 million | NC |
| Operating Margin | Approximately 43% | NC |
| Adjusted Operating Margin | Approximately 46% | NC |
| Effective tax rate | Approximately 31% - 32% | Approximately 32% - 33% |
| GAAP EPS | $4.55 to $4.65 | NC |
| Capital expenditures | Approximately $100 - $110 million | Approximately $110 - $115 million |
| Free cash flow | Approximately $1 billion | NC |
| Share repurchases | Approximately $1 billion (subject to available cash, market conditions and other ongoing capital allocation decisions) | NC |
| | **Full-year 2015 revenue guidance** | |
| **MIS** | **Current guidance as of the filing of this Form 10-Q** | **Last publicly disclosed guidance on May 1, 2015** |
| MIS global | growth in the mid-single-digit percent range | NC |
| MIS U.S. | growth in the low-double-digit percent range | growth in the high-single-digit percent range |
| MIS Non-U.S. | approximately flat | growth in the low-single-digit percent range |
| CFG | growth in the mid-single-digit percent range | NC |
| SFG | growth in the mid-single-digit percent range | growth in the low-single-digit percent range |
| FIG | growth in the low-single-digit percent range | NC |
| PPIF | growth in the low-double-digit percent range | growth in the high-single-digit percent range |
| **MA** | | |
| MA global | growth in the mid-single-digit percent range | NC |
| MA U.S. | growth in the low-double-digit percent range | NC |
| MA Non-U.S. | growth in the low-single-digit percent range | NC |
| RD&A | growth in the high-single-digit percent range | NC |
| ERS | growth in the mid-single-digit percent range | NC |
| PS | decrease in the high-single-digit percent range | decrease in the low-single-digit percent range |

**NC-** There is no difference between the Company s current guidance and the last publicly disclosed guidance for this item.

**Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers . This ASU outlines a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The Company is currently evaluating its adoption options and the impact that adoption of this update will have on its consolidated financial statements. Currently, the Company believes this ASU will have an impact on: i) the capitalization of certain contract implementation costs for its ERS business; ii) the accounting for certain ratings monitoring fees

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received in advance of service being rendered; iii) the accounting for certain license and maintenance revenue in MA; iv) the accounting for certain ERS revenue arrangements where VSOE is not available and v) the accounting for contract acquisition costs. In April 2015, the FASB proposed to defer the effective date of the ASU for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted up to the original effective date of December 15, 2016. This proposal was subject to the FASB s normal due process requirements which included a 30-day public comment period on the proposed ASU. In July 2015, the FASB reaffirmed its decision to defer the effective date of ASU No. 2014-09 by one year. A final ASU relating to this deferral is expected in the third quarter of 2015.

In April 2015, the FASB issued ASU No. 2015-05 Customer s Accounting for Fees Paid in a Cloud Computing Arrangement . This ASU provides guidance on accounting for fees paid by a customer in a cloud computing arrangement. In accordance with the ASU, a cloud computing arrangement that contains a software license should be accounted for consistently with the acquisition of other software licenses. If no software license is present in the contract, the entity should account for the arrangement as a service contract. The Company can elect to apply this ASU either retrospectively or prospectively effective for annual and interim reporting periods beginning after December 15, 2015, and early adoption is permitted. The Company is currently evaluating the impact that adoption of this update will have on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs . This ASU simplifies the presentation of debt issuance costs in financial statements and requires a company to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization costs will continue to be reported as interest expense. The ASU is effective retrospectively for annual and interim reporting periods beginning after December 15, 2015, and early adoption is permitted. The adoption of this ASU will impact the presentation of debt issuance costs in the Company s consolidated balance sheets.

In May 2015, the FASB issued ASU No. 2015-07 Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) . This ASU removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value per share as a practical expedient. ASU No. 2015-07 is effective retrospectively for fiscal years beginning after December 15, 2015, with early adoption permitted. The adoption of this ASU will only impact the presentation of the Company s pension assets invested in common/collective trust funds in the fair value hierarchy disclosures.

**Contingencies**

Legal proceedings in which the company is involved also may impact Moody s liquidity or operating results. No assurance can be provided as to the outcome of such proceedings. In addition, litigation inherently involves significant costs. For information regarding legal proceedings, see Item 1 Financial Statements , Note 14 Contingencies.

**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.

The regulatory landscape has changed rapidly in recent years, and continues to evolve. In the EU, the CRA industry is registered and supervised through a pan-European regulatory framework. The European Securities and Markets Authority has direct supervisory responsibility for the registered CRA industry throughout the EU. MIS is a registered entity and is therefore subject to formal regulation and periodic inspection. Applicable rules include procedural requirements with respect to ratings of sovereign issuers, liability for intentional or grossly negligent failure to abide by applicable regulations, mandatory rotation requirements of CRAs hired by issuers of securities for ratings of resecuritizations, restrictions on CRAs or their shareholders if certain ownership thresholds are crossed, and additional procedural and substantive requirements on the pricing of services.

On January 6, 2015, two additional rules (generally referred to as Regulatory Technical Standards or RTSs ) of direct relevance to the CRA industry were published in the Official Journal of the European Union: (i) CRAs reporting requirements to ESMA on their fees; and (ii) the types of information that CRAs are to provide about certain ratings (those that were paid for by issuers) for publication on a central website administered by ESMA (the European Ratings Platform). The RTSs were the final pieces of the rulemaking requirements that CRA3 imposed on ESMA and the EU s legislative tripartite (the European Commission, the European Parliament and the Council of the European Union). Separately, CRA3 also requires that ESMA and / or the European Commission produce several reports on the industry s structure and the use of ratings. These reports are expected to be published by year end 2015.

In the U.S., CRAs are subject to extensive regulation primarily pursuant to the Reform Act and the Financial Reform Act. The SEC is required by these legislative acts to publish two annual reports to Congress on NRSROs. The Financial Reform Act requires the SEC to examine each NRSRO once a year and issue an annual report summarizing the examination findings, among other requirements. The annual report required by the Reform Act details the SEC s views on the state of competition, transparency and conflicts of interests among NRSROs, among other requirements.

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The SEC voted in August 2014 to adopt its final rules for NRSROs as required by the Financial Reform Act. The final rules differ from earlier proposals by including additional measures regarding: (i) sales and marketing activities; and (ii) the design and enforcement of internal controls for the rating process. The Company has made and continues to make substantial IT and other investments, and has implemented the relevant compliance obligations.

In light of the regulations that have gone into effect in both the EU and the U.S. (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.

**Forward-Looking Statements**

Certain statements contained in this quarterly report on Form 10-Q are forward-looking statements and are based on future expectations, plans and prospects for the Company s business and operations that involve a number of risks and uncertainties. Such statements involve estimates, projections, goals, forecasts, assumptions and uncertainties that could cause actual results or outcomes to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements. Those statements appear at various places throughout this annual report on Form 10-Q, including in the sections entitled 2015 Outlook and Contingencies under Item 2. MD&A , commencing on page 35 of this quarterly report on Form 10-Q, under Legal Proceedings in Part II, Item 1, of this Form 10-Q, and elsewhere in the context of statements containing the words believe , expect , anticipate , intend , plan , will , predict , potential , continue , strateg forecast , project , estimate , should , could , may and similar expressions or words and variations thereof relating to the Company s views o events, trends and contingencies. Stockholders and investors are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements and other information are made as of the date of this quarterly report on Form 10-Q, and the Company undertakes no obligation (nor does it intend) to publicly supplement, update or revise such statements on a going-forward basis, whether as a result of subsequent developments, changed expectations or otherwise. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company is identifying examples of factors, risks and uncertainties that could cause actual results to differ, perhaps materially, from those indicated by these forward-looking statements.

Those factors, risks and uncertainties include, but are not limited to, the current world-wide credit market disruptions and economic slowdown, which is affecting and could continue to affect the volume of debt and other securities issued in domestic and/or global capital markets; other matters that could affect the volume of debt and other securities issued in domestic and/or global capital markets, including credit quality concerns, changes in interest rates and other volatility in the financial markets; the level of merger and acquisition activity in the U.S. and abroad; the uncertain effectiveness and possible collateral consequences of U.S. and foreign government initiatives to respond to the current world-wide credit market disruptions and economic slowdown; concerns in the marketplace affecting our credibility or otherwise affecting market perceptions of the integrity or utility of independent credit agency ratings; the introduction of competing products or technologies by other companies; pricing pressure from competitors and/or customers; the level of success of new product development and global expansion; the impact of regulation as an NRSRO, the potential for new U.S., state and local legislation and regulations, including provisions in the Financial Reform Act and regulations resulting from that Act; the potential for increased competition and regulation in the EU and other foreign jurisdictions; exposure to litigation related to our rating opinions, as well as any other litigation, government and regulatory proceedings, investigations and inquires to which the Company may be subject from time to time; provisions in the Financial Reform Act legislation modifying the pleading standards, and EU regulations modifying the liability standards, applicable to credit rating agencies in a manner adverse to credit rating agencies; provisions of EU regulations imposing additional procedural and substantive requirements on the pricing of services; the possible loss of key employees; failures or malfunctions of our operations and infrastructure; any vulnerabilities to cyber threats or other cybersecurity concerns; the outcome of any review by controlling tax authorities of the Company s global tax planning initiatives; the outcome of those Legacy Tax Matters and legal contingencies that relate to the Company, its predecessors and their affiliated companies for which Moody s has assumed portions of the financial responsibility; exposure to potential criminal sanctions or civil remedies if the Company fails to comply with foreign and U.S. laws and regulations that are applicable in the jurisdictions in which the Company operates, including sanctions laws, anti-corruption laws, and local laws prohibiting corrupt payments to government officials; the impact of mergers, acquisitions or other business combinations and the ability of the Company to successfully integrate acquired businesses; currency and foreign exchange volatility; the level of future cash flows; the levels of capital investments; and a decline in the demand for credit risk management tools by financial institutions. These factors, risks and uncertainties as well as other risks and uncertainties that could cause Moody s actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements are described in greater detail under Risk Factors in Part I, Item 1A of the Company s annual report on Form 10-K for the year ended December 31,

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2014, and in other filings made by the Company from time to time with the SEC or in materials incorporated herein or therein. Stockholders and investors are cautioned that the occurrence of any of these factors, risks and uncertainties may cause the Company s actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements, which could have a material and adverse effect on the Company s business, results of operations and financial condition. New factors may emerge from time to time, and it is not possible for the Company to predict new factors, nor can the Company assess the potential effect of any new factors on it.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Moody s aggregate cash and cash equivalents and short-term investments of $2.0 billion at June 30, 2015 consisted of $1.4 billion located outside of the U.S. Approximately 46% of the Company s aggregate cash and cash equivalents and short-term investments at June 30, 2015 were held 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 British pound, could reduce the reported amount of cash and cash equivalents and short-term investments.

The following discussion outlines material changes in the Moody s derivative instrument portfolio subsequent to the filing of the Company s Form 10-K for the year ended December 31, 2014:

**Long-term debt designated as a net investment hedge**:

During the second quarter of 2015, the Company designated 400 million of the 2015 Senior Notes as a net investment hedge to mitigate FX exposure relating to euro denominated net investments in subsidiaries. If the euro were to strengthen 10% relative to the U.S. dollar, there would be an approximate $40 million unfavorable adjustment to OCI. This adjustment would be offset by favorable translation adjustments on the Company s euro net investment in subsidiaries.

**Cross-currency swap not designated as an accounting hedge:**

The Company entered into a cross-currency swap (exchanging 100 million for U.S. dollar) to mitigate FX exposure on the remaining principal balance of the 2015 Senior Notes not designated as a net investment hedge. If the euro were to weaken 10% relative to the U.S. dollar, there would be an approximate $14 million unfavorable impact to the fair value of the cross-currency swap which would be partially offset by favorable revaluation gains on 100 million of the 2015 Senior Notes.

**Interest rate swaps designated as a fair value hedge:**

Furthermore, in the first quarter of 2015, the Company entered into interest rate swaps with a notional amount of $200 million to convert the fixed rate of interest on the remaining portion of the 2014 Senior Notes (5-year) to a floating interest rate based on the 3-month LIBOR. A hypothetical change of 100 BPS in the LIBOR-based swap rate would result in an approximate $44 million change to the fair value of the Company s total interest rate swap portfolio.

Refer to Note 7 to the condensed consolidated financial statements in this Form 10-Q and Item 7A. Quantitative and Qualitative Disclosures about Market Risk , contained in the Company s annual report on Form 10-K for the year ended December 31, 2014 for further discussion on the Company s derivative financial instruments.

**Item 4. Controls and Procedures**

Evaluation of Disclosure Controls and Procedures: The Company carried out an evaluation, as required by Rule 13a-15(b) under the Exchange Act, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this report (the Evaluation Date ). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company s disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the communication to the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In addition, the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, has determined that there were no changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, these internal controls over financial reporting during the period covered by the report.

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## PART II. OTHER INFORMATION

**Item 1. Legal Proceedings**

For information regarding legal proceedings, see Item 1 Financial Statements Notes to Condensed Consolidated Financial Statements (Unaudited), Note 14 Contingencies in this Form 10-Q.

**Item 1A. Risk Factors**

There have been no material changes since December 31, 2014 to the significant risk factors and uncertainties known to the Company that, if they were to occur, could materially adversely affect the Company s business, financial condition, operating results and/or cash flow. For a discussion of the Company s risk factors, refer to Item 1A. Risk Factors , contained in the Company s annual report on Form 10-K for the year ended December 31, 2014.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**MOODY S PURCHASES OF EQUITY SECURITIES**

**For the Three Months Ended June 30, 2015**

| 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) |
|---|---|---|---|---|
| April 1 - 30 | 706,591 | $ 105.14 | 703,678 | $ 1,123.7 million |
| May 1 - 31 | 678,396 | $ 108.24 | 677,569 | $ 1,050.4 million |
| June 1 - 30 | 806,523 | $ 108.53 | 805,896 | $ 963.0 million |
| Total | 2,191,510 | $ 107.35 | 2,187,143 | |

(1) Includes surrender to the Company of 2,913 shares in April, 827 shares in May and 627 shares in June 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 December 16, 2014, the Board authorized a $1 billion share repurchase program under which the Company is currently repurchasing shares. There is no established expiration date for the remaining authorization.

During the second quarter of 2015, Moody s issued 0.4 million shares under employee stock-based compensation plans.

**Item 5. Other Information**

Not applicable

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**Item 6. Exhibits**

| Exhibit No. | Description |
|---|---|
| 3 | ARTICLES OF INCORPORATION AND BY-LAWS |
| .1 | Amended and Restated By-laws of Moody s Corporation, effective April 17, 2013 (incorporated by reference to Exhibit 3.2 to the Report on Form 8-K of the Registrant, file number 1-14037, filed April 22, 2013). |
| .2 | Restated Certificate of Incorporation of Moody s Corporation, dated April 17, 2013 (incorporated by reference to Exhibit 3.4 to the Report on Form 8-K of the Registrant, file number 1-14037, filed April 22, 2013). |
| 4 | INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES |
| .1 | Five-Year Credit Agreement dated as of May 11, 2015, among Moody s Corporation, the Borrowing Subsidiaries Party Thereto, the Lenders Party Thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A. and Citibank, N.A. as Co-Syndication Agents, and TD Bank, N.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd. and Barclays Bank as Co-Documentation Agents (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed May 14, 2015) |
| 10 | MATERIAL CONTRACTS |
| .1* | First Amendment to the Moody s Corporation Retirement Account. |
| 31 | CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 |
| .1* | Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| .2* | Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | CERTIFICATIONS PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 |
| .1* | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. The Company has furnished this certification and does not intend for it to be considered filed under the Securities Exchange Act of 1934 or incorporated by reference into future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934. |
| .2* | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. The Company has furnished this certification and does not intend for it to be considered filed under the Securities Exchange Act of 1934 or incorporated by reference into future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934. |
| 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 |

* Filed herewith

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MOODY S CORPORATION

By: /s/ LINDA S. HUBER
**Linda S. Huber**
**Executive Vice President and Chief Financial Officer**

**(principal financial officer)**

Date: July 29, 2015

By: /s/ JOSEPH MCCABE
**Joseph McCabe**
**Senior Vice President and Corporate Controller**

**(principal accounting officer)**