SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

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 (STATE OF INCORPORATION)	13-3998945 (I.R.S. EMPLOYER IDENTIFICATION NO.)

99 CHURCH STREET, NEW YORK, NEW YORK 10007
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (212) 553-0300.
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, PAR VALUE $.01 PER SHARE	NEW YORK STOCK EXCHANGE
PREFERRED SHARE PURCHASE RIGHTS	NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark whether the Registrant: (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

The aggregate market value of Moody's Corporation Common Stock held by nonaffiliates* on June 28, 2002 (based upon its closing transaction price on the Composite Tape on such date) was approximately $7.7 billion.

As of January 31, 2003, 147.9 million shares of Common Stock of Moody's Corporation were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the Registrant's definitive proxy statement for use in connection with its annual meeting of shareholders scheduled to be held on April 22, 2003, are incorporated by reference into Part III of this Form 10-K.

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

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

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PART I

ITEM 1. BUSINESS

Background

As used in this report, except where the context indicates otherwise, the terms “Moody’s” or “Company” refer to Moody’s Corporation and its subsidiaries. The Company’s executive offices are located at 99 Church Street, New York, NY 10007 and its telephone number is (212) 553-0300.

Prior to September 30, 2000, the Company operated as part of The Dun & Bradstreet Corporation (“Old D&B”). On September 8, 2000, the Board of Directors of Old D&B approved a plan to separate into two publicly traded companies – the Company and The New D&B Corporation (“New D&B”). On September 30, 2000, the (“Distribution Date”), Old D&B distributed to its shareholders all of the outstanding shares of New D&B common stock (the “2000 Distribution”). In connection with the 2000 Distribution, Old D&B changed its name to Moody’s Corporation.

New D&B is the accounting successor to Old D&B, which was incorporated under the laws of the State of Delaware on April 8, 1998. Old D&B began operating as an independent publicly-owned corporation on July 1, 1998 as a result of its June 30, 1998 spin-off (the “1998 Distribution”) from the corporation now known as “R.H. Donnelley Corporation” and previously known as “The Dun & Bradstreet Corporation” (“Donnelley”). Old D&B became the accounting successor to Donnelley at the time of the 1998 Distribution.

Prior to the 1998 Distribution, Donnelley was the parent holding company for subsidiaries then engaged in the businesses currently conducted by New D&B, Moody’s and Donnelley. Prior to November 1, 1996, it also was the parent holding company of subsidiaries conducting business under the names Cognizant Corporation (“Cognizant”) and ACNielsen Corporation (“ACNielsen”). On that date Donnelley effected a spin-off of the capital stock of Cognizant and ACNielsen to its stockholders (the “1996 Distribution”). Cognizant subsequently changed its name to Nielsen Media Research, Inc. in connection with its 1998 spin-off of the capital stock of IMS Health Incorporated (“IMS Health”).

For purposes of governing certain ongoing relationships between the Company and New D&B after the 2000 Distribution and to provide for an orderly transition, the Company and New D&B entered into various agreements including a Distribution Agreement, Tax Allocation Agreement, Employee Benefits Agreement, Shared Transaction Services Agreement, Insurance and Risk Management Services Agreement, Data Services Agreement and Transition Services Agreement.

Detailed descriptions of the 1996, 1998 and 2000 Distributions are contained in the Company’s 2000 annual report on Form 10-K, filed on March 15, 2001.

The Company

Moody’s is a provider of credit ratings, research and analysis covering debt instruments and securities in the global capital markets and a provider of quantitative credit assessment services, credit training services and credit process software to banks and other financial institutions. Founded in 1900, Moody’s employs approximately 2,100 people worldwide. Moody’s maintains offices in 19 countries and has expanded into developing markets through joint ventures or affiliation agreements with local rating agencies. Moody’s customers include a wide range of corporate and governmental issuers of securities as well as institutional investors, depositors, creditors, investment banks, commercial banks, and other financial intermediaries. Moody’s is not dependent on a single customer or a few customers, such that a loss of any one would have a material adverse effect on its business.

Moody’s operates in two reportable segments: Moody’s Investors Service and Moody’s KMV.

Moody’s Investors Service publishes rating opinions on a broad range of credit obligations issued in domestic and international markets, including various corporate and governmental obligations, structured finance securities and commercial paper programs. It also publishes investor-oriented credit research, including in-depth research on major debt issuers, industry studies, special comments and credit opinion handbooks. Moody’s credit ratings and research help investors analyze the credit risks associated with fixed-income securities. Such independent credit ratings and research also contribute to efficiencies in markets for fixed-income and other obligations, such as insurance policies and derivative transactions, by providing credible and independent assessments of credit risk. Moody’s provides ratings and credit research on governmental and commercial entities in approximately 100 countries. Moody’s global and increasingly diverse services are designed to increase market efficiency and may reduce transaction costs. At the end of 2002, Moody's had provided credit ratings and analysis on more than $30 trillion in debt, covering approximately 136,000 securities, with more than 6,000 corporate relationships, including industrial corporations, financial institutions, governmental entities and structured finance issuers and over 67,000 public finance obligations issued in the U.S. market . Ratings are disseminated via press releases to the public through a variety of print and electronic media, including the Internet and real-time information systems widely used by securities traders and investors.

In addition to credit rating services for issuers, Moody's provides research services that are utilized by institutional investors and other credit and capital market professionals. Clients of these services represent more than 3,000 institutions worldwide, with over 20,000 registered users globally. Moody's offers a wide range of research products and services, covering various segments of the debt capital markets. While research, analysis and data are delivered through a number of channels, most of Moody's clients use the Company's website, www.moodys.com, for access to such services in a real-time environment.

The Moody's KMV business consists of the combined businesses of KMV LLC and KMV Corporation ("KMV"), acquired in April 2002, and Moody's Risk Management Services. Moody's KMV is a provider of market-based quantitative services for banks and investors in credit-sensitive assets, and serves over 1,500 clients operating in 60 countries, including most of the world's 100 largest financial institutions. Moody's KMV's quantitative models estimate the probability of default for over 25,000 publicly traded firms globally, updated daily. In addition, Moody's KMV's RiskCalc ™ models extend the availability of these probabilities to privately held firms in many of the world's economies. Moody's KMV also offers services to value and improve the performance of credit-sensitive portfolios. Other services include credit training and software products to assist financial institutions in commercial lending activities.

Prospects for Growth

Over the past decade, global public and private fixed-income markets have grown significantly in terms of outstanding principal amount and types of securities. While there is potential for periodic cyclical disruption in these developments, Moody's believes that the overall trend and outlook remain favorable for the continued growth in capital market activity worldwide. In addition, the securities being issued in the global fixed-income markets are becoming more complex. Moody's expects that these trends will provide continued long-term demand for high-quality, independent credit opinions. These phenomena are especially apparent in Europe, where economic and monetary union is driving increased use of public fixed-income markets for corporate financing activities.

Technology, such as the Internet, makes information about investment alternatives widely available throughout the world. This technology facilitates issuers' ability to place securities outside their national markets and investors' capacity to obtain information about securities issued outside their national markets. Issuers and investors are also more readily able to obtain information about new financing techniques and new types of securities that they may wish to purchase or sell, many of which may be unfamiliar to them. This availability of information promotes worldwide financial markets and a greater need for credible and globally comparable credit ratings. As a result, a number of new capital markets have emerged. In addition, more issuers and investors are accessing traditional capital markets.

Another trend that is increasing the size of the world capital markets is the ongoing disintermediation of financial systems. Issuers are increasingly financing in the global public capital markets, in addition to, or in substitution for, traditional financial intermediaries. Moreover, financial intermediaries are selling assets in the global public capital markets, in addition to or instead of retaining those assets. Structured finance securities markets for many types of assets have developed in many countries and are contributing to these trends.

The complexity of capital market instruments is also growing. Consequently, assessing the credit risk of such instruments becomes more of a challenge for financial intermediaries and asset managers. In the credit markets, reliable third-party ratings increasingly supplement or substitute for traditional in-house research as the geographic scope and complexity of financial markets grow.

Rating fees paid by debt issuers account for most of the revenue of Moody's Investors Service. Therefore, a substantial portion of Moody's revenue is dependent upon the volume and number of debt securities issued in the global capital markets. Moody's is therefore affected by the performance of, and the prospects for, the major world economies and by the fiscal and monetary policies pursued by their governments. However, annual fee arrangements with frequent debt issuers, and annual fees from commercial paper and medium-term note programs, bank and insurance company financial strength ratings, mutual fund ratings, subscription-based research and other areas are less dependent on, or independent of, the volume or number of debt securities issued in the global capital markets.

Moody's operations are also subject to various politically related risks inherent in carrying on business internationally. Such risks include currency fluctuations and possible nationalization, expropriation, exchange and price controls, changes in the availability of data from public sector sources, limits on providing information across borders or other restrictive governmental actions. Management believes that the risks of nationalization or expropriation are reduced because the Company's basic service is the creation and dissemination of information, rather than the production of products that require manufacturing facilities or the use of natural resources.

Growth in Moody's KMV is expected from increasing adoption of quantitative credit management techniques by financial institutions globally and by corporations managing trade receivables. Increased use of credit models is expected under the forthcoming revised international bank regulatory regime, known as "Basel II". Moody's KMV also expects to introduce new products.

Competition

The Moody's Investors Service business competes with other credit rating agencies and with investment banks and brokerage firms that offer credit opinions and research. Institutional investors also have in-house credit research capabilities. Moody's largest competitor in the global credit rating business is Standard & Poor's Credit Market Services ("S&P"), a division of The McGraw-Hill Companies, Inc. There are some rating markets, based on industry, geography and/or instrument type, in which Moody's has made investments and obtained market positions superior to S&P's. In other markets the reverse is true.

Another rating agency competitor of Moody's is Fitch, a subsidiary of Fimalac S.A. Although Moody's and S&P are each larger than Fitch, competition is expected to increase. One or more additional significant rating agencies also may emerge in the United States if the Securities and Exchange Commission ("SEC") expands the number of Nationally Recognized Statistical Rating Organizations ("NRSRO"). In February 2003, the SEC designated Dominion Bond Rating Service, Ltd. of Canada a NRSRO. Competition may also emerge from niche companies that provide ratings for particular types of financial products or issuers (such as A.M. Best Company in the insurance industry) and in developed markets outside the United States over the next few years, for example, in response to the growth in the European capital markets, and in developing markets. Such rating agencies may receive support from local governments or other institutions.

Over the last decade, additional rating agencies have been established, primarily in emerging markets and as a result of local capital market regulation. Regulators worldwide have perceived that credit ratings can further regulatory objectives for the development of public fixed-income securities markets. The result of such regulatory activity has been the creation of a number of primarily national rating agencies in various countries. Certain of these regulatory efforts may have the unintended effect of producing less credible ratings over time. Attempts to standardize ratings systems or criteria may make all rating systems and agencies appear undifferentiated, obscuring variations in the quality of the ratings providers. In addition, since Moody's believes that some of its most significant challenges and opportunities will arise outside the United States, it will have to compete with rating agencies that may have a stronger local presence or a longer operating history in those markets.

Financial regulators are reviewing their approach to supervision and are seeking comments on changes to the global regulatory framework. Bank regulators, under the oversight of the Basel Committee on Banking Supervision, have proposed using refined risk assessments as the basis for minimum capital requirements. The proposed Standardized Approach relies on rating agency opinions, while the Internal Ratings Based Approach relies on systems and processes maintained by the regulated bank. The increased regulatory focus on credit risk presents both opportunities and challenges for Moody's. Global demand for credit ratings and risk management services may rise, but regulatory actions may result in a greater number of rating agencies and/or additional regulation of Moody's and its competitors. Alternatively, banking or securities market regulators could seek to reduce the use of ratings in regulations, thereby reducing certain elements of demand for ratings, or otherwise seek to control the analysis or business of rating agencies.

Credit rating agencies such as Moody's also compete with other means of managing credit risk, such as credit insurance. Competitors that develop quantitative methodologies for assessing credit risk also may pose a competitive threat to Moody's.

Moody's KMV's main competitors for quantitative measures of default risk include the RiskMetrics Group, S&P, CreditSight, R&I's Financial Technology Institute (in Japan), and other smaller vendors. In the area of portfolio modeling for credit-sensitive assets, Moody’s KMV’s primary competitor is the RiskMetrics Group. Other firms may compete in the future. Baker Hill, a privately held company, is Moody’s KMV’s main competitor in the software market to assist banks in their commercial lending activities. Moody’s KMV’s training products have two main competitors: Omega Performance, a privately held firm; and Risk Management Association (formerly Robert Morris Associates), a trade association serving the financial services industry. In addition, Moody’s KMV competes with niche training organizations.

Moody’s Strategy

Moody’s intends to focus on the following opportunities.

Expansion in Financial Centers. Moody’s serves its customers through its global network of offices and business affiliations. Moody’s currently maintains full-service rating and marketing operations in global financial centers such as Frankfurt, Hong Kong, London, Madrid, Milan, New York, Paris, Singapore and Tokyo. Moody’s expects that its global network will position it to benefit from the expansion of worldwide capital markets and thereby increase revenue. Moody’s also expects that the growth of its Moody’s Investors Service business as a consequence of financial market integration under the European Monetary Union will continue. Moody’s expects to continue its expansion into developing markets either directly or through joint ventures.

New Rating Products. Moody’s is pursuing numerous initiatives to expand credit ratings from public fixed-income securities markets to other sectors with credit risk exposures. As the loan and capital markets converge, Moody’s expects to continue to expand its rating coverage of bank loans and project finance loans and securities. Moody’s has a committed effort to extend its credit opinion franchise to the global bank counterparty universe through ratings of emerging market banks, including bank financial strength ratings. Insurance financial strength ratings in the property and casualty, reinsurance, and life insurance markets represent additional growth opportunities. Moody’s has also introduced issuer ratings for corporations not active in the debt markets. For company ratings, Moody’s seeks to continue to add value by providing greater scope and depth of analysis of issues related to company creditworthiness, including enhanced liquidity and cash flow analysis, and evaluation of accounting, corporate governance and risk transference issues. Moody’s has also introduced mutual fund indices and style-based analytical tools to assist in evaluating fund portfolio characteristics and their performance.

Additional Opportunities in Securitization. The repackaging of financial assets has had a profound effect on the fixed-income markets. New patterns of securitization are expected to emerge in the next decade. Although the bulk of assets securitized in the past five years have been consumer assets owned by banks, commercial assets — principally commercial mortgages, term receivables and corporate obligations — are now increasingly being securitized. Securitization has evolved into a strategic corporate finance tool in North America, Europe and Japan, and is evolving elsewhere internationally. Ongoing global development of non-traditional financial instruments, such as derivatives, future flow securities, hybrids, credit-linked bonds and catastrophe bonds should continue to support growth. Moody’s has introduced new services enabling investors to monitor the performance of their investments in structured finance, covering asset-backed finance, commercial mortgage finance, residential mortgage finance and credit derivatives.

Internet-Enhanced Products and Services. Moody’s is expanding its use of the Internet and other electronic media to enhance client service. Moody’s web site provides the public with instant access to ratings, and provides subscribers with credit research. Internet delivery also enables Moody’s to provide services to more individuals within a client organization than paper-based products and to offer higher-value services because of more timely delivery. Moody’s expects that access to these applications will increase client use of Moody’s services. Moody’s expects to continue to invest in electronic media to capitalize on these and other opportunities.

Expansion of Credit Research Products and Investment Analytic Tools. Moody’s plans to continue to expand its research and analytic products by producing additional products through internal development and by acquiring products. Recent initiatives that have been well-received by clients include new services providing analysis of default rates and default probabilities and on-line facilities for retrieving current rating information on demand. Moody’s plans to develop services for other financial markets, such as credit default swaps and equity. Finally, the Company is improving its capability to deliver its research to new customer segments by creating more targeted and customized research offerings and by licensing Moody’s credit analysis and research for re-distribution by third party providers.

New Quantitative Credit Assessment Services. Moody’s will continue to provide banks and other financial institutions with quantitative credit assessment services. Moody’s believes that there will be increased demand for such services because they enable customers trading or holding credit-sensitive assets to produce better performance. Also recent proposals by international bank regulatory authorities to recognize banks’ internal credit risk management systems for the purpose of determining regulatory capital will encourage adoption of such services. Moody's also expects to provide extensions to existing services and new services, such as valuations of credit-sensitive assets.

Regulation

Moody's Investors Service registers as an investment adviser under the Investment Advisers Act of 1940, as amended. Moody's has been designated as a NRSRO by the SEC. The SEC first applied the NRSRO designation in 1975 to agencies whose credit ratings could be used by broker-dealers for purposes of determining their net capital requirements. Since that time, Congress (in certain mortgage-related legislation), the SEC (in its regulations under the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended and the Investment Company Act of 1940, as amended) and other governmental and private bodies have used the ratings of NRSROs to distinguish between, among other things, "investment grade" and "non-investment grade" securities.

Recently, there has been discussion in the U.S. regarding the potential need for greater regulation of credit rating agencies. In October 2002, the staff of the Senate Committee on Governmental Affairs issued a report that recommended changes in SEC regulation of rating agencies. In January 2003, the SEC released a report on the role and function of credit rating agencies in the operation of the securities markets. The report considers a number of issues that the SEC was required to examine under the Sarbanes-Oxley Act of 2002 and other issues arising from a SEC-initiated review of credit rating agencies. More specifically, the SEC identified five broad areas that deserve further examination:

- Information Flow Between Issuers and Rating Agencies and Rating Agencies and Investors
- Managing Potential Conflicts of Interest
- Alleged Anticompetitive or Unfair Practices
- Reducing Potential Regulatory Barriers to Entry
- The Need for Greater Regulatory Oversight

In the report, the SEC stated that it intends to publish a concept release in early 2003 to solicit comments on a number of issues affecting the role and operation of credit rating agencies and expects thereafter to propose rules in response to those comments. Subsequent to releasing its report, in February 2003 the SEC designated Dominion Bond Rating Service, Ltd. of Canada a NRSRO. At present, Moody's is unable to assess the nature and effect of any regulatory changes that may result from the SEC's ongoing review.

Moody's is also subject to regulation in certain non-U.S. jurisdictions in which it operates. In certain countries, governments may provide financial or other support to local-based rating agencies. In addition, governments may from time to time establish official rating agencies or credit ratings criteria or procedures for evaluating local issuers.

Implementation guidelines proposed by the Committee of European Securities Regulators under the European Commission's Market Abuse Directive are applicable to many participants in the European capital markets, including credit rating agencies. Depending on the form in which they are ultimately adopted, such implementation guidelines may increase Moody's cost of doing business in Europe and the legal risk associated with such business.

The Basel Committee on Banking Supervision is preparing a new capital adequacy framework to replace the framework adopted in 1998. Under this framework as now proposed, ratings assigned by a credit rating agency would be an alternative available to certain banks to determine the risk weights for many of their credit exposures. The Basel Committee's proposal would institutionalize ratings of certain rating agencies as an alternative in the credit measurement processes of internationally active financial institutions and subject rating agencies to a broader range of oversight. Because the content of the proposal is not yet finalized, Moody's cannot predict at this time the final form of any such regulation. However, Moody's does not believe that this proposal, if adopted in its present form, would materially affect Moody's Investors Service's financial position, its results of operations or the manner in which it conducts its business.

Other legislation and regulation relating to credit rating and research services has been considered from time to time by local, national and multinational bodies and is likely to be considered in the future. If enacted, any such legislation and regulation could significantly change the competitive landscape in which Moody's operates. Management of Moody's cannot predict whether these or any other proposals will be enacted or the ultimate impact on the competitive position, financial position or results of operations of Moody's.

Intellectual Property

Moody's owns and controls a variety of trade secrets, confidential information, trademarks, trade names, copyrights, patents and other intellectual property rights that, in the aggregate, are of material importance to Moody's business. Management of Moody's believes that each of the "Moody's", "Moody's KMV" and "KMV" name and related names, marks and logos are of material importance to Moody's. Moody's is licensed to use certain technology and other intellectual property rights owned and controlled by others, and, similarly, other companies are licensed to use certain technology and other intellectual property rights owned and controlled by Moody's. Moody's considers its trademarks, service marks, databases, software and other intellectual property to be proprietary, and Moody's relies on a combination of copyright, trademark, trade secret, patent, non-disclosure and contract safeguards for protection. In 2002 Moody's formed a new subsidiary, MIS Quality Management Corp., to own, manage, protect, and license the trademarks of Moody's and its affiliates.

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

Employees

As of December 31, 2002, the number of full-time equivalent employees of Moody's was approximately 2,100.

Available Information

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

EXECUTIVE OFFICERS OF THE REGISTRANT

Name, Age and Position	Biographical Data
John Rutherfurd, Jr., 63 President and Chief Executive Officer	Mr. Rutherfurd has served as the Company's President and Chief Executive Officer since October 1, 2000 and has been a member of the Board of Directors since May 30, 2000. Mr. Rutherfurd served as President of Moody's Investors Service, Inc. from January 1998 until November 2001. Prior thereto, he was the Chief Administrative Officer from 1996 until January 1998. Mr. Rutherfurd also served as Managing Director of Moody's Holdings Inc. from 1995 until 1996, and served as President of Interactive Data Corporation ("IDC"), a wholly owned subsidiary of Old D&B, from 1985 to 1989 and from 1990 until IDC was sold by Old D&B in September 1995. Mr. Rutherfurd is also a director of the National Association of Securities Dealers, Inc. and ICRA Limited, a credit rating agency in India.
Jeanne M. Dering, 47 Senior Vice President and Chief Financial Officer	Ms. Dering has served as the Company's Senior Vice President and Chief Financial Officer since October 1, 2000. Ms. Dering joined Moody's Investors Service, Inc., in 1997 as Managing Director, Finance Officer, and became its Chief Financial Officer in 1998. Prior thereto, she spent over 10 years at Old D&B in a number of financial management positions, including Director of Budgets & Financial Analysis and Director of Financial Planning — Acquisitions and New Business Development.
John J. Goggins, 42 Senior Vice President and General Counsel	Mr. Goggins has served as the Company's Senior Vice President and General Counsel since October 1, 2000. Mr. Goggins joined Moody's Investors Service, Inc., in February 1999 as Vice President and Associate General Counsel and became General Counsel in 2000. Prior thereto, he served as counsel at Dow Jones & Company from 1995 to 1999, where he was responsible for securities, acquisitions and general corporate matters. Prior to Dow Jones, he was an associate at Cadwalader, Wickersham, & Taft from 1985 to 1995, where he specialized in mergers and acquisitions.
Raymond W. McDaniel, Jr., 45 Senior Vice President, Moody's Corporation and President, Moody's Investors Service, Inc.	Mr. McDaniel has served as President of Moody's Investors Service, Inc. since November 2001, and has been a Senior Vice President of the Company since October 1, 2000. Mr. McDaniel also served as Senior Managing Director, Global Ratings and Research, of Moody's Investors Service, Inc., from November 2000 until November 2001. Prior thereto, he had served as Managing Director, International, since 1996 and served as Managing Director, Europe, from 1993 until 1996. He also served as Associate Director in Moody's Structured Finance Group from 1989 until 1993, and as Senior Analyst in the Mortgage Securitization Group from 1988 to 1989.

Chester V. A. Murray, 47 Senior Vice President and Chief Human Resources Officer	Mr. Murray has served as the Company's Senior Vice President and Chief Human Resources Officer since October 2002. Mr. Murray served as Senior Managing Director of Moody's Investors Service, Inc., from November 2001 until October 2002; Group Managing Director-Europe from 1996 until November 2001; Managing Director of the Financial Institutions Group from 1993 until 1996; and Associate Director of the Financial Institutions Group from 1990 until 1993. He was a Senior Analyst for the Financial Institutions Group from 1985 until 1990. Prior thereto, Mr. Murray was a lending officer in the Latin American division of Irving Trust Company from 1981 until 1985.
Douglas M. Woodham, 46 Senior Vice President, Strategy, Corporate Development and Technology, Moody's Corporation and President, Moody's KMV	Mr. Woodham has served as the Company's Senior Vice President, Strategy, Corporate Development and Technology since October 2001. In January 2003, Mr. Woodham was also appointed President, Moody's KMV. Prior to joining Moody's, he served as managing director for EFINANCEWORKS from 2000 to October 2001. Mr. Woodham was a partner, member of the Operating Committee and east coast manager for the Business Technology Office at McKinsey & Company from 1997 to 2000. He served as vice president for Enron from 1994 to 1997 and was a partner at McKinsey & Company from 1985 to 1994. Mr. Woodham was an economist at the Federal Reserve Bank of New York from 1982 to 1985.

ITEM 2. PROPERTIES

The executive offices of Moody's are located at 99 Church Street, New York, New York, in a 297,000-square-foot property owned by Moody's. Moody's operations are also conducted from 7 other U.S. offices and 21 non-U.S. office locations, all of which are leased. These other properties are geographically distributed to meet sales and operating requirements worldwide. These properties are generally considered to be both suitable and adequate to meet current operating requirements, and virtually all space is being utilized.

ITEM 3. LEGAL PROCEEDINGS

From time to time, Moody's is involved in legal and tax proceedings, claims and litigation that are incidental to the Company's business including claims based on ratings assigned by Moody's. Management periodically assesses the Company's liabilities and contingencies in connection with these matters, based upon the latest information available. For those matters where the probable amount of loss can be reasonably estimated, the Company believes it has recorded appropriate reserves in the consolidated financial statements. In other instances, because of the uncertainties related to both the probable outcome and amount or range of loss, management is unable to make a reasonable estimate of a liability, if any. As additional information becomes available, the Company adjusts its assessments and estimates of such liabilities accordingly.

The discussion of the litigation under the heading "Legacy Contingencies" under Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations", commencing at page 26 of this annual report on Form 10-K, is incorporated into this Item 3 by reference .

Based on its review of the latest information available, in the opinion of management, the ultimate liability of the Company in connection with pending legal and tax proceedings, claims and litigation will not have a material adverse effect on Moody's financial position, results of operations or cash flows, subject to the contingencies described below and in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Contingencies".

Moody's Matters

L'Association Francaise des Porteurs d' Emprunts Russes

On June 20, 2001 a summons was served in an action brought by L'Association Francaise des Porteurs d' Emprunts Russes ("AFPER") against Moody's France SA (a subsidiary of the Company) and filed in the Court of First Instance of Paris, France. In this

suit, AFPER, a group of holders of bonds issued by the Russian government prior to the 1917 Bolshevik Revolution, makes claims against Moody’s France SA and Standard & Poor’s SA for lack of diligence and prudence in their ratings of Russia and Russian debt since 1996. AFPER alleges that, by failing to take into account the post-Revolutionary repudiation of pre-Revolutionary Czarist debt by the Soviet government in rating Russia and new issues of Russian debt beginning in 1996, the rating agencies enabled the Russian Federation to issue new debt without repaying the old obligations of the Czarist government. Alleging joint and several liability, AFPER seeks damages of Euro 2.8 billion (approximately U.S. $2.9 billion as of December 31, 2002) plus legal costs. Moody’s believes the allegations lack legal or factual merit and intends to vigorously contest the action. As such, no amount in respect of this matter has been accrued in the financial statements of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year covered by this annual report on Form 10-K, no matter was submitted to a vote of Security Holders.

PART II

ITEM 5. MARKET FOR THE REGISTRANT’S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Information in response to this Item is set forth under the captions “Common Stock Information” and “Dividends” in Item 7 of this annual report on Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

The Company’s selected consolidated financial data should be read in conjunction with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Moody’s Corporation consolidated financial statements and notes thereto. In the opinion of management, these financial statements include all necessary adjustments for a fair presentation of such data in conformity with generally accepted accounting principles.

The Company’s consolidated financial statements are presented as if the Company were a separate entity for all periods presented. Through September 30, 2000, the Distribution Date, Moody’s expenses included allocations of costs from Old D&B for employee benefits, centralized services and other corporate overhead. Expenses related to these services were allocated to Moody’s based on utilization of specific services or, where such an estimate could not be determined, based on Moody’s revenue in proportion to Old D&B’s total revenue. Although management believes these expense allocations are reasonable, they are not necessarily indicative of the costs that would have been incurred if the Company had performed or obtained these services as a separate entity. The allocations included in expenses in the consolidated statements of operations were $13.3 million, $17.2 million, and $16.4 million in 2000, 1999 and 1998, respectively. There were no such allocations subsequent to the Distribution Date. The financial data included herein may not necessarily reflect the results of operations and financial position of Moody’s in the future or what they would have been had it been a separate entity.

amounts in millions, except per share data	Year Ended December 31, 2002	2001	2000	1999	1998
Results of operations (1) (4)					
Revenue	**$1,023.3**	$796.7	$602.3	$564.2	$513.9
Expenses (2)	**485.2**	398.2	313.8	293.8	288.4
Operating income	**538.1**	398.5	288.5	270.4	225.5
Non-operating (expense) income, net (3)	**(20.7)**	(16.6)	(4.5)	8.5	12.4
Income before provision for income taxes	**517.4**	381.9	284.0	278.9	237.9
Provision for income taxes	**228.5**	169.7	125.5	123.3	95.9
Net income	**$ 288.9**	$212.2	$158.5	$155.6	$142.0
Earnings per share (1)					
Basic	**$ 1.88**	$ 1.35	$ 0.98	$ 0.96	$ 0.84
Diluted	**$ 1.83**	$ 1.32	$ 0.97	$ 0.95	$ 0.83
Weighted average shares outstanding					
Basic	**153.9**	157.6	161.7	162.3	169.5
Diluted	**157.5**	160.2	163.0	164.3	171.7
Dividends declared per share	**$ 0.180**	$0.180	$0.045	$ —	$ —

	As of December 31, 2002	2001	2000	1999	1998
Balance sheet data					
Total assets	**$ 630.8**	$ 505.4	$ 398.3	$ 274.8	$ 296.2
Long-term debt	**$ 300.0**	$ 300.0	$ 300.0	—	—
Shareholders' equity	**$(327.0)**	$(304.1)	$(282.5)	$(223.1)	$(192.6)

(1) The 1998 data above includes revenue of $18.4 million and operating income of $4.2 million related to the Financial Information Services ("FIS") business that was sold in July 1998. Included in non-operating (expense) income, net are pre-tax gains on the sale of FIS of $9.2 million ($0.03 per basic and diluted share) in 1999 and $12.6 million ($0.04 per basic and diluted share) in 1998.

(2) Expenses in 2002 include a grant of $6.0 million made to The Moody's Foundation, and Moody's KMV charges as follows: acquisition related charges of $2.9 million principally for write-offs of software and acquired in-process research and development; $1.6 million related to management transition; and $1.5 million related to the settlement of a patent licensing matter. Expenses in 2001 include $5.0 million for severance, legal fees and other costs related to a legal settlement with the Department of Justice; $6.0 million related to charitable contributions and initial funding for The Moody's Foundation, which was formed in 2001; and $3.4 million for the write-down of investments in two Argentine rating agencies.

(3) Non-operating (expense) income, net in 2002, 2001 and 2000 include $23.5 million, $22.9 million and $5.8 million, respectively, of interest expense that principally related to the $300 million of notes payable issued in October 2000. These amounts were partially offset by interest income on invested cash of $2.3 million, $6.5 million and $2.2 million in 2002, 2001 and 2000, respectively. Interest expense and income was immaterial in 1999 and 1998.

(4) The 2002 results of operations include revenue of $42.1 million, expenses of $42.8 million and an operating loss of $0.7 million related to KMV, which was acquired in April 2002.

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

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

The Company

Except where otherwise indicated, the terms "Moody's" and the "Company" refer to Moody's Corporation and its subsidiaries. Moody's is a provider of credit ratings, research and analysis covering debt instruments and securities in the global capital markets and a provider of quantitative credit assessment services, credit training services and credit process software to banks and other financial institutions. Moody's operates in two reportable segments: Moody's Investors Service and Moody's KMV.

Moody's Investors Service publishes rating opinions on a broad range of credit obligations issued in domestic and international markets, including various corporate and governmental obligations, structured finance securities and commercial paper programs. It also publishes investor-oriented credit research, including in-depth research on major issuers, industry studies, special comments and credit opinion handbooks.

The Moody's KMV business consists of the combined businesses of KMV LLC and KMV Corporation ("KMV"), acquired in April 2002, and Moody's Risk Management Services. Moody's KMV develops and distributes quantitative credit assessment services for banks and investors in credit-sensitive assets, credit training services and credit process software.

Factors Affecting Comparability

The Company operated as part of The Dun & Bradstreet Corporation ("Old D&B") until September 30, 2000 (the "Distribution Date"), when Old D&B separated into two publicly traded companies — Moody's Corporation and The New D&B Corporation ("New D&B"). At that time, Old D&B distributed to its shareholders shares of New D&B stock. New D&B comprised the business of Old D&B's Dun & Bradstreet operating company (the "D&B Business"). The remaining business of Old D&B consisted solely of the business of providing ratings and related research and credit risk management services (the "Moody's Business") and was renamed "Moody's Corporation". The method by which Old D&B distributed to its shareholders its shares of New D&B stock is hereinafter referred to as the "2000 Distribution".

In general, pursuant to the terms of the Distribution Agreement entered into at the Distribution Date, all assets and liabilities of the D&B Business were allocated to New D&B and all assets and liabilities of the Moody's Business were allocated to Moody's. The net indebtedness of Old D&B at the Distribution Date was allocated equally between the parties, before giving effect to certain adjustments.

The consolidated financial statements of Moody's Corporation reflect the financial position, results of operations and cash flows of Moody's as if it were a separate entity for all periods presented. The financial statements include allocations of certain Old D&B corporate headquarters assets and liabilities that were transferred from Old D&B at the Distribution Date, as well as allocations of certain expenses for employee benefits, centralized services and corporate overhead that were provided by Old D&B for periods prior to the Distribution Date (see Note 1 to the Company's consolidated financial statements, Description of Business and Basis of Presentation, for additional information). The expense allocations were based on utilization of specific services or, where such an estimate could not be determined, based on Moody's revenue in proportion to Old D&B's total revenue. Although management believes these expense allocations were reasonable, they are not necessarily indicative of the costs that would have been incurred if the Company had performed or obtained these services as a separate entity.

Critical Accounting Policies and Estimates

Moody's discussion and analysis of its financial condition and results of operations are based upon 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, liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the reporting period. 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, deferred tax assets, undistributed earnings of non-U.S. subsidiaries, contingencies, valuation of investments in affiliates, long-lived and intangible assets, goodwill, pension and other post-retirement benefits and stock-based compensation. Actual results may differ from these estimates under different assumptions or conditions. The following accounting policies are considered critical because they are particularly dependent on management's judgment about matters that are uncertain at the time the accounting estimates are made.

Revenue Recognition

In recognizing revenue related to ratings, Moody's uses judgments to match billed revenue with services to be provided in the future. These judgments are generally not dependent on the outcome of future uncertainties, but rather relate to allocating revenue across accounting periods. Moody's monitors its ratings on issuers and their outstanding securities. In cases where the Company does not charge ongoing annual fees or other monitoring fees for a particular issuer, the Company defers portions of rating fees that will be attributed to future monitoring activities and recognizes such fees over the estimated monitoring periods. At December 31, 2002 and 2001, deferred revenue included approximately $20 million and $15 million, respectively, related to estimated deferred monitoring fees.

In addition, Moody's estimates revenue for ratings of commercial paper for which, in addition to a fixed annual fee, issuers are billed quarterly based on amounts outstanding. Related revenue is accrued each quarter based on estimated amounts outstanding, and is billed subsequently when actual data is available. At December 31, 2002 and 2001, accounts receivable included approximately $22 million and $18 million, respectively, of accrued commercial paper revenue. Historically, the Company has not had material differences between the estimated revenue and the actual billings.

Accounts Receivable Allowance

Moody's records as reductions of revenue provisions for estimated future adjustments to customer billings, based on historical experience and current conditions. Such provisions are reflected as additions to the accounts receivable allowance. Adjustments to and write-offs of accounts receivable are charged against the allowance. Moody's evaluates its estimates on a regular basis and makes adjustments to provision rates and the accounts receivable allowance as considered appropriate. In 2002, the Company reduced its provision rates and allowance to reflect its current estimate of the appropriate level of accounts receivable allowance.

Deferred Tax Assets and Undistributed Earnings of Non-U.S. Subsidiaries

In assessing the need for deferred tax asset valuation allowances, Moody's considers future taxable income and ongoing prudent and feasible tax planning strategies. Based on these assessments, Moody's has determined that it expects to be able to realize in the future its deferred tax assets, which totaled $38.6 million at December 31, 2002. However, if Moody's profitability or other circumstances were to change adversely, the Company could determine that it would not be able to realize all or part of its deferred tax assets in the future. In such case, a valuation allowance would be established and an increase in the tax provision would result in the period such determination was made.

In addition, the Company has approximately $13 million of undistributed earnings of certain non-U.S. subsidiaries, for which no deferred taxes have been provided. It is currently management's intention to permanently re-invest those earnings in the subsidiaries. If management's approach to re-investing those earnings changed or such earnings were distributed to the U.S., incremental expense of approximately $1.2 million for U.S. federal and foreign income taxes would be incurred.

Contingencies

Accounting for contingencies, including those matters described in the "Contingencies" section of this management's discussion and analysis, requires the use of judgment and estimates in assessing their magnitude and likely outcome. In many cases, the outcomes of such matters will be determined by third parties, including governmental or judicial bodies. The provisions made in the consolidated financial statements, as well as the related disclosures, represent management's best estimates of the current status of such matters and their potential outcome based on a review of the facts and in consultation with outside legal counsel where deemed appropriate **.** Since the potential exposure on many of these matters is material, and it is possible that these matters could be resolved in amounts that are greater than the Company has reserved, their resolution could have a material effect on Moody's future reported results and financial position. In addition, potential cash outlays related to the resolution of these exposures could be material.

Investments in Affiliates, Long-Lived and Intangible Assets and Goodwill

Moody's assesses the impairment of its investments in affiliates and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill and indefinite-lived intangibles are tested for impairment annually or more frequently if impairment indicators arise in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". These evaluations require the use of judgment as to the effects of external factors and market conditions on the Company's conduct of its operations, and they require the use of estimates in projecting future operating results. If actual external conditions or future operating results differ from the Company's judgments, impairment charges may be necessary to reduce the carrying value of the subject assets. Based on its assessment, in the fourth quarter of 2001, the Company recorded a charge of $3.4 million (pre-tax) to write-down a portion of its equity investment in two Argentine rating agencies.

Pension and Other Post-Retirement Benefits

Moody's employee pension and other post-retirement benefit costs and obligations are dependent on assumptions concerning the outcome of future events and circumstances, including compensation increases, long-term return on pension plan assets, health care cost trends, discount rates and other factors. In determining such assumptions, the Company consults with outside actuaries and other advisors where deemed appropriate. In accordance with relevant accounting standards, if actual results differ from the Company's assumptions, such differences are deferred and amortized over the estimated future working life of the plan participants. While the Company believes that the assumptions used in these calculations are reasonable, differences in actual experience or changes in assumptions could affect the expenses and liabilities related to the Company's pension and other post-retirement benefits. Following is a discussion of some significant assumptions that the Company makes in determining costs and obligations for pension and other post-retirement benefits.

- Discount rate assumptions are based on current yields on high grade corporate long-term bonds.

- Salary growth assumptions are based on the Company's long-term actual experience and future outlook.

- Health care cost trend assumptions are based on historical market data, the near-term outlook and an assessment of likely long-term trends.

- Long-term return on pension plan assets is based on the expected future average annual return for each major asset class within the plan's portfolio (which is principally comprised of equity and fixed-income investments), over a long-term horizon. In 2003, for the purpose of determining net periodic pension expense, the Company expects to use a return on plan assets assumption of approximately 8.5%, which reflects return assumptions of approximately 9.5% for equity investments and approximately 5.1% for fixed-income investments. The 2003 return assumption was reduced from 9.75% in 2002, principally reflecting lower expected returns on equity investments due to market weakness. This change in assumption will result in an increase in pension expense of approximately $1.2 million in 2003.

Stock-Based Compensation

In 2002 and prior years, the Company elected not to recognize in its consolidated financial statements compensation expense related to employee stock options, and instead disclosed the related pro forma net income and earnings per share effects in the notes to its consolidated financial statements. The stock option values that underlie the disclosures are based on a Black-Scholes option pricing model using assumptions and estimates that the Company believes are reasonable. However, circumstances occurring subsequent to issuance of the options could cause the actual value of the options to differ from these estimates **.**

On January 1, 2003, the Company adopted, on a prospective basis, the fair value method of accounting for stock-based compensation under the provisions of SFAS No. 123, " Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123". Therefore, employee stock options granted on and after January 1, 2003 will be expensed by the Company over the option vesting period, based on the estimated fair value of the award on the date of grant. In addition, shares issued to participants in the Company's employee stock purchase plan will be expensed by the Company based on the discount from the market price received by the participants on the date of issuance. Using what the Company believes are reasonable assumptions and the Black-Scholes option pricing model, the estimated impact of this change will be approximately $0.04 per diluted share in 2003. In future years, as this change in accounting becomes fully phased in over the normal option vesting cycle (currently four years), the Company expects that the earnings per share impact will be greater.

The Company has a policy of repurchasing its shares to offset the dilutive impacts of stock option exercises, which will be an important use of its cash flow over time. During 2002, approximately $38 million was spent on such repurchases (after option proceeds and related tax benefits), which was approximately 13% of the Company's after-tax cash flow before dividends, share repurchases and the KMV acquisition. The Company's 2001 spending was approximately $24 million, which was approximately 9% of after-tax cash flow before dividends and share repurchases.

Operating Segments

The Company has historically operated in one reportable business segment – Ratings, which accounted for approximately 90% of the Company's total revenue. With the April 2002 acquisition of KMV, Moody's now operates in two reportable business segments: Moody's Investors Service and Moody's KMV. Accordingly, in the second quarter of 2002, the Company restated its segment information for corresponding prior periods to conform to the current presentation. In discussing periods prior to 2002, the Moody's KMV segment is referred to as Moody's Risk Management Services ("MRMS"), the predecessor business.

The Moody's Investors Service business consists of four rating groups — structured finance, corporate finance, financial institutions and sovereign risk, and public finance — that generate revenue principally from the assignment of credit ratings on fixed-income instruments in the debt markets, and research, which primarily generates revenue from the sale of investor-oriented credit research, principally produced by the rating groups. Given the dominance of Moody's Investors Service to Moody's overall results, the Company does not separately measure or report corporate expenses, nor are they allocated to the Company's business segments. Accordingly, all corporate expenses are included in operating income of the Moody's Investors Service segment and none have been allocated to the Moody's KMV segment.

The Moody's KMV business consists of KMV, acquired in April 2002, and Moody's Risk Management Services. Moody's KMV develops and distributes quantitative credit assessment services for banks and investors in credit-sensitive assets, credit training services and credit process software.

Results of Operations

Year Ended December 31, 2002 Compared With Year Ended December 31, 2001

Total Company Results

Moody's revenue for 2002 was $1,023.3 million, an increase of $226.6 million or 28.4% from $796.7 million in the prior year. Excluding post-acquisition revenue from KMV of $42.1 million, Moody's achieved revenue growth of 23.2% over the prior year. The Company's revenue performance reflected strong gains in a number of sectors of the ratings business with global structured finance the largest growth driver, as well as strong double-digit growth in the global research business.

Revenue in the United States was $680.3 million in 2002, an increase of $119.6 million or 21.3% from $560.7 million in 2001. Excluding KMV revenue of $19.0 million, U.S. revenue increased 17.9% to $661.3 million. Strong growth in U.S. ratings revenue reflected higher issuance volumes in several market sectors, particularly structured finance and municipal bonds.

Moody's international revenue was $343.0 million in 2002, an increase of 45.3% from $236.0 million in 2001. Excluding KMV revenue of $23.1 million, international revenue increased 35.6% to $319.9 million. This increase was primarily driven by strong growth in revenue from structured finance ratings in Europe and Japan, and global financial institutions. International research revenue grew 36% over 2001, and the consolidation of Korea Investors Service commencing in January 2002 also contributed to 2002 revenue growth. In 2002, international revenue accounted for 34% of total Moody's revenue, up from 30% in 2001.

Operating expenses of $285.3 million in 2002 grew 19.1% from $239.6 million in 2001. Excluding $12.2 million related to KMV, operating expenses would have been $273.1 million in 2002, a 14.0% year-over-year increase. This increase was principally due to higher compensation and related costs to support business expansion, primarily in Europe and the global structured finance business. Operating expense increases also included consulting costs to support new product development and higher occupancy and travel related costs in connection with business expansion.

Selling, general and administrative ("SG&A") expenses of $175.3 million in 2002 were up 23.8% versus $141.6 million in 2001. Included in 2002 expenses are the following charges relating to Moody's KMV: $2.9 million of acquisition related charges, primarily for write-offs of software and in-process research and development; $1.6 million related to management transition; and $1.5 million related to the settlement of a patent licensing matter. 2002 and 2001 expense each included approximately $6.0 million of charitable contributions, mainly to The Moody's Foundation. Excluding these items and excluding all other expenses of KMV (totaling $19.7

million), SG&A expenses increased 5.9% to $143.6 million in 2002, from $135.6 million in 2001. This increase was principally due to higher compensation and related costs to support business expansion, higher professional fees primarily for technology infrastructure and financial systems, and higher legal fees due to U.S. and European regulatory inquiries. In addition, occupancy and travel related costs increased as a result of business expansion.

Depreciation and amortization expense increased to $24.6 million in 2002 from $17.0 million in 2001. The 2002 expense reflected $7.5 million of KMV-related expenses, including $6.3 million for amortization of acquired software and intangible assets. The 2001 amount included $2.1 million for amortization of goodwill, which was discontinued in 2002 with the implementation of SFAS No. 142. Excluding these items, depreciation and amortization increased by $2.2 million or 14.8% year-to-year.

Operating income of $538.1 million in 2002 was up 35.0% from $398.5 million in 2001. Moody's operating margin for 2002 was 52.6%, up from 50.0% in 2001. The strong operating income growth in 2002 principally reflected the Company's high revenue growth without a proportional increase in expenses.

Interest and other non-operating expense was $20.7 million in 2002 compared with $16.6 million in 2001. The amounts primarily reflected interest expense of $22.8 million in each year, related to Moody's $300 million of private placement debt and interest income of $2.3 million in 2002 compared with $6.5 million in 2001. The lower income in 2002 was principally due to lower interest rates, and the use of cash on hand to fund the KMV acquisition and greater share repurchases.

Moody's effective tax rate was 44.2% in 2002 compared to 44.4% in 2001. The Company expects the effective tax rate to decrease in the future as a greater portion of Moody's business migrates to lower tax jurisdictions. Net income was $288.9 million in 2002 compared with $212.2 million in 2001. Earnings per share were $1.88 basic and $1.83 diluted in 2002, compared with $1.35 basic and $1.32 diluted in 2001.

Segment Results

Moody's Investors Service

Moody's Investors Service revenue was $941.8 million in 2002, up 23.0% from $765.9 million in 2001. The increase was principally driven by strong growth in global structured finance, financial institutions and research revenue, as well as in U.S. public finance.

Structured finance revenue was $381.2 million in 2002, an increase of $107.4 million or 39.2% from $273.8 million in 2001. Strong growth was achieved in several U.S. market sectors, including residential and commercial mortgage-backed securities, credit derivatives and asset-backed securities. International structured finance revenue grew close to 60% versus 2001, reflecting strength in Europe, especially in credit derivatives and Japan, principally in commercial mortgage-backed securities.

Corporate finance revenue was $228.4 million in 2002, up 1.2% from $225.7 million in 2001. The number of issues in the U.S. corporate market declined about 17% in 2002 compared with the prior year, reflecting continued weakness in corporate investment spending, lower merger and acquisition activity and slower refinancing activity. The effect of this decline on overall corporate finance revenue was tempered, however, by growth in bank loan ratings and relationship-based revenue. European corporate finance generated double-digit revenue growth versus the prior year despite lower issuance volumes, primarily due to new rating customers and growth in relationship-based revenue. The consolidation of Korea Investors Service also contributed to revenue growth over the prior year.

Revenue in the financial institutions and sovereign risk sector was $157.4 million in 2002, an increase of $26.7 million or 20.4% from $130.7 million in 2001. This reflected a 6% increase in the number of financial institutions issues in the U.S. in 2002 compared to 2001, due to refinancing of short-term debt to long-term debt and increased investor demand for issues in this sector. In Europe, the number of transactions in this sector was up 17% from the prior year. Growth in issuer ratings and other relationship-based revenue also contributed to the year-over-year growth.

Public finance revenue increased 26.5% to $81.2 million in 2002, from $64.2 million in 2001. Year-to-year growth of 25% in the dollar volume of U.S. municipal bond issuance was the main driver of this performance. Issuance was strong for both new issues and refinancings, reflecting the favorable interest rate environment as well as less pay-as-you-go financing by municipal borrowers.

Research revenue grew 30.9% to $93.6 million in 2002, up from $71.5 million in 2001. Increased investor focus on credit risk helped to drive higher sales of products to current customers and the addition of new customers. In addition, increased revenue from licensing Moody's information to third-party distributors contributed to the growth **.**

Moody's Investors Service operating, selling, general and administrative expenses, including corporate expenses were, $385.7 million in 2002, an increase of $32.8 million, or 9.3% over 2001. This increase was principally due to higher compensation and related costs to support business expansion, primarily in Europe and the global structured finance business. Other operating expense increases included consulting costs related to investments in technology infrastructure and financial systems, legal fees related to U.S. and European regulatory inquiries, and higher occupancy and travel related costs in connection with business expansion. These increases were partially offset by lower costs for production and delivery of research products, due to the continued shift to Internet delivery. Included in 2001expenses was a $3.4 million write-down of investments in two Argentine rating agencies due to the currency devaluation and the unstable economic and political situation. Depreciation and amortization expense was $12.7 million in 2002 versus $11.5 million in 2001.

Moody's Investors Service operating income of $543.4 million in 2002 was up 35.3% from $401.5 million in 2001.

Moody's KMV

Moody's KMV reported revenue of $81.5 million in 2002 compared to $30.8 million in 2001. Excluding post-acquisition revenue from KMV of $42.1 million, revenue for the prior Moody's Risk Management Services business grew 27.9% to $39.4 million in 2002. The revenue growth principally reflected increased subscriptions for RiskCalc™ credit assessment products as more country-specific models have been introduced, and license fees for new sales and upgrades of credit decisioning software.

Operating, selling, general and administrative expenses of Moody's KMV were $74.9 million in 2002 compared with $28.3 million in 2001. Excluding the $6.0 million of acquisition related, management transition and patent licensing charges described in "Total Company Results" above, and excluding all other KMV expenses of $31.9 million, expenses would have been $37.0 million in 2002, a 30.7% year-over-year increase. This increase primarily reflected higher compensation and benefit costs to support business expansion and increased consulting costs related to new product development. Moody's KMV depreciation and amortization expense was $11.9 million in 2002 versus $5.5 million in 2001; the year-to-year increase primarily reflected $6.3 million of amortization expense related to acquired KMV software and intangible assets partially offset by the discontinuance of amortization of goodwill from a prior acquisition pursuant to the adoption of SFAS No. 142.

Moody's KMV reported an operating loss of $5.3 million in 2002, compared to an operating loss of $3.0 million in 2001. Excluding the aforementioned $6.0 million of expenses, and $6.3 million of amortization expense related to the KMV acquisition, the Moody's KMV segment would have reported operating income of $7.0 million.

Year Ended December 31, 2001 Compared with Year Ended December 31, 2000

Total Company Results

Total Moody's revenue was $796.7 million in 2001, an increase of $194.4 million or 32.3% from $602.3 million in 2000. The Company's 2001 revenue performance reflected strong growth in revenue across all ratings groups as well as in global research and Moody's Risk Management Services.

Revenue in the United States was $560.7 million in 2001, an increase of $131.8 million or 30.7% from $428.9 million in 2000. This increase reflected strong growth in ratings revenue, principally due to higher issuance volumes in most market sectors, including investment grade and high yield corporate bonds, municipal bonds, asset-backed securities and mortgage-backed securities.

Moody's international revenue was $236.0 million in 2001, an increase of 36.1% over $173.4 million in 2000. European structured finance revenue almost doubled for the year. International corporate finance revenue grew more than 20% and financial institutions revenue showed solid double-digit growth. International revenue at Moody's Risk Management Services rose 46.1% and non-U.S. research revenue grew 23.7%.

Operating expenses of $239.6 million in 2001 grew 26.4% from $189.6 million in 2000. The increase reflected higher compensation and related expenses due to an increase in the number of analysts, particularly in Europe and in the worldwide structured finance business, as well as higher incentive compensation costs due to the Company's very strong 2001 results. Also included in operating expense was a $3.4 million charge to write-down investments in two Argentine rating agencies, due to the currency devaluation and unstable economic and political situation.

Selling, general and administrative expenses of $141.6 million in 2001 were up 31.6% compared to $107.6 million in 2000. This increase principally reflected higher incentive compensation costs due to the Company's very strong 2001 results; costs of approximately $5.0 million for severance, legal fees and other expenses related to the Company's legal settlement with the Department of Justice in April 2001; and $6.0 million related to charitable contributions and initial funding for the newly-formed Moody's Foundation.

Depreciation and amortization expense increased from $16.6 million in 2000 to $17.0 million in 2001.

Operating income of $398.5 million in 2001 was up 38.1% from $288.5 million in 2000. Moody's operating margin for 2001 was 50.0%, up from 47.9% in 2000 due to the unexpected strength in revenue throughout the year.

Interest and other non-operating expense was $16.6 million in 2001 compared with $4.5 million in 2000. The increase in 2001was principally the result of a full year of interest expense related to the Company's $300 million private debt placement that was completed in the fourth quarter of 2000, offset in part by interest income on invested cash.

Moody's effective tax rate was 44.4% in 2001 compared to 44.2% in 2000. Net income was $212.2 million in 2001 compared with $158.5 million in 2000. Earnings per share were $1.35 basic and $1.32 diluted in 2001, compared with $0.98 basic and $0.97 diluted in 2000.

Segment Results

Moody's Investors Service

Moody's Investors Service revenue was $765.9 million in 2001, up 32.2% from $579.3 million in 2000. Strong double-digit growth in global structured finance, European and U.S. corporate finance, public finance and global research drove much of the increase.

Structured finance ratings revenue of $273.8 million in 2001 grew 37.4% over 2000 revenue of $199.2 million. The increase was due to strong growth in the U.S. across several market sectors including credit derivatives, asset-backed securities and both commercial and residential mortgage-backed securities. Asset-backed issuance volume was up 29%, residential mortgage volume rose 130% and commercial mortgage volume was up 50%. European structured finance growth was very strong primarily due to credit derivatives, asset-backed securities and commercial mortgage-backed securities.

Revenue from corporate finance ratings was $225.7 million in 2001 compared with $162.7 million in 2000, an increase of 38.7%. Lower interest rates in the U.S. resulted in strong issuance growth in both investment grade and high yield bonds, with robust refinancing activity. The number of investment grade corporate issues was up more than 48% over 2000. Also contributing to revenue growth was Moody's Rating Assessment Service, which was introduced in the second half of 2000. In addition, new monitoring fees for infrequent issuers were initiated in 2001, which produced approximately $9.0 million of revenue growth over 2000. Revenue from financial institutions and sovereign risk ratings was $130.7 million in 2001, an increase of 17.1% over $111.6 million in 2000. Lower interest rates in the U.S. drove increased investment grade issuance for banks and other financial institutions. In addition, revenue in Europe grew at a double-digit pace due to lower borrowing costs.

Public finance ratings revenue grew 39.3% to $64.2 million in 2001, up from $46.1 million in 2000. This was primarily due to a 43% increase in the dollar volume of U.S. municipal bonds issued in 2001 compared to 2000. Refinancing activity was especially strong due to the favorable interest rate environment, and represented 31% of total issuance dollar volume in 2001 versus 17% in 2000.

Research revenue increased 19.8%, to $71.5 million, reflecting continued international expansion, new product introductions and growth in demand for products delivered via the Internet.

Operating, selling, general and administrative expenses, including corporate expenses, were $352.9 million in 2001, an increase of $80.5 million, or 29.6% from $272.4 million in 2000. Of this increase, $14.4 million was due to the Argentine investment write-down, the Company's legal settlement with the Department of Justice, and charitable expenses, all as described above. The remaining increase reflected higher compensation and related expenses due to an increase in the number of analysts, particularly in Europe and in global structured finance, as well as higher incentive compensation costs due to the Company's very strong 2001 results. Depreciation and amortization expense was $11.5 million in 2001 versus $11.4 million in 2000.

Moody's Investors Service operating income of $401.5 million in 2001 was up 35.9% from $295.5 million in 2000 due to the unexpected strength in revenue throughout the year.

Moody's Risk Management Services

Revenue for the Moody's Risk Management Services business was $30.8 million in 2001, an increase of 33.9% over 2000. This increase was driven by continued strong sales of its credit risk assessment software and subscription products.

Operating, selling, general and administrative expenses for Moody's Risk Management Services were $28.3 million in 2001 compared with $24.8 million in 2000. The increase reflected higher compensation and related expenses and increased professional fees to support product development. Depreciation and amortization expense was $5.5 million in 2001 versus $5.2 million in 2000.

Moody's Risk Management Services reported an operating loss of $3.0 million in 2001, compared to a loss of $7.0 million in 2000.

Market Risk

Moody's maintains operations in 18 countries outside the United States and over 85% of its revenue for the year ended December 31, 2002 was billed in U.S. dollars. Approximately 30% of the Company's expenses were incurred in currencies other than the U.S. dollar. As such, the Company is exposed to market risk from changes in foreign exchange rates.

As of December 31, 2002, approximately 13% of Moody's assets were located outside the U.S. Of Moody's aggregate cash and cash equivalents of $39.9 million at December 31, 2002, approximately $33.1 million was located outside the United States (with $18.0 million in the U.K.), making the Company susceptible to fluctuations in foreign exchange rates. The effects of changes in the value of foreign currencies relative to the U.S. dollar on assets and liabilities of non-U.S. operations are charged or credited to the cumulative translation adjustment in shareholders' equity.

Moody's cash equivalents consist of investments in high quality short-term securities within and outside the United States. By policy, the Company limits the amount it can invest with any one issuer and allocates its cash equivalents among various money market mutual funds, short-term certificates of deposit or issuers of high-grade commercial paper.

The Company has not engaged in foreign currency hedging transactions nor does the Company have any derivative financial instruments. However, the Company continues to assess the need to enter into hedging transactions to limit its risk due to fluctuations in exchange rates and may enter into such transactions in the future.

Liquidity and Capital Resources

Cash Flows

Net cash provided by operating activities was $334.8 million, $321.4 million, and $70.2 million for the years ended December 31, 2002, 2001 and 2000, respectively.

The increase of $13.4 million in 2002 versus 2001 reflected growth in net income of $76.7 million and increased tax benefits from the exercise of stock options. Partially offsetting these factors were the payment of approximately $50 million of U.S. federal income taxes related to 2001 that were deferred into 2002 as a result of the September 11th tragedy, higher payments for prior year incentive compensation (approximately $38 million) and an increased investment in accounts receivable reflecting the high level of fourth quarter 2002 billings. It is anticipated that the majority of these receivables will be collected in the first quarter of 2003. The strength in 2002 ratings and research business volumes, as well as the acquisition of KMV, also resulted in an increase in deferred revenue over the prior year. The increase in other liabilities in 2002 reflected increased accruals for pension and other post-retirement benefits, and tax exposures.

Cash provided by operating activities in 2001 increased substantially compared with 2000 reflecting, among other things, a $174.6 million payment made to Old D&B in 2000 in connection with the filing of an amended tax return for the 1989 and 1990 tax periods (as further described in Note 14 to the Company's consolidated financial statements, Contingencies) and year-to-year growth in net income of $53.7 million in 2001. In addition, the 2001 increase reflected the deferral of approximately $50 million of income tax payments noted above. Moody's accounts payable and accrued liabilities at December 31, 2001 were $101.6 million higher than the prior year-end. In addition to the impact of the income tax deferral, the increase reflected higher accruals for incentive compensation, which were paid in the first quarter of 2002. In addition, accounts receivable at year-end 2001 were $47.6 million higher than the prior year-end, reflecting the high level of fourth quarter 2001 billings.

Net cash used in investing activities was $223.6 million, $30.0 million and $33.6 million for the years ended December 31, 2002, 2001 and 2000, respectively. Investing activities in each year principally consisted of acquisitions and capital expenditures. Cash used for acquisitions included $205.4 million (net of cash acquired) for KMV in 2002, $15.2 million for investments in international rating agencies in 2001 and $17.4 million for the acquisition of a financial software products company in 2000. Capital expenditures, which principally included investments in developing and upgrading computer hardware and software and purchases of office furnishings and equipment, were $18.1 million in 2002, $14.8 million in 2001 and $14.4 million in 2000 **.**

Net cash (used in) provided by financing activities was ($236.6) million, ($248.1) million and $79.0 million for the years ended December 31, 2002, 2001 and 2000, respectively. Share repurchases, employee stock option exercises, dividend payments and debt proceeds and repayments were the principal activities reflected in these amounts.

Spending for share repurchases totaled $369.9 million in 2002, $267.6 million in 2001 and $71.8 million in 2000. These amounts were offset in part by proceeds from stock plans of $54.0 million in 2002, $47.8 million in 2001 and $10.1 million in 2000. In addition, dividends paid were $27.8 million, $28.3 million and $7.2 million in 2002, 2001 and 2000, respectively. Net proceeds from borrowings totaled $107.1 million in 2002 (as described below) and $104.5 million in 2000 representing net proceeds from the $300 million long-term financing that was put in place at the time of the Company's spin-off from Old D&B, as described below. In addition, cash flow from financing activities in 2000 reflected cash distributions made to Old D&B through the Distribution Date.

During 2002, Moody's funded the acquisition of KMV with a combination of cash on hand and short-term borrowings from its bank credit facilities, which were subsequently repaid. Moody's has since borrowed under its bank credit facilities to fund share repurchases, and has benefited from favorable short-term borrowing costs. Management is considering pursuing long-term financing when it is appropriate in light of cash requirements for share repurchase and other strategic opportunities, which would result in higher financing costs. At December 31, 2002, Moody's had $107.1 million of outstanding borrowings under its bank credit facilities, in addition to the $300 million of long-term financing.

Indebtedness

In connection with the 2000 Distribution, Moody's was allocated $195.5 million of debt at September 30, 2000. Moody's funded this debt with borrowings under a $160 million unsecured bank revolving credit facility and a bank bridge line of credit. On October 3, 2000, the Company issued $300 million of notes payable (the "Notes") in a private placement. The cash proceeds from the Notes were used in part to repay the outstanding balance on the revolving credit facility and to repay the bridge line of credit. The Notes have a five-year term and bear interest at an annual rate of 7.61%, payable semi-annually. In the event that Moody's pays all or part of the Notes in advance of their maturity, (the "prepaid principal"), such prepayment will be subject to a penalty calculated based on the excess, if any, of the discounted value of the remaining scheduled payments, as defined in the agreement, over the prepaid principal.

The revolving credit facility (the "Facility") consists of an $80 million 5-year facility that expires in September 2005 and an $80 million 364-day facility that expires in September 2003. As of December 31, 2002, the Company had borrowings outstanding of $76.1 million under the 5-year facility, bearing interest at approximately 1.64% per annum, and $31.0 million under the 364-day facility, bearing interest at approximately 1.73% per annum. Interest on borrowings under the 5-year facility is payable at rates that are based on the London InterBank Offered Rate ("LIBOR") plus a premium that can range from 18 basis points to 50 basis points depending on the Company's ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization ("EBITDA"), as defined in the related agreement. At December 31, 2002, such premium was 22 basis points. Interest on borrowings under the 364-day facility is payable at rates that are based on LIBOR plus a premium of 30.5 basis points. The Company also pays annual facility fees, regardless of borrowing activity under the Facility. The annual fees for the 5-year facility can range from 7 basis points to 12.5 basis points depending on the Company's ratio of total indebtedness to EBITDA, and were 8 basis points at December 31, 2002. The annual fees for the 364-day facility are 7 basis points. Under each facility, the Company also pays a utilization fee of 12.5 basis points on borrowings outstanding when the aggregate amount outstanding under such facility exceeds 33% of the facility. In April 2002, Moody's used the Facility to initially fund a portion of the purchase price for the KMV acquisition; amounts outstanding under the Facility were repaid in the second quarter of 2002. Since that time, Moody's has borrowed under the Facility to fund share repurchases as noted above. Interest incurred under the Facility for the years ended December 31, 2002, 2001 and 2000 was $0.3 million, $0.0 million and $0.1 million, respectively.

The Notes and the Facility (the "Agreements") contain covenants that, among other things, restrict the ability of the Company and its subsidiaries, without the approval of the lenders, to engage in mergers, consolidations, asset sales and sale-leaseback transactions or to incur liens. The Notes and the Facility also contain financial covenants that, among other things, require the Company to maintain an interest coverage ratio, as defined in the Agreements, of not less than 3 to 1, and a ratio of total indebtedness to EBITDA, as defined in the Agreements, of not more than 4 to 1. At December 31, 2002, the Company was in compliance with such covenants. If an event of default were to occur (as defined in the Agreements) and was not remedied by the Company within the stipulated timeframe, an acceleration of the Notes and restrictions on the use of the Facility could occur.

Off-Balance Sheet Arrangements

At December 31, 2002 and 2001, Moody's did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as special purpose entities, 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.

Share Repurchases

During October 2002, Moody's completed the $300 million share repurchase program that had been authorized by the Board of Directors in October 2001. On October 22, 2002, the Board of Directors authorized an additional $450 million share repurchase program, which Moody's expects to complete by mid-2004. The program includes both special share repurchases and systematic repurchases of Moody's common stock to offset the dilutive effect of share issuance under the Company's employee stock plans.

For the year ended December 31, 2002, Moody's repurchased 8.2 million shares at a total cost of $369.9 million, including 2.7 million shares to offset issuances under employee stock plans. Since becoming a public company in September 2000 and through the end of 2002, Moody's has repurchased 19.5 million shares at a total cost of $709.3 million, including 6.1 million shares to offset issuances under employee stock plans.

Contractual Obligations

The following table presents payments due under the Company's contractual obligations as of December 31, 2002.

		Payments Due by Period			
	Total	Less Than 1 Year	1-3 Years	4-5 Years	Over 5 Years
			(in millions)		
Borrowings under credit facilities	$107.1	$107.1	$ —	$ —	$ —
Notes payable	300.0	—	300.0	—	—
Operating lease obligations	53.2	13.5	23.1	15.1	1.5
Capital lease obligations	3.7	1.2	2.5	—	—
Purchase obligations (1)	11.4	6.4	3.8	1.2	—
Total	$475.4	$128.2	$329.4	$16.3	$1.5

(1) Purchase obligations include contracts for telecommunications, data processing services and back-up facilities, and professional services.

Outlook

Certain of the statements below are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, any projections of future results of operations and cash flows are subject to substantial uncertainty. See “Forward-Looking Statements” on page 31 and “Additional Factors That May Affect Future Results” following this section.

Results of Operations

Moody’s results in 2002 and 2001, including growth in revenue, operating income and earnings per share, have exceeded the Company’s long-term financial targets, which are for low-teens percent growth in Moody’s Investors Service revenue and operating income, with the impact of share repurchases and a lower effective tax rate resulting in mid-teens percent growth in diluted earnings per share. The Company anticipates that in some years its growth will exceed these targets and in other years it will be below these targets. For the Moody’s KMV business, the Company expects revenue to grow to $200 million by 2005, with an operating margin (before amortization expense for acquired software and intangibles) of greater than or equal to 20%.

Moody’s is providing its outlook for 2003 at a time of significant global macroeconomic and geopolitical uncertainty. The inherent difficulty in predicting changes in the global environment, and the timing of such changes, creates important potential variance in the outlook.

In Moody’s Investors Service, moderate growth in global structured finance revenue in 2003 is anticipated despite the Company’s expectation of a significant decline in the U.S. housing sector and residential mortgage refinancings, and lower growth in U.S. consumer spending affecting asset-backed issuance. In global corporate finance, the Company expects to see moderate overall revenue growth in 2003 despite low business investment and mergers and acquisitions activity in the U.S. In the U.S. public finance sector, issuers will likely continue to rely on public debt to fund their budgets as tax receipts remain weak. Nevertheless, because of an expected decline in refinancing activity, the outlook for public finance revenue is modestly lower in 2003. Moody’s also expects a continuation of the strong growth in the research business. Finally, healthy growth in the Moody’s KMV business is expected.

Moody’s expenses for 2003 will likely reflect continued investment spending on enhanced ratings practices, technology initiatives, product development and continued hiring to support growth areas of the business. Moody’s expects a slight decline in the operating margin in 2003 compared to the very high margin level in 2002, before the impact of expensing stock options (which is discussed elsewhere in this Management’s Discussion and Analysis).

Overall for 2003, Moody’s expects that percent revenue growth will be in the mid-to-high single digits. With the impact of a lower effective tax rate and share repurchases, the Company expects that diluted earnings per share will grow in the low double digits, before the approximate $0.04 per share impact of expensing compensation related to employee stock plans and the approximate $0.05 per share gain on the insurance recovery related to the September 11th tragedy (which is discussed in Note 17 to the Company’s consolidated financial statements, Subsequent Event).

The Company’s 2003 outlook takes into consideration the current regulatory environment both within and outside the United States, including the recently-published SEC report on rating agencies pursuant to the Sarbanes-Oxley Act, which is discussed elsewhere in this Management’s Discussion and Analysis. Based on management’s current assessment, Moody’s does not believe that regulatory action will have a material effect on the Company’s 2003 outlook. However, changes in the competitive structure of the ratings industry, possibly resulting from additional recognized rating agencies, could have an effect in the future.

Cash Flow

Moody’s believes that it has the financial resources needed to meet its business requirements for the next twelve months and expects to have positive operating cash flow, as well as after-tax free cash flow, for fiscal year 2003. The Company currently intends to use the majority of such free cash flow to continue its share repurchase program. The Company’s approach to returning excess cash to shareholders by means of share repurchase is based on the current relative tax efficiency of capital gains over dividends. Should tax rates change and dividends become relatively more tax-efficient, the Company would reconsider its dividend and share repurchase policies. In addition, as described above, the Company has borrowed under its bank revolving credit facility during 2002 to fund portions of the cash requirements related to the KMV acquisition and share repurchase, and may obtain more permanent financing when it is appropriate in light of cash requirements for share repurchases and other strategic opportunities.

In addition, the Company will from time to time consider cash outlays for acquisitions of or investments in complementary businesses, products, services and technologies. The Company may also be required to make future cash outlays, including during 2003, to pay to New D&B its share of potential liabilities related to the legacy tax and legal contingencies that are discussed in this Management's Discussion and Analysis under "Contingencies". These potential cash outlays might affect liquidity requirements and cause the Company to pursue additional financing. There can be no assurance that financing to meet cash requirements will be available in amounts or on terms acceptable to the Company, if at all.

Additional Factors That May Affect Future Results

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

Changes in the Volume of Debt Securities Issued in Domestic and/or Global Capital Markets and Changes in Interest Rates and Other Volatility in the Financial Markets

Approximately 83% of Moody's revenue in 2002 was derived from ratings, a significant portion of which was related to the issuance of credit-sensitive securities in the global capital markets. Moody's enjoyed revenue growth from these sources in 2002 that was substantially greater than its historical averages, principally due to very strong growth in global structured finance issuance and strong issuance volumes in certain U.S. sectors driven by the favorable interest rate environment. The Company anticipates that a substantial part of its business will continue to be dependent on the number and dollar volume of debt securities issued in the capital markets. Therefore, the Company's results could be adversely affected by a reduction in the level of debt issuance.

Unfavorable financial or economic conditions that either reduce investor demand for debt securities or impair issuers' ability to issue such securities could reduce the number and dollar volume of debt issuance and other transactions for which Moody's provides ratings services. In addition, increases in interest rates, volatility in financial markets or the interest rate environment, significant political or economic events, defaults of significant issuers and other market and economic factors may negatively impact the general level of debt issuance, the debt issuance plans of certain categories of borrowers, and/or the types of credit-sensitive products being offered. A sustained period of market decline or weakness could also have a material adverse affect on Moody's business and financial results.

Possible Loss of Market Share through Competition

The markets for credit ratings, research and credit risk management services are intensely competitive. Moody's competes on the basis of a number of factors, including quality of ratings, client service, research, reputation, price, geographic scope, range of products and technological innovation. Moody's faces increasing competition from S&P, Fitch, local rating agencies in a number of jurisdictions and niche companies that provide ratings for particular types of financial products or issuers (such as A.M. Best Company in the insurance industry). Since Moody's believes that some of its most significant challenges and opportunities will arise outside the U.S., it will have to compete with rating agencies that may have a stronger local presence or a longer operating history in those markets. These local providers or comparable competitors that may emerge in the future may receive support from local governments or other institutions. Currently, Moody's, S&P, Fitch, and Dominion Bond Rating Service, Ltd. ("DBRS") are designated as NRSROs by the SEC. In its recently released report on the role and function of credit rating agencies in the operation of the securities markets, the SEC has indicated that it is exploring whether (i) there are viable alternatives to the NRSRO concept in Commission rules and regulations and (ii) whether it should permit rating agencies that cover a limited sector of the debt market or confine its activities to a limited geographic area to achieve NRSRO recognition. The recognition of DBRS as a NRSRO occurred in February 2003, after the release of the SEC's report. Elimination of the NRSRO concept or SEC recognition of additional NRSROs could result in loss of market share for Moody's.

Introduction of Competing Products or Technologies by Other Companies

The markets for credit ratings, research and credit risk management services are increasingly competitive. The ability to provide innovative products and technologies that anticipate customers' changing requirements and utilize emerging technological trends is a key factor in maintaining market share. Competitors may develop quantitative methodologies for assessing credit risk that customers and market participants may deem preferable to or more cost-effective than the credit risk assessment methods currently employed by Moody’s.

Increased Pricing Pressure from Competitors and/or Customers

In the credit rating, research and credit risk management markets, competition for customers and market share has spurred more aggressive tactics by some competitors in areas such as pricing and service. Moody’s intends to continue providing the highest quality products and the best service to its customers and the capital markets. However, if its pricing and services are not sufficiently competitive with its current and future competitors, Moody’s may lose market share.

Possible Loss of Key Employees to Investment or Commercial Banks or Elsewhere and Related Compensation Cost Pressures

Moody’s success depends in part upon recruiting and retaining highly skilled, experienced analysts and other professionals. Competition for qualified staff in the financial services industry is intense, and Moody’s ability to attract staff could be impaired if it is unable to offer competitive compensation and other incentives. Investment banks and other competitors for analyst talent may be able to offer higher compensation than Moody’s. Moody’s also may not be able to identify and hire employees outside the U.S. with the required experience or skills to perform sophisticated credit analysis. Moody’s ability to effectively compete will continue to depend, among other things, on its ability to attract new employees and to retain and motivate existing employees.

Exposure to Litigation Related to Moody’s Rating Opinions

Moody’s faces litigation from time to time from parties claiming damages relating to ratings actions. In addition, as Moody’s international business expands, these types of claims may increase because foreign jurisdictions may not have legal protections or liability standards comparable to those in the U.S. (such as the First Amendment). These risks often may be difficult to assess or quantify and their existence and magnitude often remains unknown for substantial periods of time.

Potential Emergence of Government-Sponsored Credit Rating Agencies

When governments adopt regulations that require debt securities to be rated, establish criteria for credit ratings or authorize only certain entities to provide credit ratings, the competitive balance among rating agencies and the level of demand for ratings may be negatively affected. Government-mandated ratings criteria may also have the effect of displacing objective assessments of creditworthiness. In these circumstances, issuers may be less likely to base their choice of rating agencies on criteria such as independence and credibility, and more likely to base their choice on their assumption as to which credit rating agency might provide a higher rating, which may negatively affect the Company.

Proposed U.S., Foreign, State and Local Legislation and Regulations, Including Those Relating to Nationally Recognized Statistical Rating Organizations

In the U.S. and other countries, the laws and regulations applicable to credit ratings and rating agencies continue to evolve. Recently there has been discussion in the U.S. regarding the potential need for greater regulation of credit rating agencies. In October 2002, the staff of the Senate Committee on Governmental Affairs issued a report that recommended changes in SEC regulation of rating agencies. In January 2003, the SEC released a report on the role and function of credit rating agencies in the operation of the securities markets. The report considers a number of issues that the SEC was required to examine under the Sarbanes-Oxley Act of 2002 and other issues arising from a SEC-initiated review of credit rating agencies. In the report, the SEC stated that it intends to publish a concept release in early 2003 to solicit comments on a number of issues affecting the role and operation of credit rating agencies and thereafter to propose rules in response to those comments. At present, Moody’s is unable to assess the nature and effect of any regulatory changes that may result from the SEC’s ongoing review.

Implementation guidelines proposed by the Committee of European Securities Regulators under the European Commission’s Market Abuse Directive are applicable to many participants in the European capital markets, including credit rating agencies. Depending on the form in which they are ultimately adopted, such implementation guidelines may increase Moody’s cost of doing business in Europe and the legal risk associated with such business.

Multinational Operations

Moody's maintains offices outside the U.S. and derives a significant portion of its revenue from sources outside the U.S. Operations in several different countries expose Moody's to a number of legal, economic and regulatory risks such as:

- changes in legal and regulatory requirements
- possible nationalization, expropriation, price controls and other restrictive governmental actions
- restrictions on the ability to convert local currency into U.S. dollars
- currency fluctuations
- export and import restrictions, tariffs and other trade barriers
- difficulty in staffing and managing offices as a result of, among other things, distance, travel, cultural differences and intense competition for trained personnel
- longer payment cycles and problems in collecting receivables
- political and economic instability
- potentially adverse tax consequences

Although such factors have not historically had a material adverse effect on the business, financial condition and results of operations of the Company, any of these factors could have such an effect in the future.

Contingencies

From time to time, Moody's is involved in legal and tax proceedings, claims and litigation that are incidental to the Company's business, including claims based on ratings assigned by Moody's. Management periodically assesses the Company's liabilities and contingencies in connection with these matters, based upon the latest information available. For those matters where the probable amount of loss can be reasonably estimated, the Company believes it has recorded appropriate reserves in the consolidated financial statements. In other instances, because of the uncertainties related to both the probable outcome and amount or range of loss, management is unable to make a reasonable estimate of a liability, if any. As additional information becomes available, the Company adjusts its assessments and estimates of such liabilities accordingly.

Based on its review of the latest information available, in the opinion of management, the ultimate liability of the Company in connection with pending legal and tax proceedings, claims and litigation will not have a material adverse effect on Moody's financial position, results of operations or cash flows, subject to the contingencies described below.

Discussion of contingencies is segregated between those matters that relate to Old D&B, its predecessors and their affiliated companies ("Legacy Contingencies") and those that relate to Moody's business and operations ("Moody's Matters").

Legacy Contingencies

To understand the Company's exposure to the potential liabilities described below, it is important to understand the relationship between Moody's and New D&B, and the relationship among New D&B and its predecessors and other parties who, through various corporate reorganizations and related contractual commitments, have assumed varying degrees of responsibility with respect to such matters.

In November 1996, The Dun & Bradstreet Corporation through a spin-off separated into three separate public companies: The Dun & Bradstreet Corporation, ACNielsen Corporation ("ACNielsen") and Cognizant Corporation ("Cognizant") (the "1996 Distribution").

In June 1998, The Dun & Bradstreet Corporation through a spin-off separated into two separate public companies: The Dun & Bradstreet Corporation and R.H. Donnelley Corporation ("Donnelley") (the "1998 Distribution"). During 1998, Cognizant through a spin-off separated into two separate public companies: IMS Health Incorporated ("IMS Health") and Nielsen Media Research, Inc. ("NMR"). In September 2000, The Dun & Bradstreet Corporation ("Old D&B") through a spin-off separated into two separate public companies: New D&B and Moody's, as further described in Note 1 to the Company's consolidated financial statements, Description of Business and Basis of Presentation.

Information Resources, Inc.

In 1996, Information Resources, Inc. ("IRI") filed a complaint in the United States District Court for the Southern District of New York, naming as defendants the corporation then known as The Dun & Bradstreet Corporation, A.C. Nielsen Company (a subsidiary of ACNielsen) and IMS International, Inc. (a subsidiary of the company then known as Cognizant). At the time of the filing of the complaint, each of the other defendants was a subsidiary of The Dun & Bradstreet Corporation.

The complaint alleges various violations of United States antitrust laws, including purported violations of Sections 1 and 2 of the Sherman Act. The complaint also alleges a claim of tortious interference with a contract and a claim of tortious interference with a prospective business relationship. These claims relate to the acquisition by defendants of Survey Research Group Limited ("SRG"). IRI alleges SRG violated an alleged agreement with IRI when it agreed to be acquired by the defendants and that the defendants induced SRG to breach that agreement.

IRI's complaint alleges damages in excess of $350 million, which amount IRI asked to be trebled under antitrust laws. IRI also seeks punitive damages of an unspecified amount.

Discovery in this case is ongoing and no trial date has been set.

In connection with the 1996 Distribution, Cognizant, ACNielsen and The Dun & Bradstreet Corporation entered into an Indemnity and Joint Defense Agreement (the "Indemnity and Joint Defense Agreement") pursuant to which they have agreed (i) to certain arrangements allocating potential liabilities ("IRI Liabilities") that may arise out of or in connection with the IRI action and (ii) to conduct a joint defense of such action. In particular, the Indemnity and Joint Defense Agreement provides that ACNielsen will assume exclusive liability for IRI Liabilities up to a maximum amount to be calculated at such time as such liabilities, if any, become payable (the "ACN Maximum Amount"), and that The Dun & Bradstreet Corporation and Cognizant will share liability equally for any amounts in excess of the ACN Maximum Amount. The ACN Maximum Amount will be determined by an investment banking firm as the maximum amount that ACNielsen is able to pay after giving effect to (i) any plan submitted by such investment bank that is designed to maximize the claims-paying ability of ACNielsen without impairing the investment banking firm's ability to deliver a viability opinion (but which will not require any action requiring shareholder approval), and (ii) payment of related fees and expenses. For these purposes, financial viability means the ability of ACNielsen, after giving effect to such plan, the payment of related fees and expenses and the payment of the ACN Maximum Amount, to pay its debts as they become due and to finance the current and anticipated operating and capital requirements of its business, as reconstituted by such plan, for two years from the date any such plan is expected to be implemented. In 2001, ACNielsen merged with VNU N.V. Pursuant to the Indemnity and Joint Defense Agreement, VNU is to be included with ACNielsen for purposes of determining the ACN Maximum Amount, and VNU assumed ACNielsen's liabilities under that agreement.

In connection with the 1998 Distribution, Old D&B and Donnelley entered into an agreement (the "1998 Distribution Agreement") whereby Old D&B assumed all potential liabilities of Donnelley arising from the IRI action and agreed to indemnify Donnelley in connection with such potential liabilities.

As a result of their 1998 separation and pursuant to the related distribution agreement, IMS Health and NMR are each jointly and severally liable for all Cognizant liabilities under the Indemnity and Joint Defense Agreement. In 1999, NMR was acquired by VNU N.V. and VNU assumed NMR's liabilities under the Indemnity and Joint Defense Agreement.

Under the terms of the 2000 Distribution, New D&B undertook to be jointly and severally liable with Moody's for Old D&B's obligations to Donnelley under the 1998 Distribution Agreement, including any liabilities arising under the Indemnity and Joint Defense Agreement. However, as between themselves, each of New D&B and Moody's will be responsible for 50% of any payments to be made with respect to the IRI action pursuant to the 1998 Distribution Agreement, including legal fees or expenses related thereto.

Management is unable to predict at this time the final outcome of the IRI action or whether the resolution of this matter could materially affect Moody's results of operations, cash flows or financial position. As such, no amount in respect of this matter has been accrued in the financial statements of the Company.

Legacy Tax Matters

Old D&B and its predecessors entered into global tax planning initiatives in the normal course of business, including through tax-free restructurings of both their foreign and domestic operations. These initiatives are subject to normal review by tax authorities.

Pursuant to a series of agreements, as between themselves, IMS Health and NMR are jointly and severally liable to pay one-half, and New D&B and Moody's are jointly and severally liable to pay the other half, of any payments for taxes, penalties and accrued interest resulting from unfavorable IRS rulings on certain tax matters (excluding the matter described below as "Amortization Expense Deductions" for which New D&B and Moody's are solely responsible) and certain other potential tax liabilities after New D&B and/or Moody's pays the first $137 million, which amount was paid in connection with the matter described below as "Utilization of Capital Losses".

In connection with the 2000 Distribution and pursuant to the terms of the related Distribution Agreement, New D&B and Moody's have, between themselves, agreed to each be financially responsible for 50% of any potential liabilities that may arise to the extent such potential liabilities are not directly attributable to their respective business operations.

Without limiting the generality of the foregoing, three specific tax matters are discussed below.

Royalty Expense Deductions

During the second quarter of 2002, New D&B received a Notice of Proposed Adjustment from the IRS with respect to a partnership transaction entered into in 1993. In this Notice, the IRS proposed to disallow certain royalty expense deductions claimed by Old D&B on its 1994, 1995 and 1996 tax returns. New D&B disagrees with the position taken by the IRS in its Notice and filed a responsive brief to this effect with the IRS. In addition, the IRS recently indicated that it may assess penalties on this matter. If the IRS were to issue a formal assessment consistent with the Notice (and including penalties), and were to prevail in its position, then New D&B would be required to pay the assessment. If New D&B were to challenge the assessment in U.S. District Court rather than in U.S. Tax Court, then a payment of the disputed amount would be required in connection with such challenge. Should any such payments be made by New D&B, then pursuant to the terms of the 2000 Distribution Agreement, Moody's would have to pay to New D&B its 50% share. The Company estimates that its share of the required payment to the IRS could be up to approximately $55 million (including penalties and interest, and net of tax benefits). Moody's also could be obligated for future interest payments on its share of such liability.

In a related matter, New D&B has received a Preliminary Summary Report from the IRS stating its intention to ignore the partnership structure that had been established and reallocate to Old D&B income and expense items that had been claimed on the partnership tax return for 1996. If the IRS were to issue a formal assessment consistent with the Report and were to prevail in this matter, then New D&B would be required to pay the assessment. If New D&B were to challenge the assessment in U.S. District Court rather than in U.S. Tax Court, then a payment of the disputed amount would be required in connection with such challenge. Moody's estimates that its share of the exposure to the IRS for this matter could be up to approximately $46 million (including penalties and interest, and net of tax benefits). Such exposure could be in addition to the amount described in the preceding paragraph.

Amortization Expense Deductions

The IRS has requested from New D&B documentation with respect to a transaction executed in 1997 that could result in amortization expense deductions from 1997 through 2012. It is possible that the IRS could ultimately challenge these deductions and that New D&B could make payments to the IRS related to previously claimed deductions. In that event, Moody's would be required to pay to New D&B its 50% share of New D&B's payments to the IRS. In addition, should New D&B discontinue claiming the amortization deductions on future tax returns, Moody's would be required to repay to New D&B an amount equal to the discounted value of its 50% share of the related future tax benefits. New D&B had paid the discounted value of future tax benefits from this transaction in cash to Moody's at the Distribution Date. Management estimates that the Company's current potential exposure related to this matter is $89 million (including penalties and interest, and net of tax benefits). This exposure could increase by approximately $3 million to $6 million per year, depending on actions that the IRS may take with respect to assessments and on whether New D&B continues claiming the amortization deductions on its tax returns.

Utilization of Capital Losses

The IRS has completed its review of the utilization of certain capital losses generated during 1989 and 1990. On June 26, 2000, the IRS, as part of its audit process, issued a formal assessment with respect to the utilization of these capital losses and Old D&B

responded by filing a petition for a refund in the U.S. District Court on September 21, 2000, after the payments described below were made.

On May 12, 2000, an amended tax return was filed for the 1989 and 1990 tax periods, which reflected $561.6 million of tax and interest due. Old D&B paid the IRS approximately $349.3 million of this amount on May 12, 2000; 50% of such payment was allocated to Moody's and had previously been accrued by the Company. IMS Health informed Old D&B that it paid to the IRS approximately $212.3 million on May 17, 2000. The payments were made to the IRS to stop further interest from accruing, and New D&B is contesting the IRS' assessment. New D&B has indicated that it would also contest the assessment of penalties or other amounts, if any, in excess of the amounts paid. With the possible exception of the matter described in the following sentence, Moody's does not anticipate any further income statement charges or cash payments related to IRS assessments for this matter. If the IRS were to disallow prior deductions of all transaction costs associated with this matter, Moody's estimates that its exposure for its share of the additional taxes, penalties and interest (net of tax benefits) on this matter would be approximately $5 million.

Subsequent to making its May 2000 payment to the IRS, IMS Health sought partial reimbursement from NMR under their 1998 distribution agreement (the "IMS/NMR Agreement"). NMR paid IMS Health less than the amount sought by IMS Health under the IMS/NMR Agreement and, in 2001, IMS Health filed an arbitration proceeding against NMR to recover the difference. IMS Health sought to include Old D&B in this arbitration, arguing that if NMR should prevail in its interpretation of the IMS/NMR Agreement, then IMS Health could seek the same interpretation in an alternative claim against Old D&B. Neither Old D&B nor any of its predecessors was a party to the IMS/NMR Agreement. A decision from the arbitration panel is expected in 2003. If NMR should prevail in the arbitration against IMS Health and, in turn, IMS Health should prevail against Old D&B, then the Company believes that the additional liability of Old D&B would be approximately $15 million, net of tax benefits. Under the terms of the 2000 Distribution, Moody's and New D&B would each be responsible for one-half of such amount, or approximately $7.5 million. The Company believes that the claim asserted against Old D&B by IMS Health is without merit. As such, no amount in respect of this matter has been accrued in the financial statements.

Summary of Moody's Exposure to Three Legacy Tax Matters

The Company has considered the range and probability of potential outcomes related to the three legacy tax matters discussed above and believes that it has adequate reserves recorded in its consolidated financial statements for its probable exposures in these matters. However, it is possible that these matters could be resolved in amounts that are greater than the Company has reserved, which could result in material charges to Moody's future reported results. In addition, the cash outlays resulting from these matters, which the Company currently estimates could be as much as $202 million, could be material and could increase with time as described above. Such amount does not include potential penalties related to the payments made in May 2000 concerning Utilization of Capital Losses.

Moody's Matters

L'Association Francaise des Porteurs d' Emprunts Russes

On June 20, 2001 a summons was served in an action brought by L'Association Francaise des Porteurs d' Emprunts Russes ("AFPER") against Moody's France SA (a subsidiary of the Company) and filed in the Court of First Instance of Paris, France. In this suit, AFPER, a group of holders of bonds issued by the Russian government prior to the 1917 Bolshevik Revolution, makes claims against Moody's France SA and Standard & Poor's SA for lack of diligence and prudence in their ratings of Russia and Russian debt since 1996. AFPER alleges that, by failing to take into account the post-Revolutionary repudiation of pre-Revolutionary Czarist debt by the Soviet government in rating Russia and new issues of Russian debt beginning in 1996, the rating agencies enabled the Russian Federation to issue new debt without repaying the old obligations of the Czarist government. Alleging joint and several liability, AFPER seeks damages of Euro 2.8 billion (approximately U.S. $2.9 billion as of December 31, 2002) plus legal costs. Moody's believes the allegations lack legal or factual merit and intends to vigorously contest the action. As such, no amount in respect of this matter has been accrued in the financial statements of the Company.

Dividends

Since the fourth quarter of 2000, the Company has paid a quarterly dividend of 4.5 cents per share of Moody's common stock, resulting in dividends paid per share of 18.0 cents in 2002 and 2001, and 4.5 cents in 2000. Prior to the fourth quarter of 2000, when Moody's was a subsidiary of Old D&B, the Company did not pay dividends directly to Old D&B shareholders.

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In December 2002, the Company's Board of Directors declared a first quarter 2003 dividend of 4.5 cents per share, payable on March 10, 2003 to shareholders of record on February 20, 2003. The payment and level of cash dividends by Moody's going forward will be subject to the discretion of Moody's Board of Directors.

Common Stock Information

As described above in "Item 1—Business—Background", the 2000 Distribution was completed on September 30, 2000. As of October 3, 2000 the Company's common stock began trading on the New York Stock Exchange under the symbol "MCO". The table below indicates the high and low sales price of the Company's common stock and the dividends paid for the periods shown. The number of registered shareholders of record at January 31, 2003 was 5,073.

	Price Per Share		Dividends Paid Per Share
	High	Low	
From October 3, 2000 through December 31, 2000	$28.88	$22.63	$0.045
2001:			
First quarter	$29.11	$25.49	$0.045
Second quarter	$34.85	$26.17	$0.045
Third quarter	$37.00	$30.60	$0.045
Fourth quarter	$41.10	$31.46	$0.045
Year ended December 31, 2001	$41.10	$25.49	$0.180
2002:			
First quarter	$42.00	$35.80	$0.045
Second quarter	$51.74	$39.94	$0.045
Third quarter	$52.40	$41.00	$0.045
Fourth quarter	$50.48	$39.80	$0.045
Year ended December 31, 2002	**$52.40**	**$35.80**	**$0.180**

Fees of Independent Accountants

Audit Fees

The aggregate fees billed for professional services rendered for the audit of the Company's annual financial statements for the years ended December 31, 2002 and 2001, and for the review of the financial statements included in the Company's Reports on Forms 10-Q and 8-K, and for statutory audits of non-U.S. subsidiaries were approximately $0.9 million (including $0.3 million incurred but not billed in 2002) and $0.6 million, respectively, all of which was attributable to PricewaterhouseCoopers LLP.

Audit-Related Fees

The aggregate fees billed for audit-related services rendered to the Company by PricewaterhouseCoopers LLP for the years ended December 31, 2002 and 2001 were approximately $0.4 million and $0.4 million, respectively. Such services included acquisition due diligence reviews and related audits, employee benefit plan audits, internal control reviews, and consultations concerning financial accounting and reporting standards.

Tax Fees

The aggregate fees billed for tax services rendered to the Company by PricewaterhouseCoopers LLP for the years ended December 31, 2002 and 2001 were approximately $0.6 million and $2.4 million (including $0.2 million incurred but not billed in 2001), respectively. Tax services rendered by PricewaterhouseCoopers LLP principally related to expatriate tax services and tax consulting and compliance. Fees for tax consulting and compliance in 2001 principally were in connection with Moody's transition to an independent company after its spin-off from Old D&B.

All Other Fees

The aggregate fees billed for all other services rendered to the Company by PricewaterhouseCoopers LLP for the years ended December 31, 2002 and 2001 were approximately $0.2 million and $0.3 million, respectively. Such fees principally related to data

entry services provided to the Company's ratings business. The Company does not anticipate that PricewaterhouseCoopers LLP will provide any future services in this area.

Forward-Looking Statements

Certain statements contained in this annual report on Form 10-K are forward-looking statements and are based on future expectations, plans and prospects for Moody's business and operations that involve a number of risks and uncertainties. Those statements appear in the section entitled "Outlook" under Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," commencing at page 13 of this annual report on Form 10-K and elsewhere in the context of statements containing the words "believes", "expects", "anticipates" and other words relating to Moody's views on future events, trends and contingencies. The forward-looking statements and other information are made as of the date of this annual report on Form 10-K for the year ended December 31, 2002, and the Company disclaims any duty to 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 certain factors that could cause actual results to differ, perhaps materially, from those indicated by these forward-looking statements. Those factors include, but are not limited to, changes in the volume of debt securities issued in domestic and/or global capital markets; changes in interest rates and other volatility in the financial markets; possible loss of market share through competition; introduction of competing products or technologies by other companies; pricing pressures from competitors and/or customers; the potential emergence of government-sponsored credit rating agencies; proposed U.S., foreign, state and local legislation and regulations, including those relating to Nationally Recognized Statistical Rating Organizations; the possible loss of key employees to investment or commercial banks or elsewhere and related compensation cost pressures; the outcome of any review by controlling tax authorities of the Company's global tax planning initiatives; the outcome of those tax and legal contingencies that relate to Old D&B, its predecessors and their affiliated companies for which the Company has assumed portions of the financial responsibility; the ability of the Company to successfully integrate the KMV and MRMS businesses; a decline in the demand for credit risk management tools by financial institutions. These factors and other risks and uncertainties that could cause Moody's actual results to differ significantly from management's expectations, are described in greater detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Additional Factors That May Affect Future Results" and in other reports of the Company filed from time to time with the Securities and Exchange Commission.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information in response to this Item is set forth under the caption "Market Risk" in Part II, Item 7 of this annual report on Form 10-K.

ITEM 8. FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

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

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of Moody's Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Moody's Corporation and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 141, "Business Combinations" and Statement No. 142, "Goodwill and Other Intangible Assets."

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, New York
February 4, 2003

MOODY'S CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in millions, except per share data)

	Year Ended December 31,		
	2002	**2001**	**2000**
Revenue	**$1,023.3**	$796.7	$602.3
Expenses			
Operating	**285.3**	239.6	189.6
Selling, general and administrative	**175.3**	141.6	107.6
Depreciation and amortization	**24.6**	17.0	16.6
Total expenses	**485.2**	398.2	313.8
Operating income	**538.1**	398.5	288.5
Interest expense, net	**(21.2)**	(16.5)	(3.6)
Other non-operating income (expense), net	**0.5**	(0.1)	(0.9)
Non-operating expense, net	**(20.7)**	(16.6)	(4.5)
Income before provision for income taxes	**517.4**	381.9	284.0
Provision for income taxes	**228.5**	169.7	125.5
Net income	**$ 288.9**	$212.2	$158.5
Earnings per share			
Basic	**$ 1.88**	$ 1.35	$ 0.98
Diluted	**$ 1.83**	$ 1.32	$ 0.97
Weighted average shares outstanding			
Basic	**153.9**	157.6	161.7
Diluted	**157.5**	160.2	163.0

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

MOODY'S CORPORATION
CONSOLIDATED BALANCE SHEETS
(dollar amounts in millions, except per share data)

	December 31,	
	2002	**2001**
Assets		
Current assets:		
Cash and cash equivalents	**$ 39.9**	$ 163.2
Accounts receivable, net of allowances of $16.4 in 2002 and $27.3 in 2001	**178.1**	148.4
Other current assets	**54.3**	59.6
Total current assets	**272.3**	371.2
Property and equipment, net	**50.6**	42.9
Prepaid pension costs	**59.3**	57.2
Goodwill	**126.3**	6.0
Intangible assets, net	**84.4**	4.3
Other assets	**37.9**	23.8
Total assets	**$ 630.8**	$ 505.4
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 184.9**	$ 236.9
Bank borrowings	**107.1**	—
Deferred revenue	**170.0**	122.4
Total current liabilities	**462.0**	359.3
Non-current portion of deferred revenue	**28.5**	19.8
Notes payable	**300.0**	300.0
Other liabilities	**167.3**	130.4
Total liabilities	**957.8**	809.5
Commitments and contingencies (Notes 13 and 14)		
Shareholders' equity:		
Preferred stock, par value $.01 per share; 10,000,000 shares authorized; no shares issued and outstanding	**—**	—
Series common stock, par value $.01 per share; 10,000,000 shares authorized; no shares issued and outstanding	**—**	—
Common stock, par value $.01 per share; 400,000,000 shares authorized; 171,451,136 shares issued and outstanding at December 31, 2002 and 2001	**1.7**	1.7
Capital surplus	**45.5**	43.7
Retained earnings (deficit)	**221.8**	(39.3)
Treasury stock, at cost; 22,560,826 and 17,043,168 shares of common stock at December 31, 2002 and 2001, respectively	**(597.7)**	(307.5)
Cumulative translation adjustment	**1.7**	(2.7)
Total shareholders' equity	**(327.0)**	(304.1)
Total liabilities and shareholders' equity	**$ 630.8**	$ 505.4

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

MOODY'S CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in millions)

	Year Ended December 31,		
	2002	2001	2000
Cash flows from operating activities			
Net income	**$ 288.9**	$ 212.2	$ 158.5
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	**24.6**	17.0	16.6
Deferred income taxes	**(3.6)**	(0.8)	(2.3)
Tax benefits from exercise of stock options	**27.5**	15.1	2.6
Write-off of computer software, property and equipment	**1.3**	0.6	0.3
Write-off of acquired in-process research and development	**1.1**	—	—
Impairment of investments in affiliates	—	3.4	—
Changes in assets and liabilities:			
Accounts receivable	**(16.6)**	(47.6)	(14.6)
Other current assets	**(1.0)**	(3.7)	28.3
Prepaid pension costs	**(2.1)**	(3.4)	(4.1)
Other assets	**(1.6)**	(2.9)	0.9
Accounts payable and accrued liabilities	**(66.8)**	101.6	(138.6)
Deferred revenue	**34.9**	24.8	16.2
Other liabilities	**48.2**	5.1	6.4
Net cash provided by operating activities	**334.8**	321.4	70.2
Cash flows from investing activities			
Net capital additions	**(18.1)**	(14.8)	(14.4)
Acquisitions (net of cash acquired) and investments in affiliates	**(205.7)**	(15.2)	(17.4)
Other	**0.2**	—	(1.8)
Net cash used in investing activities	**(223.6)**	(30.0)	(33.6)
Cash flows from financing activities			
Proceeds from issuance of notes	**—**	—	300.0
Proceeds from bank borrowings	**188.1**	—	—
Repayments of bank borrowings	**(81.0)**	—	—
Proceeds from stock plans	**54.0**	47.8	10.1
Cost of treasury shares repurchased	**(369.9)**	(267.6)	(71.8)
Payment of dividends	**(27.8)**	(28.3)	(7.2)
Net distributions to Old D&B	**—**	—	(152.1)
Net cash (used in) provided by financing activities	**(236.6)**	(248.1)	79.0
Effect of exchange rate changes on cash and cash equivalents	**2.1**	0.8	0.1
(Decrease) increase in cash and cash equivalents	**(123.3)**	44.1	115.7
Cash and cash equivalents, beginning of the period	**163.2**	119.1	3.4
Cash and cash equivalents, end of the period	**$ 39.9**	$ 163.2	$ 119.1

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

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MOODY'S CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(amounts in millions)

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings (Deficit)	Cumulative Translation Adjustment	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders' Equity	Comprehensive Income
Balance at January 1, 2000	171.5	$1.7	$ —	$(222.4)	$(2.4)	(10.6)	$ —	$(223.1)	
Net income				158.5				158.5	$158.5
Dividends paid				(7.2)				(7.2)	
Proceeds from stock plans, including tax benefits			12.7					12.7	
Net change in Old D&B treasury stock prior to the Distribution Date						1.6			
Net treasury stock activity after the Distribution Date			(4.8)			(2.0)	(67.0)	(71.8)	
Currency translation adjustment					0.5			0.5	0.5
Net distributions to Old D&B				(152.1)				(152.1)	
Comprehensive income									$159.0
Balance at December 31, 2000	171.5	1.7	7.9	(223.2)	(1.9)	(11.0)	(67.0)	(282.5)	
Net income				212.2				212.2	$212.2
Dividends paid				(28.3)				(28.3)	
Proceeds from stock plans, including tax benefits			62.9					62.9	
Net treasury stock activity			(27.1)			(6.0)	(240.5)	(267.6)	
Currency translation adjustment					(0.8)			(0.8)	(0.8)
Comprehensive income									$211.4
Balance at December 31, 2001	171.5	1.7	43.7	(39.3)	(2.7)	(17.0)	(307.5)	(304.1)	
Net income				**288.9**				**288.9**	**$288.9**
Dividends paid				**(27.8)**				**(27.8)**	
Proceeds from stock plans, including tax benefits			**81.5**					**81.5**	
Net treasury stock activity			**(79.7)**			**(5.6)**	**(290.2)**	**(369.9)**	
Currency translation adjustment					**4.4**			**4.4**	**4.4**
Comprehensive income									**$293.3**
Balance at December 31, 2002	**171.5**	**$1.7**	**$ 45.5**	**$ 221.8**	**$ 1.7**	**(22.6)**	**$(597.7)**	**$(327.0)**	

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

MOODY'S CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
TABULAR AMOUNTS IN MILLIONS, EXCEPT PER SHARE DATA

Note 1 Description of Business and Basis of Presentation

Moody's Corporation ("Moody's" or the "Company") is a provider of credit ratings, research and analysis covering debt instruments and securities in the global capital markets and a provider of quantitative credit assessment services, credit training services and credit process software to banks and other financial institutions. Moody's operates in two reportable segments: Moody's Investors Service and Moody's KMV. Moody's Investors Service publishes rating opinions on a broad range of credit obligations issued in domestic and international markets, including various corporate and governmental obligations, structured finance securities and commercial paper programs. It also publishes investor-oriented credit research, including in-depth research on major issuers, industry studies, special comments and credit opinion handbooks. The Moody's KMV business, which consists of the combined businesses of KMV LLC and KMV Corporation ("KMV"), acquired in April 2002, and Moody's Risk Management Services, develops and distributes quantitative credit assessment services for banks and investors in credit-sensitive assets, credit training services and credit process software.

The Company operated as part of The Dun & Bradstreet Corporation ("Old D&B") until September 30, 2000 (the "Distribution Date"), when Old D&B separated into two publicly traded companies—Moody's Corporation and The New D&B Corporation ("New D&B"). At that time, Old D&B distributed to its shareholders shares of New D&B stock. New D&B comprised the business of Old D&B's Dun & Bradstreet operating company (the "D&B Business"). The remaining business of Old D&B consisted solely of the business of providing ratings and related research and credit risk management services (the "Moody's Business") and was renamed "Moody's Corporation". The method by which Old D&B distributed to its shareholders its shares of New D&B stock is hereinafter referred to as the "2000 Distribution".

For purposes of governing certain ongoing relationships between the Company and New D&B after the 2000 Distribution and to provide for an orderly transition, the Company and New D&B entered into various agreements including a Distribution Agreement, Tax Allocation Agreement, Employee Benefits Agreement, Shared Transaction Services Agreement, Insurance and Risk Management Services Agreement, Data Services Agreement and Transition Services Agreement.

Pursuant to the terms of the Distribution Agreement, the Company retained all of the assets and liabilities related to the Moody's Business and New D&B retained all of the assets and liabilities related to the D&B Business. The financial statements include allocations of certain Old D&B corporate headquarters assets and liabilities that were transferred from Old D&B at the Distribution Date, as well as allocations of certain expenses for employee benefits, centralized services and corporate overhead that were provided by Old D&B for periods prior to the Distribution Date. Although management believes these expense allocations were reasonable, they are not necessarily indicative of the costs that would have been incurred if the Company had performed or obtained these services as a separate entity. These allocations, included in the consolidated statements of operations, totaled $13.3 million in 2000. The consolidated financial statements reflect the financial position, results of operations and cash flows of the Company as if it were a separate entity for all periods presented.

Note 2 Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include those of Moody's Corporation and its majority- and wholly-owned subsidiaries. The effects of all intercompany transactions have been eliminated. Investments in companies over which the Company has significant influence but not a controlling interest are carried on an equity basis. Investments for which the Company does not have the ability to exercise significant influence over operating and financial policies are carried on the cost basis of accounting.

Cash and Cash Equivalents

Cash equivalents principally consist of investments in money market funds, short-term certificates of deposit and commercial paper with maturities of three months or less when purchased. Interest income on cash and cash equivalents was $2.3 million and $6.5 million, respectively, for the years ended December 31, 2002 and 2001.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives, typically three to ten years for office and computer equipment and office furniture and fixtures, and seven to forty years for buildings and building improvements. Expenditures for maintenance and repairs that do not extend the economic useful life of the related assets are charged to expense as incurred. Gains and losses on disposals of property and equipment are reflected in the consolidated statements of operations. Leasehold improvements are amortized over the shorter of the term of the lease or the estimated useful life of the improvement.

Computer Software

Costs for the development of computer software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed". These assets primarily relate to the development of credit process software and quantitative credit assessment products to be licensed to customers. The capitalized costs generally consist of professional services provided by third parties and compensation costs of employees that develop the software. These costs are amortized on a straight-line basis over three years, which approximates their useful life, and are reported at the lower of unamortized cost or net realizable value. At December 31, 2002 and 2001, such amounts, included in other assets in the consolidated balance sheets, were $9.1 million and $6.0 million, respectively, net of accumulated amortization of $7.8 million and $5.5 million, respectively. Other assets at December 31, 2002 also included $14.2 million, net of accumulated amortization of $2.9 million, of acquired software resulting from the April 2002 acquisition of KMV. Amortization expense for all such software for the years ended December 31, 2002, 2001 and 2000 was $5.3 million, $2.1 million and $1.4 million, respectively.

The Company capitalizes costs related to software developed or obtained for internal use in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". These assets, included in property and equipment in the consolidated balance sheets, relate to the Company's accounting, product delivery and other systems. Such costs generally consist of direct costs of third party license fees, professional services provided by third parties and employee compensation, in each case incurred either during the application development stage or in connection with upgrades and enhancements that increase functionality. Such costs are depreciated over their estimated useful lives, generally three to five years. Costs incurred during the preliminary project stage of development as well as maintenance costs are expensed as incurred.

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

Intangible assets and other long-lived assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the estimated undiscounted future cash flows are lower than the carrying amount of the asset, a loss is recognized for the difference between the carrying amount and the estimated fair value of the asset.

Effective January 1, 2002, the Company adopted SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires all business combinations to be accounted for using the purchase method. Under SFAS No. 142, goodwill and other intangible assets with indefinite lives are no longer amortized but are tested for impairment annually, or more frequently if impairment indicators arise. This testing requires the Company to estimate the fair value of its applicable identified reporting units based on the present value of the expected future cash flows of the units. If the book value of a reporting unit exceeds the estimated fair value of the unit, a write-down of goodwill is required. The Company completed its transitional impairment testing during the second quarter of 2002 and its annual impairment testing as of November 30, 2002. In each test, the estimated fair values of the reporting units exceeded their book values and therefore no write-down of goodwill was required.

Stock-Based Compensation

In 2002 and prior years, the Company measured the cost of its stock-based compensation plans using the intrinsic value approach under Accounting Principles Board ("APB") Opinion No. 25 rather than applying the fair value method provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Accordingly, the Company has not recognized compensation expense related to stock options and its employee stock purchase plan ("Stock-Based Plans").

Had compensation expense for Moody's Stock-Based Plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method required by SFAS No. 123, Moody's net income and earnings per share would have been reduced to the pro forma amounts shown below:

	Year Ended December 31,		
	2002	**2001**	**2000**
Net income:			
As reported	**$288.9**	$212.2	$158.5
Stock-based compensation plan expense determined under the fair value method, net of tax	**(14.4)**	(9.6)	(6.9)
Pro forma	**$274.5**	$202.6	$151.6
Basic earnings per share:			
As reported	**$ 1.88**	$ 1.35	$ 0.98
Pro forma	**$ 1.78**	$ 1.29	$ 0.94
Diluted earnings per share:			
As reported	**$ 1.83**	$ 1.32	$ 0.97
Pro forma	**$ 1.74**	$ 1.26	$ 0.93

The pro forma disclosures shown above are not representative of the effects on net income and earnings per share in future years.

The pro forma net income and earnings per share amounts that relate to stock options for periods prior to the Distribution Date relate to the fair value of the Old D&B options held by Moody's employees. Pro forma amounts subsequent to the Distribution Date relate to Moody's options held by Moody's employees and New D&B employees and retirees and reflect an increase in fair value due to changes in assumptions for Moody's stock options. Post-distribution, such increase is reflected in income immediately for vested options and spread over the remaining vesting period for converted unvested options. See Note 9 for further information on the treatment of stock options in connection with the 2000 Distribution. Pro forma net income includes charges of $2.5 million, $2.5 million and $2.4 million in 2002, 2001 and 2000, respectively, relating to New D&B employees and retirees.

The fair value of stock options used to compute the pro forma net income and earnings per share disclosures is the estimated present value at grant date using the Black-Scholes option-pricing model, with the following weighted average assumptions:

			2000	
	2002	**2001**	**After Distribution**	**Conversion at Distribution**
Expected dividend yield	**0.41%**	0.56%	0.72%	0.72%
Expected stock volatility	**25%**	25%	25%	25%
Risk-free interest rate	**4.13%**	4.27%	5.94%	5.79%
Expected holding period	**4.5 yrs**	4.5 yrs	4.5 yrs	3.0 yrs

In 2000 prior to the Distribution Date, the following weighted average assumptions were used: expected dividend yield of 2.40%, expected stock volatility of 30%, risk-free interest rate of 6.69%, and expected holding period of five years.

The estimated weighted average fair value of Moody's options granted in 2002 and 2001 was $10.97 and $9.38, respectively. The estimated weighted average fair value of Moody's options granted after the Distribution Date in 2000 was $8.20. The estimated weighted average fair value of Old D&B options granted in 2000 prior to the Distribution Date was $8.66.

On January 1, 2003, the Company adopted, on a prospective basis, the fair value method of accounting for stock-based compensation under SFAS No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123". Therefore, employee stock options granted on and after January 1, 2003 will be expensed by the Company over the option vesting period, based on the estimated fair value of the award on the date of grant. In addition, shares issued to participants in the Company's employee stock purchase plan will be expensed by the Company based on the discount from the market price received by the participants on the date of issuance. Using what the Company believes are reasonable assumptions and the Black-Scholes option pricing model, the estimated impact of this change will be approximately $0.04 per diluted share in 2003. In future years, as this change in accounting becomes fully phased in over the normal option vesting cycle (currently four years), the Company expects that the earnings per share impact will be greater.

Employee Benefit Plans

Moody's employee pension and other post-retirement benefit costs and obligations are dependent on assumptions concerning the outcome of future events and circumstances, including compensation increases, long-term return on pension plan assets, health care cost trends, discount rates and other factors. In determining such assumptions, the Company consults with outside actuaries and other advisors where deemed appropriate. In accordance with relevant accounting standards, if actual results differ from the Company's assumptions, such differences are deferred and amortized over the estimated future working life of the plan participants. While the

Company believes that the assumptions used in these calculations are reasonable, differences in actual experience or changes in assumptions could affect the expenses and liabilities related to the Company's pension and other post-retirement benefits. Following is a discussion of some significant assumptions that the Company makes in determining costs and obligations for pension and other post-retirement benefits.

- Discount rate assumptions are based on current yields on high grade corporate long-term bonds.
- Salary growth assumptions are based on the Company's long-term actual experience and future outlook.
- Health care cost trend assumptions are based on historical market data, the near-term outlook and an assessment of likely long-term trends.
- Long-term return on pension plan assets is based on the expected future average annual return for each major asset class within the plan's portfolio (which is principally comprised of equity and fixed-income investments), over a long-term horizon.

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". As such, revenue is recognized when an agreement exists, the services have been provided and accepted by the customer, fees are determinable and the collection of resulting receivables is considered probable.

Revenue attributed to ratings of issued securities is generally recognized when the rating is issued. Revenue attributed to monitoring activities is recognized over the period in which the related monitoring is performed, which is generally one year and can be up to 30 years in certain cases, mainly related to commercial mortgage-backed securities. Revenue related to annual fees for areas such as frequent issuer program arrangements and commercial paper programs is generally recognized over the contract term, which is principally one year. In recognizing revenue related to ratings, Moody's uses judgments to match billed revenue with services to be provided in the future in those circumstances where the Company does not bill separately for such future services. These judgments are generally not dependent on the outcome of future uncertainties, but rather relate to allocating revenue across accounting periods.

Revenue from sales of research products and from credit risk management subscription products is recognized over the related subscription period, which is principally one year. Revenue from licenses of credit risk management software is generally recognized at the time the product is shipped to customers, as the Company's obligations are complete. Related maintenance revenue is recognized over the maintenance period, which is generally one year.

Amounts billed in advance of providing the related products or services are credited to deferred revenue and reflected in revenue when earned. The consolidated balance sheets reflect as current deferred revenue amounts that are expected to be recognized within one year of the balance sheet date, and as non-current deferred revenue amounts that are expected to be recognized over periods greater than one year. Non-current deferred revenue principally reflects monitoring fees for commercial mortgage-backed securities that are billed when the related rating is issued.

Accounts Receivable Allowances

Moody's records as reductions of revenue provisions for estimated future adjustments to customer billings, based on historical experience and current conditions. Such provisions are reflected as additions to the accounts receivable allowance; adjustments to and write-offs of receivables are charged against the allowance. Moody's evaluates its estimates on a regular basis and makes adjustments to its provisions and the accounts receivable allowance as considered appropriate.

Selling, General and Administrative Expenses

Selling, general and administrative expenses are charged to income as incurred. These expenses include such items as compensation for corporate officers and staff and compensation and other expenses related to sales of products. It also includes items such as office rent, business insurance, professional fees and gains and losses from sales and disposals of assets.

Foreign Currency Translation

For all operations outside the United States where the Company has designated the local currency as the functional currency, assets and liabilities are translated into U.S. dollars using end of year exchange rates, and revenue and expenses are translated using average exchange rates for the year. For these operations, currency translation adjustments are accumulated in a separate component of shareholders' equity. Realized transaction gains and losses are reflected in other non-operating income (expense), net. Transaction gains (losses) were $0.3 million, ($0.1) million and ($0.9) million in 2002, 2001 and 2000, respectively.

Comprehensive Income

Comprehensive income represents the change in net assets of a business enterprise during a period due to transactions and other events and circumstances from non-owner sources including foreign currency translation impacts. The required disclosures have been included in the consolidated statements of shareholders' equity. The net effect of income taxes on comprehensive income was not significant for any period presented.

Income Taxes

The Company accounts for income taxes under the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes". Therefore, income tax expense is based on reported income before income taxes, and deferred income taxes reflect the effect of temporary differences between the amounts of assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes.

Prior to the 2000 Distribution, the Company was included in the federal and certain state and foreign income tax returns of Old D&B; however, the provision for income taxes for the year ended December 31, 2000 has been calculated on a separate-company basis. Moody's share of income taxes paid by Old D&B through the Distribution Date have been reflected in the consolidated statements of shareholders' equity as net distributions to Old D&B.

Fair Value of Financial Instruments

The Company's financial instruments include cash, cash equivalents, trade receivables and payables and bank borrowings, all of which are short-term in nature and, accordingly, approximate fair value. The fair value of the Company's long-term notes payable is estimated using discounted cash flow analyses based on the prevailing interests rates available to the Company for borrowings with similar maturities. The carrying amount and the estimated fair value of the notes payable at December 31, 2002 were $300.0 million and $346.9 million, respectively. At December 31, 2001, the carrying amount and the estimated fair value of the Company's notes payable were $300.0 million and $324.3 million, respectively.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk principally consist of cash and cash equivalents and trade receivables.

Cash equivalents consist of investments in high quality investment grade securities within and outside the United States. By policy, the Company limits the amount it can invest with any one issuer. The Company manages its credit risk exposure by allocating its cash equivalents among various money market mutual funds, short-term certificates of deposit or issuers of high-grade commercial paper. As of December 31, 2002, the Company did not maintain any derivative investments or engage in any hedging activities.

Credit is extended to customers based on an evaluation of their financial condition. No customer accounted for 10% or more of accounts receivable at December 31, 2002 or 2001.

Earnings Per Share of Common Stock

In accordance with SFAS No. 128, "Earnings per Share", basic earnings per share is calculated based on the weighted average number of shares of common stock outstanding during the reporting period. Diluted earnings per share is calculated giving effect to all potentially dilutive common shares, assuming that such shares were outstanding during the reporting period.

Use of Estimates

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

Reclassifications

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

Recently Issued Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities", which clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements". Interpretation No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not provide sufficient equity at risk for the entity to support its activities. Interpretation No. 46 is effective for all variable interest entities created after January 31, 2003. For variable interest entities acquired or created prior to February 1, 2003, the provisions of Interpretation No. 46 must be applied to the first interim or annual period beginning after June 15, 2003. The Company does not expect the adoption of Interpretation No. 46 to have a material impact on its financial position or results of operations since it currently does not have variable interest entities.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". Interpretation No. 45 requires an entity to recognize an initial liability for the fair value of an obligation assumed by issuing a guarantee. The provision for initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The Company does not expect the adoption of Interpretation No. 45 to have a material impact on its financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and supercedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". It requires that a liability for costs associated with an exit or disposal activity, such as severance and contract terminations, be recognized and measured initially at fair value only when such liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of SFAS No. 146 to have a material impact on its financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements Nos. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145, among other things, rescinds SFAS No. 4, which required all gains and losses from the extinguishment of debt to be classified as extraordinary items and amends SFAS No. 13 to require that certain lease modifications having economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. The Company does not expect the adoption of SFAS No. 145 to have a material impact on its financial position or results of operations.

Note 3 Reconciliation of Weighted Average Shares Outstanding

Below is a reconciliation of basic weighted average shares outstanding to diluted weighted average shares outstanding:

	2002	2001	2000
Weighted average number of shares—Basic	**153.9**	157.6	161.7
Dilutive effect of shares issuable under stock option, restricted stock and performance share plans	**3.6**	2.6	1.3
Weighted average number of shares—Diluted	**157.5**	160.2	163.0

Options to purchase 0.1 million and 8.0 million shares of common stock were outstanding at December 31, 2001 and 2000, respectively, but were not included in the computation of diluted earnings per share because the exercise prices of such options were greater than the average market price of the Company's common stock during the applicable period (the "antidilutive options"). There were no antidilutive options outstanding as of December 31, 2002.

Note 4 Property and Equipment, Net

Property and equipment, net consisted of:

	December 31,	
	2002	**2001**
Land, building and building improvements	**$ 24.2**	$ 23.9
Office and computer equipment	**37.3**	41.5
Office furniture and fixtures	**19.5**	15.2
Internal-use computer software	**18.9**	14.0
Leasehold improvements	**31.6**	28.8
Property and equipment, at cost	**131.5**	123.4
Less: accumulated depreciation and amortization	**(80.9)**	(80.5)
Property and equipment, net	**$ 50.6**	$ 42.9

The consolidated statements of operations reflect depreciation and amortization expense related to the above assets of $14.0 million, $11.8 million and $12.8 million for the years ended December 31, 2002, 2001 and 2000, respectively.

In 2002, the Company retired fully depreciated assets with an original cost of approximately $18.0 million. There was no income statement impact from such retirement.

Note 5 Acquisitions

KMV

On April 12, 2002, Moody's acquired the businesses comprising KMV. The acquisition will expand the product offerings and customer base of Moody's credit risk assessment business, which was previously operated by Moody's Risk Management Services. The results of KMV have been included in Moody's consolidated financial statements since the acquisition date.

The aggregate purchase price of $212.6 million consisted of $209.3 million in cash payments to the sellers and $3.3 million in direct transaction costs, primarily professional fees. The purchase price was funded by using $128.3 million of Moody's cash on hand and $81.0 million of borrowings under Moody's existing bank credit lines. The Company repaid those borrowings in the second quarter of 2002.

The acquisition has been accounted for as a purchase. Shown below is the purchase price allocation, which summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

Current assets		$ 21.0
Property and equipment, net		4.6
Intangible assets:		
Customer list (12 year life)	$50.7	
Trade secrets (not subject to amortization)	25.5	
Other intangibles (5.2 year weighted average life)	6.3	
Total intangible assets		82.5
In-process research and development		1.1
Goodwill		118.3
Other assets		17.1
Liabilities assumed		(32.0)
Net assets acquired		$212.6

In accordance with SFAS No. 142, the acquired goodwill, which has been assigned to the Moody's KMV segment, will not be amortized. In accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method", the $1.1 million allocated to acquired in-process research and development was written off immediately following the acquisition and is included in selling, general and administrative expenses for the year ended December 31,

2002. Current assets above includes acquired cash of $7.2 million. Other assets include acquired software of $16.0 million with a life of 5 years. For income tax purposes, the excess of the purchase price over the acquired net assets is expected to be amortized over 15 years.

The following unaudited pro forma consolidated financial information, for the years ended December 31, 2002 and 2001, reflect the acquisition of KMV as if it had been consummated as of the beginning of each respective period, after giving effect to the following adjustments: (i) elimination of transaction related charges resulting from the acquisition; (ii) amortization of acquired intangible assets and software; (iii) Moody's financing costs for the transaction, consisting of interest expense that would have been incurred on the $81 million of bank borrowings and interest income that would have been foregone on the balance of the purchase price; and (iv) related income tax effects.

	Year Ended December 31,	
	2002	**2001**
Revenue	**$1,038.4**	$840.9
Net income	**$ 288.0**	$205.6
Diluted earnings per share	**$ 1.83**	$ 1.28

The unaudited pro forma consolidated financial information should be read in conjunction with the Company's Form 8-K/A filed with the Securities and Exchange Commission on June 26, 2002.

The unaudited pro forma consolidated financial information is presented for comparative purposes only and is not intended to be indicative of the actual consolidated results of operations that would have been achieved had the transaction been consummated as of the dates indicated above, nor does it purport to indicate results that may be attained in the future.

Korea Investors Service

In August 1998, the Company made a 10% cost-basis investment in Korea Investors Service ("KIS"), a Korean rating agency. In December 2001, the Company entered into a definitive agreement to increase its investment to just over 50%, at a cost of $9.6 million with a contingent payment of up to $5.4 million in 2005, based on KIS net income for the three-year period ended December 31, 2004. The purchase price of $9.6 million was held in escrow pending regulatory approval in Korea, which was received in January 2002.

The investment was recorded at cost through December 31, 2001; starting in January 2002, the Company consolidated the results of KIS in its financial statements. The minority shareholder's interest has been included in other long-term liabilities. The purchase price allocation resulted in amortizable intangible assets of $2.9 million with a weighted average life of 5.6 years and goodwill of $1.9 million.

Argentine Rating Agencies

From 1999 through 2002, Moody's made equity investments totaling $4.4 million in two Argentine rating agencies.

In January 2002, the Argentine government announced the creation of a dual currency system in which certain qualifying transactions would be settled at an expected fixed exchange rate of 1.4 Argentine pesos to one U.S. dollar, while non-qualifying transactions would be settled using a free floating market exchange rate. In February 2002, the Argentine government announced a shift to a single free floating market exchange rate. From 1991 until February 2002, the Argentine peso had been pegged to the U.S. dollar at the rate of one to one.

Given the significant adverse change in the economic climate in Argentina, the Company determined that the Argentine ratings businesses and their future operations and cash flows were materially impacted and that this was not a temporary change. Therefore, the recoverability of these investments was reviewed based on a comparison of carrying value to fair value, which was calculated using estimated future discounted cash flows of the businesses. Based on that review, it was determined that the fair values of these investments were $3.4 million less than the aggregate carrying value; this amount was charged to expense in the fourth quarter of 2001.

In connection with an acquisition related purchase price adjustment that was triggered by the devaluation, in the fourth quarter of 2002, Moody's received additional shares in the Argentine rating agencies, bringing its ownership position to approximately 92%.

Financial Software Products Company

In January 2000, the Company acquired the net assets of a financial software products company for $17.4 million in cash, and combined that business with its Moody's Risk Management Services business. The acquisition was accounted for using the purchase method of accounting for business combinations from the date of acquisition. The purchase price was allocated based on the estimated fair values of the acquired assets at the date of acquisition, which resulted in acquired goodwill, other intangible assets including customer relationships and covenants not to compete, and capitalized software aggregating $16.6 million. These assets, other than goodwill, are being amortized on a straight-line basis over three to seven years, with a weighted average life of 5.6 years.

Note 6 Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, under which goodwill and other intangible assets with indefinite lives are no longer amortized but are tested annually for recoverability, or more frequently if impairment indicators arise. The following table reflects net income and basic and diluted earnings per share giving effect to SFAS No. 142 as if it were adopted on January 1, 2000:

	Year Ended December 31,		
	2002	**2001**	**2000**
Net income, as reported	**$288.9**	$212.2	$158.5
Add back: goodwill amortization expense, net of tax	**—**	1.2	0.8
Adjusted net income	**$288.9**	$213.4	$159.3
Basic earnings per share:			
As reported	**$ 1.88**	$ 1.35	$ 0.98
Adjusted	**$ 1.88**	$ 1.35	$ 0.99
Diluted earnings per share:			
As reported	**$ 1.83**	$ 1.32	$ 0.97
Adjusted	**$ 1.83**	$ 1.33	$ 0.98

In connection with the 2002 acquisition of KMV, Moody's acquired goodwill and intangible assets, which are described in Note 5.

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

	Year Ended December 31, 2002			Year Ended December 31, 2001		
	Moody's Investors Service	Moody's KMV	Consolidated	Moody's Investors Service	Moody's KMV	Consolidated
Beginning balance	**$ 0.4**	**$ 5.6**	**$ 6.0**	$1.0	$7.5	$8.5
Net change from acquisitions	**1.9**	**118.3**	**120.2**	—	—	—
Other		**0.1**	**0.1**		(0.4)	(0.4)
Amortization expense	**—**	**—**	**—**	(0.6)	(1.5)	(2.1)
Ending balance	**$ 2.3**	**$124.0**	**$126.3**	$0.4	$5.6	$6.0

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The following table summarizes intangible assets subject to amortization at the dates indicated:

	December 31, 2002	December 31, 2001
Customer lists (11.3 year weighted average life)	**$57.8**	$ 4.6
Accumulated amortization	**(5.3)**	(1.3)
Net customer lists	**$52.5**	$ 3.3
Other intangible assets (5.6 year weighted average life)	**$ 8.2**	$ 1.5
Accumulated amortization	**(1.8)**	(0.5)
Net other intangible assets	**$ 6.4**	$ 1.0
Total (10.6 year weighted average life)	**$58.9**	$ 4.3

Amortization expense for intangible assets for the years ended December 31, 2002, 2001 and 2000 was $5.3 million, $1.0 million and $0.9 million, respectively.

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

Years ending December 31,	
2003	$ 6.9
2004	6.9
2005	6.5
2006	6.1
2007	5.5
Thereafter	27.0

As of December 31, 2002, $25.5 million in trade secrets acquired with the acquisition of KMV were not subject to amortization. Current circumstances and conditions continue to support an indefinite useful life.

Note 7 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following:

	December 31,	
	2002	2001
Accounts payable	**$ 1.3**	$ 6.1
Accrued income taxes (see Note 10)	**11.3**	67.2
Accrued compensation and benefits	**116.7**	111.9
Other	**55.6**	51.7
Total	**$184.9**	$236.9

Note 8 Pension and Other Post-Retirement Benefits

Moody's maintains defined benefit pension plans in which substantially all U.S. employees of the Company are eligible to participate. The Company also provides certain healthcare and life insurance benefits for retired U.S. employees.

Prior to the 2000 Distribution, the Company's employees participated in Old D&B's pension and post-retirement benefit plans. The Company accounted for its participation in these Old D&B plans as multi-employer plans. Accordingly, through the Distribution Date, the Company recorded pension and post-retirement benefit costs as allocated by Old D&B. The amounts of these allocations were insignificant for the year ended December 31, 2000. Effective at the Distribution Date, Moody's assumed responsibility for pension and other post-retirement benefits relating to its active employees. New D&B has assumed responsibility for the Company's retirees and vested terminated employees as of the Distribution Date.

Following is a summary of the activity related to these benefit plans for the years ended December 31, 2002 and 2001, as well as the status of the plans at December 31, 2002:

	Pension Plans		Other Post-Retirement Plans	
	2002	**2001**	**2002**	**2001**
Change in benefit obligation				
Projected benefit obligation, beginning of the period	**$(41.2)**	$(31.2)	**$(4.6)**	$(3.4)
Service cost	**(5.1)**	(4.4)	**(0.3)**	(0.4)
Interest cost	**(2.9)**	(2.4)	**(0.3)**	(0.2)
Benefits paid	**0.4**	0.2	**0.1**	—
Plan amendment	**—**	(1.6)	**(1.0)**	—
Actuarial gain/(loss)	**(2.9)**	(1.2)	**0.3**	(0.6)
Assumption change	**(1.5)**	(0.6)	**(0.3)**	—
Projected benefit obligation, end of the period	**$(53.2)**	$(41.2)	**$(6.1)**	$(4.6)
Change in plan assets				
Fair value of plan assets	**$ 79.4**	$ 84.5	**$ —**	$ —
Actual return on plan assets	**(7.5)**	(4.9)	**—**	—
Benefits paid	**(0.4)**	(0.2)	**(0.1)**	—
Contributions	**—**	—	**0.1**	—
Fair value of plan assets	**$ 71.5**	$ 79.4	**$ —**	$ —
Reconciliation of funded status to total amount recognized				
Funded status of the plans	**$ 18.2**	$ 38.2	**$(6.1)**	$(4.6)
Unrecognized actuarial loss	**32.5**	11.6	**0.6**	0.6
Unrecognized prior service cost	**2.1**	2.3	**1.0**	—
Net amount recognized	**$ 52.8**	$ 52.1	**$(4.5)**	$(4.0)
Amounts recognized in the consolidated balance sheet				
Prepaid pension cost	**$ 59.3**	$ 56.7	**$ —**	$ —
Pension and post-retirement benefits liability	**(8.0)**	(5.1)	**(4.5)**	(4.0)
Intangible asset	**1.5**	0.5	**—**	—
Net amount recognized	**$ 52.8**	$ 52.1	**$(4.5)**	$(4.0)
Components of net periodic (income) expense				
Service cost	**$ 5.1**	$ 4.4	**$ 0.3**	$ 0.4
Interest cost	**2.9**	2.4	**0.3**	0.2
Expected return on plan assets	**(9.0)**	(8.3)	**—**	—
Amortization of net loss from earlier periods	**0.1**	0.3	**—**	—
Amortization of unrecognized prior service costs	**0.2**	0.1	**—**	—
Net periodic (income) expense	**$ (0.7)**	$ (1.1)	**$ 0.6**	$ 0.6

The following assumptions were used in determining the benefit obligation and net periodic pension (income) expense for the years ended December 31, 2002 and 2001:

	Pension Plans		Other Post-Retirement Plans	
	2002	**2001**	**2002**	**2001**
Weighted average discount rate	**6.75%**	7.25%	**6.75%**	7.25%
Rate of increase in future compensation	**3.91%**	4.41%	**—**	—
Expected return on plan assets	**9.75%**	9.75%	**—**	—

In 2003, for purposes of determining net periodic pension (income) expense, the Company expects to use a return on plan assets assumption of approximately 8.5%, which has been determined based on explicit long-term return assumptions for each major asset class within the Company’s pension plan portfolio (which principally consists of equity and fixed-income investments).

For purposes of measuring benefit obligations under post-retirement benefit plans, an 11.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2002. The rate was assumed to decrease gradually to 6.0% through 2008 and remain at that level thereafter. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one percentage-point change in the assumed healthcare cost trend rates would have the following effects:

	One Percentage-Point Increase		One Percentage-Point Decrease	
	2002	**2001**	**2002**	**2001**
Effect on benefit obligation at end of period	**$0.2**	$0.4	**$(0.1)**	$(0.4)
Effect on total service and interest costs	**—**	$0.1	**—**	—

Certain of the Company's international operations provide pension benefits to their employees. Company contributions are primarily determined as a percentage of employees' eligible compensation. Expense related to these plans in 2002 was approximately $1.2 million.

Profit Participation Plan

Moody's has a profit participation plan (the "Plan") covering substantially all U.S. employees. The Plan provides for an employee salary deferral contribution and Company contributions. Employees may contribute up to 16% of their pay, subject to the federal limit. Moody's contributes an amount equal to 50% of employee contributions, with Moody's contribution limited to 3% of the employee's pay. Moody's also makes additional contributions to the Plan that are based on growth in the Company's earnings per share. Prior to the 2000 Distribution, employees of Moody's participated in the profit participation plan of Old D&B and the Company accounted for its participation in that plan as a multi-employer plan. Expense associated with these plans was $15.1 million, $11.1 million and $3.5 million in 2002, 2001 and 2000, respectively.

Note 9 Stock-Based Compensation Plans

Prior to the 2000 Distribution, certain employees of Moody's received grants of Old D&B stock options under Old D&B's 1998 Key Employees' Stock Option Plan (the "1998 Plan"). At the Distribution Date, all unexercised Old D&B stock options held by Moody's employees were converted into separately exercisable options to acquire Moody's common stock and separately exercisable options to acquire New D&B common stock, such that each option had the same ratio of the exercise price per option to the market value per share, the same aggregate difference between market value and exercise price, and the same vesting provisions, option periods and other terms and conditions applicable prior to the 2000 Distribution. Old D&B stock options held by employees and retirees of Old D&B were converted in the same manner. Immediately after the 2000 Distribution, the 1998 Plan was amended and adopted by the Company.

Under the 1998 Plan, 16,500,000 shares of the Company's common stock were reserved for issuance. The 1998 Plan provides that options are exercisable not later than ten years from the grant date. The vesting period for awards under the 1998 Plan is determined by the Board of Directors at the date of the grant and generally ranges from four to five years. Options may not be granted at less than the fair market value of the Company's common stock at the date of grant. For incentive stock options granted to a shareholder of more than 10% of the Company's outstanding stock, the exercise price per share cannot be less than 110% of the fair market value of the Company's common stock at the date of grant. The 1998 Plan also provides for the granting of restricted stock.

The 2001 Moody's Corporation Key Employees' Stock Incentive Plan (the "2001 Plan") was approved by the Board of Directors in February 2001 and approved by the Company's shareholders in April 2001. Under the 2001 plan, 5,800,000 shares of common stock have been reserved for issuance. Options may not be granted at less than the fair market value of the Company's common stock at the date of grant. The 2001 Plan provides that options are exercisable not later than ten years from the grant date. The vesting period for awards under the 2001 Plan is determined by the Board of Directors at the date of the grant. Unlike the 1998 Plan, the 2001 Plan also provides that consultants to the Company or any of its subsidiaries are eligible to be granted options. The 2001 Plan also provides for the granting of restricted stock.

Under the 1998 and 2001 Plans, key employees of the Company may be granted shares of common stock ("Performance Shares") based on the achievement of revenue growth goals or other operating objectives. At the end of the performance period, Company performance at target will yield the targeted amount of shares, whereas Company performance above or below target will yield larger or smaller share awards, respectively. As a result of the 2000 Distribution, outstanding Performance Share grants were converted such that the Company's employees would receive a combination of Moody's shares and cash in lieu of New D&B shares. In 2001, approximately 100,000 shares of Moody's common stock were awarded based on the Company's revenue performance for 1999 and 2000. Cash payments aggregating $2.5 million were made in lieu of New D&B shares. There were no new Performance Share grants in 2002 and 2001. The Company recorded compensation expense relating to performance share grants of $0.2 million, $0.4 million and $4.6 million in 2002, 2001 and 2000, respectively.

The Company also maintains a plan for its Board of Directors, the 1998 Directors Plan (the "Directors Plan"), which permits the granting of awards in the form of non-qualified stock options, restricted stock or performance shares. The Directors Plan provides that options are exercisable not later than ten years from the grant date. The vesting period is determined at the date of the grant and is generally one year. Under the Directors Plan, 400,000 shares of common stock were reserved for issuance. Any director of the Company who is not an employee of the Company or any of its subsidiaries as of the date that an award is granted is eligible to participate in the Directors Plan.

In February 2003, employees of the Company were granted approximately 2.5 million options under the 1998 Plan and 1.1 million options under the 2001 Plan, and directors of the Company were granted approximately 16,000 shares of restricted stock under the Directors Plan.

Changes in stock options for the three years ended December 31, 2002 are summarized below:

	Number Outstanding	Weighted Average Exercise Price
Options outstanding, December 31, 1999	5.1	$26.98
Granted	0.4	28.53
Exercised	(0.2)	22.37
Surrendered or retired	(0.5)	29.40
Options outstanding, September 30, 2000	4.8	17.99
Options converted, October 1, 2000	14.8	19.94
Granted	5.5	27.87
Exercised	(0.6)	15.36
Surrendered or retired	(0.4)	23.13
Options outstanding, December 31, 2000	19.3	22.30
Granted	0.1	34.77
Exercised	(2.5)	17.04
Surrendered or retired	(2.2)	24.24
Options outstanding, December 31, 2001	14.7	23.00
Granted	**3.8**	**40.01**
Exercised	**(2.5)**	**19.31**
Surrendered or retired	**(0.7)**	**27.43**
Options outstanding, December 31, 2002	**15.3**	**$27.63**

Option activity for the period from December 31, 1999 through September 30, 2000 reflects Old D&B options that were held by employees of Moody's. The options converted at October 1, 2000 reflect the conversion of all Old D&B options, including both those held by employees of Moody's and those held by employees and retirees of New D&B, into separately exercisable options to acquire common stock of Moody's as described above.

Below is a summary of options held by Moody's employees and by New D&B employees and retirees as of each date:

	Moody's Employees	New D&B Employees and Retirees
Options outstanding at:		
October 1, 2000	4.8	10.0
December 31, 2000	10.2	9.1
December 31, 2001	8.6	6.1
December 31, 2002	**11.1**	**4.2**

The following table summarizes information about stock options outstanding at December 31, 2002:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding	Average Remaining Contractual Life in Years	Weighted Average Exercise Price
$14.54–$19.94	**2.2**	**3.2**	**$16.72**
$21.42–$23.96	**3.3**	**6.3**	**$21.78**
$25.13–$28.13	**6.1**	**5.7**	**$27.26**
$33.92–$43.55	**3.7**	**9.0**	**$39.95**

Total	**15.3**

Range of Exercise Prices	Options Exercisable: Number Exercisable	Options Exercisable: Weighted Average Exercise Price
$14.54–$19.94	**1.8**	**$16.34**
$21.42–$23.96	**1.6**	**$21.70**
$25.13–$28.13	**2.0**	**$27.88**
$33.92–$43.55	**—**	**$36.03**
Total	**5.4**	

In addition, the Company also sponsors the Moody's Corporation Employee Stock Purchase Plan ("ESPP"). The ESPP allows eligible employees to purchase common stock of the Company on a monthly basis at 85% of its fair market value on the first trading day of the month. Plan participants can elect an after-tax payroll deduction of one percent to ten percent of compensation, subject to the federal limit.

Note 10 Income Taxes

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

	Year Ended December 31,		
	2002	2001	2000
Current:			
Federal	**$150.5**	$102.4	$ 81.7
State and local	**54.4**	49.3	42.7
Non U.S.	**26.3**	16.5	3.6
Total current	**231.2**	168.2	128.0
Deferred:			
Federal	**(3.5)**	1.2	(1.6)
State and local	**1.4**	0.5	(0.9)
Non U.S.	**(0.6)**	(0.2)	—
Total deferred	**(2.7)**	1.5	(2.5)
Total provision for income taxes	**$228.5**	$169.7	$125.5

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

	Year Ended December 31,		
	2002	2001	2000
U.S. statutory tax rate	**35.0%**	35.0%	35.0%
State and local taxes, net of federal tax benefit	**7.0**	8.5	9.5
U.S. taxes on foreign income	**0.7**	1.0	—
Other	**1.5**	(0.1)	(0.3)
Effective tax rate	**44.2%**	44.4%	44.2%

Income taxes paid were $226.6 million, $98.6 million and $206.0 million in 2002, 2001 and 2000, respectively. Taxes paid in 2002 included approximately $50 million of 2001 income tax payments that were deferred due to the September 11 th tragedy.

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

	December 31,	
	2002	**2001**
Deferred tax assets:		
Current:		
Accounts receivable allowances	**$ 6.7**	$ 12.2
Accrued compensation and benefits	**4.5**	4.4
Other	**0.9**	1.4
Total current	**12.1**	18.0
Non-current:		
Depreciation and amortization	**5.3**	4.7
Benefit plans	**6.2**	5.1
State taxes	**7.8**	2.2
Other	**7.2**	2.6
Total non-current	**26.5**	14.6
Total deferred tax assets	**38.6**	32.6
Deferred tax liabilities		
Current:		
Prepaid expenses	**(1.4)**	—
Total current	**(1.4)**	—
Non-current:		
Prepaid pension costs	**(24.5)**	(25.4)
Amortization of capitalized software	**(4.8)**	(2.9)
Other	**(0.1)**	(0.1)
Total non-current	**(29.4)**	(28.4)
Total deferred tax liabilities	**(30.8)**	(28.4)
Net deferred tax asset	**$ 7.8**	$ 4.2

The current deferred tax assets, net of current deferred tax liabilities, as well as prepaid taxes of $27.8 million and $26.4 million at December 31, 2002 and 2001, respectively, are included in other current assets in the consolidated balance sheets. Non-current deferred tax liabilities, net of non-current deferred tax assets, are included in other liabilities. Management has determined, based on the Company's history of prior and current levels of operating earnings, that no valuation allowance for deferred tax assets should be provided as of December 31, 2002 and 2001.

At December 31, 2002, undistributed earnings of non-U.S. subsidiaries aggregated $43.4 million. Earnings from the United Kingdom, France and Japan are or will be remitted to the U.S. on a regular basis. As such, appropriate taxes related to anticipated distributions have been provided in the consolidated financial statements. Deferred tax liabilities have not been recognized for approximately $13 million of undistributed foreign earnings that management intends to reinvest outside the U.S. If all such undistributed earnings were remitted to the U.S., the amount of incremental U.S. federal and foreign income taxes payable, net of foreign tax credits, would be approximately $1.2 million.

Note 11 Indebtedness

In connection with the 2000 Distribution, Moody's was allocated $195.5 million of debt at September 30, 2000. Moody's funded this debt with borrowings under a $160 million unsecured bank revolving credit facility and a bank bridge line of credit.

On October 3, 2000 the Company issued $300 million of notes payable (the "Notes") in a private placement. The cash proceeds from the Notes were used in part to repay the outstanding balance on the revolving credit facility and to repay the bridge line of credit. The Notes have a five-year term and bear interest at an annual rate of 7.61%, payable semi-annually. In the event that Moody's pays all or part of the Notes in advance of their maturity (the "prepaid principal"), such prepayment will be subject to a penalty calculated based on the excess, if any, of the discounted value of the remaining scheduled payments, as defined in the agreement, over the prepaid principal. Interest paid under the Notes was $22.8 million and $22.6 million, respectively for the years ended December 31, 2002 and 2001; no interest was paid in 2000.

The revolving credit facility (the “Facility”) consists of an $80 million 5-year facility that expires in September 2005 and an $80 million 364-day facility that expires in September 2003. As of December 31, 2002, the Company had borrowings outstanding of $76.1 million under the 5-year facility, bearing interest at approximately 1.64% per annum, and $31.0 million under the 364-day facility, bearing interest at approximately 1.73% per annum. Interest on borrowings under the 5-year facility is payable at rates that are based on the London InterBank Offered Rate (“LIBOR”) plus a premium that can range from 18 basis points to 50 basis points depending on the Company’s ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization (“EBITDA”), as defined in the related agreement.

At December 31, 2002, such premium was 22 basis points. Interest on borrowings under the 364-day facility is payable at rates that are based on LIBOR plus a premium of 30.5 basis points. The Company also pays annual facility fees, regardless of borrowing activity under the Facility. The annual fees for the 5-year facility can range from 7 basis points to 12.5 basis points depending on the Company’s ratio of total indebtedness to EBITDA, and were 8 basis points at December 31, 2002. The annual fees for the 364-day facility are 7 basis points. Under each facility, the Company also pays a utilization fee of 12.5 basis points on borrowings outstanding when the aggregate amount outstanding under such facility exceeds 33% of the facility.

In April 2002, Moody’s used the Facility to initially fund a portion of the purchase price for the KMV acquisition; amounts outstanding under the Facility were repaid in the second quarter of 2002. Since that time, Moody’s has borrowed under the Facility to fund share repurchases. Interest paid under the Facility for the years ended December 31, 2002, 2001 and 2000 was $0.3 million, $0.0 million and $0.1 million, respectively.

The Notes and the Facility (the “Agreements”) contain covenants that, among other things, restrict the ability of the Company and its subsidiaries, without the approval of the lenders, to engage in mergers, consolidations, asset sales and sale-leaseback transactions or to incur liens. The Notes and the Facility also contain financial covenants that, among other things, require the Company to maintain an interest coverage ratio, as defined in the Agreements, of not less than 3 to 1, and a ratio of total indebtedness to EBITDA, as defined in the Agreements, of not more than 4 to 1. At December 31, 2002, the Company was in compliance with such covenants. If an event of default were to occur (as defined in the Agreements) and was not remedied by the Company within the stipulated timeframe, an acceleration of the Notes and restrictions on the use of the Facility could occur.

Note 12 Capital Stock

Authorized Capital Stock

The total number of shares of all classes of stock that the Company has authority to issue under its Restated Certificate of Incorporation is 420,000,000 shares with a par value of $0.01, of which 400,000,000 are shares of common stock, 10,000,000 are shares of preferred stock and 10,000,000 are shares of series common stock. The preferred stock and series common stock can be issued with varying terms, as determined by the Board of Directors.

Rights Agreement

The Company has a Rights Agreement designed to protect its shareholders in the event of unsolicited offers to acquire the Company and coercive takeover tactics that, in the opinion of the Board of Directors, could impair its ability to represent shareholder interests. Under the Rights Agreement, each share of common stock has a right that trades with the stock until the right becomes exercisable. Each right entitles the registered holder to purchase 1/1000 of a share of a series A junior participating preferred stock, par value $0.01 per share, at a price of $100 per 1/1000 of a share, subject to adjustment. The rights will generally not be exercisable until a person or group (“Acquiring Person”) acquires beneficial ownership of, or commences a tender offer or exchange offer that would result in such person or group having beneficial ownership of, 15% or more of the outstanding common stock at such time.

In the event that any person or group becomes an Acquiring Person, each right will thereafter entitle its holder (other than the Acquiring Person) to receive, upon exercise and payment, shares of stock having a market value equal to two times the exercise price in the form of the Company’s common stock or, where appropriate, the Acquiring Person’s common stock. The rights are not currently exercisable, as no shareholder is currently an Acquiring Person. The Company may redeem the rights, which expire in June 2008, for $0.01 per right, under certain circumstances, including for a Board-approved acquirer either before the acquirer becomes an Acquiring Person or during the window period after the triggering event as specified in the Rights Agreement.

Share Repurchase Program

During October 2002, Moody’s completed the $300 million share repurchase program that had been authorized by the Board of Directors in October 2001. On October 22, 2002, the Board of Directors authorized an additional $450 million share repurchase program, which Moody’s expects to complete by mid-2004. The program includes both special share repurchases and systematic repurchases of Moody’s common stock to offset the dilutive effect of share issuance under the company’s employee stock plans.

For the year ended December 31, 2002, Moody’s repurchased 8.2 million shares at a total cost of $369.9 million, including 2.7 million shares to offset issuances under employee stock plans. Since becoming a public company in September 2000 and through December 31, 2002, Moody’s has repurchased 19.5 million shares at a total cost of $709.3 million, including 6.1 million shares to offset issuances under employee stock plans.

Dividends

During 2002, 2001 and in the fourth quarter of 2000, the Company paid a quarterly dividend of 4.5 cents per share of Moody's common stock, resulting in dividends paid per share of 18.0 cents in 2002 and 2001 and 4.5 cents in 2000. Prior to the fourth quarter of 2000, when Moody's was a subsidiary of Old D&B, the Company did not pay dividends directly to Old D&B shareholders. In December 2002, the Company's Board of Directors declared a first quarter 2003 dividend of 4.5 cents per share, payable on March 10, 2003 to shareholders of record on February 20, 2003.

Note 13 Lease Commitments

Moody's operates its business from various leased facilities, which are under operating leases that expire over the next ten years. Moody's also leases certain computer and other equipment under operating and capital leases that expire over the next five years. Rent expense under operating leases for the years ended December 31, 2002, 2001 and 2000 was $11.3 million, $8.0 million and $7.1 million, respectively. Rent expense for 2002, 2001 and 2000 was net of sublease rental income of $0.6 million, $1.0 million and $1.0 million, respectively related to a facility utilized by FIS, which was sold in July 1998.

The approximate minimum rent for leases that have remaining noncancelable lease terms in excess of one year at December 31, 2002 is as follows:

Year Ended December 31,	Capital Leases	Operating Leases
2003	**$ 1.3**	**$13.5**
2004	**1.3**	**11.9**
2005	**1.3**	**11.2**
2006	**—**	**8.8**
2007	**—**	**6.3**
Thereafter	**—**	**1.5**
Total minimum lease payments	**3.9**	**$53.2**
Less: amount representing interest	**(0.2)**	
Present value of net minimum lease payments	**$ 3.7**	

During the year ended December 31, 2002, Moody's recorded approximately $3.9 million of computer equipment subject to capital lease obligations.

Note 14 Contingencies

From time to time, Moody's is involved in legal and tax proceedings, claims and litigation that are incidental to the Company's business, including claims based on ratings assigned by Moody's. Management periodically assesses the Company's liabilities and contingencies in connection with these matters, based upon the latest information available. For those matters where the probable amount of loss can be reasonably estimated, the Company believes it has recorded appropriate reserves in the consolidated financial statements. In other instances, because of the uncertainties related to both the probable outcome and amount or range of loss, management is unable to make a reasonable estimate of a liability, if any. As additional information becomes available, the Company adjusts its assessments and estimates of such liabilities accordingly.

Based on its review of the latest information available, in the opinion of management, the ultimate liability of the Company in connection with pending legal and tax proceedings, claims and litigation will not have a material adverse effect on Moody's financial position, results of operations or cash flows, subject to the contingencies described below.

Discussion of contingencies is segregated between those matters that relate to Old D&B, its predecessors and their affiliated companies ("Legacy Contingencies") and those that relate to Moody's business and operations ("Moody's Matters").

Legacy Contingencies

To understand the Company's exposure to the potential liabilities described below, it is important to understand the relationship between Moody's and New D&B, and the relationship among New D&B and its predecessors and other parties who, through various corporate reorganizations and related contractual commitments, have assumed varying degrees of responsibility with respect to such matters.

In November 1996, The Dun & Bradstreet Corporation through a spin-off separated into three separate public companies: The Dun & Bradstreet Corporation, ACNielsen Corporation ("ACNielsen") and Cognizant Corporation ("Cognizant") (the "1996 Distribution").

In June 1998, The Dun & Bradstreet Corporation through a spin-off separated into two separate public companies: The Dun & Bradstreet Corporation and R.H. Donnelley Corporation ("Donnelley") (the "1998 Distribution"). During 1998, Cognizant through a spin-off separated into two separate public companies: IMS Health Incorporated ("IMS Health") and Nielsen Media Research, Inc. ("NMR"). In September 2000, The Dun & Bradstreet Corporation ("Old D&B") through a spin-off separated into two separate public companies: New D&B and Moody's, as further described in Note 1, Description of Business and Basis of Presentation.

Information Resources, Inc.

In 1996, Information Resources, Inc. ("IRI") filed a complaint in the United States District Court for the Southern District of New York, naming as defendants the corporation then known as The Dun & Bradstreet Corporation, A.C. Nielsen Company (a subsidiary of ACNielsen) and IMS International, Inc. (a subsidiary of the company then known as Cognizant). At the time of the filing of the complaint, each of the other defendants was a subsidiary of The Dun & Bradstreet Corporation.

The complaint alleges various violations of United States antitrust laws, including purported violations of Sections 1 and 2 of the Sherman Act. The complaint also alleges a claim of tortious interference with a contract and a claim of tortious interference with a prospective business relationship. These claims relate to the acquisition by defendants of Survey Research Group Limited ("SRG"). IRI alleges SRG violated an alleged agreement with IRI when it agreed to be acquired by the defendants and that the defendants induced SRG to breach that agreement.

IRI's complaint alleges damages in excess of $350 million, which amount IRI asked to be trebled under antitrust laws. IRI also seeks punitive damages of an unspecified amount.

Discovery in this case is ongoing and no trial date has been set.

In connection with the 1996 Distribution, Cognizant, ACNielsen and The Dun & Bradstreet Corporation entered into an Indemnity and Joint Defense Agreement (the "Indemnity and Joint Defense Agreement") pursuant to which they have agreed (i) to certain arrangements allocating potential liabilities ("IRI Liabilities") that may arise out of or in connection with the IRI action and (ii) to conduct a joint defense of such action. In particular, the Indemnity and Joint Defense Agreement provides that ACNielsen will assume exclusive liability for IRI Liabilities up to a maximum amount to be calculated at such time as such liabilities, if any, become payable (the "ACN Maximum Amount"), and that The Dun & Bradstreet Corporation and Cognizant will share liability equally for any amounts in excess of the ACN Maximum Amount. The ACN Maximum Amount will be determined by an investment banking firm as the maximum amount that ACNielsen is able to pay after giving effect to (i) any plan submitted by such investment bank that is designed to maximize the claims-paying ability of ACNielsen without impairing the investment banking firm's ability to deliver a viability opinion (but which will not require any action requiring shareholder approval), and (ii) payment of related fees and expenses. For these purposes, financial viability means the ability of ACNielsen, after giving effect to such plan, the payment of related fees and expenses and the payment of the ACN Maximum Amount, to pay its debts as they become due and to finance the current and anticipated operating and capital requirements of its business, as reconstituted by such plan, for two years from the date any such plan is expected to be implemented. In 2001, ACNielsen merged with VNU N.V. Pursuant to the Indemnity and Joint Defense Agreement, VNU is to be included with ACNielsen for purposes of determining the ACN Maximum Amount, and VNU assumed ACNielsen's liabilities under that agreement.

In connection with the 1998 Distribution, Old D&B and Donnelley entered into an agreement (the "1998 Distribution Agreement") whereby Old D&B assumed all potential liabilities of Donnelley arising from the IRI action and agreed to indemnify Donnelley in connection with such potential liabilities.

As a result of their 1998 separation and pursuant to the related distribution agreement, IMS Health and NMR are each jointly and severally liable for all Cognizant liabilities under the Indemnity and Joint Defense Agreement. In 1999, NMR was acquired by VNU N.V. and VNU assumed NMR's liabilities under the Indemnity and Joint Defense Agreement.

Under the terms of the 2000 Distribution, New D&B undertook to be jointly and severally liable with Moody's for Old D&B's obligations to Donnelley under the 1998 Distribution Agreement, including any liabilities arising under the Indemnity and Joint Defense Agreement. However, as between themselves, each of New D&B and Moody's will be responsible for 50% of any payments to be made with respect to the IRI action pursuant to the 1998 Distribution Agreement, including legal fees or expenses related thereto.

Management is unable to predict at this time the final outcome of the IRI action or whether the resolution of this matter could materially affect Moody's results of operations, cash flows or financial position. As such, no amount in respect of this matter has been accrued in the financial statements of the Company.

Legacy Tax Matters

Old D&B and its predecessors entered into global tax planning initiatives in the normal course of business, including through tax-free restructurings of both their foreign and domestic operations. These initiatives are subject to normal review by tax authorities.

Pursuant to a series of agreements, as between themselves, IMS Health and NMR are jointly and severally liable to pay one-half, and New D&B and Moody's are jointly and severally liable to pay the other half, of any payments for taxes, penalties and accrued interest resulting from unfavorable IRS rulings on certain tax matters (excluding the matter described below as "Amortization Expense Deductions" for which New D&B and Moody's are solely responsible) and certain other potential tax liabilities after New D&B and/or Moody's pays the first $137 million, which amount was paid in connection with the matter described below as "Utilization of Capital Losses".

In connection with the 2000 Distribution and pursuant to the terms of the related Distribution Agreement, New D&B and Moody's have, between themselves, agreed to each be financially responsible for 50% of any potential liabilities that may arise to the extent such potential liabilities are not directly attributable to their respective business operations.

Without limiting the generality of the foregoing, three specific tax matters are discussed below.

Royalty Expense Deductions

During the second quarter of 2002, New D&B received a Notice of Proposed Adjustment from the IRS with respect to a partnership transaction entered into in 1993. In this Notice, the IRS proposed to disallow certain royalty expense deductions claimed by Old D&B on its 1994, 1995 and 1996 tax returns. New D&B disagrees with the position taken by the IRS in its Notice and filed a responsive brief to this effect with the IRS. In addition, the IRS recently indicated that it may assess penalties on this matter. If the IRS were to issue a formal assessment consistent with the Notice (and including penalties), and were to prevail in its position, then New D&B would be required to pay the assessment. If New D&B were to challenge the assessment in U.S. District Court rather than in U.S. Tax Court, then a payment of the disputed amount would be required in connection with such challenge. Should any such payments be made by New D&B, then pursuant to the terms of the 2000 Distribution Agreement, Moody's would have to pay to New D&B its 50% share. The Company estimates that its share of the required payment to the IRS could be up to approximately $55 million (including penalties and interest, and net of tax benefits). Moody's also could be obligated for future interest payments on its share of such liability.

In a related matter, New D&B has received a Preliminary Summary Report from the IRS stating its intention to ignore the partnership structure that had been established and reallocate to Old D&B income and expense items that had been claimed on the partnership tax return for 1996. If the IRS were to issue a formal assessment consistent with the Report and were to prevail in this matter, then New D&B would be required to pay the assessment. If New D&B were to challenge the assessment in U.S. District Court rather than in U.S. Tax Court, then a payment of the disputed amount would be required in connection with such challenge. Moody's estimates that its share of the exposure to the IRS for this matter could be up to approximately $46 million (including penalties and interest, and net of tax benefits). Such exposure could be in addition to the amount described in the preceding paragraph.

Amortization Expense Deductions

The IRS has requested from New D&B documentation with respect to a transaction executed in 1997 that could result in amortization expense deductions from 1997 through 2012. It is possible that the IRS could ultimately challenge these deductions and that New D&B could make payments to the IRS related to previously claimed deductions. In that event, Moody's would be required to pay to New D&B its 50% share of New D&B's payments to the IRS. In addition, should New D&B discontinue claiming the amortization deductions on future tax returns, Moody's would be required to repay to New D&B an amount equal to the discounted value of its 50% share of the related future tax benefits. New D&B had paid the discounted value of future tax benefits from this transaction in cash to Moody's at the Distribution Date. Management estimates that the Company's current potential exposure related to this matter is $89 million (including penalties and interest, and net of tax benefits). This exposure could increase by approximately $3 million to $6 million per year, depending on actions that the IRS may take with respect to assessments and on whether New D&B continues claiming the amortization deductions on its tax returns.

Utilization of Capital Losses

The IRS has completed its review of the utilization of certain capital losses generated during 1989 and 1990. On June 26, 2000, the IRS, as part of its audit process, issued a formal assessment with respect to the utilization of these capital losses and Old D&B responded by filing a petition for a refund in the U.S. District Court on September 21, 2000, after the payments described below were made.

On May 12, 2000, an amended tax return was filed for the 1989 and 1990 tax periods, which reflected $561.6 million of tax and interest due. Old D&B paid the IRS approximately $349.3 million of this amount on May 12, 2000; 50% of such payment was allocated to Moody's and had previously been accrued by the Company. IMS Health informed Old D&B that it paid to the IRS approximately $212.3 million on May 17, 2000. The payments were made to the IRS to stop further interest from accruing, and New D&B is contesting the IRS' assessment. New D&B has indicated that it would also contest the assessment of penalties or other amounts, if any, in excess of the amounts paid. With the possible exception of the matter described in the following sentence, Moody's does not anticipate any further income statement charges or cash payments related to IRS assessments for this matter. If the IRS were to disallow prior deductions of all transaction costs associated with this matter, Moody's estimates that its exposure for its share of the additional taxes, penalties and interest (net of tax benefits) on this matter would be approximately $5 million.

Subsequent to making its May 2000 payment to the IRS, IMS Health sought partial reimbursement from NMR under their 1998 distribution agreement (the "IMS/NMR Agreement"). NMR paid IMS Health less than the amount sought by IMS Health under the IMS/NMR Agreement and, in 2001, IMS Health filed an arbitration proceeding against NMR to recover the difference. IMS Health sought to include Old D&B in this arbitration, arguing that if NMR should prevail in its interpretation of the IMS/NMR Agreement, then IMS Health could seek the same interpretation in an alternative claim against Old D&B. Neither Old D&B nor any of its predecessors was a party to the IMS/NMR Agreement. A decision from the arbitration panel is expected in 2003. If NMR should prevail in the arbitration against IMS Health and, in turn, IMS Health should prevail against Old D&B, then the Company believes that the additional liability of Old D&B would be approximately $15 million, net of tax benefits. Under the terms of the 2000 Distribution, Moody's and New D&B would each be responsible for one half of such amount, or approximately $7.5 million. The Company believes that the claim asserted against Old D&B by IMS Health is without merit. As such, no amount in respect of this matter has been accrued in the financial statements.

Summary of Moody's Exposure to Three Legacy Tax Matters

The Company has considered the range and probability of potential outcomes related to the three legacy tax matters discussed above and believes that it has adequate reserves recorded in its consolidated financial statements for its probable exposures in these matters. However, it is possible that these matters could be resolved in amounts that are greater than the Company has reserved, which could result in material charges to Moody's future reported results. In addition, the cash outlays resulting from these matters, which the Company currently estimates could be as much as $202 million, could be material and could increase with time as described above. Such amount does not include potential penalties related to the payments made in May 2000 concerning Utilization of Capital Losses.

Moody's Matters

L'Association Francaise des Porteurs d' Emprunts Russes

On June 20, 2001 a summons was served in an action brought by L'Association Francaise des Porteurs d' Emprunts Russes ("AFPER") against Moody's France SA (a subsidiary of the Company) and filed in the Court of First Instance of Paris, France. In this suit, AFPER, a group of holders of bonds issued by the Russian government prior to the 1917 Bolshevik Revolution, makes claims against Moody's France SA and Standard & Poor's SA for lack of diligence and prudence in their ratings of Russia and Russian debt since 1996. AFPER alleges that, by failing to take into account the post-Revolutionary repudiation of pre-Revolutionary Czarist debt by the Soviet government in rating Russia and new issues of Russian debt beginning in 1996, the rating agencies enabled the Russian Federation to issue new debt without repaying the old obligations of the Czarist government. Alleging joint and several liability, AFPER seeks damages of Euro 2.8 billion (approximately U.S. $2.9 billion as of December 31, 2002) plus legal costs. Moody's believes the allegations lack legal or factual merit and intends to vigorously contest the action. As such, no amount in respect of this matter has been accrued in the financial statements of the Company.

Note 15 Segment Information

The Company reports segment information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 defines operating segments as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. The Company has historically operated in one reportable business segment – Ratings, which accounted for approximately 90% of the Company's total revenue. With the April 2002 acquisition of KMV, Moody's now operates in two reportable business segments: Moody's Investors Service and Moody's KMV. Accordingly, in the second quarter of 2002, the Company restated its segment information for corresponding prior periods to conform to the current presentation.

Moody's Investors Service consists of four rating groups — structured finance, corporate finance, financial institutions and sovereign risk, and public finance — that generate revenue principally from the assignment of credit ratings on fixed-income instruments in the debt markets, and research, which primarily generates revenue from the sale of investor-oriented credit research, principally produced by the rating groups. Given the dominance of Moody's Investors Service to Moody's overall results, the Company does not separately measure or report corporate expenses, nor are they allocated to the Company's business segments. Accordingly, all corporate expenses are included in operating income of the Moody's Investors Service segment and none have been allocated to the Moody's KMV segment.

The Moody's KMV business consists of KMV, acquired in April 2002, and Moody's Risk Management Services. Moody's KMV develops and distributes quantitative credit assessment services for banks and investors in credit-sensitive assets, credit training services and credit process software.

Assets used solely by Moody's KMV are separately disclosed within that segment. All other Company assets, including corporate assets, are reported as part of Moody's Investors Service.

Revenue by geographic area is generally based on the location of the customer.

Intersegment sales are insignificant and no single customer accounted for 10% or more of total revenue.

Below are financial information by segment, Moody's Investors Service revenue by business unit and revenue and long-lived asset information by geographic area, for the years ended and as of December 31, 2002, 2001 and 2000.

Financial Information by Segment

	Year Ended December 31, 2002		
	Moody's Investors Service	**Moody's KMV**	**Consolidated**
Revenue	**$941.8**	**$ 81.5**	**$1,023.3**
Operating expenses	**385.7**	**74.9**	**460.6**
Depreciation and amortization	**12.7**	**11.9**	**24.6**
Operating income (loss)	**543.4**	**(5.3)**	**538.1**
Non-operating expense, net			**(20.7)**
Income before provision for income taxes			**517.4**
Provision for income taxes			**228.5**
Net income			**$ 288.9**
Total assets at December 31,	**$364.2**	**$266.6**	**$ 630.8**

	Year Ended December 31, 2001			Year ended December 31, 2000		
	Moody's Investors Service	Moody's KMV	Consolidated	Moody's Investors Service	Moody's KMV	Consolidated
Revenue	$765.9	$30.8	$796.7	$579.3	$23.0	$602.3
Operating expenses	352.9	28.3	381.2	272.4	24.8	297.2
Depreciation and amortization	11.5	5.5	17.0	11.4	5.2	16.6
Operating income (loss)	401.5	(3.0)	398.5	295.5	(7.0)	288.5
Non-operating expense, net			(16.6)			(4.5)
Income before provision for income taxes			381.9			284.0
Provision for income taxes			169.7			125.5
Net income			$212.2			$158.5
Total assets at December 31,	$475.5	$29.9	$505.4	$369.6	$28.7	$398.3

Moody's Investors Service Revenue by Business Unit

	Year Ended December 31,		
	2002	2001	2000
Ratings revenue:			
Structured finance	**$381.2**	$273.8	$199.2
Corporate finance	**228.4**	225.7	162.7
Financial institutions and sovereign risk	**157.4**	130.7	111.6
Public finance	**81.2**	64.2	46.1
Total ratings revenue	**848.2**	694.4	519.6
Research revenue	**93.6**	71.5	59.7
Total Moody's Investors Service	**$941.8**	$765.9	$579.3

Revenue and Long-lived Asset Information by Geographic Area

	2002	2001	2000
Revenue:			
United States	**$ 680.3**	$560.7	$428.9
International	**343.0**	236.0	173.4
Total	**$1,023.3**	$796.7	$602.3
Long-lived assets:			
United States	**$ 269.3**	$ 50.3	$ 53.4
International	**15.4**	8.9	8.4
Total	**$ 284.7**	$ 59.2	$ 61.8

Note 16 Valuation and Qualifying Accounts

Accounts receivable allowances primarily represent adjustments to customer billings that are estimated when the related revenue is recognized. In 2002, the Company reduced its provision rates and allowance to reflect its current estimate of the appropriate level of accounts receivable allowance. Below is a summary of activity for each of the three years in the period ended December 31, 2002:

	Balance at Beginning of the Year	Additions Charged to Revenue	Write-offs and Adjustments	Balance at End of the Year
2002	**$(27.3)**	**$(20.1)**	**$31.0**	**$(16.4)**
2001	(24.4)	(28.8)	25.9	(27.3)
2000	(24.5)	(29.3)	29.4	(24.4)

Note 17 Subsequent Event (Unaudited)

In February 2003, Moody's received a $15.9 million insurance recovery related to the September 11 th tragedy, for incremental costs incurred and for lost profits due to the sharp decline in debt market activity in the weeks following the disaster. Moody's had previously received a $4.0 million advance payment in 2002, resulting in a total recovery of $19.9 million. Moody's had incurred incremental costs of $6.3 million for property damage and temporary office facilities, and had fully accrued for the recovery of these costs in its financial statements. The remainder of the insurance recovery, $13.6 million, had not been previously accrued as its realizability was not sufficiently assured. As a result, Moody's will record a gain of approximately $13.6 million, or $0.05 per diluted share, in the first quarter of 2003.

Note 18 Quarterly Financial Data (Unaudited)

	Three Months Ended				
	March 31	June 30	September 30	December 31	Year
2002					
Revenue	**$231.6**	**$271.5**	**$248.3**	**$271.9**	**$1,023.3**
Operating income	**134.7**	**147.0**	**127.4**	**129.0**	**538.1**
Net income	**72.6**	**78.7**	**67.8**	**69.8**	**288.9**
Basic earnings per share	**$ 0.47**	**$ 0.51**	**$ 0.44**	**$ 0.46**	**$ 1.88**
Diluted earnings per share	**$ 0.46**	**$ 0.49**	**$ 0.43**	**$ 0.45**	**$ 1.83**
2001					
Revenue	$180.2	$205.2	$190.4	$220.9	$ 796.7
Operating income	89.8	104.0	93.7	111.0	398.5
Net income	48.0	55.5	49.9	58.8	212.2
Basic earnings per share	$ 0.30	$ 0.35	$ 0.32	$ 0.38	$ 1.35
Diluted earnings per share	$ 0.30	$ 0.34	$ 0.31	$ 0.37	$ 1.32

Basic and diluted earnings per share are computed independently for each of the periods presented. The number of weighted average shares outstanding changes as common shares are issued pursuant to employee stock plans and for other purposes or as shares are repurchased. Accordingly, the sum of the quarterly earnings per share data may not agree to the total for the year.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

Except for the information relating to the executive officers of the Company set forth in Part I of this annual report on Form 10-K, the information called for by Items 10-13 is contained in the Company's definitive proxy statement for use in connection with its annual meeting of shareholders scheduled to be held on April 22, 2003, and is incorporated herein by reference.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures: The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14c and 15d-14c under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days prior to the filing date of this annual report on Form 10-K (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings under the Exchange Act.

(b) Changes in Internal Controls: Since the Evaluation Date, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect such controls.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) List of documents filed as part of this report.

(1) Financial Statements.

See Index to Financial Statements, Item 8 of this Form 10-K.

(2) Financial Statement Schedules.

None.

(3) Exhibits.

See Index to Exhibits on pages 64-66 of this Form 10-K.

(b) Reports on Form 8-K.

No reports on Form 8-K have been filed during the quarter ended December 31, 2002.

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SIGNATURES

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

MOODY'S CORPORATION
(Registrant)

By: /s/ JOHN RUTHERFURD, JR.

John Rutherfurd, Jr.
President and Chief Executive Officer

Date: March 21, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ JOHN RUTHERFURD, JR	/s/ CLIFFORD L. ALEXANDER, JR.
John Rutherfurd, Jr. Director, President and Chief Executive Officer (principal executive officer)	Clifford L. Alexander, Jr. Chairman of the Board of Directors
/s/ JEANNE M. DERING	/s/ CHARLES R. BRUSCHI
Jeanne M. Dering, Senior Vice President and Chief Financial Officer (principal financial officer)	Charles R. Bruschi Vice President and Corporate Controller (principal accounting officer)
/s/ HALL ADAMS, JR	/s/ ROBERT R. GLAUBER
Hall Adams, Jr., Director	Robert R. Glauber, Director
/s/ MARY JOHNSTON EVANS	/s/ HENRY A. MCKINNELL, JR. PH.D.
Mary Johnston Evans, Director	Henry A. McKinnell, Jr. Ph.D, Director
/s/ CONNIE MACK	
Connie Mack, Director	

Date: March 21, 2003

**CHIEF EXECUTIVE OFFICER CERTIFICATION
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, John Rutherfurd, Jr., Chief Executive Officer of Moody's Corporation certify that:

1. I have reviewed this annual report on Form 10-K of Moody's Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ JOHN RUTHERFURD, JR.

John Rutherfurd, Jr.
President and Chief Executive Officer
March 21, 2003

CHIEF FINANCIAL OFFICER CERTIFICATION
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Jeanne M. Dering, Senior Vice President and Chief Financial Officer of Moody's Corporation certify that:

1. I have reviewed this annual report on Form 10-K of Moody's Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ JEANNE M. DERING

Jeanne M. Dering
Senior Vice President and
Chief Financial Officer
March 21, 2003

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INDEX TO EXHIBITS

S-K EXHIBIT NUMBER		
3	ARTICLES OF INCORPORATION AND BY-LAWS	
	.1	Restated Certificate of Incorporation of the Registrant dated June 15, 1998, as amended effective June 30, 1998, and as further amended effective October 1, 2000 (incorporated by reference to Exhibit 3.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed October 4, 2000).
	.2	Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form 10, file number 1-14037, filed June 18, 1998).
4	INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES	
	.1	Specimen Common Stock certificate (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed October 4, 2000).
	.2	Amended and Restated Rights Agreement between the Registrant, EquiServe Trust Company, N.A., as Rights Agent, and The Bank of New York, as successor Rights Agent, dated as of October 22, 2001 (incorporated by reference to Exhibit 4.2 to the Report on Form 10-K of the Registrant, file number 1-14037, filed March 22, 2002).
	.3	Five-Year Credit Agreement, dated as of September 11, 2000, among the Registrant, certain subsidiaries of the Registrant, the lenders party thereto, The Chase Manhattan Bank, as administrative agent, Citibank, N.A., as syndication agent, and The Bank of New York, as documentation agent (incorporated by reference to Exhibit 4.2 to the Report on Form 8-K of the Registrant, file number 1-14037, filed October 4, 2000).
	.4	Amended and Restated Credit Agreement, dated as of September 10, 2001, between Moody's Corporation and certain subsidiaries of the Registrant, the lenders party thereto, The Chase Manhattan Bank, as administrative agent, Citibank, N.A., as syndication agent, and The Bank of New York, as documentation agent (incorporated by reference to Exhibit 10.1 to the Report on Form 10-Q of the Registrant, file number 1-14037, filed November 14, 2001).
	.5	Amended and Restated 364-Day Credit Agreement, dated as of September 9, 2002, between Moody's Corporation and certain subsidiaries of the Registrant, the lenders party thereto, JP Morgan Chase Bank, as administrative agent, Citibank, N.A., as syndication agent, and The Bank of New York, as documentation agent (incorporated by reference to Exhibit 10.1 to the Report on Form 10-Q of the Registrant, file number 1-14037, filed November 14, 2002).
10	MATERIAL CONTRACTS	
	.1	Distribution Agreement, dated as of September 30, 2000, between the Registrant and The Dun & Bradstreet Corporation (f.k.a. The New D&B Corporation) (incorporated by reference to Exhibit 10.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed October 4, 2000).
	.2	Tax Allocation Agreement, dated as of September 30, 2000, between the Registrant and The Dun & Bradstreet Corporation (f.k.a. The New D&B Corporation) (incorporated by reference to Exhibit 10.2 to the Report on Form 8-K of the Registrant, file number 1-14037, filed October 4, 2000).
	.3	Employee Benefits Agreement, dated as of September 30, 2000, between the Registrant and The Dun & Bradstreet Corporation (f.k.a. The New D&B Corporation) (incorporated by reference to Exhibit 10.3 to the Report on Form 8-K of the Registrant, file number 1-14037, filed October 4, 2000).
	.4	Supplemental Executive Benefit Plan of Moody's Corporation, dated as of September 30, 2000 (incorporated by reference to Exhibit 10.4 to the Report on Form 10-K of the Registrant, file number 1-14037, filed March 22, 2002).

S-K EXHIBIT NUMBER	
.5	Intellectual Property Assignments, dated as of September 1, 2000, between the Registrant and The Dun & Bradstreet Corporation (f.k.a. The New D&B Corporation) (incorporated by reference to Exhibit 10.4 to the Report on Form 8-K of the Registrant, file number 1-14037, filed October 4, 2000).
.6	Pension Benefit Equalization Plan of Moody's Corporation (incorporated by reference to Exhibit 10.9 to Registrant's Quarterly Report on Form 10-Q, file number 1-14037, filed November 14, 2000).
.7	Profit Participation Benefit Equalization Plan of Moody's Corporation (incorporated by reference to Exhibit 10.11 to Registrant's Quarterly Report on Form 10-Q, file number 1-14037, filed November 14, 2000).
.8	The Moody's Corporation Nonfunded Deferred Compensation Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.12 to Registrant's Quarterly Report on Form 10-Q, file number 1-14037, filed November 14, 2000).
.9	1998 Moody's Corporation Replacement Plan for Certain Non-Employee Directors Holding Dun & Bradstreet Corporation Equity-Based Awards (incorporated by reference to Exhibit to Registrant's Quarterly Report on Form 10-Q, file number 1-14037, filed November 14, 2000).
.10	1998 Moody's Corporation Replacement Plan for Certain Employees Holding Dun & Bradstreet Corporation Equity-Based Awards (incorporated by reference to Exhibit 10.14 to Registrant's Quarterly Report on Form 10-Q, file number 1-14037, filed November 14, 2000).
.11	1998 Moody's Corporation Non-Employee Directors' Stock Incentive Plan (as amended on April 23, 2001) (incorporated by reference to Exhibit 10.11 to the Report on Form 10-K of the Registrant, file number 1-14037, filed March 22, 2002).
.12	1998 Moody's Corporation Key Employees' Stock Incentive Plan (incorporated by reference to Exhibit 10.16 to Registrant's Quarterly Report on Form 10-Q, file number 1-14037, filed November 14, 2000).
.13	Moody's Corporation Career Transition Plan (incorporated by reference to Exhibit 10.17 to Registrant's Annual Report on Form 10-K, file number 1-14037, filed March 15, 2001).
.14	Distribution Agreement, dated as of June 30, 1998, between R.H. Donnelley Corporation (f.k.a. The Dun & Bradstreet Corporation) and the Registrant (f.k.a. The New Dun & Bradstreet Corporation) (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q, filed August 14, 1998).
.15	2001 Moody's Corporation Key Employees Stock Incentive Plan (incorporated by reference to Exhibit 10.15 to the Report on Form 10-K of the Registrant, file number 1-14037, filed March 22, 2002).
.16	Tax Allocation Agreement, dated as of June 30, 1998, between R.H. Donnelley Corporation (f.k.a. The Dun & Bradstreet Corporation) and the Registrant (f.k.a. The New Dun & Bradstreet Corporation) (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q, filed August 14, 1998).
.17	Employee Benefits Agreement, dated as of June 30, 1998, between R.H. Donnelley Corporation (f.k.a. The Dun & Bradstreet Corporation) and the Registrant (f.k.a. The New Dun & Bradstreet Corporation) (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q, filed August 14, 1998).
.18	Distribution Agreement, dated as of October 28, 1996, among R.H. Donnelley Corporation (f.k.a. The Dun & Bradstreet Corporation), Cognizant Corporation and ACNielsen Corporation (incorporated by reference to Exhibit 10(x) to the Annual Report on Form 10-K of R.H. Donnelley Corporation (f.k.a. The Dun & Bradstreet Corporation) for the year ended December 31, 1996, file number 1-7155, filed March 27, 1997).
.19	Tax Allocation Agreement, dated as of October 28, 1996, among R.H. Donnelley Corporation (f.k.a. The Dun & Bradstreet Corporation), Cognizant Corporation and ACNielsen Corporation (incorporated by reference to Exhibit 10(y) to the Annual Report on Form 10-K of R.H. Donnelley Corporation (f.k.a. The Dun & Bradstreet Corporation) for the year ended December 31, 1996, file number 1-7155, filed March 27, 1997).
.20	Employee Benefits Agreement, dated as of October 28, 1996, among R.H. Donnelley Corporation (f.k.a. The Dun & Bradstreet Corporation), Cognizant Corporation and ACNielsen Corporation (incorporated by reference to Exhibit 10(z) to the Annual Report on Form 10-K of R.H. Donnelley Corporation (f.k.a. The Dun & Bradstreet Corporation) for the year ended December 31, 1996, file number 1-7155, filed March 27, 1997).

	.21	Indemnity and Joint Defense Agreement, dated as of October 28, 1996, among R.H. Donnelley Corporation (f.k.a. The Dun & Bradstreet Corporation), Cognizant Corporation and ACNielsen Corporation (incorporated by reference to Exhibit 10(aa) to the Annual Report on Form 10-K of R.H. Donnelley Corporation (f.k.a. The Dun & Bradstreet Corporation) for the year ended December 31, 1996, file number 1-7155, filed March 27, 1997).
	.22	Separation Agreement and General Release, dated as of April 10, 2001, between Moody's Investors Service, Inc. and Donald Noe (incorporated by reference to Exhibit 10.1 to the Report on Form 10-Q of the Registrant, file number 1-14037, filed May 15, 2001).
	.23	Separation Agreement and General Release, dated as of April 10, 2001, between Moody's Investors Service, Inc. and Kenneth J. H. Pinkes (incorporated by reference to Exhibit 10.2 to the Report on Form 10-Q of the Registrant, file number 1-14037, filed May 15, 2001).
	.24	Agreement and Plan of Merger and Stock Purchase Agreement, dated as of February 10, 2002, by and among Moody's Corporation, XYZ Acquisition LLC, KMV LLC, KMV Corporation and the principal members of KMV LLC and the shareholders of KMV Corporation identified therein. (incorporated by reference to Exhibit 2.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed February 22, 2002).
	.25*	Note Purchase Agreement, dated as of October 3, 2000, among the Registrant and the purchasers named therein.
	.26*	Form of 7.61% Senior Notes due 2005 (included in Exhibit 10.25 hereto).
21*		SUBSIDIARIES OF THE REGISTRANT List of Active Subsidiaries as of February 28, 2003.
23*		CONSENTS OF EXPERTS AND COUNSEL Consent of PricewaterhouseCoopers LLP.
99		ADDITIONAL EXHIBITS
	1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
	2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

[CONFORMED COPY]

MOODY'S CORPORATION

$300,000,000

7.61% Senior Notes due 2005

NOTE PURCHASE AGREEMENT

Dated as of October 3, 2000

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MOODY'S CORPORATION

99 Church Street
New York, New York 10007

7.61% Senior Notes due 2005

As of October 3, 2000

TO THE PURCHASERS WHOSE NAMES APPEAR IN THE ACCEPTANCE FORM AT THE END HEREOF:

Ladies and Gentlemen:

MOODY'S CORPORATION, a Delaware corporation (the "COMPANY"), agrees with each of the purchasers whose names appear in the acceptance form at the end hereof (each, a "Purchaser" and, collectively, the "Purchasers") as follows:

1.AUTHORIZATION OF NOTES.

The Company will authorize the issue and sale of $300,000,000 aggregate principal amount of its 7.61% Senior Notes due 2005. As used herein, the term "Notes" includes all notes originally issued pursuant to this Agreement and any other notes issued in substitution therefor pursuant to Section 13. The Notes shall be substantially in the form set out in Exhibit 1, with such changes therefrom, if any, as may be approved by each Purchaser and the Company. Certain capitalized terms used in this Agreement are defined in Schedule B; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

Payment of the principal of, Make-Whole Amount (if any) and interest on the Notes shall be guaranteed by the Subsidiary Guarantors as contemplated by
Section 9.6 and as provided in the Subsidiary Guarantees.

2.SALE AND PURCHASE OF NOTES.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at the Closing provided for in Section 3, Notes in the principal amount specified opposite such Purchaser's name in Schedule A at the purchase price of 100% of the principal amount thereof. The Purchasers' obligations hereunder are several and not joint obligations and no Purchaser shall have any liability to any Person for the performance or non-performance of any obligation by any other Purchaser hereunder.

3.CLOSING.

The sale and purchase of the Notes to be purchased by each Purchaser shall occur at the offices of Milbank, Tweed, Hadley & McCloy LLP, One Chase Manhattan Plaza, New York, New York 10005, at 10:00 a.m., New York City time, at a closing (the "Closing") on October 3, 2000. At the Closing the Company will deliver to each Purchaser the Notes to be purchased by such Purchaser in the form of a single Note (or such greater number of Notes in denominations of at least $100,000 as such Purchaser may request) dated the date of the Closing and registered in such Purchaser's name (or in the name of such Purchaser's nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for the account of Moody's Corporation to account number 323233244 at The Chase Manhattan Bank in New York, New York, ABA #021-000-021. If at the Closing the Company shall fail to tender such Notes to any Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to such Purchaser's satisfaction, such Purchaser shall, at such Purchaser's election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure or such nonfulfillment.

4.CONDITIONS TO CLOSING.

Each Purchaser's obligation to purchase and pay for the Notes to be sold to such Purchaser at the Closing is subject to the fulfillment to such Purchaser's satisfaction, prior to or at the Closing, of the following conditions:

4.1 REPRESENTATIONS AND WARRANTIES.

The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

4.2 PERFORMANCE; NO DEFAULT.

The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or at the Closing and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof as contemplated by Schedule 5.14) no Default or Event of Default shall have occurred and be continuing.

4.3 COMPLIANCE CERTIFICATES.

(a) Officer's Certificate. The Company shall have delivered to such Purchaser an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Sections 4.1, 4.2, 4.9 and 4.10 have been fulfilled.

(b) Secretary's Certificate. The Company shall have delivered to such Purchaser a certificate, dated the date of Closing, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this Agreement.

4.4 OPINIONS OF COUNSEL.

Such Purchaser shall have received opinions in form and substance satisfactory to such Purchaser, dated the date of the Closing (a) from Simpson Thacher & Bartlett, special counsel for the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as such Purchaser or the Purchasers' counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers) and (b) from Milbank, Tweed, Hadley & McCloy LLP, the Purchasers' special New York counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(b) and covering such other matters incident to such transactions as such Purchaser may reasonably request.

4.5 PURCHASE PERMITTED BY APPLICABLE LAW, ETC.

On the date of the Closing such Purchaser's purchase of Notes shall (i) be permitted by the laws and regulations of each jurisdiction to which such Purchaser is subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment,
(ii) not violate any applicable law or regulation (including, without limitation, Regulation U, T or X of the Board of Governors of the Federal Reserve System) and (iii) not subject such Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by such Purchaser, such Purchaser shall have received an Officer's Certificate from the Company certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

4.6 SALE OF OTHER NOTES.

Contemporaneously with the Closing the Company shall sell to each other Purchaser and each other Purchaser shall purchase the Notes to be purchased by it at the Closing as specified in Schedule A.

4.7 PAYMENT OF SPECIAL COUNSEL FEES.

Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Closing the fees, charges and disbursements of the Purchasers' special counsel referred to in Section 4.4(b) to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

4.8 PRIVATE PLACEMENT NUMBER.

A Private Placement number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained.

4.9 CHANGES IN CORPORATE STRUCTURE.

Except as specified in Schedule 4.9, the Company shall not have changed its jurisdiction of incorporation or been a party to any merger or consolidation and shall not have succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

4.10 SPIN-OFF.

The Spin-Off shall have occurred.

4.11 PROCEEDINGS AND DOCUMENTS.

All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to such Purchaser and the Purchasers' special counsel, and such Purchaser and such special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such special counsel may reasonably request.

5.REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to each Purchaser that:

5.1 ORGANIZATION; POWER AND AUTHORITY.

The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and the Notes and to perform the provisions hereof and thereof.

5.2 AUTHORIZATION, ETC.

This Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Company, and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

5.3 DISCLOSURE.

The Company, through its co-agents, Salomon Smith Barney Inc. and The Bank of New York, has delivered to each Purchaser a copy of an Offering Placement Memorandum, dated August 2000 (the "MEMORANDUM"), relating to the transactions contemplated hereby. Except as disclosed in Schedule 5.3, this Agreement, the Memorandum, the documents, certificates or other writings identified in Schedule 5.3 and the financial statements listed in Schedule 5.5, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Except for the Spin-Off and as disclosed in the Memorandum or as expressly described in Schedule 5.3, or in one of the documents, certificates or other writings identified therein, or in the financial statements listed in Schedule 5.5, since December 31, 1999, there has been no change in the financial condition, operations, business or properties of the Company or any of its Subsidiaries except changes that individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect.

5.4 ORGANIZATION AND OWNERSHIP OF SHARES OF SUBSIDIARIES.

(a) Schedule 5.4 is (except as noted therein) a complete and correct list of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary, and whether, as of the date of the Closing, such Subsidiary shall be a Subsidiary Guarantor.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien (except as otherwise disclosed in Schedule 5.4).

(c) Each Subsidiary identified in Schedule 5.4 is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

5.5 FINANCIAL STATEMENTS.

The Company has delivered to each Purchaser copies of the combined financial statements of the Company listed on Schedule 5.5. All of said financial statements fairly present in all material respects the combined financial position of the Company as of the respective dates thereof and the combined results of its operations and cash flows for the respective periods so specified in conformity with GAAP (subject, in the case of any interim financial statements, to normal year-end adjustments).

5.6 COMPLIANCE WITH LAWS, OTHER INSTRUMENTS, ETC.

The execution, delivery and performance by the Company of this Agreement and the Notes will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other Material agreement or instrument to which the Company or any Subsidiary is bound or by which the Company or any Subsidiary or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary.

5.7 GOVERNMENTAL AUTHORIZATIONS, ETC.

No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes.

5.8 LITIGATION; OBSERVANCE OF STATUTES AND ORDERS.

(a) Except as disclosed in Schedule 5.8, there are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws) of any Governmental Authority, which default or violation, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

5.9 TAXES.

The Company and its Subsidiaries have filed all income tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP.

5.10 TITLE TO PROPERTY; LEASES.

The Company and its Subsidiaries have good and sufficient title to their respective Material properties, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement, except for those defects in title and Liens that, individually or in the aggregate, would not have a Material Adverse Effect. All leases that the Company or any Subsidiary is party to as lessee and that individually or in the aggregate are Material are valid and subsisting and are in full force and effect in all material respects.

5.11 LICENSES, PERMITS, ETC.

Except as disclosed in Schedule 5.11, the Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, that are Material, without known conflict with the rights of others, except for those conflicts that, individually or in the aggregate, would not have a Material Adverse Effect.

5.12 COMPLIANCE WITH ERISA.

(a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in Section 3 of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to Section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities. The term "benefit liabilities" has the meaning specified in section 4001 of ERISA and the terms "current value" and "present value" have the meaning specified in section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of the Purchasers' representation in Section 6.2 as to the sources of the funds to be used to pay the purchase price of the Notes to be purchased by the Purchasers.

5.13 PRIVATE OFFERING BY THE COMPANY.

Neither the Company nor anyone acting on its behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any person other than the Purchasers and not more than 80 other Institutional Investors, each of which has been offered the Notes at a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act.

5.14 USE OF PROCEEDS; MARGIN REGULATIONS.

The Company will apply the proceeds of the sale of the Notes as set forth in Schedule 5.14. No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 5% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 5% of the value of such assets. As used in this Section, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

5.15 EXISTING INDEBTEDNESS.

Except as described therein, Schedule 5.15 sets forth a complete and correct list of all outstanding Indebtedness of the Company and its Subsidiaries as of October 2, 2000, since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Indebtedness of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness of the Company or such

Subsidiary and no event or condition exists with respect to any Indebtedness of the Company or any Subsidiary the outstanding principal amount of which exceeds $5,000,000 that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

5.16 FOREIGN ASSETS CONTROL REGULATIONS, ETC.

Neither the sale of the Notes by the Company hereunder nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

5.17 STATUS UNDER CERTAIN STATUTES.

Neither the Company nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 1935, as amended, the Interstate Commerce Act, as amended, or the Federal Power Act, as amended.

6.REPRESENTATIONS OF THE PURCHASER.

6.1 PURCHASE FOR INVESTMENT.

Each Purchaser represents that such Purchaser is purchasing the Notes for its own account or for one or more separate accounts maintained by it or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of such Purchaser's or their property shall at all times be within such Purchaser's or their control. Each Purchaser understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

6.2 SOURCE OF FUNDS.

Each Purchaser represents that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by such Purchaser to pay the purchase price of the Notes to be purchased by such Purchaser hereunder:

(a) the Source is an "insurance company general account" (as the term is defined in PTE 95-60 (issued July 12, 1995)) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the "NAIC Annual Statement")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 (issued January 29, 1990), or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 (issued July 12, 1991) and, except as disclosed by such Purchaser to the Company in writing pursuant to this paragraph (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of
Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this paragraph (d); or

(e) the Source constitutes assets of a "plan(s)" (within the meaning of
Section IV of PTE 96-23 (the "INHAM Exemption")) managed by an "in-house asset manager" or "INHAM" (within the meaning of Part IV of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of "control" in Section IV(h) of the INHAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this paragraph (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this paragraph (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.2, the terms "employee benefit plan", "governmental plan", and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

7.INFORMATION AS TO COMPANY.

7.1 FINANCIAL AND BUSINESS INFORMATION.

The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) Quarterly Statements - within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of,

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of operations, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, provided that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) Annual Statements - within 120 days after the end of each fiscal year of the Company, duplicate copies of;

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of operations, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, provided that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) SEC and Other Reports -- upon the request of any such holder after being notified by the Company of any of the following (and the Company hereby agrees to promptly notify each holder of a Note of any of the following), one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement that shall have become effective (without exhibits except as expressly requested by such holder), and each final prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission;

(d) Notice of Default or Event of Default -- promptly, and in any event within five days after a Responsible Officer becoming aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) ERISA Matters -- promptly, and in any event within five days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(b) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, would reasonably be expected to have a Material Adverse Effect; and

(f) Requested Information -- with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes.

7.2 OFFICER'S CERTIFICATE.

Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1 (a) or Section 7.1(b) hereof shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) Covenant Compliance -- the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 10.3 through Section 10.7 hereof, inclusive, as of the end of the quarterly or annual period covered by the statements then being furnished and as of any other applicable dates of determination (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

(b) Event of Default -- a statement that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

7.3 INSPECTION.

The Company shall permit the representatives of each holder of Notes that is an Institutional Investor.

(a) No Default -- if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and, with the consent of the

Company (which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) Default -- if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

8.PREPAYMENT OF THE NOTES.

8.1 MATURITY.

As provided therein, the entire unpaid principal amount of the Notes shall be due and payable on September 30, 2005.

8.2 OPTIONAL PREPAYMENTS WITH MAKE-WHOLE AMOUNT.

The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in an amount not less than 10% of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each holder of Notes written notice of each optional prepayment under this Section 8.2 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with Section 8.3), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

8.3 ALLOCATION OF PARTIAL PREPAYMENTS.

In the case of each partial prepayment of the Notes, the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

8.4 MATURITY; SURRENDER, ETC.

In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

8.5 PURCHASE OF NOTES.

The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except (a) upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes or (b) pursuant to an offer to purchase made by the Company or an Affiliate pro rata to the holders of all Notes at the time outstanding upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least twenty Business Days. If the holders of more than 50% of the principal amount of the Notes then outstanding accept such offer, the Company shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of Notes of such offer shall be extended by the number of days necessary to give each such remaining holder at least five Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

8.6 MAKE-WHOLE AMOUNT.

The term "MAKE-WHOLE AMOUNT" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"CALLED PRINCIPAL" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"DISCOUNTED VALUE" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"REINVESTMENT YIELD" means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as Bloomberg Financial Markets "Page PX1" (or such other display as may replace Bloomberg Financial Markets "Page PX1") for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in U.S. Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded "on the run" U.S. Treasury security with the maturity closest to and greater than the Remaining Average Life and (2) the actively traded "on the run" U.S. Treasury security with the maturity closest to and less than the Remaining Average Life.

"REMAINING AVERAGE LIFE" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"REMAINING SCHEDULED PAYMENTS" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2 or 12.1.

"SETTLEMENT DATE" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

9.AFFIRMATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

9.1 COMPLIANCE WITH LAW.

The Company will and will cause each of its Subsidiaries to comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations would not reasonably be expected, individually or in the aggregate, to have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Company and its Subsidiaries taken as a whole.

9.2 INSURANCE.

The Company will and will cause each of its Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

9.3 MAINTENANCE OF PROPERTIES.

The Company will and will cause each of its Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent the Company or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance would not, individually or in the aggregate, have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Company and its Subsidiaries taken as a whole.

9.4 PAYMENT OF TAXES.

The Company will and will cause each of its Subsidiaries to file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies payable by any of them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, provided that neither the Company nor any Subsidiary need pay any such tax or assessment if (i) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (ii) the nonpayment of all such taxes and assessments in the aggregate would not reasonably be expected to have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Company and its Subsidiaries taken as a whole.

9.5 CORPORATE EXISTENCE, ETC.

Subject to Section 10.2, the Company will at all times preserve and keep in full force and effect its corporate existence, and the Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect the corporate existence of any Subsidiary or any such right or franchise would not, individually or in the aggregate, have a materially adverse effect on the business, operations, affairs, financial condition, properties or assets of the Company and its Subsidiaries taken as a whole.

9.6 SUBSIDIARY GUARANTORS.

(a) The Company will ensure that each Subsidiary that as of the date of Closing or at any time thereafter has outstanding any Indebtedness under, or any a Guaranty with respect to any Indebtedness of the Company or any of its Subsidiaries outstanding under, the Credit Facility (or is otherwise a co-obligor or jointly liable with respect to any such Indebtedness) is or will become a Subsidiary Guarantor.

(b) Upon notice by the Company to each holder of a Note (which notice shall contain a certification by the Company as to the matters specified in clauses (x) and (y) below), a Subsidiary Guarantor shall cease to be a Subsidiary Guarantor and shall be released from its obligations under its Subsidiary Guarantee if (x) such Subsidiary Guarantor shall not have outstanding any Indebtedness under, or any Guaranty with respect to any Indebtedness of the Company or any of its Subsidiaries outstanding under, the Credit Facility (and shall not otherwise be a co-obligor or jointly liable with respect to any such other Indebtedness) and (y) both immediately before and after giving effect to such release no Default or Event of Default shall have occurred and be continuing. If a Subsidiary again incurs any Indebtedness under, or guarantees any Indebtedness of the Company or any of its Subsidiaries outstanding under, the Credit Facility (or otherwise becomes a co-obligor or jointly liable with respect to any such Indebtedness), then the Company will cause such Subsidiary to become a Subsidiary Guarantor in accordance with the provisions of Subsection
(a) above.

10.NEGATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

10.1 TRANSACTIONS WITH AFFILIATES.

The Company will not and will not permit any Subsidiary to enter into directly or indirectly any Material transaction or Material group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except pursuant to the reasonable requirements of the Company's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate.

10.2 MERGER, CONSOLIDATION, ETC.

The Company shall not consolidate with or merge with any other corporation or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to any Person unless:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease substantially all of the assets of the Company, as the case may be, shall be a solvent corporation organized and existing under the laws of the United States or any State thereof (including the District of Columbia), and, if the Company is not such corporation, such corporation shall have executed and delivered to each holder of any Notes its assumption of the due and punctual performance and observance of each covenant and condition of this Agreement and the Notes; and

(b) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing (including, without limitation, any Default or Event of Default of
Section 10.6 or 10.7 as the provisions of such sections shall be calculated on a pro forma basis as of the date of such transaction).

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation that shall theretofore have become such in the manner prescribed in this Section 10.2 from its liability under this Agreement or the Notes.

10.3 DISPOSITION OF ASSETS.

The Company will not and will not permit any Subsidiary to, directly or indirectly, make any sale, transfer, lease (as lessor), loan or other disposition of any property or assets (an "Asset Sale") other than:

(a) Asset Sales in the ordinary course of business;

(b) Asset Sales by a Subsidiary to the Company or to a Wholly-Owned Subsidiary;

(c) Non-Recourse Asset Sales of accounts receivable of the Company or any Subsidiary on commercially reasonable terms for cash or other highly liquid investments; and

(d) other Asset Sales, provided that

(i) immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing, and

(ii) the aggregate net book value of property or assets disposed of in such proposed Asset Sale and all other Asset Sales not permitted by clause (a), (b) or (c) above during the preceding 36 consecutive calendar months does not exceed 30% of the average of Consolidated Total Assets, calculated using figures as of the last day of the twelve most recently ended quarterly fiscal periods; and, provided further, that for purposes of this clause (ii), there shall be excluded from the calculation of the aggregate net book value of property or assets disposed of during any 36 month period any Asset Sale if and to the extent that an amount equal to the net proceeds realized upon such Asset Sale is applied or has been applied by the Company or such Subsidiary, as the case may be, (A) within one years time before or after the effective date of such Asset Sale (but in all events, without duplication), (1) to reinvest in assets used in the business of the Company or its Subsidiaries or (2) to purchase the capital stock of any Person that, as a result of such capital stock purchase, becomes a Subsidiary or (B) within 180 days after the effective date of such Asset Sale, to repay long-term Indebtedness (including any optional prepayment of the Notes pursuant to Section 8.2) which is not subordinated in right of payment to the Notes.

For purposes of this Section 10.3, any stock of a Subsidiary that is the subject of an Asset Sale shall be valued at the aggregate net book value of the assets of such Subsidiary multiplied by a fraction, the numerator of which is the aggregate number of shares of stock of such Subsidiary disposed of in such Asset Sale and the denominator of which is the aggregate number of shares of stock of such Subsidiary outstanding immediately prior to such Asset Sale.

10.4 LIMITATION ON LIENS.

The Company will not and will not permit any Subsidiary to create, assume, incur or suffer to exist any Lien upon or with respect to any property, whether now owned or hereafter acquired, securing any Indebtedness or other obligation, provided that nothing in this covenant shall prohibit:

(a) Liens in respect of property of the Company or any Subsidiary existing on the date of this Agreement and described in Schedule 5.15;

(b) Liens in respect of the acquisition of property as follows:

(i) Liens covering property acquired by the Company or any Subsidiary, which Liens are created at the time of such acquisition or within 180 days thereafter, to secure Indebtedness assumed or incurred to finance all or any part of the purchase price of such property, provided that the aggregate principal amount of Indebtedness secured by all such Liens shall not exceed the cost of such property and any improvements then being financed;

(ii) in the case of any Person that after the date of this Agreement becomes a Subsidiary or is consolidated with or merged with or into the Company or any Subsidiary or sells, leases or otherwise disposes of all or substantially all of its property to the Company or such Subsidiary, Liens existing at the time such

Person becomes a Subsidiary or is so consolidated or merged or effects such sale, lease or other disposition of property (and not incurred in anticipation thereof); or

(iii) in the case of any property acquired by the Company or any Subsidiary after the date of this Agreement, Liens existing on such property at the time of acquisition thereof (and not incurred in anticipation thereof), whether or not the Indebtedness secured thereby is assumed by the Company or such Subsidiary;

provided that in any such case no such Lien shall extend to or cover any other property of the Company or such Subsidiary, as the case may be;

(c) Liens created by a Subsidiary in favor of the Company securing Indebtedness owed by such Subsidiary to the Company;

(d) Liens on property sold or transferred pursuant to a Sale and Leaseback Transaction permitted under Section 10.5;

(e) Liens resulting from any judgment rendered by a court of competent jurisdiction, the appeal of which the Company or a Subsidiary is prosecuting on a timely basis in good faith by appropriate proceedings and for which the Company or a Subsidiary, as applicable, has established adequate reserves on its books in accordance with GAAP;

(f) Liens for taxes or other governmental charges or levies not yet due and payable;

(g) Liens arising by operation of law in the ordinary course of business of the Company and its Subsidiaries, which Liens secure obligations (other than Indebtedness) not more than 60 days overdue, including, without limitation, landlords' liens and statutory liens of carriers, warehousemen, mechanics, materialmen and vendors;

(h) Liens incurred or deposits made in the ordinary course of business of the Company and its Subsidiaries (i) in connection with workers' compensation, unemployment insurance and other types of social security or (ii) to secure (or obtain letters of credit that secure) surety and appeal bonds, the performance of tenders, statutory obligations, bids, leases, performance bonds, purchase contracts and other similar obligations;

(i) minor encumbrances, covenants, easements or reservations for rights-of way, utilities and other similar purposes, or zoning and other restrictions as to the use of real properties, any and all of which are necessary for the conduct of the activities of the Company and its Subsidiaries or which customarily exist on properties of companies engaged in similar activities and similarly situated and which do not in any event materially impair the use or diminish the value of any of such properties as used in the operation of the business of the Company and its Subsidiaries;

(j) Liens not otherwise permitted by clauses (a) through (i) above to secure Indebtedness of the Company or any of its Subsidiaries, provided that, immediately after giving effect thereto, the sum (without duplication) of:

(1) the aggregate amount of Indebtedness of the Company and its Subsidiaries secured by Liens pursuant to this clause (j), including (without duplication) all renewals, extensions and replacements thereof permitted by clause (k) below; and

(2) the aggregate unpaid principal amount of Attributable Debt of the Company and its Subsidiaries related to all Sale and Leaseback Transactions entered into after the date of Closing in accordance with the provisions of Section 10.5,

(3) shall not exceed 25% of Permitted Indebtedness; and

(k) Liens renewing, extending or replacing any Lien permitted under clauses (a) through (j) above, provided that,

(1) the principal amount of Indebtedness secured by any such Lien at the time of such renewal, extension or replacement is not increased; and

(2) any such renewed, extended or replaced Lien shall only extend to that property which was the subject of such Lien immediately prior to such renewal, extension or replacement.

10.5 LIMITATION ON SALE AND LEASEBACK TRANSACTIONS.

The Company will not and will not permit any Subsidiary to, directly or indirectly, make any sale, transfer, lease, loan or other disposition of any asset on terms whereby the asset owned at the time of such sale, transfer, lease, loan or other disposition is then or thereafter leased by the Company or any such Subsidiary (as lessee) (a "SALE AND LEASEBACK TRANSACTION"), unless after giving effect to such Sale and Leaseback Transaction the sum (without duplication) of:

(a) the aggregate principal amount of Indebtedness of the Company and its Subsidiaries secured by all Liens permitted by Section 10.4(j); plus

(b) the aggregate unpaid principal amount of Attributable Debt of the Company and its Subsidiaries related to all Sale and Leaseback Transactions entered into after the date of Closing in accordance with the provisions of this Section 10.5,

shall not exceed 25% of Permitted Indebtedness.

10.6 TOTAL INDEBTEDNESS TO EBITDA RATIO.

The Total Indebtedness to EBITDA Ratio shall not exceed 4.0 to 1.0 as measured at the end of any period of four consecutive fiscal quarters.

10.7 INTEREST COVERAGE RATIO.

The Interest Coverage Ratio shall not be less than 3.0 to 1.0 as measured at the end of any period of four consecutive fiscal quarters.

11.EVENTS OF DEFAULT.

An "EVENT OF DEFAULT" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in (1) Section 10.2 or (2) Sections 10.1 or 10.3 through 10.7, inclusive, and such default under this sub-clause
(2) is not remedied within 10 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (c) of Section 11); or

(d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (d) of Section 11); or

(e) any representation or warranty made in writing by or on behalf of the Company or any Subsidiary Guarantor or by any officer of the Company or any Subsidiary Guarantor in this Agreement or in any Subsidiary Guarantee or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Significant Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least $25,000,000 beyond any period of grace provided with respect thereto, or (ii) the Company or any Significant Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least $25,000,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared due and payable before its stated maturity or before its regularly scheduled dates of payment; or

(g) the Company or any Significant Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or governmental authority of competent jurisdiction enters an order appointing, without consent by the Company or any of its Significant Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any of its Significant Subsidiaries, or any such petition shall be filed against the Company or any of its Significant Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money aggregating in excess of $10,000,000 are rendered against one or more of the Company and its Significant Subsidiaries and which judgments are not, within 60 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; or

(j) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed $25,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder, and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, would reasonably be expected to have a Material Adverse Effect; or

(k) any Subsidiary Guarantee shall cease to be in full force and effect (other than as contemplated by Section 9.6(b)) or any Subsidiary Guarantor or any Person acting on behalf of any Subsidiary Guarantor shall contest in any manner the validity, binding nature or enforceability of any Subsidiary Guarantee.

As used in Section 11(j), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

12.REMEDIES ON DEFAULT, ETC.

12.1 ACCELERATION.

(a) If an Event of Default with respect to the Company described in paragraph (g) or (h) of Section 11 (other than an Event of Default described in clause (i) of paragraph (g) or described in clause (vi) of paragraph (g) by virtue of the fact that such clause encompasses clause (i) of paragraph (g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, the Required Holders may at any time at their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in paragraph (a) or (b) of Section 11 has occurred and is continuing, any holder or holders of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by it or them to be immediately due and payable.

Upon any Notes becoming due and payable under this Section 12.1, whether automatically or by declaration, such Notes will forthwith mature and the entire unpaid principal amount of such Notes, plus (x) all accrued and unpaid interest thereon and (y) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for) and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

12.2 OTHER REMEDIES.

If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

12.3 RESCISSION.

At any time after any Notes have been declared due and payable pursuant to clause (b) or (c) of Section 12.1, the Required Holders, by written notice to the Company, may rescind and annul any such declaration and its consequences if
(a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

12.4 NO WAIVERS OR ELECTION OF REMEDIES, EXPENSES, ETC.

No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof or by any Subsidiary Guarantee shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

13.REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

13.1 REGISTRATION OF NOTES.

The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

13.2 TRANSFER AND EXCHANGE OF NOTES.

Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or his attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of Exhibit 1. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than $100,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than $100,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representation set forth in Section 6.2.

13.3 REPLACEMENT OF NOTES.

Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original Purchaser or another holder of a Note with a minimum net worth of at least $10,000,000 in excess of the outstanding principal amount of such Note, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

the Company at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

14.PAYMENTS ON NOTES.

14.1 PLACE OF PAYMENT.

Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in New York, New York at the principal office of The Chase Manhattan Bank in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

14.2 HOME OFFICE PAYMENT.

So long as any Purchaser or any nominee of such Purchaser shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below such Purchaser's name in Schedule A, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Purchaser shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section
14.1 Prior to any sale or other disposition of any Note held by any Purchaser or any nominee of such Purchaser, such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a new Note or Notes pursuant to Section 13.2. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by any Purchaser under this Agreement and that has made the same agreement relating to such Note as the Purchasers have made in this Section 14.2.

15.EXPENSES, ETC.

15.1 TRANSACTION EXPENSES.

Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required, local or other counsel) incurred by the Purchasers and each other holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement, the Notes or any Subsidiary Guarantee (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement, the Notes or any Subsidiary Guarantee or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement, the Notes or any Subsidiary Guarantee, or by reason of being a holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes. The Company will pay, and will save each Purchaser and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses if any, of brokers and finders (other than those retained by such Purchaser or other holder).

15.2 SURVIVAL.

The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by each Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of any Purchaser or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between the Purchasers and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

17.AMENDMENT AND WAIVER.

17.1 REQUIREMENTS.

This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 21 hereof, or any defined term (as it is used therein), will be effective as to any Purchaser unless consented to by such Purchaser in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of Sections 8,11(a),11(b),12,17 or 20.

17.2 SOLICITATION OF HOLDERS OF NOTES.

(a) Solicitation. The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes or any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to each holder of Notes then outstanding even if such holder did not consent to such waiver or amendment.

17.3 BINDING EFFECT, ETC.

Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

17.4 NOTES HELD BY COMPANY, ETC.

Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

18.NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to any Purchaser or its nominee, to such Purchaser or nominee at the address specified for such communications in Schedule A, or at such other address as such Purchaser or nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of Jeanne Dering, with a copy to Felix Sotomayor, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

19.REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Purchaser at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to any Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This
Section 19 shall not prohibit the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

20.CONFIDENTIAL INFORMATION.

For the purposes of this Section 20, "Confidential Information" means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or
(d) constitutes financial statements delivered to such Purchaser under Section 7.1 that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (i) such Purchaser's directors, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by such Purchaser's Notes), (ii) such Purchaser's financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which such Purchaser sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such

Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which such Purchaser offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over such Purchaser, (vii) the National Association of Insurance Commissioners or any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Purchaser's Notes or this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this
Section 20.

21.SUBSTITUTION OF PURCHASER.

Each Purchaser shall have the right to substitute any one of such Purchaser's Affiliates as the purchaser of the Notes that such Purchaser has agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both such Purchaser and such Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, any reference to such Purchaser in this Agreement (other than in this Section 21) shall be deemed to refer to such Affiliate in lieu of such original Purchaser. In the event that such Affiliate is so substituted as a purchaser hereunder and such Affiliate thereafter transfers to such original Purchaser all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, any reference to such Affiliate as a "Purchaser" in this Agreement (other than in this Section 21) shall no longer be deemed to refer to such Affiliate, but shall refer to such original Purchaser, and such original Purchaser shall again have all the rights of an original holder of the Notes under this Agreement.

22.MISCELLANEOUS.

22.1 SUCCESSORS AND ASSIGNS.

All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not.

22.2 PAYMENTS DUE ON NON-BUSINESS DAYS.

Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or Make-whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

22.3 SEVERABILITY.

Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

22.4 CONSTRUCTION.

Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

22.5 COUNTERPARTS.

This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

22.6 GOVERNING LAW.

This Agreement shall be governed by, and construed and interpreted in accordance with, the law of the State of New York.

* * * * *

If you are in agreement with the foregoing, please sign the form of agreement on the accompanying counterpart of this Agreement and return it to the Company, whereupon the foregoing shall become a binding agreement between you and the Company.

Very truly yours,

MOODY'S CORPORATION

By: /s/ John J. Goggins
Title: Senior Vice President and General Counsel

The foregoing is hereby
agreed to as of the
date thereof.

AUTO CLUB INSURANCE ASSOCIATION

By: /s/ David L. Moore, Jr.
Title: Director, Investment Management

ALLSTATE LIFE INSURANCE COMPANY

By: /s/ Robert B. Bodett
Title: Authorized Signatory

By: /s/ Patricia W. Wilson
Title: Authorized Signatory

AMERITAS LIFE INSURANCE CORP.

By: Ameritas Investment Advisors, Inc., as Agent

By: Patrick J. Henry
Title: Vice President - Fixed Income Securities

The foregoing is hereby
agreed to as of the
date thereof.

FIRST AMERITAS LIFE INSURANCE CORP. OF NEW YORK

By: Ameritas Investment Advisors, Inc., as Agent

By: /s/ Patrick J. Henry
Title: Vice President - Fixed Income Securities

AMERICAN INVESTORS LIFE INSURANCE COMPANY

By: /s/ Roger D. Fors
Title: V.P. Investment Management & Research

AMERUS LIFE INSURANCE COMPANY

By: /s/ Roger D. Fors
Title: V.P. Investment Management & Research

THE CANADA LIFE ASSURANCE COMPANY

By: /s/ C. Paul English
Title: Associate Treasurer.

LUTHERAN BROTHERHOOD

By: /s/ Mark O. Swenson
Title: Vice President

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY

By: David L. Babson & Company, Inc. its Investment Advisor

By: /s/ Richard E. Spencer, II
Title: Managing Director

The foregoing is hereby
agreed to as of the date thereof.

C.M. LIFE INSURANCE COMPANY

By: David L. Babson & Company, Inc. its investment Advisor

By: /s/ Richard E. Spencer, II
Title: Managing Director

MONY LIFE INSURANCE COMPANY OF AMERICA

By: /s/ William D. Goodwin
Title: Senior Managing Director

MONY LIFE INSURANCE COMPANY

By: /s/ William D. Goodwin
Title: Senior Managing Director

FIDELITY & GUARANTY LIFE INSURANCE CO.

By: /s/ Michael J. Stafford, Jr.
Title: CIO, MWIG

NATIONWIDE LIFE INSURANCE COMPANY

By: /s/ Mark W. Poeppelman
Title: Associate Vice President

NATIONWIDE LIFE AND ANNUITY INSURANCE COMPANY

By: /s/ Mark W. Poeppelman
Title: Associate Vice President

The foregoing is hereby agreed to as of the date thereof.

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION

By its Investment Manager, NEW YORK LIFE INVESTMENT MANAGEMENT LLC

By: /s/ David L Bangs
Title: Managing Director

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION INSTITUTIONALLY OWNED LIFE INSURANCE SEPARATE ACCOUNT

By its Investment Manager, NEW YORK LIFE INVESTMENT MANAGEMENT LLC

By: /s/ David L. Bangs
Title: Managing Director

THE NORTHWESTERM MUTUAL LIFE INSURANCE COMPANY

By: /s/ A. Kipp Koester
Title: Its Authorized Representative

THE NORTHWESTERM MUTUAL LIFE INSURANCE COMPANY

FOR ITS GROUP ANNUITY SEPARATE ACCOUNT

By: /s/ A. Kipp Koester
Title: Its Authorized Representative

TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA

By: /s/ John C. Litchfield, Jr.
Title: Managing Director

The foregoing is hereby agreed to as of the date thereof.

TIAA-CREF LIFE INSURANCE COMPANY

By: Teachers Insurance and Annuity
Association of America, as Investment Advisor

By: /s/ John C. Litchfield, Jr.
Title: Managing Director

UNITED LIFE INSURANCE COMPANY

By: /s/ Samuel E. Hague
Title: Executive Vice President and Treasurer

AID ASSOCIATION FOR LUTHERANS

By: /s/ Reginald L. Pfeifer
Title: Vice President

By: /s/ R. Jerry Scheel
Title: Second Vice President - Securities

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

By: /s/ Wayne T. Hoffmann
Title: Vice President - Investments

By: /s/ James C. Lowery
Title: Assistant Vice President - Investments

LONDON LIFE INSURANCE COMPANY

By: /s/ B.R. Allison
Title: Authorized Signatory

By: /s/ P.G. Munro
Title: Executive Vice President
Chief Investment Officer

The foregoing is hereby
agreed to as of the date thereof.

METROPOLITAN LIFE INSURANCE COMPANY

By: /s/ Jacqueline D. Jenkins
Title: Managing Director

GE LIFE AND ANNUITY ASSURANCE COMPANY

By: /s/ Morian C. Mooers
Title: Investment Officer

PHYSICIANS MUTUAL INSURANCE COMPANY

By: /s/ Kathy Lange
Title: Authorized Signatory

ERC - AAM PRIVATES ONLY

By: /s/ Kathy Lange
Title: Authorized Signatory

GE REINSURANCE AAM - PRIVATES ONLY

By: /s/ Kathy Lange
Title: Authorized Signatory

MEDICAL PROTECTIVE AAM

By: /s/ Kathy Lange
Title: Authorized Signatory

KANAWHA INSURANCE COMPANY

By: /s/ Kathy Lange
Title: Authorized Signatory

The foregoing is hereby agreed to as of the date thereof.

CENTRAL RE CORP. PHOENIX

By: /s/ Kathy Lange
Title: Authorized Signatory

MICHIGAN MUTUAL

By: /s/ R.C. Saranen
Title: V.P. - Investments

THE TRAVELERS INSURANCE COMPANY

By: /s/ Jordan M. Stitzer
Title: Vice President

SCHEDULE B

DEFINED TERMS

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"AFFILIATE" means, at any time, and with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person. As used in this definition, "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Company.

"ASSET SALE" is defined in Section 10.3.

"ATTRIBUTABLE DEBT" means, as to any particular lease relating to a Sale and Leaseback Transaction, the total amount of rent (discounted semiannually from the respective due dates thereof at the interest rate implicit in such lease) required to be paid by the lessee under such lease during the remaining term thereof. The amount of rent required to be paid under any such lease for any such period shall be (a) the total amount of rent payable by the lessee with respect to such period after excluding amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, utilities, operating and labor costs and similar charges plus (b) without duplication, any guaranteed residual value in respect of such lease to the extent such guaranty would be included in Indebtedness in accordance with GAAP.

"BUSINESS DAY" means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

"CAPITAL LEASE" means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"CLOSING" is defined in Section 3.

"CODE" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"COMPANY" means Moody's Corporation, a Delaware corporation, or any successor thereto that shall have become such in the manner prescribed in
Section 10.2.

"CONFIDENTIAL INFORMATION" is defined in Section 20.

"CONSOLIDATED NET INCOME" means, for any period, the net income (or loss) of the Company and its Subsidiaries for such period, as determined on a consolidated basis in accordance with GAAP, but excluding:

(a) any net income of any Person if such Person is not a Subsidiary, except that equity in the net income of any such Person for such period shall be included in Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person as a dividend or other distribution (subject, in the case of a dividend or other distribution to a Subsidiary, to the limitation contained in clause (c) below);

(b) any net income of any Person acquired in a pooling of interests transaction for any period prior to the date of such acquisition;

(c) any net income of any Subsidiary if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Subsidiary, directly or indirectly, to the Company, except that equity in the net income of any such Subsidiary for such period shall be included in Consolidated Net Income up to the aggregate amount of cash actually distributed by such Subsidiary during such period as a dividend or other distribution (subject, in the case of a dividend or other distribution to another Subsidiary, to the limitation contained in this clause (c));

(d) any gain or loss realized upon the sale or other disposition of any property, plant or equipment (including pursuant to any sale-leaseback arrangement) which is not sold or otherwise disposed of in the ordinary course of business and any gain or loss realized upon the sale or other disposition of any capital stock of any Person; and

(e) other extraordinary items, as determined in accordance with GAAP.

"CONSOLIDATED TOTAL ASSETS" means, for any period, the total book value of the assets of the Company and its Subsidiaries (including goodwill, patents, trademarks, trade names, organization expense, unamortized debt discount and expense and other like intangibles), less reserves applicable thereto, all determined on a consolidated basis in accordance with GAAP.

"CREDIT FACILITY" means either the Five-Year Credit Agreement or the 364-Day Credit Agreement, each dated as of September 11, 2000 and each among the Company, certain Subsidiaries party thereto, the lenders party thereto, The Chase Manhattan Bank, as Administrative Agent, Citibank, N.A. as Syndication Agent, and The Bank of New York, as Documentation Agent, each as in effect from time to time, and any extension, renewal, refunding, replacement or refinancing of either thereof.

"DEFAULT" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"DEFAULT RATE" means that rate of interest that is the greater of (i) 2% per annum above the rate of interest stated in clause (a) of the first paragraph of the Notes or (ii) 2% over the rate of interest publicly announced by Citibank, N.A. in New York, New York as its "base" or "prime" rate.

"EBITDA" means, for any period, the Consolidated Net Income of the Company and its Subsidiaries for such period, plus (A) to the extent deducted in computing Consolidated

Net Income for such period, an amount equal to (calculated without duplication)
(i) income tax expense, plus (ii) Interest Expense, plus (iii) depreciation and amortization expense, plus (iv) extraordinary losses, minus (B) to the extent included in computing Consolidated Net Income for such period, extraordinary gains, all as determined in accordance with GAAP; provided, however, that with respect to any such period which shall include the date on which the Spin-Off occurred, EBITDA for such period shall be calculated on a pro forma basis as if the Spin-Off had occurred (and any Indebtedness associated therewith had been incurred) on the first day of such period.

"ENVIRONMENTAL LAWS" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA AFFILIATE" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414(b) or (c) of the Code.

"EVENT OF DEFAULT" is defined in Section 11.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"GOVERNMENTAL AUTHORITY" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"GUARANTY" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of any other Person to make payment of the indebtedness or obligation; or

(d) otherwise to assure the owner of such indebtedness or obligation against loss in respect thereof.

In any computation of the indebtedness or other liabilities of the obligor under any Guaranty, the indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"HOLDER" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"INDEBTEDNESS" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable Preferred Stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capital Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money);

(f) Swaps of such Person; and

(g) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

"INSTITUTIONAL INVESTOR" means (a) any original purchaser of a Note,
(b) any holder of a Note holding more than 5% of the aggregate principal amount of the Notes then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form.

"INTEREST COVERAGE RATIO" means, for any period, the ratio of (i) EBITDA for such period to (b) Interest Expense for such period.

"INTEREST EXPENSE" means, for any period, the sum (without duplication) of the following (in each case determined on a consolidated basis in accordance with GAAP): (a) all interest in respect of Indebtedness of the Company and its Subsidiaries (including imputed interest on Capital Leases) deducted in determining Consolidated Net Income for such period and (b) all debt discount and expense amortized or required to be amortized in the determination of Consolidated Net Income for such period; provided, however, that with respect to any such period which shall include the date on which the Spin-Off occurred, Interest Expense for such period shall be calculated on a pro forma basis as if the Spin-Off had occurred (and any Indebtedness associated therewith had been incurred) on the first day of such period.

"LIEN" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"MAKE-WHOLE AMOUNT" is defined in Section 8.6.

"MATERIAL" means material in relation to the business, operations, affairs, financial condition, assets, or properties of the Company and its Subsidiaries taken as a whole.

"MATERIAL ADVERSE EFFECT" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes, or (c) the validity or enforceability of this Agreement or the Notes.

"MEMORANDUM" is defined in Section 5.3.

"MULTIEMPLOYER PLAN" means any Plan that is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"NON-RECOURSE" means, in connection with any Asset Sale, an Asset Sale that does not result in, contemplate at any time, or otherwise expressly permit, the taking of security in, or the grant of any lien or other encumbrance on or against, any property or assets of the Company or any Subsidiary.

"NOTES" is defined in Section 1.

"OFFICER'S CERTIFICATE" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"PERSON" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"PERMITTED INDEBTEDNESS" means, at any date, an amount equal to four times EBITDA for the period of the four consecutive fiscal quarters ended on, or most recently prior to, such date.

"PLAN" means an "employee benefit plan" (as defined in section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"PREFERRED STOCK" means any class of capital stock of a corporation that is preferred over any other class of capital stock of such corporation as to the payment of dividends or the payment of any amount upon liquidation or dissolution of such corporation.

"PROPERTY" or "PROPERTIES" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"PTE" means a Prohibited Transaction Exemption issued by the Department of Labor.

"PURCHASER" is defined in the first paragraph of this Agreement.

"QPAM EXEMPTION" means Prohibited Transaction Class Exemption 84-14 issued by the United States Department of Labor.

"REQUIRED HOLDERS" means, at any time, the holders of greater than 50% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"RESPONSIBLE OFFICER" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this agreement.

"SALE AND LEASEBACK TRANSACTION" is defined in Section 10.5.

"SECURITIES ACT" means the Securities Act of 1933, as amended from time to time.

"SENIOR FINANCIAL OFFICER" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"SIGNIFICANT SUBSIDIARY" means at any time any Subsidiary Guarantor and any other Subsidiary that would at such time constitute a "significant subsidiary" (as such term is defined in Regulation S-X of the Securities and Exchange Commission as in effect on the date of the Closing) of the Company.

"SPIN-OFF" means the separation of The Dun & Bradstreet Corporation into (i) The New D&B Corporation and (ii) Moody's Corporation, pursuant to the Registration Statement on Form 10 related thereto filed with the Securities and Exchange Commission in September, 2000.

"SUBSIDIARY" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"SUBSIDIARY GUARANTEE" means a guarantee of a Subsidiary Guarantor of the obligations of the Company under this Agreement and the Notes, substantially in the form of Exhibit 4.11.

"SUBSIDIARY GUARANTOR" means (a) as of the date of the Closing those Subsidiaries identified as such on Schedule 5.4, and (b) thereafter, the Persons referred to in clause (a) and each other Person which from time to time executes and delivers a counterpart of the Subsidiary Guarantee or otherwise enters into a Subsidiary Guarantee (unless such Person shall be released from its obligations under its Subsidiary Guarantee pursuant to Section 9.6(b)).

"SWAPS" means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

"TOTAL INDEBTEDNESS" means, at any date, all Indebtedness of the Company and its Subsidiaries determined on a consolidated basis in accordance with GAAP.

"TOTAL INDEBTEDNESS TO EBITDA RATIO" means, at any date, the ratio of
(a) Total Indebtedness on such date to (b) EBITDA for the period of the four consecutive fiscal quarters ended on, or most recently prior to, such date. Solely for purposes of calculating EBITDA with respect to any period in connection with this definition, (i) if the Company or any of its Subsidiaries shall have completed an acquisition of all or a substantial part of the assets, or a going concern business or division, of any Person during such period or
(ii) if the Company shall have merged with any Person during such period or
(iii) if the Company or any of its Subsidiaries shall have disposed of all or a substantial part of its assets or a going concern business or division during such period, in each case, EBITDA for such period shall be determined on a pro forma basis as if such acquisition, disposition or merger, and the incurrence of any related Indebtedness, had occurred on the first day of such period.

"WHOLLY-OWNED SUBSIDIARY" means, at any time, any Subsidiary of which one hundred percent (100%) of all of the equity interests (except directors' qualifying shares) and voting interests thereof are owned by any one or more of the Company and the Company's other Wholly-Owned Subsidiaries at such time.

EXHIBIT 1

[FORM OF NOTE]

MOODY'S CORPORATION

7.61% SENIOR NOTE DUE 2005

No. [_____] [Date] $[______] PPN: 615369 A* 6

FOR VALUE RECEIVED, the undersigned, MOODY'S CORPORATION (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to [__________________], or registered assigns, the principal sum of [____________________] DOLLARS (or so much thereof as shall not have been prepaid) on September 30, 2005, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 7.61% per annum from the date hereof, payable semiannually, on the 30th day of March and September in each year, commencing with the March 30th or September 30th next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreement referred to below), payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 9.61% or (ii) 2% over the rate of interest publicly announced by The Chase Manhattan Bank from time to time in New York, New York as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of The Chase Manhattan Bank in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of Senior Notes (herein called the "Notes") issued pursuant to the Note Purchase Agreement, dated as of October 3, 2000 (as from time to time amended, the "Note Purchase Agreement"), between the Company and the Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreement and (ii) to have made the representation set forth in Section 6.2 of the Note Purchase Agreement.

Payment of the principal of, and Make-Whole Amount if any, and interest on this Note may be guaranteed by certain subsidiaries of the Company.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default, as defined in the Note Purchase Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

This Note shall be governed by, and construed and interpreted in accordance with, the law of the State of New York.

MOODY'S CORPORATION

By____________________________
Title:

SUBSIDIARIES OF THE REGISTRANT

EXHIBIT 21

LIST OF ACTIVE SUBSIDIARIES AS OF FEBRUARY 28, 2003

Company Name	Jurisdiction of Creation
Humphreys Argentina Calificadora de Riesgo S.A. (p/k/a Ratto-Humphreys, Calificadora de Riesgo S.A.)	Argentina
Moody’s Latin America Calificadora de Riesgo S.A. (p/k/a Magister Bankwatch Calificadora de Riesgo S.A.)	Argentina
Moody’s Investors Service Pty. Limited	Australia
Moody’s America Latina Ltda.	Brazil
Moody’s Latin America Holding Corporation	British Virgin Islands
Moody’s Holdings BVI, Ltd.	British Virgin Islands
Moody’s Canada Inc.	Canada
Moody’s Interbank Credit Service Limited	Cyprus
MIS Quality Management Corp.	Delaware
Moody’s Assureco, Inc.	Delaware
Moody’s Investors Service, Inc.	Delaware
Moody’s Corporation (2000 Spin Merger Sub)	Delaware
Moody’s Holdings, Inc.	Delaware
Moody’s KMV Company	Delaware
Moody’s Overseas Holdings, Inc.	Delaware
Moody’s Investors Service Ltd.	England
Moody’s Holdings UK Limited	England
Moody’s KMV Limited	England
Moody’s France SA	France
Moody’s Deutschland GmbH	Germany
Moody’s Asia Pacific Limited	Hong Kong
Moody’s China Financial Information Service, Ltd.	Hong Kong
Moody’s Investment Company India Pvt. Ltd.	India
Moody’s Mauritius Holdings Limited	India
Moody’s Risk Management Services, Ltd.	Ireland
Moody’s Italia S.r.l.	Italy
KMV Asia KK	Japan
Moody’s Japan Kabushiki Kaisha	Japan
Korea Investors Service, Inc.	Korea
Administracion de Calificadora SA	Mexico
Moody’s de Mexico S.A. de C.V.	Mexico
Moody’s Holdings B.V.	Netherlands
Moody’s Assurance Company, Inc.	New York
Moody’s Singapore Pte. Ltd.	Singapore
Moody’s Investors Service South Africa (Pty) Limited	South Africa
Moody’s Investors Service Espana, S.A.	Spain

EX-23
3

CONSENT OF EXPERTS

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-57267, 333-57915, 333-60737, 333-64653, 333-68555, 333-81121, 333-47848 and 333-103496) of Moody's Corporation (formerly known as The Dun & Bradstreet Corporation) of our report dated February 4, 2003 relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
New York, New York
March 20, 2003

EXHIBIT 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Moody's Corporation (the "Company") on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Rutherfurd, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN RUTHERFURD JR.

John Rutherfurd, Jr.
President and Chief Executive Officer
March 21, 2003

EXHIBIT 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Moody's Corporation (the "Company") on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeanne M. Dering, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JEANNE M. DERING

Jeanne M. Dering
Senior Vice President and
Chief Financial Officer
March 21, 2003