MOODYS CORP /DE/

FORM 10-Q
(Quarterly Report)

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Industry	Business Services
Sector	Services
Fiscal Year	12/31

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2003
OR

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

For the transition period from to

1-14037
Commission file number

MOODY'S CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-3998945**
(State of Incorporation)	(I.R.S. Employer Identification No.)
99 CHURCH STREET, NEW YORK N.Y.	**10007**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 553-0300

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

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

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

Title of Class	at September 30, 2003
Common Stock, par value $0.01 per share	148.8 million

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MOODY'S CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(AMOUNTS IN MILLIONS, EXCEPT PER SHARE DATA)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Revenue	$305.0	$248.3	$895.9	$751.4
Expenses				
Operating, selling, general and administrative	135.7	113.8	385.1	324.9
Depreciation and amortization	8.1	7.1	23.8	17.4
Total expenses	143.8	120.9	408.9	342.3
Operating income	161.2	127.4	487.0	409.1
Interest and other non-operating expense, net	(7.4)	(5.9)	(3.6)	(16.5)
Income before provision for income taxes	153.8	121.5	483.4	392.6
Provision for income taxes	68.2	53.7	205.0	173.5
Net income	$ 85.6	$ 67.8	$278.4	$219.1
Earnings per share				
Basic	$ 0.57	$ 0.44	$ 1.87	$ 1.41
Diluted	$ 0.56	$ 0.43	$ 1.83	$ 1.38
Weighted average shares outstanding				
Basic	149.4	155.2	148.8	154.9
Diluted	153.5	159.4	152.5	158.7

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

MOODY'S CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER SHARE DATA)

	September 30, 2003	December 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 179.9	$ 39.9
Accounts receivable, net of allowances of $17.9 in 2003 and $16.4 in 2002	207.8	178.1
Other current assets	50.4	54.3
Total current assets	438.1	272.3
Property and equipment, net	47.1	50.6
Prepaid pension costs	60.0	59.3
Goodwill	126.4	126.3
Intangible assets, net	79.2	84.4
Other assets	36.2	37.9
Total assets	$ 787.0	$ 630.8
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 175.6	$ 184.9
Bank borrowings	—	107.1
Deferred revenue	184.4	170.0
Total current liabilities	360.0	462.0
Non-current portion of deferred revenue	37.5	28.5
Notes payable	300.0	300.0
Other liabilities	179.7	167.3
Total liabilities	877.2	957.8
Contingencies (Note 7)		
Shareholders' equity		
Preferred stock, par value $ .01 per share; 10,000,000 shares authorized; no shares issued	—	—
Series common stock, par value $ .01 per share; 10,000,000 shares authorized; no shares issued	—	—
Common stock, par value $ .01 per share; 400,000,000 shares authorized; 171,451,136 shares issued at September 30, 2003 and December 31, 2002	1.7	1.7
Capital surplus	67.5	45.5
Retained earnings	480.1	221.8
Treasury stock, at cost; 22,622,545 and 22,560,826 shares of common stock at September 30, 2003 and December 31, 2002, respectively	(644.7)	(597.7)
Cumulative translation adjustment	5.2	1.7
Total shareholders' equity	(90.2)	(327.0)
Total liabilities and shareholders' equity	$ 787.0	$ 630.8

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

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MOODY'S CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(AMOUNTS IN MILLIONS)

	Nine Months Ended September 30,	
	2003	**2002**
Cash flows from operating activities		
Net income	$ 278.4	$ 219.1
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	23.8	17.4
Stock-based compensation expense	8.0	—
Tax benefits from exercise of stock options	23.2	20.9
Write-off of computer software, property and equipment	0.2	1.3
Write-off of acquired in-process research and development	—	1.1
Changes in assets and liabilities:		
Accounts receivable	(29.5)	9.7
Other current assets	4.7	0.9
Prepaid pension costs	(0.7)	(1.9)
Other assets	(0.6)	2.0
Accounts payable and accrued liabilities	(11.5)	(83.1)
Deferred revenue	23.2	20.0
Other liabilities	12.8	35.8
Net cash provided by operating activities	332.0	243.2
Cash flows from investing activities		
Acquisition, net of cash acquired	—	(205.7)
Net capital additions	(12.7)	(13.3)
Cash acquired in a business acquisition (see Note 4)	1.1	0.2
Net cash used in investing activities	(11.6)	(218.8)
Cash flows from financing activities		
Net repayments of bank borrowings	(107.1)	—
Proceeds from stock plans	58.3	44.8
Cost of treasury shares repurchased	(114.5)	(143.2)
Payment of dividends	(20.1)	(21.1)
Payments under capital lease obligations	(0.9)	—
Net cash used in financing activities	(184.3)	(119.5)
Effect of exchange rate changes on cash and cash equivalents	3.9	1.8
Increase (decrease) in cash and cash equivalents	140.0	(93.3)
Cash and cash equivalents, beginning of the period	39.9	163.2
Cash and cash equivalents, end of the period	$ 179.9	$ 69.9

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

MOODY'S CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 as well as rating opinions on issuers of credit obligations. 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".

These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the Company's consolidated financial statements and related notes in the Company's 2002 annual report on Form 10-K filed with the Securities and Exchange Commission on March 21, 2003. The results of interim periods are not necessarily indicative of results for the full year or any subsequent period. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. Certain prior year and prior quarter amounts have been reclassified to conform to the current presentation.

2. STOCK-BASED COMPENSATION

In 2002 and prior years, the Company measured the cost of stock-based compensation using the intrinsic value approach under Accounting Principles Board ("APB") Opinion No. 25 rather than applying the fair value method provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") as amended by SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123". Accordingly, the Company did not recognize compensation expense related to grants of employee stock options and shares issued to participants in its employee stock purchase plan.

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. Therefore, employee stock options granted on and after January 1, 2003 are being 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 are being expensed by the Company based on the discount from the market price received by the participants.

The condensed consolidated statements of operations for the three and nine months ended September 30, 2003 include compensation expense of $2.8 million and $7.7 million, respectively, related to stock options granted, and stock issued under the employee stock purchase plan, since January 1, 2003. The condensed consolidated statements of operations for the three and nine months ended September 30, 2002 include no such expense. In addition, the 2003 expense is less than that which would have been recognized if the fair value method had been applied to all awards since the original effective date of SFAS No. 123 rather than being applied prospectively. Had the Company determined such stock-based compensation expense using the fair value method provisions of SFAS No. 123 since its original effective date, Moody's net income and earnings per share would have been reduced to the pro forma amounts shown below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(in millions, except per share data)			
Net income:				
As reported	$85.6	$67.8	$278.4	$219.1
Add: Stock-based compensation plan expense included in reported net income, net of tax	1.8	—	4.9	—
Deduct: Stock-based compensation plan expense determined under the fair value method, net of tax	(5.0)	(3.7)	(15.5)	(11.1)
Pro forma net income	$82.4	$64.1	$267.8	$208.0
Basic earnings per share:				
As reported	$0.57	$0.44	$ 1.87	$ 1.41
Pro forma	$0.55	$0.41	$ 1.80	$ 1.34
Diluted earnings per share:				
As reported	$0.56	$0.43	$ 1.83	$ 1.38
Pro forma	$0.54	$0.40	$ 1.76	$ 1.31

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

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. The following weighted average assumptions were used for options granted during the nine months ended September 30, 2003 and 2002 and the three months ended September 30, 2003. There were no options issued during the three months ended September 30, 2002.

	Three Months Ended September 30,	Nine Months Ended September 30,	
	2003	2003	2002
Expected dividend yield	0.41%	0.41%	0.41%
Expected stock volatility	30%	30%	25%
Risk-free interest rate	2.48%	3.03%	4.16%
Expected holding period	5.0 yrs	5.0 yrs	4.5 yrs

The estimated weighted average fair value of Moody’s options granted during the nine months ended September 30, 2003 and 2002 was $13.02 and $10.95, respectively. The estimated weighted average fair value of Moody’s options granted during the three months ended September 30, 2003 was $15.38.

The condensed consolidated statements of operations for the three and nine months ended September 30, 2003 includes compensation expense of $0.2 million and $0.3 million, respectively, related to shares of restricted stock issued in 2003 to the Board of Directors under the 1998 Directors Plan. Since no restricted stock was issued in 2002 and prior years, the condensed consolidated statements of operations for the three and nine months ended September 30, 2002 include no such expense.

3. RECONCILIATION OF WEIGHTED AVERAGE SHARES OUTSTANDING

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(in millions)			
Weighted average number of shares — Basic	149.4	155.2	148.8	154.9
Dilutive effect of shares issuable under stock-based compensation plans	4.1	4.2	3.7	3.8
Weighted average number of shares — Diluted	153.5	159.4	152.5	158.7

For the nine months ended September 30, 2003, options to purchase 6,500 shares of common stock were outstanding but were not included in the computation of diluted earnings per share because the exercise prices of such options were greater than the year-to-date average market price of the Company’s common stock during the applicable period (the “antidilutive options”). There were no antidilutive options for the three months ended September 30, 2003 or the three and nine months ended September 30, 2002.

4. ACQUISITIONS

KMV

On April 12, 2002, Moody's acquired the businesses comprising KMV. The acquisition expands 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 (dollar amounts in millions).

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. Current assets above includes acquired cash of $7.2 million. Other assets includes 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 pro forma consolidated financial information for the nine months ended September 30, 2002 reflect the acquisition of KMV as if it had been consummated as of January 1, 2002, 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 $81.0 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(in millions, except per share data)			(pro forma)
Revenue	$305.0	$248.3	$895.9	$766.5
Net income	$ 85.6	$ 67.8	$278.4	$218.2
Diluted earnings per share	$ 0.56	$ 0.43	$ 1.83	$ 1.37

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 January 1, 2002, 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 6.9 billion Korean Won (approximately $6.0 million as of September 30, 2003) in 2005, based on KIS net income for the three-year period ending December 31, 2004.

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 that is not being amortized.

Argentine Rating Agencies

As a result of the devaluation of the Argentine peso that occurred in 2002, an acquisition-related purchase price adjustment was triggered relating to Moody's equity-basis investments in two Argentine rating agencies. The adjustment resulted in Moody's receiving additional shares in the two Argentine rating agencies, which increased Moody's ownership position to over 90%. As a result, starting in January 2003 the Argentine rating agencies are being consolidated in Moody's financial statements.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets", under which goodwill and other intangible assets with indefinite lives are no longer amortized but are reviewed annually for recoverability, or more frequently if impairment indicators arise.

In connection with the 2002 acquisition of KMV, Moody's acquired goodwill and intangible assets, which are described in Note 4.

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

	Nine Months Ended September 30, 2003			Year Ended December 31, 2002		
		(in millions)			(in millions)	
	Moody's Investors Service	Moody's KMV	Consolidated	Moody's Investors Service	Moody's KMV	Consolidated
Beginning balance	$ 2.3	$124.0	$126.3	$ 0.4	$ 5.6	$ 6.0
Net change from acquisitions	—	—	—	1.9	118.3	120.2
Other	—	0.1	0.1	—	0.1	0.1
Total	$ 2.3	$124.1	$126.4	$ 2.3	$124.0	$126.3

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

	September 30, 2003	December 31, 2002
	(in millions)	
Customer lists (11.3 year weighted average life)	$57.8	$57.8
Accumulated amortization	(9.3)	(5.3)
Net customer lists	$48.5	$52.5
Other intangible assets (5.6 year weighted average life)	$ 8.2	$ 8.2
Accumulated amortization	(3.0)	(1.8)
Net other intangible assets	$ 5.2	$ 6.4
Total	$53.7	$58.9

Amortization expense for other intangible assets for the nine-months ended September 30, 2003 and 2002 was $5.2 million and $3.6 million, respectively.

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

Years ending December 31,	(in millions)
2003 (after September 30)	$ 1.8
2004	6.9
2005	6.5
2006	6.2
2007	5.5
Thereafter	26.8

As of September 30, 2003, $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.

6. 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 incurred under the Notes was $17.1 million in each of the nine months ended September 30, 2003 and 2002.

The revolving credit facility (the "Facility"), which had no borrowings outstanding as of September 30, 2003, consists of an $80 million 5-year facility that expires in September 2005 and an $80 million 364-day facility that expires in September 2004. 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 ("Earnings Coverage Ratio"), as defined in the related agreement. At September 30, 2003, such premium was 18 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 of the facility amount to 12.5 basis points, depending on the Company's Earnings Coverage Ratio, and were 7 basis points at September 30, 2003. 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 amount.

In April 2002, Moody's used the Facility to initially fund a portion of the purchase price for the KMV acquisition; such borrowings were repaid in the second quarter of 2002. Since that time, Moody's has borrowed from time to time under the Facility to fund share repurchases. Interest paid under the Facility for the nine months ended September 30, 2003 and 2002 was $0.6 million and $0.2 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 an Earnings Coverage Ratio, as defined in the Agreements, of not more than 4 to 1. At September 30, 2003, 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.

7. 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 or referred to below.

Below is a discussion of certain contingencies that relate to Old D&B, its predecessors and their affiliated companies ("Legacy Contingencies"). In addition, refer to Note 14, Contingencies, in the Company's annual report on Form 10-K for the year ended December 31, 2002 for a discussion of certain contingencies 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 on May 21, 2003, the court set a trial date of September 20, 2004. On December 22, 1999, defendants filed a motion for partial summary judgment dismissing IRI's non-U.S. antitrust claims. On July 12, 2000, the Court granted the motion dismissing claims of injury suffered from activities in foreign markets where IRI operates through subsidiaries or companies owned by joint ventures or "relationships" with local companies. IRI took the position that this ruling disposed of its claims with respect to eight of the thirty foreign markets alleged in its complaint. On April 28, 2003, the Court denied defendants' motion for partial summary judgment to dismiss IRI's claim with respect to the 22 remaining foreign markets. The Court also modified its July 12, 2000 decision, to permit IRI to claim damages for injuries IRI suffered in the U.S. market as a result of defendants' alleged anticompetitive practices overseas.

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 the portion of any judgment that may ultimately be payable by Moody's. Therefore, management is unable to predict 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 2003, New D&B received an Examination Report from the IRS with respect to a partnership transaction entered into in 1993. In this Report, the IRS stated its intention to disallow certain royalty expense deductions claimed by Old D&B on its tax returns for the years 1993 through 1996. New D&B disagrees with the position taken by the IRS in its Report. During the third quarter of 2003, New D&B filed a protest with the Appeals Office of the IRS to contest the Examination Report. If the IRS Appeals Office were to uphold the Examination Report, then New D&B could either: (1) accept and pay the IRS assessment; (2) challenge the assessment in U.S. Tax Court; or (3) challenge the assessment in U.S. District Court, where 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 $56 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 an Examination Report from the IRS stating its intention to ignore the partnership structure that had been established in 1993, and to reallocate to Old D&B income and expense items that had been claimed on the partnership tax return for 1996. During the third quarter of 2003, New D&B filed a protest with the Appeals Office of the IRS to contest the Examination Report. If the IRS Appeals Office were to uphold the Examination Report, then New D&B could either: (1) accept and pay the IRS assessment; (2) challenge the assessment in U.S. Tax Court; or (3) challenge the assessment in U.S. District Court, where 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. Moody's estimates that its share of the required payment to the IRS for this matter could be up to approximately $49 million (including penalties and interest, and net of tax benefits). Such exposure could be in addition to the amount described in the preceding paragraph, and Moody's also could be obligated for future interest payments on its share of such liability.

Moody's and New D&B have retained new outside counsel with respect to the Royalty Expense Deductions matters discussed above, who will among other things be advising the Company on potential courses of action.

Amortization Expense Deductions

In November 2003, New D&B received a Notice of Proposed Adjustment from the IRS with respect to a partnership transaction entered into in 1997 that could result in amortization expense deductions from 1997 through 2012. In this Notice, which resulted from the IRS' audit of Old D&B's 1997 tax return, the IRS proposed to disallow the amortization expense deductions related to this partnership that were claimed by Old D&B on its 1997 tax return. New D&B disagrees with the position taken by the IRS. If the IRS were to issue a formal assessment consistent with the Notice for 1997 or for future years, and were to prevail in its position, then New D&B would be required to pay the assessment. 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 $92 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.

Moody's and New D&B have retained new outside counsel with respect to this matter, who will among other things be advising the Company on potential courses of action.

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. On April 29, 2003, an arbitration panel ruled in favor of IMS Health in the arbitration proceeding, awarding IMS Health its full claim plus interest in a decision binding on all parties. As a result, IMS Health's contingent claim against Old D&B (and consequently Moody's and New D&B) in connection with this matter has been rendered moot. As no amount with respect to this matter had been accrued by Moody's, the arbitration panel ruling is not expected to have an impact on the Company's consolidated 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. In doing so, Moody's makes estimates and judgments as to future events and conditions and evaluates its estimates and judgments on an ongoing basis. 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.

8. COMPREHENSIVE INCOME

Total comprehensive income was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
		(in millions)		
Net income	$85.6	$67.8	$278.4	$219.1
Other comprehensive income — foreign currency translation adjustment	1.8	1.7	3.5	3.1
Total comprehensive income	$87.4	$69.5	$281.9	$222.2

9. 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, the Company has 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 the combined businesses 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 results of operations by segment, Moody's Investors Service revenue by business unit and revenue information by geographic area, all for the three and nine months ended September 30, 2003 and 2002 and total assets by segment as of September 30, 2003 and December 31, 2002 (in millions). Certain prior year and prior quarter amounts have been reclassified to conform to the current presentation.

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Results of Operations by Segment

	Three Months Ended September 30, 2003			Three Months Ended September 30, 2002		
	Moody's Investors Service	Moody's KMV	Consolidated	Moody's Investors Service	Moody's KMV	Consolidated
Revenue	$277.3	$27.7	$305.0	$225.1	$23.2	$248.3
Operating expenses	113.7	22.0	135.7	94.7	19.1	113.8
Depreciation and amortization	3.9	4.2	8.1	3.3	3.8	7.1
Operating income	159.7	1.5	161.2	127.1	0.3	127.4
Interest and other non-operating expense, net			(7.4)			(5.9)
Income before provision for income taxes			153.8			121.5
Provision for income taxes			68.2			53.7
Net income			$ 85.6			$ 67.8

	Nine Months Ended September 30, 2003			Nine Months Ended September 30, 2002		
	Moody's Investors Service	Moody's KMV	Consolidated	Moody's Investors Service	Moody's KMV	Consolidated
Revenue	$817.2	$78.7	$895.9	$699.4	$52.0	$751.4
Operating expenses	321.6	63.5	385.1	276.3	48.6	324.9
Depreciation and amortization	11.4	12.4	23.8	9.3	8.1	17.4
Operating income (loss)	484.2	2.8	487.0	413.8	(4.7)	409.1
Interest and other non-operating expense, net			(3.6)			(16.5)
Income before provision for income taxes			483.4			392.6
Provision for income taxes			205.0			173.5
Net income			$278.4			$219.1

Moody's Investors Service Revenue by Business Unit

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Ratings revenue:				
Structured finance	$110.1	$ 92.8	$324.8	$281.5
Corporate finance	69.4	50.6	202.4	174.1
Financial institutions and sovereign risk	44.8	36.9	134.6	117.1
Public finance	21.4	20.6	65.0	58.7
Total ratings revenue	245.7	200.9	726.8	631.4
Research revenue	31.6	24.2	90.4	68.0
Total Moody's Investors Service	$277.3	$225.1	$817.2	$699.4

Revenue Information by Geographic Area

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
United States	$192.4	$165.2	$578.6	$505.6
International	112.6	83.1	317.3	245.8
Total	$305.0	$248.3	$895.9	$751.4

Total Assets by Segment

	September 30, 2003			December 31, 2002		
	Moody's Investors Service	Moody's KMV	Consolidated	Moody's Investors Service	Moody's KMV	Consolidated
Total assets by segment	$536.1	$250.9	$787.0	$364.2	$266.6	$630.8

10. INSURANCE RECOVERY

In February 2003, Moody's received a $15.9 million insurance recovery related to the September 11th 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, in the first quarter of 2003 Moody's recorded a gain of $13.6 million, included in interest and other non-operating expense, net in the condensed consolidated statements of operations.

11. SUBSEQUENT EVENT

On October 28, 2003, the Board of Directors of the Company approved a quarterly dividend of 4.5 cents per share of Moody's common stock, payable on December 10, 2003 to shareholders of record at the close of business on November 20, 2003.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 as well as rating opinions on issuers of credit obligations. 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 ("MKMV") develops and distributes quantitative credit assessment products and services for banks and investors in credit-sensitive assets, credit training services and credit process software.

Critical Accounting Policies

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. Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Company's annual report on Form 10-K for the year ended December 31, 2002, includes descriptions of some of the judgments that Moody's makes in applying its accounting policies in these areas. Since the date of the annual report on Form 10-K, there have been no material changes to the Company's critical accounting policies other than the adoption of expensing stock-based compensation under SFAS No. 123.

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. Prior to the acquisition of KMV, the Moody's KMV business consisted of Moody's Risk Management Services. In order to provide additional information relating to Moody's operating results, the discussion below includes information analyzing operating results as if the acquisition of KMV had been consummated as of January 1, 2002. This information is presented in a manner consistent with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and is described in more detail in Note 4 to the condensed consolidated financial statements.

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

Certain prior year and prior quarter amounts have been reclassified to conform to the current presentation.

Results of Operations

Three Months Ended September 30, 2003 Compared With Three Months Ended September 30, 2002

Total Company Results

Moody's revenue for the third quarter of 2003 was $305.0 million, an increase of $56.7 million or 22.8% from $248.3 million for the third quarter of 2002. Moody's revenue growth was primarily driven by strength in global corporate finance, U.S. structured finance, European financial institutions, global research and MKMV international. The strength of foreign currencies, especially the Euro, relative to the U.S. dollar accounted for approximately 175 basis points of reported revenue growth. Price increases also contributed to year-to-year growth in reported revenue.

Revenue in the United States was $192.4 million for the third quarter of 2003, an increase of $27.2 million or 16.5% from $165.2 million in the third quarter of 2002. Speculative grade issuance in the corporate finance sector, and growth in structured finance and research, were significant drivers of U.S. revenue growth in the quarter.

Moody's international revenue was $112.6 million for the third quarter of 2003, an increase of $29.5 million or 35.5% over $83.1 million in the same period of 2002. International revenue growth was driven primarily by financial institutions and corporate finance issuance as well as Moody's KMV. Foreign currency translation also contributed to reported growth. International revenue accounted for 37% of Moody's total revenue in the third quarter of 2003, compared with 33% in the prior year quarter.

Operating, selling, general and administrative expenses were $135.7 million in the third quarter of 2003, an increase of $21.9 million or 19.2% from $113.8 million in the third quarter of 2002. The largest contributor to year-to-year expense growth was compensation and benefits, reflecting compensation increases and staffing growth in the Moody's Investors Service European and global structured finance businesses, the specialist teams that support Moody's enhanced analysis initiative, and Moody's KMV. The 2003 period also included $2.8 million related to the Company's change in accounting for stock-based compensation, mainly for options granted in February 2003. Foreign currency translation also contributed to year-to-year expense growth. Depreciation and amortization was $8.1 million and $7.1 million in the third quarter of 2003 and 2002, respectively.

Third quarter operating income of $161.2 million rose $33.8 million or 26.5% from $127.4 million in the same period of 2002. This increase was primarily the result of the revenue growth mentioned above. In addition, the impact of foreign currency translation accounted for approximately 175 basis points of reported operating income growth. Moody's operating margin for the third quarter of 2003 was 52.9% compared to 51.3% a year earlier. The quarter's margin increase was the result of better-than-anticipated revenue growth, while staffing and related costs grew at a slower rate.

Interest and other non-operating expense, net was $7.4 million for the third quarter of 2003 compared with $5.9 million for the same period of 2002. Interest expense of $5.7 million in both periods related to the interest expense on Moody's $300 million of private placement debt. Interest income was $0.5 million in 2003 compared to $0.8 million in 2002. Foreign exchange losses totaled $1.6 million in 2003 and $1.0 million in 2002.

Moody's effective tax rate was 44.4% in the third quarter of 2003 compared to 44.2% in the third quarter of 2002. The third quarter 2003 tax rate reflects the reversal of tax benefits recorded during the first six months of the year due to new tax legislation enacted by New York State in October 2003, which disallows the deduction of certain royalty payments between affiliated companies retroactive to January 1, 2003. The reversal increased the third quarter effective tax rate by 2.3% compared with the prior year rate. This impact was substantially offset by continued operating growth in jurisdictions with lower tax rates than New York.

Net income was $85.6 million for the third quarter of 2003, an increase of $17.8 million or 26.3% from $67.8 million for the same period of 2002. Basic and diluted earnings per share for the third quarter of 2003 were $0.57 and $0.56, respectively, compared to basic and diluted earnings per share of $0.44 and $0.43, respectively, for the third quarter of 2002. Earnings per share in 2003 included a $0.01 impact related to the Company's change in accounting for stock-based compensation, described above.

Segment Results

Moody's Investors Service

Third quarter Moody's Investors Service revenue was $277.3 million, up $52.2 million or 23.2% from $225.1 million in the third quarter of 2002. Good growth was achieved in a number of ratings sectors as well as in research, with price increases and foreign currency translation also contributing to growth in reported revenue.

Structured finance revenue was $110.1 million for the third quarter of 2003, an increase of $17.3 million or 18.6% from $92.8 million in the 2002 quarter. In the United States, structured finance grew over 20% primarily due to growth in residential and commercial mortgage backed securities as well as collateralized debt obligations. The low interest rate environment continued to drive refinancing and new mortgage activity. International structured revenue grew in the high single-digits. The tightening of credit spreads and smaller transaction sizes led to weakness in the credit derivatives sector, which was more than offset by strength in the residential mortgage-backed sector.

Corporate finance revenue was $69.4 million in the third quarter of 2003, up $18.8 million or 37.2% from $50.6 million in the third quarter of 2002. In the United States, corporate finance revenue grew over 30% principally due to strength in the speculative grade sector. The number of speculative grade issues increased significantly in the third quarter of 2003 compared to the prior year period as investors continued to favor the risk-return profile in this sector. United States investment grade issues increased over the prior year period, driven principally by refinancing activity as economic activity and business investment remained weak. In Europe revenue grew more than 50% on robust issuance versus a relatively weak prior year period. Revenue from non-transaction based areas, including relationship based fees, as well as price increases and foreign currency translation, also contributed to growth versus the prior year.

Revenue in the financial institutions and sovereign risk group was $44.8 million for the third quarter of 2003, an increase of $7.9 million or 21.4% from $36.9 million for the same period of 2002. In Europe revenue increased over 70% on strong dollar issuance volumes over the prior year period. Price increases also contributed to growth in reported global revenue. In the U.S. revenues declined versus strong prior year comparisons as the number of issues was down slightly.

Public finance revenue of $21.4 million for the third quarter of 2003 was up $0.8 million or 3.9% from $20.6 million in the 2002 third quarter. Aggregate dollar issuance volume in the U.S. municipal bond market was flat relative to the third quarter of 2002. "New money" issuance continued to grow year-to-year in the third quarter as municipalities borrowed to offset weak tax receipts, but refinancing declined versus the prior year due to increased borrowing costs in this sector.

Research revenue increased $7.4 million or 30.6% to $31.6 million for the third quarter of 2003, compared with $24.2 million for the same period of 2002. In both the U.S. and European markets, performance was driven by growth in licensing sales of Moody's information to third party distributors, sales of new products to existing clients, and new clients.

Moody's Investors Service operating, selling, general and administrative expenses, including corporate expenses, were $113.7 million for the third quarter of 2003, an increase of $19.0 million or 20.1% from $94.7 million in the third quarter of 2002. The largest contributor to year-to-year expense growth was compensation and benefits, reflecting compensation increases and staffing growth in Europe and the global structured finance business as well as the specialist teams that support Moody's enhanced analysis initiative. The 2003 period also included $2.5 million of expense related to the Company's change in accounting for stock-based compensation, mainly for options granted in February 2003. Foreign currency translation also contributed to year-to-year growth in reported expenses. Depreciation and amortization expense was $3.9 million for the third quarter of 2003 versus $3.3 million in the third quarter of 2002.

Moody's Investors Service operating income of $159.7 million for the third quarter of 2003 was up $32.6 million or 25.6% from $127.1 million in the third quarter of 2002.

Moody's KMV

Third quarter Moody's KMV revenue was $27.7 million, up $4.5 million or 19.4% from $23.2 million in the third quarter of 2002, principally reflecting growth in subscription revenue from credit risk assessment products, including Credit Edge ™ and RiskCalc ™ . Good year-to-year growth was also achieved in the quarter in license fees and maintenance related to credit decisioning software.

MKMV's operating, selling, general and administrative expenses were $22.0 million for the third quarter of 2003, an increase of $2.9 million or 15.2% from $19.1 million in the third quarter of 2002. The year-to-year increase in operating, selling, general and administrative expenses in the third quarter was primarily due to increased staffing to support business growth. Expenses for the third quarter of 2003 also included $0.3 million related to the Company's change in accounting for stock-based compensation, mainly for options granted in February 2003.

Depreciation and amortization expense was $4.2 million for the third quarter of 2003 versus $3.8 million in the third quarter of 2002. The year-to-year increase in depreciation and amortization was primarily due to increased amortization of capitalized software development costs.

Nine Months Ended September 30, 2003 Compared With Nine Months Ended September 30, 2002

Total Company Results

Moody's revenue for the first nine months of 2003 was $895.9 million, an increase of $144.5 million or 19.2% from $751.4 million for the first nine months of 2002. Assuming that Moody's had acquired KMV on January 1, 2002, revenue for the first nine months of 2002 would have been $766.5 million and year-to-year growth in 2003 would have been 16.9%. The primary contributors to Moody's revenue growth were the global structured finance, global corporate finance, international financial institutions, global research and Moody's KMV business units. The strength of foreign currencies, especially the Euro, relative to the U.S. dollar accounted for approximately 200 basis points of reported revenue growth. Price increases also contributed to year-to-year growth in revenue.

Revenue in the United States was $578.6 million for the first nine months of 2003, an increase of $73.0 million or 14.4% from $505.6 million in the first nine months of 2002. Assuming that Moody's had acquired KMV on January 1, 2002, United States revenue for the first nine months of 2002 would have been $513.2 million and year-to-year growth would have been 12.7%. Strong growth was achieved in many business units within Moody's Investors Service during the first nine months of 2003 led by structured finance, corporate finance, research and Moody's KMV.

Moody's international revenue was $317.3 million for the first nine months of 2003, an increase of $71.5 million or 29.1% over $245.8 million in the same period of 2002. Assuming that Moody's had acquired KMV on January 1, 2002, international revenue for the first nine months of 2002 would have been $253.3 million and year-to-year growth would have been 25.3 %. Growth was driven by strong performances in all international business units. Foreign currency translation accounted for approximately 600 basis points of reported revenue growth. International revenue accounted for 35% of Moody's total revenue in the first nine months of 2003, compared with 33% in the prior year period.

Operating, selling, general and administrative expenses were $385.1 million in the first nine months of 2003, an increase of $60.2 million or 18.5% from $324.9 million in the first nine months of 2002. Assuming that Moody's had owned KMV for the entire first nine months of 2002, pro forma operating expenses would have been $337.5 million in the first nine months of 2002, and year-to-year growth would have been 14.1%. The largest contributor to year-to-year pro forma expense growth was compensation and benefits, reflecting compensation increases and increased staffing in Europe, the global structured finance business, the specialist teams that support Moody's enhanced analysis initiative, and MKMV. This was partially offset by a decline in expense for incentive compensation due to lower year-to-year growth in the Company's operating results in 2003 compared with the same period of 2002. Other year-to-year expense increases included $7.7 million related to the Company's change in accounting for stock-based compensation, mainly for options granted in February 2003, and higher professional fees, mainly for legal costs. In addition, foreign currency translation contributed approximately 275 basis points to year-to-year expense growth.

Depreciation and amortization was $23.8 million and $17.4 million in the first nine months of 2003 and 2002, respectively. The year-to-year increase was due to the amortization of acquired software and intangible assets related to the KMV acquisition and computer hardware and software placed into service during 2003. If the acquisition of KMV had been completed as of January 1, 2002, pro forma depreciation and amortization would have been $20.5 million in the first nine months of 2002. The pro forma year-to-year increase of $3.3 million principally related to computer hardware and software placed into service during 2003.

Operating income of $487.0 million for the first nine months of 2003 rose $77.9 million or 19.0% from $409.1 million in the same period of 2002. This increase was primarily the result of the revenue growth mentioned above. In addition, the strength of foreign currencies, especially the Euro, relative to the U.S. dollar accounted for approximately 150 basis points of reported operating income growth. Moody's operating margin for the first nine months of 2003 and 2002 was 54.4%. The operating margin for the first nine months of 2003 compared to the first nine months of 2002 reflected the following offsetting changes: an increase in revenue without a proportional increase in expenses, growth in Moody's KMV at a lower incremental margin than the Moody's Investors Service business and 2003 expense related to stock-based compensation with no counterpart in 2002.

Interest and other non-operating expense, net was $3.6 million for the first nine months of 2003 compared with $16.5 million for the same period of 2002. The 2003 amount included a gain of $13.6 million on an insurance recovery related to the September 11th tragedy, as discussed in Note 10 to the condensed consolidated financial statements. Interest expense was $17.7 million in 2003 compared to $17.4 million in 2002. The amounts in both periods included $17.1 million of interest expense on Moody's $300 million of private placement debt. Interest income was $1.0 million in 2003, down from $2.1 million in 2002 due to lower cash on hand and lower interest rates. Foreign exchange gains (losses) were $0.2 million in 2003 compared to ($1.4) million in 2002.

Moody's effective tax rate was 42.4% in the first nine months of 2003 compared to 44.2% in the first nine months of 2002. The decrease in the tax rate reflected continued operating growth in jurisdictions with lower tax rates than New York and tax benefits from the establishment of a New York captive insurance company during 2002.

Net income was $278.4 million for the first nine months of 2003, an increase of $59.3 million or 27.1% from $219.1 million for the same period of 2002. Basic and diluted earnings per share for the first nine months of 2003 were $1.87 and $1.83, respectively, compared to basic and diluted earnings per share of $1.41 and $1.38, respectively, for the first nine months of 2002. Earnings per share in 2003 included a $0.03 impact related to the Company's change in accounting for stock-based compensation, described above.

Segment Results

Moody's Investors Service

Revenue at Moody's Investors Service for the first nine months of 2003 was $817.2 million, up $117.8 million or 16.8% from $699.4 million in the first nine months of 2002. Good growth was achieved in a number of ratings sectors as well as in research. Foreign currency translation accounted for approximately 225 basis points of reported revenue growth. Price increases also contributed to year-to-year growth in reported revenue.

Structured finance revenue was $324.8 million for the first nine months of 2003, an increase of $43.3 million or 15.4% from $281.5 million in the 2002 quarter. International structured finance revenue grew in the low twenty percent range, with good underlying growth in Europe being the main driver. Foreign currency translation also contributed to revenue growth over the prior period. In the U.S., structured finance revenue grew in the mid-teens percent range as the low interest rate environment continued to drive refinancing and new mortgage activity. All sectors within the U.S. reported good growth, with the asset finance and residential mortgage backed sectors being the largest contributors. Price increases also contributed to year-to-year growth in global structured finance revenue.

Corporate finance revenue was $202.4 million in the first nine months of 2003, up $28.3 million or 16.3% from $174.1 million in the first nine months of 2002. Revenue grew in the mid-teens percent in the United States and over 30% in Europe. In the United States, the number of speculative grade issues rose significantly year-to-year due to refinancings and new issuers. In addition, investment grade issuance volume increased more than 10% year-to-year. U.S. revenue growth was also derived from areas not related to public debt issuance such as U.S. syndicated bank loan ratings and relationship-based fees. Price increases also contributed to year-to-year growth in global corporate finance revenue.

Revenue in the financial institutions and sovereign risk group was $134.6 million for the first nine months of 2003, an increase of $17.5 million or 14.9% from $117.1 million for the same period of 2002. In Europe, revenue growth exceeded 30% as the number of transactions rose substantially versus the 2002 period. Strong revenue growth occurred in other international geographies as well, whereas in the U.S. revenues were flat versus strong prior year comparisons. Price increases also contributed to global financial institutions revenue growth over the prior year period.

Public finance revenue of $65.0 million for the first nine months of 2003 was up $6.3 million or 10.7% from $58.7 million in the 2002 period. Dollar issuance in the municipal bond market grew 10% versus the first nine months of 2002. Refinancings as a percentage of total issuance have declined compared to the same period 2002.

Research revenue increased $22.4 million or 32.9% to $90.4 million for the first nine months of 2003, compared with $68.0 million for the same period in 2002. In both the U.S. and European markets, the performance was driven by growth in licensing of Moody's information to third party distributors, sales of new products to existing clients and new clients. Foreign currency translation also contributed to year-to-year growth in reported revenue.

Moody's Investors Service operating, selling, general and administrative expenses, including corporate expenses, were $321.6 million for the first nine months of 2003, an increase of $45.3 million or 16.4% from $276.3 million in the first nine months of 2002. The largest contributor to year-to-year expense growth was compensation and benefits, reflecting compensation increases and staffing growth in Europe and the global structured finance business as well as the specialist teams that support Moody's enhanced analysis initiative. This was partially offset by a decline in expense for incentive compensation due to lower year-to-year growth in the Company's operating results in 2003 compared with the same 2002 period. Other year-to-year expense increases included $6.8 million related to the Company's change in accounting for stock-based compensation, mainly for options granted in February 2003, and increased professional fees, mainly for legal costs and expanded data processing back-up services. Foreign currency translation also contributed to year-to-year growth in reported expenses. Depreciation and amortization expense was $11.4 million for the first nine months of 2003 versus $9.3 million in the first nine months of 2002. The year-to-year increase of $2.1 million principally related to computer hardware and software placed into service during 2003.

Moody's Investors Service operating income of $484.2 million for the first nine months of 2003 was up $70.4 million or 17.0% from $413.8 million in the first nine months of 2002.

Moody's KMV

The following table shows Moody's KMV reported results for the first nine months of 2003 compared with the reported results for the first nine months of 2002 (the "reported comparisons"), and compared with the first nine months of 2002 on a pro forma basis presented as if Moody's had acquired KMV on January 1, 2002 (the "pro forma comparisons"), in a manner consistent with SFAS No. 141 and as further described in Note 4 to the condensed consolidated financial statements. The discussion of MKMV results of operations that follows is based on the pro forma comparisons.

	Reported Comparisons				Pro Forma Comparisons		
			2003 Variance to 2002			2003 Variance to 2002	
(dollars in millions)	First nine months of 2003	First nine months of 2002	$	%	First nine months of 2002	$	%
Revenue	$78.7	$ 52.0	$26.7	51.3%	$ 67.1	$11.6	17.3%
Operating expenses	63.5	48.6	14.9	30.7%	61.2	2.3	3.8%
Depreciation and amortization	12.4	8.1	4.3	53.1%	11.2	1.2	10.7%
Operating income (loss)	$ 2.8	($4.7)	$ 7.5		($5.3)	$ 8.1	

MKMV's pro forma year-to-year revenue increase in the first nine months of 2003 principally reflected growth in its subscription revenue from credit risk assessment products, including Credit Edge ™ and RiskCalc ™ . Revenue from license fees and maintenance related to credit decisioning software grew modestly year-to-year.

The pro forma year-to-year increase in operating, selling, general and administrative expenses in the first nine months principally reflected increased salary expenses due to higher staffing to support the continued growth of the business offset by lower expenses for incentive compensation due to below target operating performance in 2003, whereas performance was above target in 2002. Included in 2002 expenses are $2.9 million of acquisition related charges, primarily for write-offs of software and in-process research and development. The 2003 MKMV expenses included $0.9 million related to the Company's change in accounting for stock-based compensation, mainly for options granted in February 2003. Pro forma depreciation and amortization expense reflected $6.6 million of amortization of acquired KMV software and intangible assets in each period. The pro forma year-to-year increase in depreciation and amortization was primarily due to increased amortization of capitalized software development costs.

Liquidity and Capital Resources

Cash Flow

Net cash provided by operating activities was $332.0 million and $243.2 million for the nine months ended September 30, 2003 and 2002, respectively. The increase of $88.8 million reflected a number of factors, including year-to-year growth in net income of $59.3 million. In addition, the Company's income tax payments were lower in the first nine months of 2003 than in the comparable 2002 period, due to the deferral of approximately $50 million of 2001 taxes into 2002 as a result of the September 11th tragedy. These impacts were partially offset by a year-to-year increase in accounts receivable (principally as a result of continued growth in the business), lower accruals of current year incentive compensation (since year-to-year growth in the Company's operating results was lower in the first nine months of 2003 than in the same period of 2002) and higher payments for prior year incentive compensation.

Net cash used in investing activities was $11.6 million for the nine months ended September 30, 2003 compared with $218.8 million for the same period of 2002. The 2003 amount included $1.1 million of cash acquired in connection with an increase in the Company's ownership of Argentine rating agencies, as described in Note 4 to the condensed consolidated financial statements. The 2002 amount included $205.4 million of net cash used in connection with the acquisition of KMV in April 2002. Capital expenditures were $12.7 million in the first nine months of 2003 and $13.3 million in the 2002 period, primarily for computer hardware and software.

Net cash used in financing activities was $184.3 million for the nine months ended September 30, 2003 compared to $119.5 million for the nine months ended September 30, 2002. The increase in cash used in 2003 primarily reflected the repayment of $107.1 million of borrowings that were outstanding under the Company's bank revolving credit facility at December 31, 2002. In addition, spending on share repurchases for the first nine months of 2003 was $114.5 million compared with $143.2 million in the 2002 period. Dividends paid in the first nine months of 2003 and 2002 were $20.1 million and $21.1 million, respectively.

Borrowings

At September 30, 2003 and 2002, the Company had outstanding $300 million of long-term financing, as described below. There were no borrowings outstanding under the Company's bank revolving credit facility at either date. The Company initially borrowed under its revolving credit facility during the second quarter of 2002 to fund a portion of the acquisition price for KMV, and subsequently repaid those borrowings. Moody's has since borrowed under the facility from time to time 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.

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 2004. 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 ("Earnings Coverage Ratio"), as defined in the related agreement. At September 30, 2003, such premium was 18 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 of the facility amount to 12.5 basis points, depending on the Company's Earnings Coverage Ratio, and were 7 basis points at September 30, 2003. 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 amount.

Interest paid under the Facility for the nine months ended September 30, 2003 and 2002 was $0.6 million and $0.2 million, respectively.

The Company's $300 million of long-term financing was secured in connection with the 2000 Distribution, as that term is defined in Note 1 to the condensed consolidated financial statements. 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 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 an Earnings Coverage Ratio, as defined in the Agreements, of not more than 4 to 1. At September 30, 2003, 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.

Relationships with Unconsolidated Entities

At September 30, 2003 Moody's did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as special purpose or variable interest entities, 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 and Dividends

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 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.

During the first nine months of 2003, the Company repurchased 2.5 million shares at a total cost of $114.5 million. The repurchases offset 2.4 million shares issued under employee stock plans during the period. Since becoming a public company in September 2000 and through the first nine months of 2003, Moody's has repurchased 22.0 million shares at a total cost of $823.8 million, including 8.5 million shares to offset issuances under employee stock plans.

On October 28, 2003, the Board of Directors of the Company approved a quarterly dividend of 4.5 cents per share of Moody's common stock, payable on December 10, 2003 to shareholders of record at the close of business on November 20, 2003.

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" following this section.

2003 Full-Year Outlook

During the third quarter, interest rates remained near historic lows and continued to drive robust refinancing activity in several market sectors where Moody's provides ratings. At the same time, while the U.S. economy showed signs of recovery we have not yet seen a broad-based improvement in business investment, which creates "new money" debt issuance. The difficulty of predicting the timing of a decline in refinancing activity and the return of significant issuance to fund business investment creates important uncertainty around Moody's forecast of future results.

Within the ratings business, Moody's expects full-year 2003 structured finance revenue growth in the low double-digit percent range. Although U.S. residential mortgage refinancing levels have declined from the record levels of the second quarter of 2003, declines in related mortgage-backed securitizations may not occur until late 2003 or until 2004. In international structured finance markets, strength in several smaller asset classes and instrument types, and the favorable impact of currency translation, are expected to continue to drive percent growth in the mid- to high-teens for the year. In our corporate finance business, we expect revenue to grow in the mid-teens percent range, with particular strength in U.S. high yield and international investment-grade issuance. Refinancing activity will likely continue to be the main reason for growth rather than issuance to fund new investment. We continue to believe that global financial institutions revenue will decline in the second half of the year compared to the first half notwithstanding the third quarter's strength. In the U.S. public finance sector we expect revenue growth in the mid single-digit percent range. We also believe growth will remain strong in our research business. Finally, at MKMV we expect percent revenue growth in the mid-thirties percent on a reported basis and in the mid-teens on a pro forma basis (assuming that Moody's had owned KMV as of January 1, 2002).

Overall for 2003, Moody's expects that revenue growth will be in the mid-teens percent on a pro forma basis, as if KMV had been acquired at the beginning of 2002. On a reported basis, we expect that percent revenue growth will be in the mid-teens to high-teens percent range.

Moody's expenses for 2003 will likely reflect continued investment spending on enhanced ratings practices, technology initiatives and product development, and continued hiring to support growth areas of the business. Moody's expects that the full-year 2003 operating margin will decline approximately 50 basis points compared to 2002. The expected operating margin decline reflects a 100 basis point reduction due to the impact of expensing stock-based compensation plans and growth in the Moody's KMV business at a lower incremental margin than the Moody's Investors Service business, partially offset by better-than-expected revenue growth in 2003 without a proportional increase in expenses.

Overall, Moody's expects full-year 2003 diluted earnings per share in the range of $2.29 – $2.33. This range of expected earnings per share includes the estimated $0.04 per share impact of expensing stock-based compensation plans as well as the $0.05 per share gain related to the first quarter insurance recovery.

Cash Flow

Moody's believes that it has the financial resources necessary to meet its business requirements for the next twelve months and expects to have positive net cash provided by operating activities ("operating cash flow") for fiscal year 2003. The Company currently intends to use the majority of its operating cash flow to continue its share repurchase program. The Company's approach to returning excess cash to shareholders by means of share repurchase was based on the relative tax efficiency of capital gains over dividends. With the recent change in tax law to reduce the tax rate on dividends, the Company is in the process of reconsidering its dividend and share repurchase policies. In addition, as described above, the Company has borrowed from time to time under its bank revolving credit facility 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 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.

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 or referred to below.

Below is a discussion of certain contingencies that relate to Old D&B, its predecessors and their affiliated companies ("Legacy Contingencies"). Discussion of certain contingencies that relate to Moody's business and operations ("Moody's Matters") is contained in Note 14, Contingencies, in the Company's annual report on Form 10-K for the year ended December 31, 2002.

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 condensed 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 on May 21, 2003, the court set a trial date of September 20, 2004. On December 22, 1999, defendants filed a motion for partial summary judgment dismissing IRI's non-U.S. antitrust claims. On July 12, 2000, the Court granted the motion dismissing claims of injury suffered from activities in foreign markets where IRI operates through subsidiaries or companies owned by joint ventures or "relationships" with local companies. IRI took the position that this ruling disposed of its claims with respect to eight of the thirty foreign markets alleged in its complaint. On April 28, 2003, the Court denied defendants' motion for partial summary judgment to dismiss IRI's claim with respect to the 22 remaining foreign markets. The Court also modified its July 12, 2000 decision, to permit IRI to claim damages for injuries IRI suffered in the U.S. market as a result of defendants' alleged anticompetitive practices overseas.

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 designated 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 the portion of any judgment that may ultimately be payable by Moody's. Therefore, management is unable to predict 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 2003, New D&B received an Examination Report from the IRS with respect to a partnership transaction entered into in 1993. In this Report, the IRS stated its intention to disallow certain royalty expense deductions claimed by Old D&B on its tax returns for the years 1993 through 1996. New D&B disagrees with the position taken by the IRS in its Report. During the third quarter of 2003, New D&B filed a protest with the Appeals Office of the IRS to contest the Examination Report. If the IRS Appeals Office were to uphold the Examination Report, then New D&B could either: (1) accept and pay the IRS assessment; (2) challenge the assessment in U.S. Tax Court; or (3) challenge the assessment in U.S. District Court, where 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 $56 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 an Examination Report from the IRS stating its intention to ignore the partnership structure that had been established in 1993, and to reallocate to Old D&B income and expense items that had been claimed on the partnership tax return for 1996. During the third quarter of 2003, New D&B filed a protest with the Appeals Office of the IRS to contest the Examination Report. If the IRS Appeals Office were to uphold the Examination Report, then New D&B could either: (1) accept and pay the IRS assessment; (2) challenge the assessment in U.S. Tax Court; or (3) challenge the assessment in U.S. District Court, where 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. Moody's estimates that its share of the required payment to the IRS for this matter could be up to approximately $49 million (including penalties and interest, and net of tax benefits). Such exposure could be in addition to the amount described in the preceding paragraph, and Moody's also could be obligated for future interest payments on its share of such liability.

Moody's and New D&B have retained new outside counsel with respect to the Royalty Expense Deductions matters discussed above, who will among other things be advising the Company on potential courses of action.

Amortization Expense Deductions

In November 2003, New D&B received a Notice of Proposed Adjustment from the IRS with respect to a partnership transaction entered into in 1997 that could result in amortization expense deductions from 1997 through 2012. In this Notice, which resulted from the IRS' audit of Old D&B's 1997 tax return, the IRS proposed to disallow the amortization expense deductions related to this partnership that were claimed by Old D&B on its 1997 tax return. New D&B disagrees with the position taken by the IRS. If the IRS were to issue a formal assessment consistent with the Notice for 1997 or for future years, and were to prevail in its position, then New D&B would be required to pay the assessment. 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 $92 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.

Moody's and New D&B have retained new outside counsel with respect to this matter, who will among other things be advising the Company on potential courses of action.

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. On April 29, 2003, an arbitration panel ruled in favor of IMS Health in the arbitration proceeding, awarding IMS Health its full claim plus interest in a decision binding on all parties. As a result, IMS Health's contingent claim against Old D&B (and consequently Moody's and New D&B) in connection with this matter has been rendered moot. As no amount with respect to this matter had been accrued by Moody's, the arbitration panel ruling is not expected to have an impact on the Company's consolidated 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. In doing so, Moody's makes estimates and judgments as to future events and conditions and evaluates its estimates and judgments on an ongoing basis. 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.

Regulation

Moody's Investors Service registers as an investment adviser under the Investment Advisers Act of 1940, as amended. Moody's has also been designated as a Nationally Recognized Statistical Rating Organization ("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 continued use of ratings for regulatory purposes under federal securities laws, and the potential need for either greater or lesser regulation and oversight of credit 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 considered a number of issues that the SEC was required to examine under the Sarbanes-Oxley Act of 2002, and other issues arising from an SEC-initiated review of credit rating agencies. More specifically, the SEC identified five broad areas that deserved further examination:

- Information Flow in the Credit Rating Process
- Potential Conflicts of Interest
- Alleged Anticompetitive or Unfair Practices
- Reducing Potential Regulatory Barriers to Entry
- The Appropriate Degree of Regulatory Oversight

In the report, the SEC further stated that it intended to publish a Concept Release to solicit comments on issues affecting the role and operation of credit rating agencies and expected 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 as a fourth NRSRO, together with Moody's, Standard & Poor's and Fitch.

On June 4th the SEC issued its Concept Release regarding the credit ratings industry. The Release restated many questions first raised in the Commission's January 2003 report, and requested public comment on those questions. Questions were grouped under three broad themes:

- Whether credit rating agencies should continue to be used for regulatory purposes under the federal securities laws?
- If ratings continue to be used in federal securities laws, what should be the process for approving rating agencies?
- If ratings continue to be used in federal securities laws, what should be the nature and extent of oversight?

Numerous market participants, including Moody's, responded to the call for comment. Moody's response can be found on the Company's website at *www.moodys.com* . At present, Moody's is unable to assess the likelihood of any regulatory changes that may result from the SEC's ongoing review, nor the nature and effect of any such regulatory changes.

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 locally-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. Credit rating agencies are excluded from control under the current draft of the guidelines. However, depending on the form in which the implementation guidelines are ultimately adopted by national regulators or lawmakers, such guidelines could include controls over credit rating agencies in some European Union countries. If so, the guidelines could, among other things, alter rating agencies' communications with issuers as part of the rating assignment process, and 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 proposed in 1988. 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 or 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. In addition, the legal status of rating agencies has been addressed by courts in various decisions and is likely to be considered and addressed in legal proceedings from time to time in the future. Management of Moody's cannot predict whether these or any other proposals will be enacted, the outcome of any pending or possible future legal proceedings, or the ultimate impact of any such matters on the competitive position, financial position or results of operations of Moody's.

Forward-Looking Statements

Certain statements contained in this Form 10-Q 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 sections entitled "Outlook" and "Contingencies" under Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations," commencing at page 17 of this report on Form 10-Q, under "Legal Proceedings" in Item 1, Part II of this Form 10-Q, 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 Form 10-Q, 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; possible judicial decisions in various jurisdictions regarding the status of and potential liabilities of rating agencies; 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; and other risk factors as discussed in the Company's annual report on Form 10-K for the year ended December 31, 2002 and in other filings made by the Company from time to time with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in the Company's exposure to market risk during the third quarter of 2003. For a discussion of the Company's exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosures about Market Risk, contained in the Company's annual report on Form 10-K for the year ended December 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures: The Company carried out an evaluation, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures 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.

The Company has implemented procedures to improve controls relating to consulting arrangements. The improved procedures were adopted following a review of the Company's consulting arrangements, and a determination by the Company that it was appropriate to reclassify payments made to certain individuals as salary rather than consulting fees. The Company does not believe that the impacts of these changes are or will be material to its results of operations, cash flows or financial position.

PART II. OTHER INFORMATION

ITEM 1. 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 Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Contingencies", commencing at page 25 of this report on Form 10-Q, is incorporated into this Item 1 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 in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Contingencies".

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
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)
10. MATERIAL CONTRACTS	
3*	Amended and Restated 364-Day Credit Agreement, dated as of September 8, 2003, 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.
31. CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002	
1*	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
2*	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32. CERTIFICATIONS PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002	
1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (The Company has furnished this certification and does not intend for it to be considered filed under the Securities Exchange Act of 1934 or incorporated by reference into future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934.)
2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (The Company has furnished this certification and does not intend for it to be considered filed under the Securities Exchange Act of 1934 or incorporated by reference into future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934.)

* Filed herewith.

(b) Reports on Form 8-K:

The Company furnished its second quarter earnings press release in a Current Report on Form 8-K on July 23, 2003, on which information was reported under Items 9 and 12.

The Company furnished a press release relating to the retirement of its non-executive chairman of the board of directors in a Current Report on Form 8-K on August 1, 2003, on which information was reported under Item 9.

The Company furnished its third quarter earnings press release in a Current Report on Form 8-K on October 29, 2003, on which information was reported under Items 9 and 12.

SIGNATURES

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

	MOODY'S CORPORATION
Date: November 12, 2003	By: /s/ JEANNE M. DERING
	Jeanne M. Dering Senior Vice President and Chief Financial Officer
Date: November 12, 2003	By: /s/ CHARLES R. BRUSCHI
	Charles R. Bruschi Vice President and Corporate Controller

EXHIBIT 10.3

CONFORMED COPY

AMENDED AND RESTATED CREDIT AGREEMENT

AMENDED AND RESTATED CREDIT AGREEMENT dated as of September 8, 2003 amending and restating the Amended and Restated Credit Agreement dated as of September 9, 2002 (as in effect prior to the amendment and restatement of September 8, 2003, the **"Credit Agreement"**) among MOODY'S CORPORATION (the **"Company"**), the Borrowing Subsidiaries party thereto (the **"Borrowing Subsidiaries"** and together with the Company, the **"Borrowers"**), the LENDERS party thereto (the **"Lenders"**), JPMORGAN CHASE BANK (as successor to The Chase Manhattan Bank), as Administrative Agent (the **"Administrative Agent"**), CITIBANK, N.A., as Syndication Agent, and THE BANK OF NEW YORK, as Documentation Agent.

WITNESSETH:

WHEREAS, the parties hereto desire to amend the Credit Agreement to (i) extend the Revolver Termination Date from the date that is 364 days after the effective date of the Credit Agreement to the date that is 364 days after the Amendment Effective Date (as hereinafter defined), (ii) make any necessary conforming changes with respect to the amendment set forth in clause (i) above, (iii) amend the Confidentiality provisions in Section 10.12 of the Credit Agreement and (iv) amend the Commitments of each Lender, all as set forth herein;

WHEREAS, the parties hereto wish to amend the Credit Agreement as set forth herein and to restate the Credit Agreement in its entirety to read as set forth in the Credit Agreement with the amendments specified below;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. *Defined Terms; References.* Unless otherwise specifically defined herein, each term used herein which is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof, "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement shall, after the Amendment Effective Date (as defined below), refer to the Credit Agreement as amended and restated hereby.

SECTION 2. *Definitions.* The definition of "Revolver Termination Date" in Section 1.01 of the Credit Agreement is amended to read in full as follows:

“Revolver Termination Date” means September 6, 2004 or, if such day is not a Business Day, the next preceding Business Day.

SECTION 3. *Representation regarding Financial Condition and No Material Adverse Change.* Sections 3.04(a) and (b) of the Credit Agreement are amended by replacing each reference therein to (i) “2000” with “2001”, (ii) “2001” with “2002” and (iii) “2002” with “2003”.

SECTION 4. *Confidentiality.* Section 10.12 of the Credit Agreement is amended by adding the following new paragraph immediately after the existing paragraph:

“Notwithstanding anything contrary herein or in any related document, each party hereto and each of its employees, representatives, or other agents may disclose to any and all Persons, without limitation of any kind, the U.S. federal income tax treatment and the U.S. federal income tax structure of this Agreement and the transactions contemplated hereby and all materials of any kind, including opinions or other tax analyses, that have been provided to it relating to such tax treatment and tax structure.”

SECTION 5. *Changes in Commitments.* With effect from and including the Amendment Effective Date (as defined in Section 9 below), (i) each Person listed on the signature pages hereof which is not a party to the Credit Agreement (each, a **“New Lender”**) shall become a Lender party to the Credit Agreement and (ii) the Commitment of each Lender shall be the amount set forth opposite the name of such Lender on the signature pages hereof. On the Amendment Effective Date, any Lender whose Commitment is changed to zero (each, an **“Exiting Lender”**) shall cease to be a Lender party to the Credit Agreement, and all accrued fees and other amounts payable under the Credit Agreement for the account of each Exiting Lender shall be due and payable on such date; provided that the provisions of Sections 2.14, 2.16 and 10.03 of the Credit Agreement shall continue to inure to the benefit of each Exiting Lender after the Amendment Effective Date.

SECTION 6. *Representations of Borrower.* The Borrower represents and warrants that (i) the representations and warranties of the Borrower set forth in Article 3 of the Credit Agreement, after giving effect to this Amendment and Restatement, is true on and as of the Amendment Effective Date and (ii) no Default has occurred and is continuing on such date.

SECTION 7. *Governing Law.* This Amendment and Restatement shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 8. *Counterparts.* This Amendment and Restatement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

SECTION 9. *Effectiveness.* This Amendment and Restatement shall become effective on the date when the following conditions are met (the **"Amendment Effective Date")** :

(a) the Administrative Agent shall have received from each of the Borrowers and the Lenders a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Administrative Agent) that such party has signed a counterpart hereof;

(b) the Administrative Agent shall have received an opinion of Simpson Thacher & Bartlett LLP, counsel for the Company, dated the Amendment Effective Date (in form and substance reasonably satisfactory to the Administrative Agent); and

(c) all fees and other amounts due and payable on or prior to the Amendment Effective Date, including, to the extent invoiced, reimbursement or payment of all reasonable out-of-pocket expenses required to be reimbursed or paid by the Company hereunder.

SECTION 10. *Confirmation of Agreement.* Except as amended hereby, all of the terms of the Credit Agreement shall remain in full force and effect and are hereby confirmed in all respects.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment and Restatement to be duly executed as of the date first above written.

MOODY'S CORPORATION

By: -s- Randolph A. Roy

Name: Randolph A. Roy
Title: Vice President & Treasurer

Commitment	
$17,500,000	JPMORGAN CHASE BANK, individually and as Administrative Agent By: -s- Eileen Higgins Name: Eileen Higgins Title: Vice President

$15,000,000	CITIBANK, N.A., individually and as Syndication Agent
	By: -s- James R. Stave
	Name: James R. Stave Title: Vice President

$15,000,000	THE BANK OF NEW YORK, individually and as Documentation Agent By: -s- Ernest Fung Name: Ernest Fung Title: Vice President

$10,000,000

BARCLAYS BANK PLC

By: -s- Nicholas Bell

Name: Nicholas Bell
Title: Director

$12,500,000	SUNTRUST BANK
	By: -s- Laura Kahn
	Name: Laura Kahn Title: Director

$10,000,000	THE NORTHERN TRUST COMPANY

By: -s- Eric Dybing

Name: Eric Dybing
Title: Second Vice President

Exhibit 31.1

**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 quarterly report on Form 10-Q of Moody’s Corporation;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

    b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ JOHN RUTHERFURD, JR.

John Rutherfurd, Jr.
Chairman and Chief Executive Officer
November 12, 2003

Exhibit 31.2

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 quarterly report on Form 10-Q of Moody's Corporation;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JEANNE M. DERING

Jeanne M. Dering
Senior Vice President and
Chief Financial Officer
November 12, 2003

Exhibit 32.1

**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 Quarterly Report of Moody's Corporation (the "Company") on Form 10-Q for the period ended September 30, 2003 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.
Chairman and Chief Executive Officer
November 12, 2003

Exhibit 32.2

**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 Quarterly Report of Moody's Corporation (the "Company") on Form 10-Q for the period ended September 30, 2003 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
November 12, 2003