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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2004

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	**Shares Outstanding at September 30, 2004**
Common Stock, par value $0.01 per share	147.9 million

MOODY'S CORPORATION

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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,	
	2004	2003	2004	2003
Revenue	$357.9	$305.0	$1,046.7	$895.9
Expenses				
Operating, selling, general and administrative	151.8	135.7	441.2	385.1
Depreciation and amortization	8.3	8.1	25.3	23.8
Total expenses	160.1	143.8	466.5	408.9
Operating income	197.8	161.2	580.2	487.0
Interest and other non-operating expense, net	(3.5)	(7.4)	(14.9)	(3.6)
Income before provision for income taxes	194.3	153.8	565.3	483.4
Provision for income taxes	98.8	68.2	262.8	205.0
Net income	$ 95.5	$ 85.6	$ 302.5	$278.4
Earnings per share				
Basic	$ 0.65	$ 0.57	$ 2.04	$ 1.87
Diluted	$ 0.63	$ 0.56	$ 2.00	$ 1.83
Weighted average shares outstanding				
Basic	147.6	149.4	148.5	148.8
Diluted	150.7	152.9	151.5	152.0

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, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 451.0	$ 269.1
Accounts receivable, net of allowances of $13.2 in 2004 and $15.9 in 2003	285.5	270.3
Other current assets	53.0	40.5
Total current assets	789.5	579.9
Property and equipment, net	44.2	46.8
Prepaid pension costs	59.8	60.2
Goodwill	127.5	126.4
Intangible assets, net	72.4	77.4
Other assets	40.6	61.6
Total assets	$1,134.0	$ 952.3
Liabilities and shareholders' equity (deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 236.6	$ 228.4
Deferred revenue	234.0	214.6
Total current liabilities	470.6	443.0
Non-current portion of deferred revenue	50.2	41.1
Notes payable	300.3	300.0
Other liabilities	165.4	200.3
Total liabilities	986.5	984.4
Contingencies (Note 8)		
Shareholders' equity (deficit):		
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, 2004 and December 31, 2003	1.7	1.7
Capital surplus	121.9	76.4
Retained earnings	827.9	558.9
Treasury stock, at cost; 23,523,214 and 22,779,500 shares of common stock at September 30, 2004 and December 31, 2003, respectively	(811.1)	(677.2)
Other comprehensive income	7.1	8.1
Total shareholders' equity (deficit)	147.5	(32.1)
Total liabilities and shareholders' equity (deficit)	$1,134.0	$ 952.3

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

MOODY'S CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(AMOUNTS IN MILLIONS)

	Nine Months Ended September 30,	
	2004	**2003**
Cash flows from operating activities		
Net income	$ 302.5	$ 278.4
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	25.3	23.8
Stock-based compensation expense	19.1	8.0
Tax benefits from exercise of stock options	36.7	23.2
Other	0.1	0.2
Changes in assets and liabilities:		
Accounts receivable	(14.8)	(29.5)
Other current assets	(12.0)	(3.4)
Prepaid pension costs	0.4	(0.7)
Other assets	21.6	(0.6)
Accounts payable and accrued liabilities	5.3	(3.4)
Deferred revenue	28.6	23.2
Other liabilities	(34.5)	12.8
Net cash provided by operating activities	378.3	332.0
Cash flows from investing activities		
Capital additions	(14.5)	(12.7)
(Net cash used) acquired in connection with investments in affiliates	(3.5)	1.1
Net cash used in investing activities	(18.0)	(11.6)
Cash flows from financing activities		
Net repayments of bank borrowings	—	(107.1)
Proceeds from stock plans	76.8	58.3
Cost of treasury shares repurchased	(221.3)	(114.5)
Payment of dividends	(33.4)	(20.1)
Payments under capital lease obligations	(0.9)	(0.9)
Net cash used in financing activities	(178.8)	(184.3)
Effect of exchange rate changes on cash and cash equivalents	0.4	3.9
Increase in cash and cash equivalents	181.9	140.0
Cash and cash equivalents, beginning of the period	269.1	39.9
Cash and cash equivalents, end of the period	$ 451.0	$ 179.9

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 credit 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 2003 annual report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2004. 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 amounts have been reclassified to conform to the current year 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 ("SFAS") No. 123, "Accounting for Stock-Based Compensation" as amended by SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123". 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 include compensation expense in the following amounts, related to restricted stock and related to stock options granted and stock issued under the employee stock purchase plan since January 1, 2003 for the three months ended September 30, 2004 and 2003, $6.7 million and $3.0 million, respectively; and for the nine months ended September 30, 2004 and 2003, $19.1 million and $8.0 million, respectively. In addition, the 2004 and 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,	
	2004	2003	2004	2003
	(in millions, except per share data)			
Net income:				
As reported	$95.5	$85.6	$302.5	$278.4
Add: Stock-based compensation expense included in reported net income, net of tax	4.0	1.8	11.5	4.9
Deduct: Stock-based compensation expense determined under the fair value method, net of tax	(7.3)	(5.0)	(21.2)	(15.5)
Pro forma net income	$92.2	$82.4	$292.8	$267.8
Basic earnings per share:				
As reported	$0.65	$0.57	$ 2.04	$ 1.87
Pro forma	$0.63	$0.55	$ 1.98	$ 1.80
Diluted earnings per share:				
As reported	$0.63	$0.56	$ 2.00	$ 1.83
Pro forma	$0.62	$0.55	$ 1.96	$ 1.79

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 three and nine months ended September 30, 2004 and 2003.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Expected dividend yield	0.46%	0.41%	0.46%	0.41%
Expected stock volatility	30%	30%	30%	30%
Risk-free interest rate	3.74%	2.48%	3.23%	3.03%
Expected holding period	5 yrs	5 yrs	5 yrs	5 yrs

The estimated weighted average fair value of Moody's options granted was $20.92 and $15.38, respectively, for the three months ended September 30, 2004 and 2003 and $19.98 and $13.02, respectively, for the nine months ended September 30, 2004 and 2003.

At the Distribution Date, all unexercised Old D&B stock options were converted into separately exercisable options of Moody's and New D&B. The distribution agreement relating to the 2000 Distribution (the "2000 Distribution Agreement") provided that, for subsequent exercises of those options, the issuer of the stock rather than the employer would be entitled to the related tax deduction. Accordingly, since the Distribution Date and through the filing of its income tax returns for 2002, Moody's has claimed tax deductions when employees of New D&B have exercised Moody's stock options.

Effective with its recently filed 2003 tax returns, Moody's has changed its tax deductions to conform to an IRS ruling, which clarified that the employer should take the tax deduction for option exercises rather than the issuer. The Distribution Agreement entitles Moody's to reimbursement from New D&B for the resulting loss of the issuer-based tax deductions. Accordingly, Moody's has reflected a receivable from New D&B within other current assets in the condensed consolidated balance sheet in the amount of $21.7 million at September 30, 2004, consisting of $10.8 million related to the nine months ended September 30, 2004 and $10.9 million related to the year ended December 31, 2003. This accounting had no impact on the results of operations.

The condensed consolidated balance sheet and statement of cash flows as of and for the year ended December 31, 2003 have been reclassified to reflect the above treatment.

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,	
	2004	2003	2004	2003
	(in millions)			
Weighted average number of shares — Basic	147.6	149.4	148.5	148.8
Dilutive effect of shares issuable under stock-based compensation plans	3.1	3.5	3.0	3.2
Weighted average number of shares — Diluted	150.7	152.9	151.5	152.0

Options to purchase 5.6 million common shares in each of the 2004 periods shown above, and 3.5 million common shares in each of the 2003 periods, were outstanding but were not included in the computation of diluted weighted average shares outstanding because they were antidilutive.

4. ACQUISITIONS

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, 2004) in 2005, based on KIS net income for the three-year period ended December 31, 2004. The Company currently estimates that this payment will be approximately $3 million, and will be made in the first quarter of 2005.

In March 2004, KIS increased its ownership in an equity-basis investment to just over 50%, at a cost of 0.6 billion Korean Won, net of cash acquired (approximately $0.6 million). As a result, starting in March 2004 this entity is being consolidated in Moody’s financial statements and $0.7 million of goodwill was recorded related to this entity.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	Nine Months Ended September 30, 2004			Year Ended December 31, 2003		
	Moody's Investors Service	Moody's KMV	Consolidated	Moody's Investors Service	Moody's KMV	Consolidated
Beginning balance	$ 2.3	$124.1	$126.4	$ 2.3	$124.0	$126.3
Net change from acquisitions	1.1	—	1.1	—	—	—
Other	—	—	—	—	0.1	0.1
Ending balance	$ 3.4	$124.1	$127.5	$ 2.3	$124.1	$126.4

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

	September 30, 2004	December 31, 2003
	(in millions)	
Customer lists (11.3 year original weighted average life)	$ 57.8	$ 57.8
Accumulated amortization	(14.6)	(10.6)
Net customer lists	$ 43.2	$ 47.2
Other intangible assets (5.6 year original weighted average life)	$ 8.2	$ 8.2

Accumulated amortization	(4.6)	(3.5)
Net other intangible assets	$ 3.6	$ 4.7
Total	$ 46.8	$ 51.9

Amortization expense for intangible assets subject to amortization in each of the three and nine month periods ended September 30, 2004 and 2003 was $1.7 million and $5.2 million, respectively.

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

Years Ending December 31,	(in millions)
2004 (after September 30)	$ 1.7
2005	6.5
2006	6.2
2007	5.5
2008	4.5
Thereafter	22.4

As of September 30, 2004, $25.5 million in trade secrets acquired with the April 2002 acquisition of KMV were not subject to amortization. Current circumstances and conditions continue to support an indefinite useful life.

6. PENSION AND OTHER POST-RETIREMENT BENEFITS

Moody's maintains both funded and unfunded noncontributory defined benefit pension plans in which substantially all U.S. employees of the Company are eligible to participate. The plans provide defined benefits using a cash balance formula based on years of service and career average salary.

The Company also provides certain healthcare and life insurance benefits for retired U.S. employees. The health care plans are contributory with participants' contributions adjusted annually; the life insurance plans are noncontributory. The accounting for the health care plans anticipates future cost-sharing changes to the written plans that are consistent with Moody's expressed intent to fix the Company's share of costs and require retirees to pay for all future increases in plan costs in excess of the amount of the per person company contribution in the year 2005.

Effective at the Distribution Date, Moody's assumed responsibility for pension and other post-retirement benefits relating to its active employees. New D&B has assumed responsibility for the Company's retirees and vested terminated employees as of the Distribution Date.

Following are the components of net periodic expense related to pension and other post-retirement plans for the three and nine months ended September 30, 2004 and 2003 (in millions):

	Pension Plans		Other Post-Retirement Plans	
	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003
Components of net periodic expense				
Service cost	$ 2.0	$ 1.2	$ 0.1	$(0.1)
Interest cost	1.2	0.7	0.1	(0.1)
Expected return on plan assets	(2.0)	(0.1)	—	—
Amortization of net actuarial loss from earlier periods	0.4	0.4	—	—
Amortization of unrecognized prior service costs	0.1	—	0.1	(0.1)
Net periodic expense	$ 1.7	$ 2.2	$ 0.3	$(0.3)

	Pension Plans		Other Post-Retirement Plans	
	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Components of net periodic expense				
Service cost	$ 6.1	$ 5.2	$ 0.4	$ 0.2
Interest cost	3.8	3.1	0.3	0.2
Expected return on plan assets	(6.0)	(5.7)	—	—
Amortization of net actuarial loss from earlier periods	1.1	0.9	—	—
Amortization of unrecognized prior service costs	0.2	0.1	0.1	—
Net periodic expense	$ 5.2	$ 3.6	$ 0.8	$ 0.4

For the first nine months of 2004, Moody's made $0.2 million of contributions to its other post-retirement plans. The Company presently anticipates contributing an additional $0.1 million in 2004 for a total of $0.3 million.

In May 2004, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act ("Medicare Act") of 2003 which supersedes FSP No. FAS 106-1 of the same title. FSP No. FAS 106-2 clarifies the accounting for the benefits attributable to new government subsidies for companies that provide prescription drug benefits to retirees. FSP 106-2 is effective as of the first interim annual period beginning after June 15, 2004. In accordance with FSP No. FAS 106-1, the Company elected to defer accounting for the economic effects of the Medicare Act, and is in the process of evaluating the effects of the Medicare Act on its post-retirement benefits. The impact of adoption of this standard is not anticipated to have a material effect on the Company's financial statements and will be adopted as of the next measurement date.

7. INDEBTEDNESS

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

On October 3, 2000 the Company issued $300 million of notes payable (the "Notes") in a private placement. The cash proceeds from the Notes were used in part to repay the outstanding balance on the revolving credit facility and to repay the bridge line of credit. The Notes have a five-year term and bear interest at an annual rate of 7.61%, payable semi-annually. In the event that Moody's pays all or part of the Notes in advance of their maturity (the "prepaid principal"), such prepayment will be subject to a penalty calculated based on the excess, if any, of the discounted value of the remaining scheduled payments, as defined in the agreement, over the prepaid principal. Interest paid under the Notes was $5.7 million for each of the three month periods ended September 30, 2004 and 2003 and $17.1 million for each of the nine month periods ended September 30, 2004 and 2003.

On September 1, 2004, Moody's entered into a five-year senior, unsecured revolving credit facility (the "Facility") in an aggregate principal amount of $160 million that expires in September 2009. This Facility replaced the $80 million 5-year facility that was scheduled to expire in September 2005 and the $80 million 364-day facility that expired in September 2004. Interest on borrowings under the Facility is payable at rates that are based on the London InterBank Offered Rate plus a premium that can range from 17 basis points to 47.5 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, 2004, such premium was 17 basis points. The Company also pays quarterly facility fees, regardless of borrowing activity under the Facility. The quarterly fees for the Facility can range from 8 basis points of the Facility amount to 15 basis points, depending on the Company's Earnings Coverage Ratio, and were 8 basis points at September 30, 2004. Under the Facility, the Company also pays a utilization fee of 12.5 basis points on borrowings outstanding when the aggregate amount outstanding under the Facility exceeds 50% of the Facility. Interest paid under Moody's previous revolving credit facilities for the nine months ended September 30, 2003 was $0.6 million. No interest was paid under the Company's facilities for the three months ended September 30, 2003 or the three and nine month periods ended September 30, 2004 as no borrowings were outstanding during those periods.

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, transactions with affiliates and sale-leaseback transactions or to incur liens, as defined in the related agreements. The Agreements also contain financial covenants that, among other things,

require the Company to maintain an interest coverage ratio, as defined in the related agreements, of not less than 3

to 1 for any period of four consecutive fiscal quarters, and an Earnings Coverage Ratio, as defined in the related agreements, of not more than 4 to 1 at the end of any fiscal quarter. At September 30, 2004, the Company was in compliance with such covenants. Upon the occurrence of certain financial or economic events, significant corporate events or certain other events constituting an event of default under the Agreements, all loans outstanding under the Agreements (including accrued interest and fees payable thereunder) may be declared immediately due and payable and all commitments under the Agreements may be terminated. In addition, certain other events of default under the Agreements would automatically result in amounts due becoming immediately due and payable and all commitments being terminated.

Moody's total interest expense was $5.8 million and $5.7 million, respectively, for the three months ended September 30, 2004 and 2003 and $17.3 million and $17.7 million, respectively, for the nine months ended September 30, 2004 and 2003. Total interest income on cash and cash equivalents was $1.7 million and $0.5 million, respectively, for the three months ended September 30, 2004 and 2003 and $3.8 million and $1.0 million, respectively, for the nine months ended September 30, 2004 and 2003.

8. 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 and periodically adjusts these reserves as appropriate. In other instances, because of the uncertainties related to both the probable outcome and amount or range of loss, management is unable to make a reasonable estimate of a liability, if any. As additional information becomes available, the Company adjusts its assessments and estimates of such liabilities accordingly.

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

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"). Under the terms of the distribution agreement relating to the 1996 Distribution, each party thereto is prohibited from distributing to its stockholders any business that had been allocated to it in connection with the 1996 Distribution, unless the distributed business delivers an undertaking agreeing to be jointly and severally liable to the other parties under the 1996 distribution agreement for the liabilities of the distributing parent company under the 1996 distribution agreement.

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 condensed consolidated financial statements.

Information Resources, Inc.

The following is a description of an antitrust lawsuit filed in 1996 by Information Resources, Inc. ("IRI"). As more fully described below, VNU N.V., a publicly traded Dutch company, and its U.S. subsidiaries, VNU, Inc., ACNielsen Corporation ("ACNielsen"), AC Nielsen (US), Inc. ("ACN (US)"), and Nielsen Media Research, Inc. ("NMR") (collectively, the "VNU Parties"), have assumed exclusive joint and several liability for any judgment or settlement of this antitrust lawsuit. As a result of the indemnity obligation, Moody's does not have any exposure to a judgment or settlement of this lawsuit unless the VNU Parties default on their obligations. However, in the event of such a default, contractual commitments undertaken by Moody's in connection with various corporate reorganizations since 1996 would require the Company to bear a portion of any amount not paid by the VNU Parties.

In July 1996, IRI filed a complaint, subsequently amended in 1997, in the U.S. 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 amended complaint alleges various violations of United States antitrust laws under Sections 1 and 2 of the Sherman Act. The amended 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 alleged SRG violated an alleged agreement with IRI when it agreed to be acquired by defendants and that defendants induced SRG to breach that agreement.

IRI’s antitrust claims allege that defendants developed and implemented a plan to undermine IRI’s ability to compete within the United States and foreign markets in North America, Latin America, Asia, Europe and Australia/New Zealand through a series of anti-competitive practices, including: unlawfully tying/bundling services in the markets in which defendants allegedly had monopoly power with services in markets in which ACNielsen competed with IRI; entering into exclusionary contracts with retailers in certain countries to deny IRI’s access to sales data necessary to provide retail tracking services or to artificially raise the cost of that data; predatory pricing; acquiring foreign market competitors with the intent of impeding IRI’s efforts to expand; disparaging IRI to financial analysts and clients; and denying IRI access to capital necessary for it to compete.

IRI’s amended complaint originally alleged damages in excess of $350 million, which IRI asked to be trebled under antitrust laws. IRI has since revised its allegation of damages to exceed $650 million, which IRI also asked to be trebled. IRI has filed with the court the report of its expert who has opined that IRI suffered damages of between $581.6 million and $651.7 million from the defendants’ alleged practices. IRI also sought punitive damages in an unspecified amount.

In April 2003, the court denied a motion for partial summary judgment by defendants that sought to dismiss certain of IRI’s claims and granted in part a motion by IRI seeking reconsideration of certain summary judgment rulings the Court had previously made in favor of defendants. The motion granted by the Court concerns IRI’s claims of injuries from defendants’ alleged conduct in certain foreign markets.

Pursuant to a scheduling order entered by the Court on April 8, 2004, discovery ended on November 1, 2004, and trial is scheduled to begin on April 18, 2005.

On June 21, 2004, pursuant to a stipulation between IRI and defendants, the Court ordered that certain of IRI’s claims be dismissed with prejudice from the lawsuit, including the claims that defendants tortiously interfered with the SRG acquisition. The Company believes that the dismissal of the tortious interference claims also precludes any claim for punitive damages.

In connection with the 1996 Distribution, NMR (then known as Cognizant Corporation), ACNielsen and Donnelley (then known as The Dun & Bradstreet Corporation) entered into an Indemnity and Joint Defense Agreement (the “Original Indemnity and Joint Defense Agreement”), pursuant to which they agreed to:

- allocate potential liabilities that may relate to, arise out of or result from the IRI lawsuit (“IRI Liabilities”); and
- conduct a joint defense of such action.

In particular, the Original Indemnity and Joint Defense Agreement provided that:

- ACNielsen would assume exclusive liability for IRI Liabilities up to a maximum amount to be calculated at such time as such liabilities became payable as a result of a final non-appealable judgment or any settlement permitted under the Original Indemnity and Joint Defense Agreement (the “ACN Maximum Amount”); and
- Donnelley and NMR would share liability equally for any amounts in excess of the ACN Maximum Amount.

The Original Indemnity and Joint Defense Agreement also provided that if it becomes necessary to post any bond pending an appeal of an adverse judgment, then NMR and Donnelley shall obtain the bond required for the appeal, and each shall pay 50% of the costs of such bond, if any, which cost will be added to IRI Liabilities.

In 2001, ACNielsen was acquired by VNU N.V., which assumed ACNielsen's obligations under the Original Indemnity and Joint Defense Agreement. Pursuant to the Original Indemnity and Joint Defense Agreement, VNU N.V. was to be included with ACNielsen for purposes of determining the ACN Maximum Amount.

In connection with the 1998 Distribution, Old D&B and Donnelley (then known as The Dun & Bradstreet Corporation) 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. 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 Original Indemnity and Joint Defense Agreement, and any liabilities arising from the IRI action itself. However, as between New D&B and Moody's, it was agreed that under the 2000 Distribution, each of New D&B and Moody's will be responsible for 50% of any payments required to be made to or on behalf of Donnelley with respect to the IRI action under the terms of the 1998 Distribution Agreement, including legal fees or expenses related to the IRI action.

On July 30, 2004, the VNU Parties, Donnelley, Moody's, New D&B and IMS Health entered into an Amended and Restated Indemnity and Joint Defense Agreement (the "Amended Indemnity and Joint Defense Agreement").

Pursuant to the Amended Indemnity and Joint Defense Agreement, any and all IRI Liabilities incurred by Donnelley, Moody's, New D&B or IMS Health relating to a judgment (even if not final) or any settlement entered into in the IRI action will be jointly and severally assumed, and fully discharged, exclusively by the VNU Parties. Under the Amended Indemnity and Joint Defense Agreement, the VNU Parties have agreed to, jointly and severally, indemnify Donnelley, Moody's, New D&B and IMS Health from and against all IRI Liabilities to which they become subject. As a result, the concept of "ACN Maximum Amount" which used to cap ACNielsen's liability for the IRI Liabilities no longer exists and all such liabilities are the responsibility of the VNU Parties pursuant to the Amended Indemnity and Joint Defense Agreement.

In addition, the Amended Indemnity and Joint Defense Agreement provides that if it becomes necessary to post any bond pending an appeal of an adverse judgment, the VNU Parties shall obtain the bond required for the appeal and shall pay the full cost of such bond.

In connection with entering into the Amended Indemnity and Joint Defense Agreement, Donnelley, Moody's, New D&B and IMS Health agreed to amend certain covenants of the Original Indemnity and Joint Defense Agreement to provide operational flexibility for ACNielsen going forward. In addition, the Amended Indemnity and Joint Defense Agreement includes certain amendments to the covenants of ACNielsen (which, under the Amended Indemnity and Joint Defense Agreement, are now also applicable to ACN (US)), which are designed to preserve such parties' claims-paying ability and protect Donnelley, Moody's, New D&B and IMS Health. Among other covenants, ACNielsen and ACN (US) agreed that neither they nor any of their respective subsidiaries will incur any indebtedness to any affiliated person, except indebtedness which its payment will, after a payment obligation under the Amended Indemnity and Joint Defense Agreement comes due, be conditioned on, and subordinated to, the payment and performance of the obligations of such parties under the Amended Indemnity and Joint Defense Agreement. VNU N.V. has agreed to having a process agent in New York to receive on its behalf service of any process concerning the Amended Indemnity and Joint Defense Agreement.

As described above, the VNU Parties have assumed exclusive responsibility for the payment of all IRI Liabilities. Provided that the VNU Parties are able to fulfill their obligations under the Amended Indemnity and Joint Defense Agreement, and that they ultimately do fulfill such obligations, Moody's believes that the resolution of the IRI action should not materially affect the Company's financial position, results of operations, or cash flows.

However, because liability for violations of the antitrust laws is joint and several and because the rights and obligations relating to the Amended Indemnity and Joint Defense Agreement are based on contractual relationships, the failure of the VNU Parties to fulfill their obligations under the Amended Indemnity and Joint Defense Agreement could result in the other parties bearing all or a portion of the IRI Liabilities. Joint and several liability for the IRI action means that even where more than one defendant is determined to have been responsible for an alleged wrongdoing, the plaintiff can collect all or part of the judgment from just one of the defendants. This is true regardless of whatever contractual allocation of responsibility the defendants and any other indemnifying parties may have made, including the allocations described above between the VNU Parties, Donnelley, Moody's, New D&B and IMS Health.

Accordingly, and as a result of the allocations of liability described above, in the event the VNU Parties default on their obligations under the Amended Indemnity and Joint Defense Agreement, each of Moody's and New D&B will be responsible for the payment of 50% of the portion of any judgment or settlement ultimately paid by Donnelley (which is a defendant in the IRI action), which can be as high as all the IRI Liabilities.

The Company is unable to predict at this time the outcome of the IRI action, the financial condition of any of the VNU parties or the other defendants at the time of any such outcome, or whether the VNU Parties or the other defendants will fulfill their obligations under the Amended Indemnity and Joint Defense Agreement or other related contractual agreements. Hence, the Company cannot estimate such parties' ability to pay the IRI Liabilities pursuant to the Amended Indemnity and Joint Defense Agreement or the amount of the judgment or settlement in the IRI action. Accordingly, no amount in respect of this matter has been accrued in the Company's consolidated financial statements. As discussed above, provided that the VNU Parties ultimately fulfill their obligations under the Amended Indemnity and Joint Defense Agreement, Moody's believes that the resolution of the IRI action should not materially affect the Company's financial position, results of operations, or cash flows. If, however, IRI were to prevail in whole or in part in this action and Moody's is required to pay, notwithstanding such contractual obligations, a portion of any significant settlement or judgment, the outcome of this matter could have a material adverse effect on Moody's financial position, results of operations, and cash flows.

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 as described in such agreements (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, also as described in such agreements, 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 2000 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 (the "Royalty Report"). In the first quarter of 2004, New D&B received a similar Examination Report (the "Second Royalty Report") relating to the first quarter of 1997.

During the second quarter of 2003, New D&B also received an Examination Report from the IRS stating its intention to ignore the partnership structure that had been established in 1993 in connection with the above transaction, and to reallocate to Old D&B income and expense items that had been reported in the partnership tax return for 1996 (the "Reallocation Report"). New D&B also received a similar Examination Report (the "Second Reallocation Report") issued to the partnership with respect to the first quarter of 1997.

In June 2004, New D&B and the IRS conducted a mediation of these issues, at which New D&B and the IRS reached a basis for settlement with regard to the Royalty Report for 1995 and 1996, the Reallocation Report and certain tax refund claims made by Old D&B related to 1995 and 1996 (the "Preliminary Settlement"). The Preliminary Settlement was subject to the execution of a formal settlement agreement. In addition, the IRS maintains it's position that certain tax refund claims made by Old D&B related to 1993 and 1994 may be offset by tax liabilities relating to the above mentioned partnership formed in 1993. New D&B disagrees with the position taken by the IRS for 1993 and 1994 and plans to file a protest with the IRS Appeals Office. If the protest is unsuccessful New D&B can either: (1) abandon its tax refund claims; or (2) challenge the IRS claim in U.S. District Court or the U.S. Court of Federal Claims. Moody's estimates that its exposure for the write-off of deferred tax assets related to these tax refund claims could be up to $9 million.

As of June 30, 2004, Moody's had adjusted its reserve for the Royalty Expense Deductions matter and recorded write-offs of deferred tax assets to reflect the Company's estimates of probable exposure for the Preliminary Settlement and the other matters discussed in the preceding paragraph. However, the IRS and New D&B were not able to agree on the terms of a formal settlement agreement by the November 1st deadline imposed by the IRS. As a result, the IRS has withdrawn the preliminary settlement agreement. In accordance with the 1996 Agreements, New D&B was required to obtain the consent of Moody's, IMS Health and NMR as a condition to executing the formal settlement agreement, but was unable to obtain IMS

Health and NMR's consent. We believe that in accordance with the 1996 Distribution Agreement, NMR, by withholding its consent, would be contractually responsible to pay any excess amounts above the Preliminary Settlement that may ultimately be owing with respect to tax years 1995-1996. IMS Health has alleged various breaches of New DNB's obligations under the 1996 Agreements related to New D&B's management and attempted settlement of this matter. If the parties fail to resolve their dispute, we understand that New D&B anticipates commencing arbitration proceedings against IMS Health and NMR. Based on our current understanding of the positions of New D&B and IMS Health, we believe it is likely that New DNB should prevail, but we cannot predict with certainty the outcome.

In addition, the Second Royalty Report and the Second Reallocation Report, which were not part of New D&B's preliminary settlement with the IRS, have not been resolved. New D&B disagrees with the positions taken by the IRS in these reports and previously had filed a protest with the IRS Appeals Office. If the IRS Appeals Office were to uphold these reports, 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 or the U.S. Court of Federal Claims, where in either case payment of the assessment 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 believes that the positions taken by the IRS in the Second Royalty Report and the Second Reallocation Report are inconsistent with each other. Accordingly, while it is possible that the IRS could ultimately prevail in whole or in part on one of such positions, Moody's believes that it is unlikely that the IRS will prevail on both. Moody's estimates that its share of the required payment to the IRS for this matter could be up to $2 million (including penalties and interest, and net of tax benefits).

Moody's has reassessed its exposure for the Royalty Expense Deductions matter taking into consideration: (1) all of the original Examination Reports discussed above (for which the Company's share of the required payments to the IRS could be up to $102 million, including penalties and interest, and net of tax benefits); and (2) the potential write-off of deferred tax assets (for which the Company's exposure could be up to $9 million as discussed above). Based on this assessment, during the third quarter of 2004 the Company increased its reserve for this matter by $18.4 million to reflect the current estimate of probable exposure.

Amortization Expense Deductions

In April 2004, New D&B received Examination Reports (the "April Examination Reports") from the IRS with respect to a partnership transaction. This transaction was entered into in 1997 and could result in amortization expense deductions on the tax returns of Old D&B and New D&B from 1997 through 2012. In the April Examination Reports, the IRS stated its intention to disallow the amortization expense deductions related to this partnership that were claimed by Old D&B on its 1997 and 1998 tax returns. New D&B disagrees with the position taken by the IRS and can 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 or the U.S. Court of Federal Claims, where in either case payment of the disputed amount would be required in connection with such challenge. IRS audits of Old D&B's or New D&B's tax returns for years subsequent to 1998 could result in the issuance of similar Examination Reports, in which case New D&B would also have the aforementioned three courses of action. Should any such payments be made by New D&B related to either the April Examination Reports or any potential Examination Reports for future years, including years subsequent to the separation of Moody's from 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. 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 50% of the future tax benefits from this transaction in cash to Moody's at the Distribution Date. Moody's estimates that the Company's current potential exposure could be up to $94 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 and on whether New D&B continues claiming the amortization deductions on its tax returns.

In the April Examination Reports, the IRS also stated its intention to disallow certain royalty expense deductions claimed by Old D&B on its 1997 and 1998 tax returns with respect to the partnership transaction. In addition, the IRS stated its intention to disregard the partnership structure and to reallocate to Old D&B certain partnership income and expense items that had been reported in the partnership tax returns for 1997 and 1998. New D&B disagrees with the positions taken by the IRS and can take any of the three courses of action described in the second paragraph. IRS audits of Old D&B's or New D&B's tax returns for years subsequent to 1998 could result in the issuance of similar Examination Reports for the subsequent years. Should any such payments be made by New D&B related to either the April Examination Reports or any potential Examination Reports for future years, then pursuant to the terms of the 2000 Distribution Agreement, Moody's would have to pay to New D&B its 50% share of New D&B's payments to the IRS for the period from 1997 through the Distribution Date. Moody's estimates that its share of the potential exposure to the IRS could be up

to $127 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.

New D&B had filed protests with the IRS Appeals Office regarding the April Examination Reports. In September 2004 the IRS Appeals Office remanded the case to the IRS examination office for further development of the issues. New D&B has reopened discussion of the issues with the examination office.

Moody's believes that the IRS's proposed assessments of tax against Old D&B and the proposed reallocations of partnership income and expense to Old D&B are inconsistent with each other. Accordingly, while it is possible that the IRS could ultimately prevail in whole or in part on one of such positions, Moody's believes that it is unlikely that the IRS will prevail on both.

Utilization of Capital Losses

The IRS has completed its review of the utilization of certain capital losses generated by Old D&B 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.

On May 12, 2000, an amended tax return was filed by Old D&B for the 1989 and 1990 tax years, 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 on September 20, 2000, Old D&B filed a petition for a refund in the U.S. District Court.

Pre-trial proceedings on this matter have been ongoing, and in July 2004, New D&B and the IRS reached a basis for settlement of all outstanding issues related to this matter. Moody's estimates that its share of the cost of this tentative settlement will be $12 million, reflecting anticipated cash payments of $2 million and the write-off of deferred tax assets of $10 million. The tentative settlement will not be finalized until a formal agreement is executed, which is expected to be during the fourth quarter of 2004, and it is possible that Moody's share of the related cost could differ from the Company's current estimate.

Summary of Moody's Exposure to Three Legacy Tax Matters

The Company considers from time to time the range and probability of potential outcomes related to the three legacy tax matters discussed above and establishes reserves that it believes are appropriate in light of the relevant facts and circumstances. 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.

In the third quarter of 2004, the Company recorded provisions of approximately $19 million to increase its reserves for the three legacy tax matters, to reflect its current estimates of the probable exposures on these matters. As a result, at September 30, 2004, Moody's total legacy tax reserves were $131 million, representing approximately $44 million of current liabilities (reflecting the estimated cash payments related to the Royalty Expense Deductions and Utilization of Capital Losses matters that are expected to be made over the next twelve months) and $87 million of non-current liabilities.

It is possible that the legacy tax matters could be resolved in amounts that are greater than the amounts reserved by the Company, which could result in additional charges that may be material to Moody's future reported results, financial position and cash flows. Although Moody's does not believe it is likely that the Company will ultimately be required to pay the full amounts presently being sought by the IRS, potential future outlays resulting from these matters could be as much as $346 million and could increase with time as described above.

9. COMPREHENSIVE INCOME

Total comprehensive income was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in millions)			
Net income	$95.5	$85.6	$302.5	$278.4
Other comprehensive (loss) income — foreign currency translation adjustment	0.2	1.8	(0.6)	3.5
Other comprehensive loss — additional minimum pension liability	(0.1)	—	(0.4)	—
Total comprehensive income	$95.6	$87.4	$301.5	$281.9

10. 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.

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 financial information by segment, Moody's Investors Service revenue by business unit and revenue information by geographic area, each for the three and nine month periods ended September 30, 2004 and 2003, and total assets by segment as of September 30, 2004 and December 31, 2003 (in millions). Certain prior year amounts have been reclassified to conform to the current presentation.

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Financial Information by Segment

	Three Months Ended September 30, 2004			Three Months Ended September 30, 2003		
	Moody's Investors Service	Moody's KMV	Consolidated	Moody's Investors Service	Moody's KMV	Consolidated
Revenue	$328.1	$29.8	$357.9	$277.3	$27.7	$305.0
Operating, selling, general and administrative expenses	126.8	25.0	151.8	113.7	22.0	135.7
Depreciation and amortization	4.0	4.3	8.3	3.9	4.2	8.1
Operating income	197.3	0.5	197.8	159.7	1.5	161.2
Interest and other non-operating expense, net			(3.5)			(7.4)
Income before provision for income taxes			194.3			153.8
Provision for income taxes			98.8			68.2
Net income			$ 95.5			$ 85.6

	Nine Months Ended September 30, 2004			Nine Months Ended September 30, 2003		
	Moody's Investors Service	Moody's KMV	Consolidated	Moody's Investors Service	Moody's KMV	Consolidated
Revenue	$955.8	$90.9	$1,046.7	$817.2	$78.7	$895.9
Operating, selling, general and administrative expenses	366.6	74.6	441.2	321.6	63.5	385.1
Depreciation and amortization	12.5	12.8	25.3	11.4	12.4	23.8
Operating income	576.7	3.5	580.2	484.2	2.8	487.0
Interest and other non-operating expense, net			(14.9)			(3.6)
Income before provision for income taxes			565.3			483.4
Provision for income taxes			262.8			205.0
Net income			$ 302.5			$278.4

Moody’s Investors Service Revenue by Business Unit

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Ratings revenue:				
Structured finance	$142.6	$110.1	$387.4	$324.8
Corporate finance	72.2	69.4	226.9	202.4
Financial institutions and sovereign risk	50.1	44.8	154.4	134.6
Public finance	20.2	21.4	62.2	65.0
Total ratings revenue	285.1	245.7	830.9	726.8
Research revenue	43.0	31.6	124.9	90.4
Total Moody’s Investors Service	$328.1	$277.3	$955.8	$817.2

Revenue Information by Geographic Area

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
United States	$228.0	$192.4	$ 670.9	$578.6
International	129.9	112.6	375.8	317.3
Total	$357.9	$305.0	$1,046.7	$895.9

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Total Assets by Segment

	September 30, 2004			December 31, 2003		
	Moody's Investors Service	Moody's KMV	Consolidated	Moody's Investors Service	Moody's KMV	Consolidated
Total assets by segment	$883.5	$250.5	$1,134.0	$673.0	$268.4	$941.4

11. 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 previously been 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 statement of operations.

12. SUBSEQUENT EVENT

On October 26, 2004, the Board of Directors of the Company approved a quarterly dividend of 7.5 cents per share of Moody’s common stock, payable on December 10, 2004 to shareholders of record at the close of business on November 20, 2004.

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

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

Certain of the statements below are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, any projections of future results of operations and cash flows are subject to substantial uncertainty. See "Forward-Looking Statements" on page 36.

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 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 Estimates

Moody's discussion and analysis of its financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Moody's to make estimates and judgments that affect reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the dates of the financial statements and revenue and expenses during the reporting periods. These estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, Moody's evaluates its estimates, including those related to revenue recognition, accounts receivable allowances, contingencies, 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, 2003, includes descriptions of some of the judgments that Moody's makes in applying its accounting estimates in these areas. Since the date of the annual report on Form 10-K, there have been no material changes to the Company's critical accounting estimates.

Operating Segments

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 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 amounts have been reclassified to conform to the current presentation.

Results of Operations

Three Months Ended September 30, 2004 Compared With Three Months Ended September 30, 2003

Total Company Results

Moody's revenue for the third quarter of 2004 was $357.9 million, an increase of $52.9 million or 17.3% from $305.0 million for the third quarter of 2003. Moody's achieved strong revenue growth in several business sectors, including global structured finance, global research, and U.S. financial institutions.

Revenue in the United States was $228.0 million for the third quarter of 2004, an increase of $35.6 million or 18.5% from $192.4 million in 2003. Approximately 60% of the U.S growth was driven by structured finance, reflecting strong issuance in the residential mortgage backed sector, particularly securitizations of home equity loans. Year-to-year revenue growth of approximately $6 million was achieved in research, and the financial institutions business accounted for approximately $5 million of growth.

Moody's international revenue was $129.9 million in the third quarter, an increase of $17.3 million or 15.4% over $112.6 million in the third quarter of 2003. The Moody's Investors Service business accounted for approximately $17 million of year-to-year international revenue growth. International ratings revenue grew approximately $11 million versus the prior year, with approximately 80% related to Europe, primarily in structured finance where issuance was up in many asset classes. This was partially offset by a decline in European corporate finance revenue, reflecting lower issuance volumes. International research revenue grew approximately $6 million from the third quarter of 2003, with approximately $5 million of that growth in Europe. Foreign currency translation accounted for approximately $6 million of reported international revenue growth.

Operating, selling, general and administrative expenses were $151.8 million in the third quarter of 2004, an increase of $16.1 million or 11.9% from $135.7 million in the third quarter of 2003. Compensation and benefits expense grew $11.6 million year-to-year, reflecting compensation increases, increased staffing, and higher stock-based compensation expense. Moody's global staffing of approximately 2,451 employees at September 30, 2004 was 10% higher than at September 30, 2003, and reflected hiring in the specialist teams that support Moody's Enhanced Analysis Initiative, in Moody's international ratings businesses, and at Moody's KMV. Stock-based compensation expense increased $3.8 million year-to-year. As more fully discussed in note 2 to the condensed consolidated financial statements, the Company adopted the fair value method provisions of Statement of Financial Accounting Standards No. 123 prospectively beginning on January 1, 2003. The year-to-year increase in expense reflects the phasing in of expense over the current four-year equity plan vesting period as annual equity grants are made as well as the effect of a higher share price on the value of the 2004 equity grants. In addition, foreign currency translation accounted for approximately $3 million of the year-to-year expense growth. Depreciation and amortization expense was $8.3 million in the third quarter of 2004 compared with $8.1 million in the prior year period.

Third quarter operating income of $197.8 million rose $36.6 million or 22.7% from $161.2 million in the same period of 2003. Foreign currency translation contributed approximately $2 million to operating income growth in the quarter. Moody's operating margin for the third quarter of 2004 was 55.3% compared to 52.9% a year earlier. The increase in margin was the result of better-than-expected revenue growth.

Moody's reported $3.5 million of interest and other non-operating expense, net for the third quarter of 2004 compared with $7.4 million for the same period of 2003. Interest expense was $5.8 million in the third quarter of 2004 compared to $5.7 million in the third quarter of 2003, principally related to Moody's $300 million of private placement debt. Interest income was $1.7 million in the third quarter of 2004 compared to $0.5 million in the third quarter of 2003. Moody's invested cash increased substantially year-to-year, but the rate of interest was lower in 2004 than in 2003. Foreign exchange gains (losses) were $1.2 million in the third quarter of 2004 and ($1.6) million in the third quarter of 2003.

Moody's effective tax rate was 50.8% in the third quarter of 2004 compared to 44.4% in the same prior year period. The tax rate for the third quarter of 2004 reflected a charge of $18.4 million related to legacy income tax exposures, which increased the effective rate in the quarter by approximately 950 basis points. The third quarter 2003 rate included the impact of an adjustment to reflect a change in New York tax law that was retroactive to January 1, 2003, which increased the effective rate by 230 basis points in the period.

Net income was $95.5 million for the third quarter of 2004, an increase of $9.9 million or 11.6% from $85.6 million for the same period of 2003. Basic and diluted earnings per share for the third quarter of 2004 were $0.65 and $0.63, respectively, compared to basic and diluted earnings per share of $0.57 and $0.56, respectively, for the third quarter of 2003.

Segment Results

Moody's Investors Service

Revenue at Moody's Investors Service for the third quarter of 2004 was $328.1 million, up $50.8 million or 18.3% from $277.3 million in the third quarter of 2003. Ratings revenue accounted for $39.4 million of growth with approximately $32 million from structured finance. Research contributed $11.4 million of year-to-year growth. Foreign currency translation accounted for approximately $6 million of reported revenue growth and price increases also contributed to year-to-year growth.

Structured finance revenue was $142.6 million for the third quarter of 2004, an increase of $32.5 million or 29.5% from $110.1 million in the same period of 2003. Approximately $22 million of the increase was in the U.S., with the residential mortgage and home equity sectors contributing nearly $13 million of this amount. Low-adjustable-rate mortgages drove growth in mortgage re-financings and continued strength in the housing market supported exceptionally strong volumes in home equity lending. The U.S. commercial mortgage backed sector contributed nearly $5 million of growth on strong issuance volume. Revenue from rating U.S. collateralized debt obligations rose about $4 million year to year, as narrowing liability spreads created a favorable issuance environment. International structured finance revenue grew approximately $11 million year-to-year, chiefly due to growth in Europe. The collateralized debt obligation and commercial mortgage backed sectors were the largest contributors to European growth due to an increased number of transactions and growth in monitoring fees. Foreign currency translation also contributed to growth in international structured finance revenue.

Corporate finance revenue was $72.2 million for the third quarter of 2004, up $2.8 million or 4.0% from $69.4 million in the third quarter of 2003. Revenue grew approximately $3 million in the United States, as the impact of weak corporate debt issuance activity was more than offset by strong growth in revenue from syndicated bank loan ratings (driven primarily by increased issuance) and other areas not related to public debt issuance. The number of investment grade issues in the U.S. declined 15% versus the prior year and high yield issuance declined over 20%. Rising corporate profitability, which reduces the need for corporations to fund business investment with debt, and a low stock of debt to be refinanced, have contributed to a weak issuance environment in the U.S. International corporate finance reported modestly lower revenue versus the same quarter 2003, principally reflecting a decline in Europe. European corporate issuance volumes declined over 40% versus the robust prior year period, as improved profitability reduced the need to borrow externally, and drivers of issuance such as merger and acquisition activity remained low. This was partially offset by growth in revenue not related to public debt issuance primarily frequent issuer annual 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 $50.1 million for the third quarter of 2004, an increase of $5.3 million or 11.8% from $44.8 million in the third quarter of 2003. In the U.S., revenue grew approximately $5 million, principally reflecting strong issuance in the banking and real estate sector, as narrower spreads encouraged refinancings. Internationally, revenue was flat compared to the prior year period. In Europe, growth in the banking sector due to new relationships was largely offset by the effects of lower issuance in the insurance sector. Price increases also contributed to year-to-year growth in global financial institutions revenue.

Public finance revenue was $20.2 million for the third quarter of 2004, a decline of $1.2 million or 5.6% from $21.4 million for the same period in 2003. Dollar issuance in the municipal bond market declined approximately 9% versus the same period in 2003, reflecting reduced borrowing needs as a result of improved tax receipts. Refinancings represented 35% of total dollar issuance in the third quarter of 2004, versus 38% in the same period of 2003.

Research revenue of $43.0 million for the third quarter of 2004 was $11.4 million or 36.1% higher than the $31.6 million reported in the third quarter of 2003. Revenue grew by approximately $6 million in the U.S. and approximately $5 million in Europe. The strong performance reflected growth in licensing of Moody's information to financial customers for internal use and redistribution, sales of new products to existing clients and new clients. Foreign currency translation and pricing increases also contributed to year-to-year growth in reported revenue.

Moody's Investors Service operating, selling, general and administrative expenses, including corporate expenses, were $126.8 million for the third quarter of 2004, an increase of $13.1 million or 11.5% from $113.7 million in the third quarter of 2003. Compensation and benefits expense accounted for $9.3 million of expense growth. The growth also reflected compensation increases and staffing

growth in many areas, including the specialist teams that support Moody's Enhanced Analysis Initiative. Foreign currency translation contributed approximately $3 million to year-to-year growth in reported expenses. Depreciation and amortization expense was $4.0 million in the third quarter of 2004 versus $3.9 million in the third quarter of 2003.

Moody's Investors Service operating income of $197.3 million for the third quarter of 2004 was up $37.6 million or 23.5% from $159.7 million in the third quarter of 2003. Foreign currency translation contributed approximately $3 million to year-to-year growth in operating income.

Moody's KMV

Moody's KMV revenue of $29.8 million for the third quarter of 2004 was up $2.1 million or 7.6% from $27.7 million for the same period in 2003. MKMV's global revenue growth reflected double-digit percent growth in subscriptions for its credit risk assessment products, including CreditEdge™, RiskCalc™ and Portfolio Manager™. This was partially offset by a decline in revenue from credit process software, where growth was negatively impacted by sales that closed in the second quarter of 2004 but had been expected in the second half of the year. By geography, revenue growth was approximately split evenly between the U.S. and international.

MKMV's operating, selling, general and administrative expenses were $25.0 million for the third quarter of 2004, an increase of $3.0 million or 13.6% from $22.0 million in the third quarter of 2003. The year-to-year increase primarily reflected growth of $2.3 million in compensation and related expenses. This reflected increased staffing to support the continued growth of the business. Depreciation and amortization expense was $4.3 million in the third quarter of 2004 versus $4.2 million in the third quarter of 2003. MKMV operating income was $0.5 million in the third quarter of 2004 versus $1.5 million in the prior year period.

Nine Months Ended September 30, 2004 Compared With Nine Months Ended September 30, 2003

Total Company Results

Moody's revenue for the first nine months of 2004 was $1,046.7 million, an increase of $150.8 million or 16.8% from $895.9 million for the first nine months of 2003. Moody's achieved strong revenue growth in a number of business sectors.

Revenue in the United States was $670.9 million for the first nine months of 2004, an increase of $92.3 million or 16.0% from $578.6 million for the first nine months of 2003. Approximately $42 million of this was due to structured finance growth, with the U.S residential mortgage backed sector the largest contributor. In addition, over $17 million of Moody's U.S. growth was contributed by corporate finance, primarily reflecting strong activity in the ratings of bank credit facilities. The financial institutions and research businesses also contributed to Moody's strong growth in the United States.

Moody's international revenue was $375.8 million in the first nine months of 2004, an increase of $58.5 million or 18.4% over $317.3 million in the first nine months of 2003. Ratings revenue grew approximately $35 million, with about $21 million of that growth coming from structured finance. Europe contributed approximately 75% of the growth in international structured finance. Research revenue growth of approximately $18 million was primarily in Europe. International corporate finance and financial institutions contributed to growth as well. In addition, foreign currency translation accounted for approximately $15 million of reported international revenue growth.

Operating, selling, general and administrative expenses were $441.2 million in the first nine months of 2004, an increase of $56.1 million or 14.6% from $385.1 million in the first nine months of 2003. Compensation and benefits expense grew $43.9 million year-to-year, reflecting compensation increases, increased staffing, and higher stock-based compensation expense. Moody's global staffing of approximately 2,396 at September 30, 2004 was 9% higher than at September 30, 2003 and reflected hiring in the specialist teams that support Moody's Enhanced Analysis Initiative, in Moody's international ratings businesses, and at Moody's KMV. Stock-based compensation expense increased $11.2 million year-to-year. As more fully discussed in note 2 to the condensed consolidated financial statements, the Company adopted the fair value method provisions of Statement of Financial Accounting Standards No. 123 prospectively beginning on January 1, 2003. The year-to-year increase in expense reflects the phasing in of expense over the current four-year equity plan vesting period as annual equity grants are made as well as the effect of a higher share price on the value of the 2004 equity grants. In addition, foreign currency translation contributed approximately $12 million to year-to-year expense growth. Depreciation and amortization expense was $25.3 million and $23.8 million in the first nine months of 2004 and 2003, respectively.

Operating income of $580.2 million for the first nine months of 2004 rose $93.2 million or 19.1% from $487.0 million in the same period of 2003. Foreign currency translation contributed approximately $3 million to operating income growth. Moody's operating

margin for the first nine months of 2004 was 55.4% compared to 54.4% a year earlier. The increase in margin was the result of better-than-expected revenue growth.

Moody's reported $14.9 million of interest and other non-operating expense, net for the first nine months of 2004 compared with $3.6 million for the same period of 2003. The 2003 amount included a gain of $13.6 million on an insurance recovery related to the September 11th tragedy, as discussed in note 11 to the condensed consolidated financial statements. Interest expense was $17.3 million for the first nine months of 2004 compared to $17.7 million in the 2003 period. The amounts in both periods included $17.1 million of interest expense on Moody's $300 million of private placement debt. Interest income was $3.8 million in the first nine months of 2004 compared to $1.0 million in the first nine months of 2003. Moody's invested cash increased substantially year-to-year, but the rate of interest was lower in 2004 than in 2003. Foreign exchange (losses) gains were ($0.3) million in the first nine months 2004 and $0.2 million in the first nine months of 2003.

Moody's effective tax rate was 46.5% for the first nine months of 2004 compared to 42.4% in the same period of 2003. The 2004 effective tax rate included charges aggregating approximately $28 million for increases in reserves related to legacy income tax exposures that were assumed by Moody's in connection with its separation from The Dun & Bradstreet Corporation in October 2000 (see Contingencies – Legacy Tax Matters, below). These charges increased the effective tax rate in the quarter by approximately 500 basis points.

Net income was $302.5 million for the first nine months of 2004, an increase of $24.1 million or 8.7% from $278.4 million for the same period of 2003. Basic and diluted earnings per share for the first nine months of 2004 were $2.04 and $2.00, respectively, compared to basic and diluted earnings per share of $1.87 and $1.83, respectively, for the first nine months of 2003. Moody's net income and earnings per share in the first nine months of 2004 included the impact of the legacy tax provisions of approximately $28 million, and the 2003 results included the impact of the $13.6 million gain on the insurance recovery, both as discussed above.

Segment Results

Moody's Investors Service

Moody's Investors Service revenue for the first nine months of 2004 was $955.8 million, up $138.6 million or 17.0% from $817.2 million in the first nine months of 2003. Good growth was achieved in a number of ratings sectors as well as in research. Foreign currency translation contributed approximately $15 million to reported revenue growth. Price increases also contributed to year-to-year growth in reported revenue.

Structured finance revenue was $387.4 million for the first nine months of 2004, an increase of $62.6 million or 19.3% from $324.8 million in the same period of 2003. Approximately $42 million of this increase was in the United States, primarily due to the residential mortgage backed sector, which contributed approximately $28 million of revenue growth. In this sector, low interest rates and a strong housing market drove strong growth in mortgage lending and home equity loans and related securitizations. Good growth was also achieved in U.S. revenue from ratings of collateralized debt obligations where the count of issues was up approximately 16% versus the prior year period. International structured finance revenue grew approximately $21 million, with about 75% of the growth attributable to Europe. In Europe, growth was achieved in several asset class sectors. Foreign currency translation and price increases also contributed to year-to-year growth in global structured finance revenue.

Corporate finance revenue was $226.9 million in the first nine months of 2004, up $24.5 million or 12.1% from $202.4 million in the first nine months of 2003. Revenue grew by approximately $17 million in the United States, reflecting strong growth in ratings of syndicated bank loans and from other areas not related to public debt issuance. Price increases also contributed to revenue growth in this sector. These positive impacts were partially offset by the effects of a year-to-year decline in issuance of investment grade and high yield securities in the U.S. markets. International corporate finance revenue grew approximately $7 million, primarily reflecting higher issuance volumes in Asia outside of Japan and Australia. Foreign currency translation and price increases also contributed to year-to-year growth in global corporate finance revenue.

Revenue in the financial institutions and sovereign risk group was $154.4 million for the first nine months of 2004, an increase of $19.8 million or 14.7% from $134.6 million in the first nine months of 2003. In the U.S., revenue grew $13 million year-to-year, principally reflecting refinancings in the real estate and insurance sectors, coupled with strong issuance in the U.S. banking sector as spreads tightened. Revenue from outside the U.S. grew $7 million over the prior year, primarily in Europe. European growth reflected modest issuance volumes and good growth in fees, primarily frequent issuer based annual fees. Price increases also contributed to global financial institutions revenue growth over the prior year period.

Public finance revenue was $62.2 million for the first nine months of 2004, a decrease of $2.8 million or 4.3% from $65.0 million for the same period in 2003. Dollar issuance in the municipal bond market declined 8% versus the same period in 2003, reflecting higher borrowing costs, a reduced pool of debt that can be refunded and reduced borrowing needs due to strengthened tax receipts.

Research revenue of $124.9 million for the first nine months of 2004 was $34.5 million or 38.2% higher than the $90.4 million reported in the same period of 2003. Revenue grew by approximately $17 million in the U.S. and nearly $14 million in Europe. The strong performance reflected growth in licensing of Moody's information to financial customers for internal use and redistribution, 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 $366.6 million for the first nine months of 2004, an increase of $45.0 million or 14.0% from $321.6 million for the first nine months of 2003. Compensation and benefits expense accounted for $34.8 million of expense growth. The growth also reflected compensation increases and staffing growth in many areas, including the specialist teams that support Moody's Enhanced Analysis Initiative. Foreign currency translation contributed approximately $10 million to year-to-year growth in reported expenses. Depreciation and amortization expense was $12.5 million in the first nine months of 2004 versus $11.4 million in the same period of 2003.

Moody's Investors Service operating income of $576.7 million for the first nine months of 2004 was up $92.5 million or 19.1% from $484.2 million for the first nine months of 2003. Foreign currency translation contributed approximately $4 million to the year-to-year growth in operating income.

Moody's KMV

Moody's KMV revenue of $90.9 million for the first nine months of 2004 was up $12.2 million or 15.5% from $78.7 million for the same period in 2003. Revenue grew by approximately $6 million in the U.S and approximately $4 million in Europe. About $10 million of MKMV's global revenue growth was related to subscriptions for its credit risk assessment products, including CreditEdge™, RiskCalc™ and Portfolio Manager™ representing strong high teens revenue growth. Sales of MKMV's credit decisioning software accounted for over $2 million of revenue growth.

MKMV's operating, selling, general and administrative expenses were $74.6 million for the first nine months of 2004, an increase of $11.1 million or 17.5% from $63.5 million for the first nine months of 2003. The year-to-year increase primarily reflected growth of $9.1 million in compensation and related expenses. This reflected higher staffing to support the continued growth of the business. Depreciation and amortization expense was $12.8 million in the first nine months of 2004 versus $12.4 million in the same period in 2003. MKMV operating income was $3.5 million for the first nine months of 2004 compared with $2.8 million for the 2003 period. Foreign currency translation had a negative impact of $1 million on year-to-year growth in operating income.

Liquidity and Capital Resources

Cash Flow

The Company is currently financing its operations and capital expenditures through cash flow from operations. Net cash provided by operating activities was $378.3 million and $332.0 million for the nine months ended September 30, 2004 and 2003, respectively.

Moody's net cash provided by operating activities for the first nine months of 2004 was $46.3 million higher than the 2003 period. Contributing to this growth was the increase in net income of $24.1 million, higher cash tax benefits from the exercise of stock options of $13.5 million and an increase in legacy tax provisions of approximately $28.4 million. Decreases in cash from operating activities were primarily due to higher income tax payments of approximately $25 million due to timing, a smaller increase in receivables in 2004 compared to 2003 of approximately $14.8 million and an increase in other current assets in the amount of $8.6 million primarily due to the amount collectible from New D & B.

Net cash used in investing activities was $18.0 million for the nine months ended September 30, 2004 compared with $11.6 million for the same period of 2003. In each period, this spending mainly related to the purchase of property and equipment and the capitalization of development costs for MKMV's software products. The aggregate spending for these two categories was $14.5 million in the first nine months of 2004 and $12.7 million in the 2003 period. Cash paid for or acquired in investments in affiliates accounted for the remainder of each period's amount.

Net cash used in financing activities was $178.8 million for the nine months ended September 30, 2004 compared to $184.3 million for the nine months ended September 30, 2003. Significant year-to-year variances included higher spending in 2004 for repurchases of the Company's stock ($221.3 million in the first nine months of 2004 versus $114.5 million in the same period of 2003), partially offset by higher proceeds from stock plans ($76.8 million in 2004 versus $58.3 million in 2003). In addition, the Company made net repayments of bank borrowings of $107.1 million in the first nine months of 2003 versus no such spending in the 2004 period. Dividends paid in the first nine months of 2004 and 2003 were $33.4 million and $20.1 million, respectively. The increase in 2004 reflects a dividend of $0.075 per share in 2004 versus $0.045 per share in 2003.

Future Cash Requirements

Moody's currently expects to fund expenditures as well as liquidity needs created by changes in working capital from internally generated funds. The Company believes that it has the financial resources needed to meet its cash requirements for the next twelve months and expects to have positive operating cash flow for fiscal year 2004. Cash requirements for periods beyond the next twelve months will depend among other things on the Company's profitability and its ability to manage working capital requirements.

The Company currently intends to use the majority of its net cash provided by operating activities to continue its share repurchase program. The Company also currently intends to use a portion of its cash to pay a quarterly dividend, which the Board of Directors raised from $0.045 per share to $0.075 per share in December 2003. The continued payment of dividends at this rate, or at all, is subject to the discretion of the Board of Directors.

In addition, the Company will from time to time consider cash outlays for acquisitions of or investments in complementary businesses, products, services and technologies. The Company may also be required to make future cash outlays, including during 2004, 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 of Financial Condition and Results of Operations under "Contingencies". These potential cash outlays could be material and might affect liquidity requirements and they could 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.

Indebtedness

At September 30, 2004 and 2003, the Company had outstanding long-term financing of $300 million and $160 million of bank revolving credit facilities with no borrowings outstanding.

The $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.

On September 1, 2004, Moody's entered into a five-year senior, unsecured revolving credit facility (the "Facility") in an aggregate principal amount of $160 million that expires in September 2009. This replaced the $80 million 5-year facility that was scheduled to expire in September 2005 and the $80 million 364-day facility that expired in September 2004. Interest on borrowings under the Facility is payable at rates that are based on the London InterBank Offered Rate ("LIBOR") plus a premium that can range from 17 basis points to 47.5 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, 2004, such premium was 17 basis points. The Company also pays quarterly facility fees, regardless of borrowing activity under the Facility. The quarterly fees for the Facility can range from 8 basis points of the Facility amount to 15 basis points, depending on the Company's Earnings Coverage

Ratio, and were 8 basis points at September 30, 2004. Under the Facility, the Company also pays a utilization fee of 12.5 basis points on borrowings outstanding when the aggregate amount outstanding under the Facility exceeds 50% of the Facility. Interest paid under Moody's previous revolving credit facilities for the nine months ended September 30, 2003 was $0.6 million. No interest was paid under the Company's facilities for the three months ended September 30, 2003 or the three and nine month periods ended September 30, 2004 as no borrowings were outstanding during those periods. Management may consider pursuing additional 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 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, transactions with affiliates and sale-leaseback transactions or to incur liens, as defined in the related agreements. The Agreements also contain financial covenants that, among other things, require the Company to maintain an interest coverage ratio, as defined in the related agreements, of not less than 3 to 1 for any period of four consecutive fiscal quarters, and an Earnings Coverage Ratio, as defined in the related agreements, of not more than 4 to 1 at the end of any fiscal quarter. At September 30, 2004, the Company was in compliance with such covenants. Upon the occurrence of certain financial or economic events, significant corporate events or certain other events constituting an event of default under the Agreements, all loans outstanding under the Agreements (including accrued interest and fees payable thereunder) may be declared immediately due and payable and all commitments under the Agreements may be terminated. In addition, certain other events of default under the Agreements would automatically result in amounts due becoming immediately due and payable and all commitments being terminated.

Off-Balance Sheet Arrangements

At September 30, 2004 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.

Contractual Obligations

As of September 30, 2004, there have not been any material changes in Moody's contractual obligations as presented in its annual report on Form 10-K for the year ended December 31, 2003.

Dividends

On October 26, 2004, the Board of Directors of the Company approved a quarterly dividend of 7.5 cents per share of Moody's common stock, payable on December 10, 2004 to shareholders of record at the close of business on November 20, 2004.

Outlook

Moody's outlook for the full year 2004 is based on assumptions about many macroeconomic and capital market factors, including interest rates, consumer spending, corporate profitability and business investment spending and capital markets issuance activity. There is an important degree of uncertainty surrounding these assumptions and, if actual conditions differ from these assumptions, Moody's results for the year may differ from the outlook presented below.

The Company expects revenue in the fourth quarter to reflect a resumption of many of the macroeconomic and capital markets conditions that Moody's saw at the beginning of the third quarter and to be generally the same as revenue in the third quarter. The Company expects that residential mortgage and home equity securitizations will decline versus the third quarter level, offsetting seasonal increases in asset-backed securities and credit derivatives. Moody's also expects that the third quarter declines that occurred in the 10-year treasury rate, off which many debt securities are priced, will begin to reverse in the fourth quarter. And the Company anticipates further weakness in public finance issuance and a seasonally strong fourth quarter at MKMV. Consistent with Moody's expense pattern in 2003, the Company expects increases in fourth quarter expenses over third quarter levels. Areas of potential increased spending in the fourth quarter include improving technology infrastructure and administrative systems, office relocation and expansion, Sarbanes-Oxley compliance, marketing programs, and a grant to the Moody's Foundation. Moody's outlook for the full year 2004 reflects these expectations for the fourth quarter.

In the U.S., the Company expects low double-digit percent revenue growth for the ratings and research business for the full year 2004. While the Federal Reserve has increased its target interest rate three times since June 30th, the yield on 10-year U.S. treasuries has

fallen. Moody’s benefited from stronger-than-expected issuance in the third quarter, in part as a result of this decline, but the Company expects that the 10-year rate will resume rising as had occurred earlier in the year. Moody’s expects that higher borrowing costs, combined with sufficient profits from current production to reduce the need for corporations to fund business investment with debt, will result in a continuing weakness in U.S. investment grade corporate issuance for the remainder of the year. The Company believes issuance in the high yield bond market for the remainder of 2004 will likely continue its downward trend from the very strong levels of the second half of 2003 and the first half of 2004, though this may be partly offset by continuing strong activity in the leveraged loan sector of that market. For the full year 2004, Moody’s expects moderate growth in U.S. corporate finance and good growth in financial institutions revenue versus 2003, including the benefits of new products, particularly our Enhanced Analysis Initiative.

In the U.S. structured finance market, revenue from rating residential mortgage and home equity securities has been stronger than last year and much stronger than the Company anticipated at the start of this year, driven by persistently low interest rates and the strength of real estate prices. For the full year 2004 Moody’s now expects revenue from rating residential mortgage-backed securities, including home equity loans, to grow approximately 40% compared with 2003. The Company expects 2004 revenue from rating asset-backed securitizations, including credit card and vehicle transactions, to decline slightly compared to 2003. Asset-backed commercial paper should continue to show flat to modestly negative revenue growth, but Moody’s expects good growth in commercial mortgage-backed securities and credit derivatives. Accordingly, for the full year the Company expects mid-teens percent revenue growth in U.S. structured finance.

Moody’s continues to expect a year-to-year revenue decline in U.S. public finance, and is forecasting continued strong growth in the U.S. research business.

Outside the U.S. the Company continues to expect mid single-digit percent revenue growth in the combined corporate and financial institutions ratings businesses. Moody’s is also projecting mid-teens percent year-over-year revenue growth for international structured finance ratings, primarily due to strong growth in European and Japanese residential and commercial mortgage-backed securities, European asset-backed commercial paper, and Japanese asset-backed securities. The Company expects strong growth in international research revenue to continue. These expectations, which include favorable foreign currency impacts, should produce mid-teens percent ratings and research revenue growth in Europe, and mid to high teens percent revenue growth in other international regions in 2004.

Finally, Moody’s continues to expect low teens percent revenue growth at Moody’s KMV on a global basis. This expectation is lower than MKMV’s growth rate in the first half of 2004 due to factors that include earlier than expected sales of credit process software and longer product development and sales cycles than anticipated for new, more complex risk analytics products.

For Moody’s overall, Moody’s now expects low teens percent revenue growth for the full year, up from the high single-digit growth expectation at the end of the second quarter. The Company expects the operating margin, including the effect of stock-based compensation expense, to be slightly higher than 2003. This reflects the unexpectedly robust revenue growth that the Company has seen in several of its businesses this year, partially offset by investments Moody’s is making.

For 2004, Moody’s expects year-over-year growth in diluted earnings per share to be in the low double digit percent range. This expected growth includes the impacts of the insurance gain in 2003, the legacy tax provisions in 2003 and for the first nine months of 2004, and stock-based compensation expense in both years. Stock-based compensation expense is expected to be in the range of $26 million pre-tax in 2004, equivalent to $0.10 — $0.11 per diluted share, compared to $10.8 million, or $0.04 per diluted share, in 2003. The outlook does not include potential additional legacy tax provisions that may be required.

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 and periodically adjusts these reserves as appropriate. In other instances, because of the uncertainties related to both the probable outcome and amount or range of loss, management is unable to make a reasonable estimate of a liability, if any. As additional information becomes available, the Company adjusts its assessments and estimates of such liabilities accordingly.

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

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"). Under the terms of the distribution agreement relating to the 1996 Distribution, each party thereto is prohibited from distributing to its stockholders any business that had been allocated to it in connection with the 1996 Distribution, unless the distributed business delivers an undertaking agreeing to be jointly and severally liable to the other parties under the 1996 distribution agreement for the liabilities of the distributing parent company under the 1996 distribution agreement.

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 condensed consolidated financial statements.

Information Resources, Inc.

The following is a description of an antitrust lawsuit filed in 1996 by Information Resources, Inc. ("IRI"). As more fully described below, VNU N.V., a publicly traded Dutch company, and its U.S. subsidiaries, VNU, Inc., ACNielsen Corporation ("ACNielsen"), AC Nielsen (US), Inc. ("ACN (US)"), and Nielsen Media Research, Inc. ("NMR") (collectively, the "VNU Parties"), have assumed exclusive joint and several liability for any judgment or settlement of this antitrust lawsuit. As a result of the indemnity obligation, Moody's does not have any exposure to a judgment or settlement of this lawsuit unless the VNU Parties default on their obligations. However, in the event of such a default, contractual commitments undertaken by Moody's in connection with various corporate reorganizations since 1996 would require the Company to bear a portion of any amount not paid by the VNU Parties.

In July 1996, IRI filed a complaint, subsequently amended in 1997, in the U.S. 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 amended complaint alleges various violations of United States antitrust laws under Sections 1 and 2 of the Sherman Act. The amended 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 alleged SRG violated an alleged agreement with IRI when it agreed to be acquired by defendants and that defendants induced SRG to breach that agreement.

IRI's antitrust claims allege that defendants developed and implemented a plan to undermine IRI's ability to compete within the United States and foreign markets in North America, Latin America, Asia, Europe and Australia/New Zealand through a series of anti-competitive practices, including: unlawfully tying/bundling services in the markets in which defendants allegedly had monopoly power with services in markets in which ACNielsen competed with IRI; entering into exclusionary contracts with retailers in certain countries to deny IRI's access to sales data necessary to provide retail tracking services or to artificially raise the cost of that data; predatory pricing; acquiring foreign market competitors with the intent of impeding IRI's efforts to expand; disparaging IRI to financial analysts and clients; and denying IRI access to capital necessary for it to compete.

IRI's amended complaint originally alleged damages in excess of $350 million, which IRI asked to be trebled under antitrust laws. IRI has since revised its allegation of damages to exceed $650 million, which IRI also asked to be trebled. IRI has filed with the court the

report of its expert who has opined that IRI suffered damages of between $581.6 million and $651.7 million from the defendants' alleged practices. IRI also sought punitive damages in an unspecified amount.

In April 2003, the court denied a motion for partial summary judgment by defendants that sought to dismiss certain of IRI's claims and granted in part a motion by IRI seeking reconsideration of certain summary judgment rulings the Court had previously made in favor of defendants. The motion granted by the Court concerns IRI's claims of injuries from defendants' alleged conduct in certain foreign markets.

Pursuant to a scheduling order entered by the Court on April 8, 2004, discovery ended on November 1, 2004, and trial is scheduled to begin on April 18, 2005.

On June 21, 2004, pursuant to a stipulation between IRI and defendants, the Court ordered that certain of IRI's claims be dismissed with prejudice from the lawsuit, including the claims that defendants tortiously interfered with the SRG acquisition. The Company believes that the dismissal of the tortious interference claims also precludes any claim for punitive damages.

In connection with the 1996 Distribution, NMR (then known as Cognizant Corporation), ACNielsen and Donnelley (then known as The Dun & Bradstreet Corporation) entered into an Indemnity and Joint Defense Agreement (the "Original Indemnity and Joint Defense Agreement"), pursuant to which they agreed to:

- allocate potential liabilities that may relate to, arise out of or result from the IRI lawsuit ("IRI Liabilities"); and
- conduct a joint defense of such action.

In particular, the Original Indemnity and Joint Defense Agreement provided that:

- ACNielsen would assume exclusive liability for IRI Liabilities up to a maximum amount to be calculated at such time as such liabilities became payable as a result of a final non-appealable judgment or any settlement permitted under the Original Indemnity and Joint Defense Agreement (the "ACN Maximum Amount"); and
- Donnelley and NMR would share liability equally for any amounts in excess of the ACN Maximum Amount.

The Original Indemnity and Joint Defense Agreement also provided that if it becomes necessary to post any bond pending an appeal of an adverse judgment, then NMR and Donnelley shall obtain the bond required for the appeal, and each shall pay 50% of the costs of such bond, if any, which cost will be added to IRI Liabilities.

In 2001, ACNielsen was acquired by VNU N.V., which assumed ACNielsen's obligations under the Original Indemnity and Joint Defense Agreement. Pursuant to the Original Indemnity and Joint Defense Agreement, VNU N.V. was to be included with ACNielsen for purposes of determining the ACN Maximum Amount.

In connection with the 1998 Distribution, Old D&B and Donnelley (then known as The Dun & Bradstreet Corporation) 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. 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 Original Indemnity and Joint Defense Agreement, and any liabilities arising from the IRI action itself. However, as between New D&B and Moody's, it was agreed that under the 2000 Distribution, each of New D&B and Moody's will be responsible for 50% of any payments required to be made to or on behalf of Donnelley with respect to the IRI action under the terms of the 1998 Distribution Agreement, including legal fees or expenses related to the IRI action.

On July 30, 2004, the VNU Parties, Donnelley, Moody's, New D&B and IMS Health entered into an Amended and Restated Indemnity and Joint Defense Agreement (the "Amended Indemnity and Joint Defense Agreement").

Pursuant to the Amended Indemnity and Joint Defense Agreement, any and all IRI Liabilities incurred by Donnelley, Moody's, New D&B or IMS Health relating to a judgment (even if not final) or any settlement entered into in the IRI action will be jointly and severally assumed, and fully discharged, exclusively by the VNU Parties. Under the Amended Indemnity and Joint Defense Agreement, the VNU Parties have agreed to, jointly and severally, indemnify Donnelley, Moody's, New D&B and IMS Health from and against all IRI Liabilities to which they become subject. As a result, the concept of "ACN Maximum Amount" which used to cap

ACNielsen's liability for the IRI Liabilities no longer exists and all such liabilities are the responsibility of the VNU Parties pursuant to the Amended Indemnity and Joint Defense Agreement.

In addition, the Amended Indemnity and Joint Defense Agreement provides that if it becomes necessary to post any bond pending an appeal of an adverse judgment, the VNU Parties shall obtain the bond required for the appeal and shall pay the full cost of such bond.

In connection with entering into the Amended Indemnity and Joint Defense Agreement, Donnelley, Moody's, New D&B and IMS Health agreed to amend certain covenants of the Original Indemnity and Joint Defense Agreement to provide operational flexibility for ACNielsen going forward. In addition, the Amended Indemnity and Joint Defense Agreement includes certain amendments to the covenants of ACNielsen (which, under the Amended Indemnity and Joint Defense Agreement, are now also applicable to ACN (US)), which are designed to preserve such parties' claims-paying ability and protect Donnelley, Moody's, New D&B and IMS Health. Among other covenants, ACNielsen and ACN (US) agreed that neither they nor any of their respective subsidiaries will incur any indebtedness to any affiliated person, except indebtedness which its payment will, after a payment obligation under the Amended Indemnity and Joint Defense Agreement comes due, be conditioned on, and subordinated to, the payment and performance of the obligations of such parties under the Amended Indemnity and Joint Defense Agreement. VNU N.V. has agreed to having a process agent in New York to receive on its behalf service of any process concerning the Amended Indemnity and Joint Defense Agreement.

As described above, the VNU Parties have assumed exclusive responsibility for the payment of all IRI Liabilities. Provided that the VNU Parties are able to fulfill their obligations under the Amended Indemnity and Joint Defense Agreement, and that they ultimately do fulfill such obligations, Moody's believes that the resolution of the IRI action should not materially affect the Company's financial position, results of operations, or cash flows.

However, because liability for violations of the antitrust laws is joint and several and because the rights and obligations relating to the Amended Indemnity and Joint Defense Agreement are based on contractual relationships, the failure of the VNU Parties to fulfill their obligations under the Amended Indemnity and Joint Defense Agreement could result in the other parties bearing all or a portion of the IRI Liabilities. Joint and several liability for the IRI action means that even where more than one defendant is determined to have been responsible for an alleged wrongdoing, the plaintiff can collect all or part of the judgment from just one of the defendants. This is true regardless of whatever contractual allocation of responsibility the defendants and any other indemnifying parties may have made, including the allocations described above between the VNU Parties, Donnelley, Moody's, New D&B and IMS Health.

Accordingly, and as a result of the allocations of liability described above, in the event the VNU Parties default on their obligations under the Amended Indemnity and Joint Defense Agreement, each of Moody's and New D&B will be responsible for the payment of 50% of the portion of any judgment or settlement ultimately paid by Donnelley (which is a defendant in the IRI action), which can be as high as all the IRI Liabilities.

The Company is unable to predict at this time the outcome of the IRI action, the financial condition of any of the VNU parties or the other defendants at the time of any such outcome, or whether the VNU Parties or the other defendants will fulfill their obligations under the Amended Indemnity and Joint Defense Agreement or other related contractual agreements. Hence, the Company cannot estimate such parties' ability to pay the IRI Liabilities pursuant to the Amended Indemnity and Joint Defense Agreement or the amount of the judgment or settlement in the IRI action. Accordingly, no amount in respect of this matter has been accrued in the Company's consolidated financial statements. As discussed above, provided that the VNU Parties ultimately fulfill their obligations under the Amended Indemnity and Joint Defense Agreement, Moody's believes that the resolution of the IRI action should not materially affect the Company's financial position, results of operations, or cash flows. If, however, IRI were to prevail in whole or in part in this action and Moody's is required to pay, notwithstanding such contractual obligations, a portion of any significant settlement or judgment, the outcome of this matter could have a material adverse effect on Moody's financial position, results of operations, and cash flows.

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 as described in such agreements (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, also as described in such agreements, 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 2000 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 (the "Royalty Report"). In the first quarter of 2004, New D&B received a similar Examination Report (the "Second Royalty Report") relating to the first quarter of 1997.

During the second quarter of 2003, New D&B also received an Examination Report from the IRS stating its intention to ignore the partnership structure that had been established in 1993 in connection with the above transaction, and to reallocate to Old D&B income and expense items that had been reported in the partnership tax return for 1996 (the "Reallocation Report"). New D&B also received a similar Examination Report (the "Second Reallocation Report") issued to the partnership with respect to the first quarter of 1997.

In June 2004, New D&B and the IRS conducted a mediation of these issues, at which New D&B and the IRS reached a basis for settlement with regard to the Royalty Report for 1995 and 1996, the Reallocation Report and certain tax refund claims made by Old D&B related to 1995 and 1996 (the "Preliminary Settlement"). The Preliminary Settlement was subject to the execution of a formal settlement agreement. In addition, the IRS maintains it's position that certain tax refund claims made by Old D&B related to 1993 and 1994 may be offset by tax liabilities relating to the above mentioned partnership formed in 1993. New D&B disagrees with the position taken by the IRS for 1993 and 1994 and plans to file a protest with the IRS Appeals Office. If the protest is unsuccessful New D&B can either: (1) abandon its tax refund claims; or (2) challenge the IRS claim in U.S. District Court or the U.S. Court of Federal Claims. Moody's estimates that its exposure for the write-off of deferred tax assets related to these tax refund claims could be up to $9 million.

As of June 30, 2004, Moody's had adjusted its reserve for the Royalty Expense Deductions matter and recorded write-offs of deferred tax assets to reflect the Company's estimates of probable exposure for the Preliminary Settlement and the other matters discussed in the preceding paragraph. However, the IRS and New D&B were not able to agree on the terms of a formal settlement agreement by the November 1st deadline imposed by the IRS. As a result, the IRS has withdrawn the Preliminary Settlement agreement. In accordance with the 1996 Agreements, New D&B was required to obtain the consent of Moody's, IMS Health and NMR as a condition to executing the formal settlement agreement, but was unable to obtain IMS Health and NMR's consent. We believe that in accordance with the 1996 Distribution Agreement, NMR, by withholding its consent, would be contractually responsible to pay any excess amounts above the Preliminary Settlement that may ultimately be owing with respect to tax years 1995-1996. IMS Health has alleged various breaches of New DNB's obligations under the 1996 Agreements related to New D&B's management and attempted settlement of this matter. If the parties fail to resolve their dispute, we understand that New D&B anticipates commencing arbitration proceedings against IMS Health and NMR. Based on our current understanding of the positions of New D&B and IMS Health, we believe it is likely that New DNB should prevail, but we cannot predict with certainty the outcome.

In addition, the Second Royalty Report and the Second Reallocation Report, which were not part of New D&B's preliminary settlement with the IRS, have not been resolved. New D&B disagrees with the positions taken by the IRS in these reports and previously had filed a protest with the IRS Appeals Office. If the IRS Appeals Office were to uphold these reports, 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 or the U.S. Court of Federal Claims, where in either case payment of the assessment 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 believes that the positions taken by the IRS in the Second Royalty Report and the Second Reallocation Report are inconsistent with each other. Accordingly, while it is possible that the IRS could ultimately prevail in whole or in part on one of such positions, Moody's believes that it is unlikely that the IRS will prevail on both. Moody's estimates that its share of the required payment to the IRS for this matter could be up to $2 million (including penalties and interest, and net of tax benefits).

Moody's has reassessed its exposure for the Royalty Expense Deductions matter taking into consideration: (1) all of the original Examination Reports discussed above (for which the Company's share of the required payments to the IRS could be up to $102 million, including penalties and interest, and net of tax benefits); and (2) the potential write-off of deferred tax assets (for which the Company's exposure could be up to $9 million as discussed above). Based on this assessment, during the third quarter of 2004 the Company increased its reserve for this matter by $18.4 million to reflect the current estimate of probable exposure.

Amortization Expense Deductions

In April 2004, New D&B received Examination Reports (the "April Examination Reports") from the IRS with respect to a partnership transaction. This transaction was entered into in 1997 and could result in amortization expense deductions on the tax returns of Old D&B and New D&B from 1997 through 2012. In the April Examination Reports, the IRS stated its intention to disallow the amortization expense deductions related to this partnership that were claimed by Old D&B on its 1997 and 1998 tax returns. New D&B disagrees with the position taken by the IRS and can 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 or the U.S. Court of Federal Claims, where in either case payment of the disputed amount would be required in connection with such challenge. IRS audits of Old D&B's or New D&B's tax returns for years subsequent to 1998 could result in the issuance of similar Examination Reports, in which case New D&B would also have the aforementioned three courses of action. Should any such payments be made by New D&B related to either the April Examination Reports or any potential Examination Reports for future years, including years subsequent to the separation of Moody's from 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. 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 50% of the future tax benefits from this transaction in cash to Moody's at the Distribution Date. Moody's estimates that the Company's current potential exposure could be up to $94 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 and on whether New D&B continues claiming the amortization deductions on its tax returns.

In the April Examination Reports, the IRS also stated its intention to disallow certain royalty expense deductions claimed by Old D&B on its 1997 and 1998 tax returns with respect to the partnership transaction. In addition, the IRS stated its intention to disregard the partnership structure and to reallocate to Old D&B certain partnership income and expense items that had been reported in the partnership tax returns for 1997 and 1998. New D&B disagrees with the positions taken by the IRS and can take any of the three courses of action described in the second paragraph. IRS audits of Old D&B's or New D&B's tax returns for years subsequent to 1998 could result in the issuance of similar Examination Reports for the subsequent years. Should any such payments be made by New D&B related to either the April Examination Reports or any potential Examination Reports for future years, then pursuant to the terms of the 2000 Distribution Agreement, Moody's would have to pay to New D&B its 50% share of New D&B's payments to the IRS for the period from 1997 through the Distribution Date. Moody's estimates that its share of the potential exposure to the IRS could be up to $127 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.

New D&B had filed protests with the IRS Appeals Office regarding the April Examination Reports. In September 2004 the IRS Appeals Office remanded the case to the IRS examination office for further development of the issues. New D&B has reopened discussion of the issues with the examination office.

Moody's believes that the IRS's proposed assessments of tax against Old D&B and the proposed reallocations of partnership income and expense to Old D&B are inconsistent with each other. Accordingly, while it is possible that the IRS could ultimately prevail in whole or in part on one of such positions, Moody's believes that it is unlikely that the IRS will prevail on both.

Utilization of Capital Losses

The IRS has completed its review of the utilization of certain capital losses generated by Old D&B 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.

On May 12, 2000, an amended tax return was filed by Old D&B for the 1989 and 1990 tax years, 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 on September 20, 2000, Old D&B filed a petition for a refund in the U.S. District Court.

Pre-trial proceedings on this matter have been ongoing, and in July 2004, New D&B and the IRS reached a basis for settlement of all outstanding issues related to this matter. Moody's estimates that its share of the cost of this tentative settlement will be $12 million, reflecting anticipated cash payments of $2 million and the write-off of deferred tax assets of $10 million. The tentative settlement will not be finalized until a formal agreement is executed, which is expected to be during the fourth quarter of 2004, and it is possible that Moody's share of the related cost could differ from the Company's current estimate.

Summary of Moody's Exposure to Three Legacy Tax Matters

The Company considers from time to time the range and probability of potential outcomes related to the three legacy tax matters discussed above and establishes reserves that it believes are appropriate in light of the relevant facts and circumstances. 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.

In the third quarter of 2004, the Company recorded provisions of approximately $19 million to increase its reserves for the three legacy tax matters, to reflect its current estimates of the probable exposures on these matters. As a result, at September 30, 2004, Moody's total legacy tax reserves were $131 million, representing approximately $44 million of current liabilities (reflecting the estimated cash payments related to the Royalty Expense Deductions and Utilization of Capital Losses matters that are expected to be made over the next twelve months) and $87 million of non-current liabilities.

It is possible that the legacy tax matters could be resolved in amounts that are greater than the amounts reserved by the Company, which could result in additional charges that may be material to Moody's future reported results, financial position and cash flows. Although Moody's does not believe it is likely that the Company will ultimately be required to pay the full amounts presently being sought by the IRS, potential future outlays resulting from these matters could be as much as $346 million and could increase with time as described above.

Regulation

In the United States, Moody's Investors Service voluntarily 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 Securities and Exchange Commission ("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.

Over the past several years, U.S. regulatory and congressional authorities have questioned the suitability of employing ratings in federal securities laws; and if so, the potential need for altering the regulatory framework under which rating agencies operate. Pursuant to a mandate by the Sarbanes-Oxley Act of 2002 and a series of reports issued by the Congress and the SEC on the rating agency industry, on June 4, 2003 the SEC published a Concept Release requesting comment on the following three broad themes:

- Should credit rating agencies 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.

Internationally, several developments have occurred over the past quarter:

First, on October 7, 2004, the Technical Committee of the International Organization of Securities Commissions ("IOSCO") distributed for public consultation a proposed code of conduct for credit rating agencies entitled, *Code of Conduct Fundamentals for*

Credit Rating Agencies (“Proposed IOSCO Code”). The comment period for the Proposed IOSCO Code closes on November 8, 2004. Moody’s is not yet in a position to assess the outcome or the impact of such a code of conduct; however, the Company intends to submit comments to IOSCO’s Technical Committee.

Second, in July 2004 the European Commission, as requested by the European Parliament, mandated the Committee of European Securities Regulators (“CESR”) to conduct a review of the credit rating agency industry and provide the Commission with advice by April 1, 2005 on the following four general areas:

• potential conflicts of interest within rating agencies, such as between advisory services and direct rating activities;

• transparency of rating agencies’ methodologies;

• legal treatment of rating agencies’ access to inside information; and

• concerns about possible lack of competition in the market for provision of credit ratings.

The CESR may look to such other areas of inquiry that it deems necessary. In formulating its response to the Parliament, the Commission may reject the CESR’s advice or alternatively adopt it in whole or in part. Moody’s is presently not in a position to assess the outcome of the European assessment process.

The Basel Committee on Banking Supervision has completed its work on a new capital adequacy framework (“Basel II”) to replace its initial framework proposed in 1988. Under Basel II, ratings assigned by a credit rating agency would be an alternative available to banks to determine the risk weights for many of their credit exposures. The Basel Committee’s new capital adequacy framework would institutionalize ratings of certain credit 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. It is anticipated that Basel II will be implemented by national regulatory authorities by January 2007. The European Commission has created the Committee of European Banking Supervisors, (“CEBS”) which is analogous to CESR and is instead comprised of European banking regulators, to advise it on the implementation of the Basel II in Europe. At this time Moody’s cannot predict the long-term impact of Basel II on the manner in which Moody’s conducts its business. However, Moody’s does not believe that Basel II will materially affect Moody’s Investors Service’s financial position or results of operations.

Finally, Moody’s is subject to regulation in certain non-U.S. jurisdictions in which it operates; some regulatory actions outside the United States are noted below:

France: as a consequence of the 2003 French Securities Law, Loi de Sécurité Financiére (the " LSF”), rating agencies operating in France are subject to a document retention obligation. Moreover, the newly formed French regulatory authority, L’Autorité des Marchés Financiers (“AMF”), will be required to publish an annual report on: the role of rating agencies; their business ethics, and the transparency of their methods; and, the impact of their activity on issuers and the financial markets. Moody’s has submitted responses to a series of questions posed by the AMF in accordance with its mandate. The AMF is expected to release its first report on the rating agency industry in December 2004.

Italy: in October 2004, the Italian Senate introduced an amendment to an existing draft legislation – the “Lettieri Bill” — which, if approved by the full Italian Parliament would: (1) require the Consob to recognize and register rating agencies in the Italian market; (2) mandate recognized rating agencies to adopt and implement IOSCO’s Code of Conduct; and 3) mandate issuers to attain ratings from recognized rating agencies. If approved, the bill requires that Consob provide the appropriate regulatory framework.

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. 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. 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 quarterly report on 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 20 of this quarterly report on Form 10-Q and elsewhere in the context of statements containing the words "believe", "expect", "anticipate", "intend", "forecast", "project", "estimate", "should", "could", "may" 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 quarterly report on 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 and other securities issued in domestic and/or global capital markets; changes in interest rates and other volatility in the financial markets; market perceptions of the utility and integrity of independent agency ratings; 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 outcome of other legal actions to which the Company, from time to time, may be named as a party; 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, 2003 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 from December 31, 2003 to September 30, 2004. 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, 2003.

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 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.

In addition, there were no significant changes in the internal control over financial reporting or in other factors that have materially affected or are reasonably likely to materially affect these internal controls over financial reporting during the period covered by this report.

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 and periodically adjusts these reserves as appropriate. 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 28 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

MOODY'S PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
July 1-31	540,900	$64.89	540,900	$547.7 million
August 1-31	—	—	—	$547.7 million
September 1-30	—	—	—	$547.7 million
Total	540,900		540,900	

(1) As of the last day of each of the months. On May 24, 2004, the Company announced that its Board of Directors had authorized an additional $600 million share repurchase program, which includes both special share repurchases and systematic share repurchases to offset shares issued under Moody's stock-based compensation plans. There is no established expiration date of this authorization. During June 2004, the Company completed its previous $450 million program, which had been authorized by its Board of Directors in October 2002.

Moody's repurchased 0.5 million shares during the third quarter of 2004 at a total cost of $35 million, which partially offset shares issued under employee stock plans. Since becoming a public company in September 2000 and through the third quarter of 2004, Moody's has repurchased 26.4 million shares at a total cost of $1.1 billion, including 12.0 million shares to offset issuances under employee stock plans.

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Item 6. Exhibits

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

1* Amended and Restated 2001 Moody's Corporation Key Employees' Stock Incentive Plan.

2* Form of Employee Non-Qualified Stock Option and Restricted Stock Grant Agreement for the Amended and Restated 2001 Moody's Corporation Key Employees' Stock Incentive Plan.

3* Form of Non-Employee Director Restricted Stock Grant Agreement for the 1998 Moody's Corporation Non-Employee Directors' Stock Incentive Plan (as amended on April 23, 2001).

4* 2004 Moody's Corporation Covered Employee Cash Incentive Plan.

5* Description of Bonus Terms under the 2004 Moody's Corporation Covered Employee Cash Incentive Plan.

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.

SIGNATURE

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 3, 2004

By: /s/ JEANNE M. DERING
Jeanne M. Dering
Senior Vice President and Chief Financial Officer
(principal financial officer)

Date: November 3, 2004

By: /s/ JOSEPH MCCABE
Joseph McCabe
Vice President and Corporate Controller
(principal accounting officer)

Exhibit 10.1

AMENDED AND RESTATED 2001 MOODY'S CORPORATION KEY EMPLOYEES' STOCK INCENTIVE PLAN

1. Purpose of the Plan

The purpose of the Plan is to aid the Company and its Affiliates in securing and retaining key employees of outstanding ability and to motivate such employees to exert their best efforts on behalf of the Company and its Affiliates by providing incentives through the granting of Awards. The Company expects that it will benefit from the added interest which such key employees will have in the welfare of the Company as a result of their proprietary interest in the Company's success.

2. Definitions

The following capitalized terms used in the Plan have the respective meanings set forth in this Section:

(a) *Act:* The Securities Exchange Act of 1934, as amended, or any successor thereto.

(b) *Affiliate:* Any entity (i) 20% or more of the voting equity of which is owned or controlled directly or indirectly by the Company, or (ii) that had been a business, division or subsidiary of the Company, the equity of which has been distributed to the Company's shareholders, even if the Company thereafter owns less than 20% of the voting equity.

(c) *Award:* An Option, Stock Appreciation Right or Other Stock-Based Award granted pursuant to the Plan.

(d) *Beneficial Owner:* As such term is defined in Rule 13d-3 under the Act (or any successor rule thereto).

(e) *Board:* The Board of Directors of the Company.

(f) *Change in Control:* The occurrence of any of the following events:

(i) any "Person" as such term is used in Section 13(d) and 14(d) of the Act (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities;

(ii) during any period of twenty-four months (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board, and any new director (other than (A) a director nominated by a Person who has entered into an agreement with the Company to effect a transaction described in Sections 2(e)(i), (iii) or (iv) of the Plan, (B) a director nominated by any Person (including the Company) who publicly announces an intention to take or to consider taking actions (including, but not limited to, an actual or threatened proxy contest) which if consummated would constitute a Change in Control or (C) a director designated by any Person who is the Beneficial Owner, directly or indirectly, of securities of the Company representing 10% or more of the combined voting power of the Company's securities) whose election by the Board or nomination for election by the Company's stockholders was approved in advance by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;

(iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation (A) which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by

remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation and (B) after which no Person would hold 20% or more of the combined voting power of the then outstanding securities of the Company or such surviving entity; or

(iv) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

(g) *Code:* The Internal Revenue Code of 1986, as amended, or any successor thereto.

(h) *Committee:* The Governance and Compensation Committee of the Board, or any successor thereto or other committee designated by the Board to assume the obligations of the Committee hereunder.

(i) *Company:* Moody's Corporation, a Delaware corporation.

(j) *Disability:* Inability to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment which constitutes a permanent and total disability, as defined in Section 22(e)(3) of the Code (or any successor section thereto). The determination whether a Participant has suffered a Disability shall be made by the Committee based upon such evidence as it deems necessary and appropriate. A Participant shall not be considered disabled unless he or she furnishes such medical or other evidence of the existence of the Disability as the Committee, in its sole discretion, may require.

(k) *Effective Date:* The date on which the Plan takes effect, as defined pursuant to Section 17 of the Plan.

(l) *Fair Market Value:* On a given date, the arithmetic mean of the high and low prices of the Shares as reported on such date on the Composite Tape of the principal national securities exchange on which such Shares are listed or admitted to trading, or, if no Composite Tape exists for such national securities exchange on such date, then on the principal national securities exchange on which such Shares are listed or admitted to trading, or, if the Shares are not listed or admitted on a national securities exchange, the arithmetic mean of the per Share closing bid price and per Share closing asked price on such date as quoted on the National Association of Securities Dealers Automated Quotation System (or such market in which such prices are regularly quoted), or, if there is no market on which the Shares are regularly quoted, the Fair Market Value shall be the value established by the Committee in good faith. If no sale of Shares shall have been reported on such Composite Tape or such national securities exchange on such date or quoted on the National Association of Securities Dealers Automated Quotation System on such date, then the immediately preceding date on which sales of the Shares have been so reported or quoted shall be used.

(m) *ISO:* An Option that is also an incentive stock option granted pursuant to Section 7(d) of the Plan.

(n) *LSAR:* A limited stock appreciation right granted pursuant to Section 8(d) of the Plan.

(o) *Other Stock-Based Awards:* Awards granted pursuant to Section 9 of the Plan.

(p) *Option:* A stock option granted pursuant to Section 7 of the Plan.

(q) *Option Price:* The purchase price per Share of an Option, as determined pursuant to Section 7(a) of the Plan.

(r) *Participant:* An individual who is selected by the Committee to participate in the Plan pursuant to Section 5 of the Plan.

(s) *Performance-Based Awards:* Other Stock-Based Awards granted pursuant to Section 9(b) of the Plan.

(t) *Person:* As such term is used for purposes of Section 13(d) or 14(d) of the Act (or any successor section thereto).

(u) *Plan:* The Amended and Restated 2001 Moody's Corporation Key Employees' Stock Incentive Plan.

(v) *Post-Retirement Exercise Period:* As such term is defined in Section 7(f) of the Plan.

(w) *Restricted Stock:* Restricted stock granted pursuant to Section 9 of the Plan.

(x) *Restricted Stock Unit:* A restricted stock unit representing a right to acquire a fixed number of Shares at a future date, granted pursuant to Section 9 of the Plan.

(y) *Retirement:* Termination of employment with the Company or an Affiliate after such Participant has attained age 55 and five years of service with the Company; or, with the prior written consent of the Committee that such termination be treated as a Retirement hereunder, termination of employment under other circumstances.

(z) *Shares:* Shares of common stock, par value $0.01 per Share, of the Company.

(aa) *Special Exercise Period:* As such term is defined in Section 7(f) of the Plan.

(bb) *Stock Appreciation Right:* A stock appreciation right granted pursuant to Section 8 of the Plan.

(cc) *Subsidiary:* A subsidiary corporation, as defined in Section 424(f) of the Code (or any successor section thereto).

(dd) *Termination of Employment:* A Participant's termination of employment with the Company or an Affiliate, as the case may be.

3. Shares Subject to the Plan

The maximum number of Shares with respect to which Awards may be granted under the Plan shall be 12,800,000 (subject to adjustment in accordance with the provisions of Section 10 hereof), whether pursuant to ISOs or otherwise. Of that number, not more than 2,500,000 Shares (subject to adjustment in accordance with the provisions of Section 10 hereof) will be available for grants under the Plan of unrestricted Shares, Restricted Stock, Restricted Stock Units or any Other Stock-Based Awards pursuant to Section 9 hereof. The maximum number of Shares with respect to which Awards of any and all types may be granted during a calendar year to any Participant shall be limited, in the aggregate, to 400,000. The Shares may consist, in whole or in part, of authorized and unissued Shares or treasury Shares. Shares which are subject to Awards which terminate, expire, are forfeited or lapse may be utilized again with respect to Awards granted under the Plan.

4. Administration

The Plan shall be administered by the Committee, which may delegate its duties and powers in whole or in part to any subcommittee thereof consisting solely of at least two individuals who are each "non-employee directors" within the meaning of Rule 16b-3 under the Act (or any successor rule thereto) and "outside directors" within the meaning of Section 162(m) of the Code (or any successor section thereto); *provided, however* , that any action permitted to be taken by the Committee may be taken by the Board, in its discretion. The Committee is authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Plan. The Committee may correct any defect or omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the interpretation and administration of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned (including, but not limited to, Participants and their beneficiaries or successors). Determinations made by the Committee under the Plan need not be uniform and may be made selectively among Participants, whether or not such

Participants are similarly situated. The Committee shall require payment of any amount it may determine to be necessary to withhold for federal, state, local or other taxes as a result of the grant or the exercise of an Award. Unless the Committee specifies otherwise, the Participant may elect to pay a portion or all of such withholding taxes by (a) delivery of Shares or (b) having Shares withheld by the Company from any Shares that would have otherwise been received by the Participant. The number of Shares so delivered or withheld shall have an aggregate Fair Market Value on the date of the exercise of an Award sufficient to satisfy the applicable withholding taxes. In addition, with the approval of the Committee, a Participant may satisfy any additional tax that the Participant elects to have the Company withhold by delivering to the Company or its designated representative Shares already owned by the Participant or, in the case of Shares acquired through an employee benefit plan, Shares held by the Participant for more than six months. If the chief executive officer of the Company is a member of the Board, the Board by specific resolution may constitute such chief executive officer as a committee of one which shall have the authority to grant Awards of up to an aggregate of 100,000 Shares in each calendar year to Participants who are not subject to the rules promulgated under Section 16 of the Act (or any successor section thereto) or "covered employees" as defined in Section 162(m) of the Code; *provided, however* , that such chief executive officer shall notify the Committee of any such grants made pursuant to this Section 4.

5. Eligibility

Key employees (but not members of the Committee or any person who serves only as a director) of the Company and its Affiliates, who are from time to time responsible for the management, growth and protection of the business of the Company and its Affiliates, and consultants to the Company and its Affiliates, are eligible to be granted Awards under the Plan. Participants shall be selected from time to time by the Committee, in its sole discretion, from among those eligible, and the Committee shall determine, in its sole discretion, the number of Shares to be covered by the Awards granted to each Participant.

6. Limitations

No Award may be granted under the Plan after the tenth anniversary of the Effective Date, but Awards theretofore granted may extend beyond that date.

7. Terms and Conditions of Options

Options granted under the Plan shall be, as determined by the Committee, non-qualified, incentive or other stock options for federal income tax purposes, as evidenced by the related Award agreements, and shall be subject to the foregoing and the following terms and conditions and to such other terms and conditions, not inconsistent therewith, as the Committee shall determine:

(a) *Option Price.* The Option Price per Share shall be determined by the Committee, but shall not be less than 100% of the Fair Market Value of the Shares on the date an Option is granted.

(b) *Exercisability.* Options granted under the Plan shall be exercisable at such time and upon such terms and conditions as may be determined by the Committee, but in no event shall an Option be exercisable more than ten years after the date it is granted.

(c) *Exercise of Options.* Except as otherwise provided in the Plan or in an Award agreement, an Option may be exercised for all, or from time to time any part, of the Shares for which it is then exercisable. For purposes of Section 7 of the Plan, the exercise date of an Option shall be the later of the date a notice of exercise is received by the Company and, if applicable, the date payment is received by the Company pursuant to clauses (i), (ii) or (iii) in the following sentence. The purchase price for the Shares as to which an Option is exercised shall be paid to the Company in full at the time of exercise at the election of the Participant (i) in cash, (ii) in Shares having a Fair Market Value equal to the aggregate Option Price for the Shares being purchased and satisfying such other requirements as may be imposed by the Committee; provided, that such shares of Common Stock have been held by the Participant for no less than six months, (iii) partly in cash and partly in such Shares, (iv) through the delivery of irrevocable instructions to a broker to deliver promptly to the Company an amount equal to

the aggregate Option Price for the Shares being purchased, or (v) through such other means as shall be prescribed in the Award agreement. No Participant shall have any rights to dividends or other rights of a stockholder with respect to Shares subject to an Option until the occurrence of the exercise date (determined as set forth above) and, if applicable, the satisfaction of any other conditions imposed by the Committee pursuant to the Plan.

(d) *ISOs.* The Committee may grant Options under the Plan that are intended to be ISOs. Such ISOs shall comply with the requirements of Section 422 of the Code (or any successor section thereto). Unless otherwise permitted under Section 422 of the Code (or any successor section thereto), no ISO may be granted to any Participant who at the time of such grant, owns more than 10% of the total combined voting power of all classes of stock of the Company or of any Subsidiary, unless (i) the Option Price for such ISO is at least 110% of the Fair Market Value of a Share on the date the ISO is granted and (ii) the date on which such ISO terminates is a date not later than the day preceding the fifth anniversary of the date on which the ISO is granted. Any Participant who disposes of Shares acquired upon the exercise of an ISO either (i) within two years after the date of grant of such ISO or (ii) within one year after the transfer of such Shares to the Participant, shall notify the Company of such disposition and of the amount realized upon such disposition. Notwithstanding Section 5 hereof, ISOs may be granted solely to employees of the Company and its Subsidiaries.

(e) *Exercisability Upon Termination of Employment by Death or Disability.* Upon a Termination of Employment by reason of death or Disability after the first anniversary of the date of grant of an Option, (i) the unexercised portion of such Option shall immediately vest in full and (ii) such portion may thereafter be exercised during the shorter of (A) the remaining stated term of the Option or (B) five years after the date of death or Disability.

(f) *Exercisability Upon Termination of Employment by Retirement.* Upon a Termination of Employment by reason of Retirement after the first anniversary of the date of grant of an Option, an unexercised Option may thereafter be exercised during the shorter of (i) the remaining stated term of the Option or (ii) five years after the date of such Termination of Employment (the "Post-Retirement Exercise Period"), but only to the extent to which such Option was exercisable at the time of such Termination of Employment or becomes exercisable during the Post-Retirement Exercise Period as if such Participant were still employed by the Company or an Affiliate; *provided, however* , that if a Participant dies within a period of five years after such Termination of Employment, an unexercised Option may thereafter be exercised, during the shorter of (i) the remaining stated term of the Option or (ii) the period that is the longer of (A) five years after the date of such Termination of Employment or (B) one year after the date of death (the "Special Exercise Period"), but only to the extent to which such Option was exercisable at the time of such Termination of Employment or becomes exercisable during the Special Exercise Period.

(g) *Effect of Other Termination of Employment.* Upon a Termination of Employment for any reason (other than death, Disability or Retirement after the first anniversary of the date of grant of an Option as described above), an unexercised Option may thereafter be exercised during the period ending 30 days after the date of such Termination of Employment, but only to the extent to which such Option was exercisable at the time of such Termination of Employment. Notwithstanding the foregoing, the Committee may, in its sole discretion, either by prior written agreement with the Participant or upon the occurrence of a Termination of Employment, accelerate the vesting of unvested Options held by a Participant if such Participant's Termination of Employment is without "cause" (as such term is defined by the Committee in its sole discretion) by the Company.

(h) *Nontransferability of Stock Options.* Except as otherwise provided in this Section 7(h), a stock option shall not be transferable by the Participant otherwise than by will or by the laws of descent and distribution, and during the lifetime of a Participant an option shall be exercisable only by the Participant. An option exercisable after the death of a Participant or a transferee pursuant to the following sentence may be exercised by the legatees, personal representatives or distributees of the Participant or such transferee. The Committee may, in its discretion, authorize all or a portion of the

options previously granted or to be granted to a Participant, other than ISOs, to be on terms which permit irrevocable transfer for no consideration by such Participant to any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, of the Participant, any trust in which these persons have more than 50% of the beneficial interest, any foundation in which these persons (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than 50% of the voting interests ("Eligible Transferees"), provided that (i) the stock option agreement pursuant to which such options are granted must be approved by the Committee, and must expressly provide for transferability in a manner consistent with this Section and (ii) subsequent transfers of transferred options shall be prohibited except those in accordance with the first sentence of this Section 7(h). The Committee may, in its discretion, amend the definition of Eligible Transferees to conform to the coverage rules of Form S-8 under the Securities Act of 1933 or any comparable Form from time to time in effect. Following transfer, any such options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer. The events of Termination of Employment of Sections 7(e), 7(f) and 7 (g) hereof shall continue to be applied with respect to the original Participant, following which the options shall be exercisable by the transferee only to the extent, and for the periods specified, in Sections 7(e), 7(f) and 7(g). The Committee may delegate to a committee consisting of employees of the Company the authority to authorize transfers, establish terms and conditions upon which transfers may be made and establish classes of options eligible to transfer options, as well as to make other determinations with respect to option transfers.

(i) *Elective Deferral.*

(i) Notwithstanding anything herein to the contrary, the Committee, in its sole discretion, may provide that a Participant may elect to defer delivery of the proceeds of exercise of an unexercised Option, provided that such election is in accordance with rules which may be established by the Committee, is irrevocable and is made (A) at least two years (or such shorter period as may be determined by the Committee) prior to the date that such Option otherwise would expire and (B) at least one year (or such shorter period as may be determined by the Committee) prior to the date such Option is exercised. Upon such exercise, the amount deferred shall be credited, at the date of exercise, to a deferred compensation account pursuant to a deferred compensation agreement between the Participant and the Company, and shall be payable at such time or times and in such manner as shall be provided in such agreement, provided that the date as of which payment shall be made or payments shall commence shall be not less than two years (or such shorter period as may be determined by the Committee) subsequent to the date of exercise, but not later than the first day of the third month following the Participant's Termination of Employment.

(ii) Each Participant shall have the status of a general unsecured creditor of the Company with respect to his or her deferred compensation account, and such account constitutes a mere promise by the Company to make payments with respect thereto.

(iii) A Participant's right to benefit payments under the Plan with respect to his or her deferred compensation account may not be anticipated, alienated, sold, transferred, assigned, pledged, encumbered, attached or garnished by creditors of the Participant or the Participant's beneficiary and any attempt to do so shall be void.

8. Terms and Conditions of Stock Appreciation Rights

(a) *Grants.* The Committee also may grant (i) a Stock Appreciation Right independent of an Option or (ii) a Stock Appreciation Right in connection with an Option, or a portion thereof. A Stock Appreciation Right granted pursuant to clause (ii) of the preceding sentence (A) may be granted at the time the related Option is granted or at any time prior to the exercise or cancellation of the related Option, (B) shall cover the same Shares covered by an Option (or such lesser number of Shares as the Committee may determine) and (C) shall be subject to the same terms and conditions as such Option except for such additional limitations as

are contemplated by this Section 8 (or such additional limitations as may be included in an Award agreement).

(b) *Terms.* The exercise price per Share of a Stock Appreciation Right shall be an amount determined by the Committee but in no event shall such amount be less than the greater of (i) the Fair Market Value of a Share on the date the Stock Appreciation Right is granted or, in the case of a Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, the Option Price of the related Option and (ii) an amount permitted by applicable laws, rules, by-laws or policies of regulatory authorities or stock exchanges. Each Stock Appreciation Right granted independent of an Option shall entitle a Participant to exercise the Stock Appreciation Right in whole or in part and, upon such exercise, to receive from the Company an amount equal to (i) the excess of (A) the Fair Market Value on the exercise date of one Share over (B) the exercise price per Share, times (ii) the number of Shares covered by the portion of the Stock Appreciation Right so exercised. Each Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, shall entitle a Participant to surrender to the Company the unexercised Option, or any portion thereof, and to receive from the Company in exchange therefor an amount equal to (i) the excess of (A) the Fair Market Value on the exercise date of one Share over (B) the Option Price per Share, times (ii) the number of Shares covered by the Option, or portion thereof, which is surrendered. The date a notice of exercise is received by the Company shall be the exercise date. Payment shall be made in Shares or in cash, or partly in Shares and partly in cash, valued at such Fair Market Value, all as shall be determined by the Committee. Stock Appreciation Rights may be exercised from time to time upon actual receipt by the Company of written notice of exercise stating the number of Shares with respect to which the Stock Appreciation Right is being exercised. No fractional Shares will be issued in payment for Stock Appreciation Rights, but instead cash will be paid for a fraction or, if the Committee should so determine, the number of Shares will be rounded downward to the next whole Share.

(c) *Limitations.* The Committee may impose, in its discretion, such conditions upon the exercisability or transferability of Stock Appreciation Rights as it may deem fit.

(d) *Limited Stock Appreciation Rights.* The Committee may grant LSARs that are exercisable upon the occurrence of specified contingent events. Such LSARs may provide for a different method of determining appreciation, may specify that payment will be made only in cash and may provide that any related Awards are not exercisable while such LSARs are exercisable. Unless the context otherwise requires, whenever the term “Stock Appreciation Right” is used in the Plan, such term shall include LSARs.

9. Other Stock-Based Awards

(a) *Generally.* The Committee, in its sole discretion, may grant Awards of unrestricted Shares, Restricted Stock, Restricted Stock Units and other Awards that are valued in whole or in part by reference to, or are otherwise based on the Fair Market Value of, Shares (collectively, “Other Stock-Based Awards”). Such Other Stock-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive one or more Shares (or the equivalent cash value of such Shares) upon the completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. Other Stock-Based Awards may be granted alone or in addition to any other Awards granted under the Plan. Subject to the provisions of the Plan, the Committee shall determine to whom and when Other Stock-Based Awards will be made; the number of Shares to be awarded under (or otherwise related to) such Other Stock-Based Awards; whether such Other Stock-Based Awards shall be settled in cash, Shares or a combination of cash and Shares; and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof).

(b) *Performance-Based Awards.* Notwithstanding anything to the contrary herein, certain Other Stock-Based Awards granted under this Section 9 may be granted in a manner that will enable the Company to deduct any amount paid by the Company under Section 162(m) of the Code (or any successor section thereto) (“Performance-Based Awards”). A Participant’s Performance-Based Award shall be determined based on the attainment of one or more pre-established, objective performance goals established in writing by the Committee, for a performance period established by the Committee, (i) at a time when the outcome for

that performance period is substantially uncertain and (ii) not later than 90 days after the commencement of the performance period to which the performance goal relates, but in no event after 25% of the relevant performance period has elapsed. The performance goals shall be based upon one or more of the following criteria: (i) earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on stockholders' equity; (vii) expense management; (viii) return on investment before or after the cost of capital; (ix) improvements in capital structure; (x) profitability of an identifiable business unit or product; (xi) maintenance or improvement of profit margins; (xii) stock price; (xiii) market share; (xiv) revenues or sales; (xv) costs; (xvi) cash flow; (xvii) working capital; (xviii) changes in net assets (whether or not multiplied by a constant percentage intended to represent the cost of capital); and (xix) return on assets. The foregoing criteria may relate to the Company, one or more of its Affiliates or one or more of its divisions, units, minority investments, partnerships, joint ventures, product lines or products or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the performance goals may be calculated without regard to extraordinary items or accounting changes. The maximum amount of a Performance-Based Award to any Participant with respect to a fiscal year of the Company shall be $5,000,000. The Committee shall determine whether, with respect to a performance period, the applicable performance goals have been met with respect to a given Participant and, if they have, to so certify and ascertain the amount of the applicable Performance-Based Award. No Performance-Based Awards will be paid for such performance period until such certification is made by the Committee. The amount of the Performance-Based Award actually paid to a given Participant may be less than the amount determined by the applicable performance goal formula, at the discretion of the Committee. The amount of the Performance-Based Award determined by the Committee for a performance period shall be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such performance period; *provided, however* , that a Participant may, if and to the extent permitted by the Committee and consistent with the provisions of Section 162(m) of the Code, elect prior to the commencement of the relevant services to defer payment of a Performance-Based Award.

(c) *Terms and Conditions of Restricted Stock and Restricted Stock Units.*

(i) *Grant.* Each grant of Restricted Stock and Restricted Stock Units shall be evidenced by an agreement in form approved by the Committee. The vesting of a Restricted Stock Award or Restricted Stock Unit granted under the Plan may be conditioned upon the completion of a specified period of employment with the Company or an Affiliate, upon attainment of specified performance goals, and/or upon such other criteria as the Committee may determine in its sole discretion.

(ii) *Receipt of Restricted Stock.* As soon as practicable after an Award of Restricted Stock has been made to a Participant, there shall be registered in the name of such Participant or of a nominee the number of Shares of Restricted Stock so awarded. Except as provided in the applicable agreement, no Shares of Restricted Stock may be assigned, transferred or otherwise encumbered or disposed of by the Participant until such Shares have vested in accordance with the terms of such agreement. If and to the extent that the applicable agreement so provides, a Participant shall have the right to vote and receive dividends on the Shares of Restricted Stock granted to him or her under the Plan. Unless otherwise provided in the applicable agreement, any Shares received as a dividend on such Restricted Stock or in connection with a stock split of the Shares of Restricted Stock shall be subject to the same restrictions as the Restricted Stock.

(iii) *Payments Pursuant to Restricted Stock Units.* Restricted Stock Units may not be assigned, transferred or otherwise encumbered or disposed of by the Participant until such Restricted Stock Units have vested in accordance with the terms of the applicable agreement. Upon the vesting of the Restricted Stock Unit (unless a Deferral Election has been made), certificates for Shares shall be delivered to the Participant or his legal representative on the last business day of the calendar quarter in which such vesting event occurs or as soon thereafter as practicable, in a number equal to the Shares covered by the Restricted Stock Unit. A Participant may elect to defer receipt of his certificates (a "Deferral Election")

beyond the vesting date for a specified period or until a specified event, subject to the Committee's approval and to such terms as are determined by the Committee in its discretion, provided that any such Deferral Election is made at least one year (or such shorter period as may be determined by the Committee) prior to the date on which the Restricted Stock Unit would vest.

(iv) *Effect of Termination of Employment or Death.* Upon a Termination of Employment by reason of death, Disability or Retirement after the first anniversary of the date of the Award of Restricted Stock or Restricted Stock Units, the Restricted Stock or Restricted Stock Units shall immediately vest in full and all restrictions on such Awards shall terminate. Upon a Termination of Employment for any reason other than death, Disability or Retirement, a Participant's unvested Restricted Stock and Restricted Stock Units shall be forfeited. Notwithstanding the foregoing, the Committee may, in its sole discretion, either by prior written agreement with the Participant or upon the occurrence of a Termination of Employment, accelerate the vesting of unvested Restricted Stock or Restricted Stock Units held by the Participant if such Participant's Termination of Employment is without "cause" (as such term is defined by the Committee in its sole discretion) by the Company.

10. Adjustments Upon Certain Events

Notwithstanding any other provisions in the Plan to the contrary, the following provisions shall apply to all Awards granted under the Plan:

(a) *Generally.* In the event of any change in the outstanding Shares after the Effective Date by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, split-up, spin-off, combination or exchange of Shares or other corporate exchange, or any distribution to stockholders of Shares other than regular cash dividends, the Committee shall make such substitution or adjustment, if any, as it, in its sole discretion and without liability to any person, deems to be equitable to prevent substantial dilution or enlargement of the rights granted to Participants, as to (i) the number or kind of Shares or other securities issued or reserved for issuance pursuant to the Plan or pursuant to outstanding Awards, (ii) the Option Price and/or (iii) any other affected terms of such Awards.

(b) *Change in Control.* In the event of a Change in Control, Awards granted under the Plan shall accelerate as follows: (i) each Option and Stock Appreciation Right shall become immediately vested and exercisable; *provided, however* , that if such Awards are not exercised prior to the date of the consummation of the Change in Control, the Committee, in its sole discretion and without liability to any person, may provide for (A) the payment of a cash amount in exchange for the cancellation of such Award and/or (B) the issuance of substitute Awards that will substantially preserve the value, rights and benefits of any affected Awards (previously granted hereunder) as of the date of the consummation of the Change in Control; (ii) restrictions on Awards of restricted shares shall lapse; and (iii) Other Stock-Based Awards shall become payable as if targets for the current period were satisfied at 100%.

11. No Right to Employment

The granting of an Award under the Plan shall impose no obligation on the Company or any Affiliate to continue the employment of a Participant and shall not lessen or affect the Company's or Affiliate's right to terminate the employment of such Participant.

12. Successors and Assigns

The Plan shall be binding on all successors and assigns of the Company and a Participant, including, without limitation, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

13. Nontransferability of Awards

Except as provided in Section 7(h) of the Plan, an Award shall not be transferable or assignable by the Participant otherwise than by will or by the laws of descent and distribution. During the lifetime of a

Participant, an Award shall be exercisable only by such Participant. An Award exercisable after the death of a Participant may be exercised by the legatees, personal representatives or distributees of the Participant. Notwithstanding anything to the contrary herein, the Committee, in its sole discretion, shall have the authority to waive this Section 13 or any part thereof (except with respect to ISOs) to the extent that this Section 13 or any part thereof is not required under the rules promulgated under any law, rule or regulation applicable to the Company.

14. Amendments or Termination

The Board or the Committee may amend, alter or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which, (a) without the approval of the stockholders of the Company, would (except as is provided in Section 10 of the Plan), increase the total number of Shares reserved for the purposes of the Plan or change the maximum number of Shares for which Awards may be granted to any Participant or (b) without the consent of a Participant, would impair any of the rights or obligations under any Award theretofore granted to such Participant under the Plan; *provided, however* , that the Board or the Committee may amend the Plan in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws. Notwithstanding anything to the contrary herein, neither the Committee nor the Board may amend, alter or discontinue the provisions relating to Section 10(b) of the Plan after the occurrence of a Change in Control.

15. International Participants

With respect to Participants who reside or work outside the United States of America and who are not (and who are not expected to be) “covered employees” within the meaning of Section 162(m) of the Code (or any successor section thereto), the Committee may, in its sole discretion, amend the terms of the Plan or Awards with respect to such Participants in order to conform such terms with the requirements of local law.

16. Choice of Law

The Plan shall be governed by and construed in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in the State of Delaware.

17. Effectiveness of the Plan

The Plan, as amended and restated, shall be effective as of April 27, 2004, upon its approval by the stockholders at the 2004 Annual Meeting.

Form of Employee Non-Qualified Stock Option and Restricted Stock Grant Agreement for the Amended and Restated 2001 Moody's Corporation Key Employees' Stock Incentive Plan

Exhibit 10.2

[Moody's Corporation Letterhead]

__________, 2004

Dear [Name]:

Congratulations! I am pleased to inform you that the Board of Directors of Moody's Corporation ("Moody's") awarded you stock options with an exercise price of US$ and restricted shares on [date]. This letter outlines the key terms and conditions of your equity award. After reading this letter, please sign a copy and return it to in Human Resources.

Your equity award is subject to the terms and conditions of the 2001 Moody's Corporation Key Employees' Stock Incentive Plan (the "Plan"). A copy of the Plan, as well as the original prospectus relating to the offering of shares of Moody's stock pursuant to the Plan, are enclosed with this letter.

Moody's has engaged Charles Schwab & Company as the Plan administrator. Each Moody's associate who received an equity award will be provided with a Charles Schwab on-line brokerage account, at no cost to the associate, through which Moody's stock options may be exercised and in which shares will be delivered when restrictions on your restricted shares lapse. You are strongly encouraged to promptly complete the enclosed application form from Charles Schwab Employee Stock Plan Services in order to open the account. A copy of that information may be obtained on MoodysNet under the headings "Human Resources – Equity Awards." Once you exercise your options and purchase shares, or the restrictions on your restricted shares lapse, you may transfer your shares to another brokerage account or leave them in your Schwab account.

Your Equity Award

Your equity award provides you with an equity stake in Moody's through a combination of stock options and restricted shares and an opportunity for long-term capital appreciation. It provides a direct link between an associate's benefits and increases in stockholder value.

Details of Your Stock Option Grant

Your options give you the right to buy Moody's stock at a fixed price in the future. This is called the exercise price. The value of your options is tied directly to the stock market price of Moody's stock during the life span of the options. The higher the stock price rises in the future, the more valuable your options become.

Your stock option grant is a grant of non-qualified stock options, which expires 10 years after the date of grant (date), or upon your termination of employment, if earlier.

The terms of the Plan notwithstanding, for purposes of this equity award, Termination of Employment will occur on the date when you are no longer actively employed by the Company or an Affiliate and will not be extended by any notice period mandated under local law.

Subject to your continued employment, your options will vest and become exercisable with respect to 25% of the shares on each of the first, second, third and fourth anniversaries of the date of grant, so that your options will be 100% vested and exercisable after the fourth anniversary of the date of grant, as set forth in the following schedule:

Timeframe from Date of Grant (Vesting Date)	**Vesting**	**Cumulative Vesting**
[date] (1 year)	25%	25%
[date] (2 years)	25%	50%
[date] (3 years)	25%	75%
[date] (4 years)	25%	100%

You may exercise all or a portion of your options to purchase shares, to the extent vested, at the fixed exercise price at any time after vesting commences and on or before the expiration date (date). Further information on how to exercise your options and pay the exercise price is set forth in the enclosed informational brochure.

Details of Your Restricted Stock Grant

Your restricted shares provide you with all the rights of a shareholder from the date of grant, including the right to receive any dividends and to vote your restricted shares. However, until such time as your restricted stock vests, the shares may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by you otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance will be void and unenforceable against Moody’s. Note that dividends will be subject to the same restrictions as the shares to which they relate and will be accumulated and paid, without interest, when the underlying shares vest. In the event of a stock split, a stock dividend or similar change in Moody’s stock, your restricted shares will be adjusted as determined by the Committee under the Plan.

If you are an employee who, as of the date of grant, does not participate in the Company’s Executive Performance Incentive Compensation (“EPIC”) bonus plan and who is not a Moody’s KMV Managing Director, subject to your continued employment, your restricted stock will vest with respect to 25% of the shares on each of the first, second, third and fourth anniversaries of the date of grant, so that your restricted grant

will be 100% vested after the fourth anniversary of the date of grant, as set forth in the following schedule:

Timeframe from Date of Grant (Vesting Date)	Vesting	Cumulative Vesting
[date] (1 year)	25%	25%
[date] (2 years)	25%	50%
[date] (3 years)	25%	75%
[date] (4 years)	25%	100%

If you are an employee who, as of the date of grant, does participate in the Company's EPIC bonus plan (including "covered employees" as defined in Section 162(m) of the U.S. Internal Revenue Code, as amended) or you are a Moody's KMV Managing Director, subject to your continued employment, your restricted stock will vest to the extent that the Company has achieved certain performance goals. The vesting of shares in any one year will be expressed as a percentage of the "Target Shares" (equal to 25% of the number of restricted shares granted to you), on the applicable vesting date as set forth in the following schedule:

Annual Operating Income Growth	% of Target Shares Vesting
Less than __%	50%
Between __% and __% (Inclusive)	100%
More than __%	150%

In addition, if your restricted stock is not fully vested on the fifth anniversary of the date of grant, such restricted stock will vest in full on the fifth anniversary of the date of grant regardless of whether the performance goals described above have been achieved. In any event, no more than 100% of the restricted shares granted to you shall vest regardless of whether the performance goals have been achieved.

Transferability of Options and Restricted Shares

Neither your options nor restricted shares may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by you otherwise than by will or by the laws of descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance will be void and unenforceable against Moody's. During your lifetime, your options are exercisable only by you.

Nature of the Grant

In accepting the grant, you acknowledge that:

(1) the Plan is established voluntarily by Moody’s, it is discretionary in nature and it may be modified, suspended or terminated by Moody’s at any time, as provided in the Plan and this letter;

(2) the equity award is voluntary and occasional and does not create any contractual or other right to receive future equity award grants, or benefits in lieu of equity awards, even if equity awards have been granted repeatedly in the past;

(3) all decisions with respect to future equity awards, if any, will be at the sole discretion of Moody’s;

(4) your participation in the Plan shall not create a right to further employment with your employer and shall not interfere with the ability of your employer to terminate your employment relationship at any time with or without cause;

(5) you are voluntarily participating in the Plan;

(6) the equity award is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to Moody’s or to your employer, and which is outside the scope of your employment contract, if any;

(7) the equity award is not part of normal or expected compensation or salary for any purpose, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments;

(8) in the event that you are not an employee of Moody’s Corporation, the equity award will not be interpreted to form an employment contract or relationship with Moody’s Corporation; and furthermore, the equity award will not be interpreted to form an employment contract with any subsidiary or affiliate of Moody’s Corporation;

(9) the future value of the underlying shares is unknown and cannot be predicted with certainty;

(10) if the underlying shares do not increase in value, the options will have no value;

(11) if you exercise your options and obtain shares, the value of those shares acquired upon exercise may increase or decrease in value, even below the fixed exercise price;

(12) no claim or entitlement to compensation or damages arises from termination of the equity award, or diminution in value of the equity award or the shares

acquired through the equity award, and you irrevocably release Moody's and your employer from any such claim that may arise; and

(13) notwithstanding any terms or conditions of the Plan to the contrary, in the event of involuntary termination of your employment, your right to receive equity awards and vest in such awards under the Plan, if any, will terminate effective as of the date that you are no longer actively employed and will not be extended by any notice period mandated under local law (e.g., active employment would not include a period of "garden leave" or similar period pursuant to local law); furthermore, in the event of involuntary termination of employment, your right to exercise the options or take delivery of your restricted shares after termination of employment, if any, will be measured by the date of termination of your active employment and will not be extended by any notice period mandated under local law.

Responsibility for Taxes

Regardless of any action Moody's or your employer takes with respect to any or all income tax, social insurance, payroll tax or other tax-related withholding ("Tax-Related Items"), you acknowledge that the ultimate liability for all Tax-Related Items legally due by you is, and remains, your responsibility and that Moody's and/or your employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the equity award, including the grant of the equity award, the vesting of the equity award, the exercise of the options, the subsequent sale of shares acquired pursuant to the equity award and the receipt of any dividends; and (2) do not commit to structure the terms of the equity award or any aspect of the equity award to reduce or eliminate your liability for Tax-Related Items.

Prior to exercise of the options or the vesting of restricted shares, you agree to pay or make adequate arrangements satisfactory to Moody's and/or your employer to satisfy all withholding obligations of Moody's and/or your employer. In this regard, you authorize Moody's and/or your employer to withhold all applicable Tax-Related Items legally payable by you from your wages or other cash compensation paid to you by Moody's and/or your employer or from proceeds of the sale of the shares. Alternatively, or in addition, if permissible under local law, Moody's may (1) sell or arrange for the sale of shares that you acquire to meet the withholding obligation for Tax-Related Items, and/or (2) withhold in shares, provided that Moody's only withholds the amount of shares necessary to satisfy the minimum withholding amount. Finally, you shall pay to Moody's or your employer any amount of Tax-Related Items that Moody's or your employer may be required to withhold as a result of your participation in the Plan that cannot be satisfied by the means previously described. Moody's may refuse to deliver the shares if you fail to comply with your obligations in connection with the Tax-Related Items as described in this section.

Income Tax Consequences

You should consult your own tax advisor concerning the tax implications of the Plan and your equity award.

Data Privacy

You hereby explicitly and unambiguously consent to the collection, use and transfer, in electronic or other form, of your personal data as described in this document by and among, as applicable, your employer and Moody's and its subsidiaries and affiliates for the exclusive purpose of implementing, administering and managing your participation in the Plan.

You understand that Moody's and your employer hold certain personal information about you, including, but not limited to, your name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in Moody's, details of all options or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in your favor, for the purpose of implementing, administering and managing the Plan ("Data"). You understand that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan (such as Charles Schwab), that these recipients may be located in your country or elsewhere, and that the recipient's country may have different data privacy laws and protections than your country. You understand that you may request a list with the names and addresses of any potential recipients of the Data by contacting your local human resources representative. You authorize the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing your participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom you may elect to deposit any shares of stock acquired through your equity award. You understand that Data will be held only as long as is necessary to implement, administer and manage your participation in the Plan. You understand that you may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, without cost to you, by contacting in writing your local human resources representative. You understand, however, that refusing or withdrawing your consent may affect your ability to participate in the Plan. For more information on the consequences of your refusal to consent or withdrawal of consent, you understand that you may contact your local human resources representative.

Governing Law, Documents and Severability

This equity award is made in the state of Delaware and is governed by, and subject to, the laws of the state of Delaware applicable to contracts made and to be

performed in the state of Delaware, as provided in the Plan, and the requirements of the New York Stock Exchange as well as the terms and conditions set forth herein.

If you have received this letter or any other document related to the Plan translated into a language other than English, and if the translated version is different than the English version, the English version will control.

The terms and conditions provided herein are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

Exercise and Share Issuance Restrictions

Moody’s has the right to restrict or otherwise delay the issuance of stock in connection with your equity award until the requirements of any applicable laws or regulations and any stock exchange requirements have, in Moody’s judgment, been satisfied in full. Moody’s also has the right to refuse to issue or transfer any stock under the Plan if, in Moody’s judgment, such issuance or transfer might violate any applicable law or regulation.

* * *

If you have any questions regarding this one-time grant, please contact your Human Resources representative.

Sincerely,

Moody’s Corporation

I hereby accept and agree to the foregoing terms of this equity award.

____
Signature

____
Name

____
Date

Form of Non-Employee Director Restricted Stock Grant Agreement for the 1998 Moody's Corporation Non-Employee Directors' Stock Incentive Plan

Exhibit 10.3

[Date]

[Director Name]
[Director Address]

Re: Restricted Stock Award

Dear [Name]:

This letter agreement (the "Agreement") contains the terms and conditions under which the Committee has granted to you (the "Director"), as of [date] and pursuant to the 1998 Moody's Corporation Non-Employee Directors' Stock Incentive Plan (as Amended and Restated as of April 23, 2001) (the "Plan"), shares of Common Stock (the "Shares") of Moody's Corporation (the "Company") in order to encourage you to continue in the service of the Company as a non-employee director.

1. Definitions. When used herein, the following terms shall have the following meanings:

(a) "Restrictions" means those restrictions on the Shares as set forth in Section 3(c).

(b) Any terms not defined in this Agreement shall have the meaning provided in the Plan.

2. The Shares.

The Shares consist of shares of the Common Stock of the Company which the Company has issued to the Director as of the date hereof in consideration for Director's services as a non-employee member of the Board of Directors of the Company, and shall also include any new, additional or different securities the Director may become entitled to receive with respect to such Shares by virtue of a stock dividend or split, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other corporate exchange, or similar change affecting the Common Stock pursuant to Section 9(a) of the Plan.

3. Registration of Shares; Restrictions. Subject to the provisions of Section 5,

(a) The Shares shall be registered in the name of the Director as soon as practicable after the date hereof.

(b) The Shares registered in the name of the Director shall be maintained in a book entry position account at the Company's transfer agent, The Bank of New York, and the Director shall thereupon be a stockholder and have all the rights of a stockholder with respect to such Shares except as otherwise provided in paragraph (c) of this Section 3 and in Section 5, including full voting rights and the right to receive all dividends or other distributions made or paid with respect to such Shares; provided, however, that such Shares, and any new, additional or different securities the Director may become entitled to receive with respect to such Shares by virtue of stock dividend, recapitalization, reorganization or similar change affecting the Common Stock pursuant to Section 9(a) of the Plan, shall be subject to the Restrictions described or referred to in this Section 3.

(c) Prior to their release from the Restrictions as provided in Section 4, all Shares held for or in respect of the Director may not be sold, transferred, pledged, assigned, or otherwise encumbered or disposed of by the Director.

4. Release of Shares from Restrictions.

(a) Subject to the provisions of paragraph (b) of this Section 4, the Restrictions shall cease to apply to the Shares awarded to the Director according to the following schedule or, if earlier, upon the first anniversary of the Director's Retirement, death or Disability; provided, however, that release from the Restrictions of any or all Shares may be accelerated at the direction and in the sole discretion of the Committee.

Vesting Schedule

Release Date	Percent of Shares Released
	33 1/3%
	33 1/3%
	33 1/3%

(b) Upon the termination of the Director's service as a non-employee director of the Company for any reason other than the Director's death or Disability, any Shares which remain subject to the Restrictions at such time shall be forfeited by the Director to the Company, and the Director shall promptly return such Shares to the Company, unless the Committee shall otherwise determine.

5. Election to Defer Receipt of Restricted Stock. The Director may elect to defer the receipt of some or all of the Shares by filing a written, irrevocable, election to that effect with the Company not less than one year prior to the date on which the restrictions lapse pursuant to Section 4 above, identifying the portion of the Shares the receipt of which he elects to defer, and specifying the period of deferral and the time at which or event upon which the deferred portion of the Shares shall be distributed to the Director. Any Shares with respect to which such a deferral election is made shall be contributed to a grantor "rabbi" trust established by the Company prior to the date on which the restrictions lapse. Paragraphs (a) and (b) of Section 3, above, shall not apply to any of the Shares to which such deferral election relates. However, the vesting schedule and forfeiture provisions of Section 4 shall continue to apply to any such Shares.

6. Designation of Beneficiaries. Director may file with the Company a written designation of a beneficiary or beneficiaries under this Agreement and may from time to time revoke or change any such designation of beneficiary. Any designation of beneficiary under this Agreement shall be controlling over any other disposition, testamentary or otherwise; provided, however, that if the Committee shall be in doubt as to the entitlement of any such beneficiary to any dividends or other rights under this Agreement, the Committee may determine to recognize only the legal representative of the Director, in which case the Company, the Committee and the members thereof shall not be under any further liability to anyone.

7. Governing Law. The interpretation, performance and enforcement of this Agreement and any disputes or controversies arising with respect to the transactions contemplated herein, shall be governed by the laws of the State of New York, irrespective of New York's choice-of-law principles that would apply the law of any other jurisdiction.

8. Taxes. The Company may, in its discretion, make such provisions and take such steps as it may deem necessary or appropriate for the withholding of all federal, state, local and other taxes required by law to be withheld with respect to issuance or vesting of any Shares including, but not limited to, deducting the amount of any such withholding taxes from any other amount then or thereafter payable to the Director, or requiring the Director or the beneficiary or legal representative of the Director, to pay to the Company the amount required to be withheld or to execute such documents as the Company deems necessary or desirable to enable it to satisfy its withholding obligations.

9. Election under Section 83(b).

If the Director makes the election permitted under Section 83(b) of the Internal Revenue Code of 1986, as amended, he shall notify the Company of such election within 10 days of filing the notice of election with the Internal Revenue Service.

10. Governance by Compensation and Benefits Committee.

The Committee's decisions as to the meanings of terms used in this Agreement and as to whether the events or conditions described in this Agreement have been satisfied shall be final and binding upon the Director and the Director's successors and representatives. Without limiting the generality of the foregoing, the Committee shall have the power to determine, for purposes of this Agreement, when a termination of service as a non-employee director shall have occurred, and the Committee's decision shall be final and binding upon the Director and the Director's successors and representatives.

11. Period of Service.

Director will, except in the event of his or her earlier death or Disability, serve the Company as a member of its Board for such term as he or she has been, and may hereafter be, elected, provided that although Director may agree to stand for reelection to the Board after the date hereof, he or she is under no obligation to do so and the Company is under no obligation to submit his or her name for reelection by the stockholders.

Please acknowledge your agreement to the foregoing in the space provided below.

Very truly yours,

ACCEPTED AND AGREED:

____

Exhibit 10.4

2004 MOODY'S CORPORATION
COVERED EMPLOYEE CASH INCENTIVE PLAN

1. Purpose of the Plan

The purpose of the Plan is to advance the interests of the Company and its stockholders by providing incentives in the form of periodic cash bonus awards to certain management employees of the Company and its Subsidiaries, thereby motivating such employees to attain performance goals established pursuant to the Plan.

2. Definitions

The following capitalized terms used in the Plan have the respective meanings set forth in this Section:

(a) *Act:* The Securities Exchange Act of 1934, as amended, or any successor thereto.

(b) *Award:* A periodic cash bonus award granted pursuant to the Plan.

(c) *Beneficial Owner:* As such term is defined in Rule 13d-3 under the Act (or any successor rule thereto).

(d) *Board:* The Board of Directors of the Company.

(e) *Change in Control:* The occurrence of any of the following events:

(i) any "Person" as such term is used in Section 13(d) and 14(d) of the Act (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities;

(ii) during any period of twenty-four months (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board, and any new director (other than (A) a director nominated by a Person who has entered into an agreement with the Company to effect a transaction described in Sections 2(e)(i), (iii) or (iv) of the Plan, (B) a director nominated by any Person (including the Company) who publicly announces an intention to take or to consider taking actions (including, but not limited to, an actual or threatened proxy contest) which if consummated would constitute a Change in Control or (C) a director designated by any Person who is the Beneficial Owner, directly or indirectly, of securities of the Company representing 10% or more of the combined voting power of the Company's securities) whose election by the Board or nomination for election by the Company's stockholders was approved in advance by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;

(iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation (A) which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation and (B) after which no Person would hold 20% or more of the combined voting power of the then outstanding securities of the Company or such surviving entity; or

(iv) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

(f) *Code:* The Internal Revenue Code of 1986, as amended, or any successor thereto.

(g) *Committee:* The Governance and Compensation Committee of the Board, or any successor thereto or any other committee designated by the Board to assume the obligations of the Committee hereunder.

(h) *Company:* Moody's Corporation, a Delaware corporation.

(i) *Covered Employee:* An employee who is, or who is anticipated to become, a covered employee, as such term is defined in Section 162(m) of the Code (or any successor section thereto) and the Treasury Regulations promulgated thereunder.

(j) *Effective Date:* The date on which the Plan takes effect, as defined pursuant to Section 13 of the Plan.

(k) *Participant:* A Covered Employee of the Company or any of its Subsidiaries who is selected by the Committee to participate in the Plan pursuant to Section 4 of the Plan.

(l) *Performance Period:* The calendar year or any other period that the Committee, in its sole discretion, may determine.

(m) *Person:* As such term is used for purposes of Section 13(d) or 14(d) of the Act or any successor sections thereto.

(n) *Plan:* The 2004 Moody's Corporation Covered Employee Cash Incentive Plan.

(o) *Shares:* Shares of common stock, par value $0.01 per Share, of the Company.

(p) *Subsidiary:* A subsidiary corporation, as defined in Section 424(f) of the Code (or any successor section thereto).

3. Administration

The Plan shall be administered by the Committee or such other persons designated by the Board. The Committee may delegate its duties and powers in whole or in part to any subcommittee thereof consisting solely of at least two individuals who are each "non-employee directors" within the meaning of Rule 16b-3 of the Act (or any successor rule thereto) and "outside directors" within the meaning of Section 162(m) of the Code (or any successor section thereto) and the Treasury Regulations promulgated thereunder. The Committee shall have the authority to select the Covered Employees to be granted Awards under the Plan, to determine the size and terms of an Award (subject to the limitations imposed on Awards in Section 5 below), to modify the terms of any Award that has been granted (except for any modification that would increase the amount of the Award), to determine the time when Awards will be made and the Performance Period to which they relate, to establish performance objectives in respect of such Performance Periods and to certify that such performance objectives were attained; *provided, however* , that any such action shall be consistent with the applicable provisions of Section 162(m) of the Code. The Committee is authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Plan; *provided, however* , that any action permitted to be taken by the Committee may be taken by the Board, in its discretion, to the extent that any such action taken by the Board is consistent with the applicable provisions of Section 162(m) of the Code. The Committee may correct any defect or omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the interpretation and administration of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. Determinations made by the Committee under the Plan need not be uniform and may be made selectively among Participants, whether or not such Participants are similarly situated. The Committee shall have the right to deduct from any payment

made under the Plan any federal, state, local or foreign income or other taxes required by law to be withheld with respect to such payment. To the extent consistent with the applicable provisions of Sections 162(m) of the Code, the Committee may delegate to one or more employees of the Company or any of its Subsidiaries the authority to take actions on its behalf pursuant to the Plan.

4. Eligibility and Participation

The Committee shall designate those persons who shall be Participants for each Performance Period. Participants shall be selected from among the Covered Employees of the Company and any of its Subsidiaries who are in a position to have a material impact on the results of the operations of the Company or of one or more of its Subsidiaries.

5. Awards

(a) *Performance Goals.* A Participant's Award shall be determined based on the attainment of one or more pre-established, objective performance goals established in writing by the Committee, for a Performance Period established by the Committee, (i) at a time when the outcome for the Performance Period is substantially uncertain and (ii) not later than 90 days after the commencement of the Performance Period to which the performance goal relates, but in no event after 25 percent of the relevant Performance Period has elapsed. The performance goals shall be based upon one or more or the following criteria: (i) earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on stockholders' equity; (vii) expense management; (viii) return on investment before or after the cost of capital; (iv) improvements in capital structure; (x) profitability of an identifiable business unit or product; (xi) maintenance or improvement of profit margins; (xii) stock price; (xiii) market share; (xiv) revenues or sales; (xv) costs; (xvi) cash flow; (xvii) working capital; (xviii) changes in net assets (whether or not multiplied by a constant percentage intended to represent the cost of capital); and (xix) return on assets. The foregoing criteria may relate to the Company, one or more of its Subsidiaries or one or more of its divisions, units, partnerships, joint ventures or minority investments, product lines or products or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the performance goals may be calculated without regard to extraordinary items. The maximum amount of an Award to any Participant with respect to a fiscal year of the Company shall be $5,000,000.

(b) *Payment.* The Committee shall determine whether, with respect to a Performance Period, the applicable performance goals have been met with respect to a given Participant and, if they have, to so certify in writing and ascertain the amount of the applicable Award. No Awards will be paid for such Performance Period until such certification is made by the Committee. The amount of the Award actually paid to a given Participant may be less than the amount determined by the applicable performance goal formula (including zero), at the discretion of the Committee. The amount of the Award determined by the Committee for a Performance Period shall be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such Performance Period.

(c) *Compliance with Section 162(m) of the Code.* The provisions of this Section 5 shall be administered and interpreted in accordance with Section 162(m) of the Code and the Treasury Regulations promulgated thereunder to ensure the deductibility by the Company or its Subsidiaries of the payment of Awards; provided, however, that the Committee may, in its sole discretion, administer the Plan in violation of Section 162(m) of the Code.

(d) *Termination of Employment.* If a Participant dies, retires, is assigned to a different position, is granted a leave of absence, or if the Participant's employment is otherwise terminated (except with cause by the Company, as determined by the Committee in its sole discretion) during a Performance Period (other than a Performance Period in which a Change in Control occurs), a pro-rata share of the Participant's award based on the period of actual participation shall be paid to the Participant after the end of the Performance

Period if it would have become earned and payable had the Participant's employment status not changed; *provided, however* , that the amount of the Award actually paid to a given Participant may be less than the amount determined by the applicable performance goal formula (including zero), at the discretion of the Committee.

6. Amendments or Termination

The Board or the Committee may amend, alter or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which would impair any of the rights or obligations under any Award theretofore granted to a Participant under the Plan without such Participant's consent; *provided, however* , that the Board or the Committee may amend the Plan in such manner as it deems necessary to permit the granting of Awards meeting the requirements of Section 162(m) of the Code or other applicable laws. Notwithstanding anything to the contrary herein, the Board may not amend, alter or discontinue the provisions relating to Section 10(b) of the Plan after the occurrence of a Change in Control.

7. No Right to Employment

Neither the Plan nor any action taken hereunder shall be construed as giving any Participant or other person any right to continue to be employed by or perform services for the Company or any Subsidiary, and the right to terminate the employment of or performance of services by any Participant at any time and for any reason is specifically reserved to the Company and its Subsidiaries.

8. Nontransferability of Awards

An award shall not be transferable or assignable by the Participant otherwise than by will or by the laws of descent and distribution.

9. Reduction of Awards

Notwithstanding anything to the contrary herein, the Committee, in its sole discretion (but subject to applicable law), may reduce any amounts payable to any Participant hereunder in order to satisfy any liabilities owed to the Company or any of its Subsidiaries by the Participant.

10. Adjustments Upon Certain Events

(a) *Generally.* In the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of Shares or other corporate exchange, or any distribution to stockholders of Shares other than regular cash dividends, the Committee in its sole discretion and without liability to any person may make such substitution or adjustment, if any, as it deems to be equitable, as to any affected terms of outstanding Awards.

(b) *Change in Control.* In the event that (i) a Participant's employment is actually or constructively terminated during a given Performance Period (the "Affected Performance Period") and (ii) a Change in Control shall have occurred within the 365 days immediately preceding the date of such termination, then such Participant shall receive, promptly after the date of such termination, payment pursuant to his or her Award for the Affected Performance Period as if the performance goals for such Performance Period had been achieved at 100%.

11. Miscellaneous Provisions

The Company is the sponsor and legal obligor under the Plan and shall make all payments hereunder, other than any payments to be made by any of the Subsidiaries (in which case payment shall be made by such Subsidiary, as appropriate).

The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to ensure the payment of any amounts under the Plan, and the Participants' rights to the

payment hereunder shall be no greater than the rights of the Company's (or Subsidiary's) unsecured creditors. All expenses involved in administering the Plan shall be borne by the Company.

12. Governing Law

The interpretation, performance and enforcement of this Plan and any disputes or controversies arising with respect to the transactions contemplated herein, shall be governed by the laws of the State of Delaware, irrespective of Delaware's choice of law principles that would apply the law of any other jurisdiction.

13. Effective Date

The Plan shall be effective as of April 27, 2004.

Exhibit 10.5

Description of Bonus Terms under the Covered Employee Cash Incentive Plan

The 2004 Moody's Corporation Covered Employee Cash Incentive Plan (the "Plan") provides for annual performance-based bonuses to the Chief Executive Officer and each of the other named executive officers.

In the first quarter of each year, the Governance and Compensation Committee (the "Committee") establishes specific quantitative performance measures for a target level of performance, and assigns different percentage weights to each such performance measure. The Committee also approves a target bonus amount for each executive. Actual performance under the Plan is measured against the target performance level in order to determine the actual payment.

The Committee typically has measured an executive's performance based upon the Company's earnings per share and operating income. However, a percentage of the bonus awards of certain executives also may be tied to the financial performance of the Company's subsidiaries or business units.

Under the Plan, award payments are adjusted linearly based on actual performance (determined on weighted average results of the performance measures) relative to the target level of performance. Accordingly, payment of 100% of an executive's target bonus is awarded upon attainment of the target level of performance, with a percentage increase or decrease in that target bonus consistent with the percentage increase or decrease relative to the target level of performance.

In determining actual payments under the Plan, the Committee may reduce, but not increase, an executive's bonus award based on such objective or subjective criteria as it determines appropriate, notwithstanding that executive's attainment of the pre-established, objective performance goals.

The Plan was approved by the Company's stockholders on April 27, 2004, and amounts payable thereunder are intended to qualify as "performance-based" compensation under Section 162(m) of the Internal Revenue Code.

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 3, 2004

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 3, 2004

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, 2004 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 3, 2004

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, 2004 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 3, 2004