

# MOODYS CORP /DE/

## FORM 10-Q (Quarterly Report)

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2001

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

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(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X 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 March 31, 2001
Common Stock, Par value \$0.01 per share	157.5 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 MARCH 31,	
	2001	2000
REVENUE	\$ 180.2	\$ 139.3
EXPENSES		
OPERATING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	86.3	71.5
DEPRECIATION AND AMORTIZATION	4.1	4.0
TOTAL EXPENSES	90.4	75.5
OPERATING INCOME	89.8	63.8
NON-OPERATING (EXPENSE) INCOME, NET	(3.5)	0.5
INCOME BEFORE PROVISION FOR INCOME TAXES	86.3	64.3
PROVISION FOR INCOME TAXES	38.3	28.4
NET INCOME	\$ 48.0	\$ 35.9
EARNINGS PER SHARE		
BASIC	\$ 0.30	\$ 0.22
DILUTED	\$ 0.30	\$ 0.22
WEIGHTED AVERAGE SHARES OUTSTANDING		
BASIC	159.0	161.2
DILUTED	161.1	162.5

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

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

	MARCH 31, 2001	DECEMBER 31, 2000
ASSETS		
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	\$ 99.0	\$ 119.1
ACCOUNTS RECEIVABLE, NET OF ALLOWANCES OF \$28.1 IN 2001 AND \$24.4 IN 2000	123.7	101.0
OTHER CURRENT ASSETS	57.1	57.5
TOTAL CURRENT ASSETS	279.8	277.6
PROPERTY AND EQUIPMENT, NET	42.3	43.4
PREPAID PENSION COSTS	54.4	53.8
INTANGIBLES ASSETS, NET	13.1	13.7
OTHER ASSETS	10.0	9.8
TOTAL ASSETS	\$ 399.6	\$ 398.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 143.2	\$ 135.4
DEFERRED REVENUE	150.4	117.7
TOTAL CURRENT LIABILITIES	293.6	253.1
NOTES PAYABLE	300.0	300.0
OTHER LIABILITIES	129.9	127.7
TOTAL LIABILITIES	723.5	680.8
CONTINGENCIES (NOTE 4 )		
SHAREHOLDERS' EQUITY		
PREFERRED STOCK, PAR VALUE \$ .01 PER SHARE; 10,000,000 SHARES AUTHORIZED; NO SHARES ISSUED AND OUTSTANDING	-	-
SERIES COMMON STOCK, PAR VALUE \$ .01 PER SHARE; 10,000,000 SHARES AUTHORIZED; NO SHARES ISSUED AND OUTSTANDING	-	-
COMMON STOCK, PAR VALUE \$ .01 PER SHARE; 400,000,000 SHARES AUTHORIZED; 171,451,136 SHARES ISSUED AND OUTSTANDING AT MARCH 31, 2001 AND DECEMBER 31, 2000	1.7	1.7
CAPITAL SURPLUS	15.7	7.9
ACCUMULATED DEFICIT	(182.3)	(223.2)
TREASURY STOCK, AT COST; 13,989,634 AND 11,040,266 SHARES OF COMMON STOCK AT MARCH 31, 2001 AND DECEMBER 31, 2000, RESPECTIVELY	(155.7)	(67.0)
CUMULATIVE TRANSLATION ADJUSTMENT	(3.3)	(1.9)
TOTAL SHAREHOLDERS' EQUITY	(323.9)	(282.5)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 399.6	\$ 398.3

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

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

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
NET INCOME	\$ 48.0	\$35.9
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
DEPRECIATION AND AMORTIZATION	4.1	4.0
CHANGES IN ASSETS AND LIABILITIES:		
INCREASE IN ACCOUNTS RECEIVABLE	(22.8)	(10.7)
DECREASE (INCREASE) IN OTHER CURRENT ASSETS	0.2	(0.3)
INCREASE IN PREPAID PENSION COSTS	(0.6)	(0.8)
INCREASE IN OTHER ASSETS	(0.1)	(0.3)
INCREASE (DECREASE) IN ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	8.1	(29.3)
INCREASE IN DEFERRED REVENUE	32.8	20.5
INCREASE (DECREASE) IN OTHER LIABILITIES	2.1	(1.3)
NET CASH PROVIDED BY OPERATING ACTIVITIES	71.8	17.7
CASH FLOWS FROM INVESTING ACTIVITIES		
NET CAPITAL ADDITIONS	(3.0)	(3.0)
ACQUISITION OF BUSINESS	--	(17.4)
OTHER	0.1	--
NET CASH USED IN INVESTING ACTIVITIES	(2.9)	(20.4)
CASH FLOWS FROM FINANCING ACTIVITIES		
NET PROCEEDS FROM STOCK PLANS	15.6	--
COST OF TREASURY SHARES REPURCHASED	(96.5)	--
PAYMENT OF DIVIDENDS	(7.1)	--
NET DISTRIBUTIONS FROM OLD D&B	--	9.2
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(88.0)	9.2
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1.0)	0.4
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(20.1)	6.9
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	119.1	3.4
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	\$ 99.0	\$10.3

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

# MOODY'S CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 1. BACKGROUND AND BASIS OF PRESENTATION

Moody's Corporation ("Moody's" or the "Company"), a global credit rating, research and risk analysis firm, publishes credit opinions, research and ratings on fixed-income securities, issuers of securities and other credit obligations. The Company 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. The Company also publishes investor-oriented credit research including in-depth research on major issuers, industry studies, special comments and credit opinion handbooks. Moody's Risk Management Services develops and distributes credit risk assessment software used by banks and other financial institutions in their portfolio management, commercial lending and other activities. It also provides modeling tools, analytics, credit education materials, seminars, computer-based lending simulations and other products and services.

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

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

Pursuant to the terms of the Distribution Agreement, the Company retained all of the assets and liabilities related to the Moody's Business and New D&B retained all of the assets and liabilities related to the D&B Business. Prior to the Distribution Date, Old D&B provided certain centralized services to the Company, the cost of which was allocated to the Company. Management believes these allocations were reasonable; however, the costs of these services are not necessarily indicative of the costs that would have been incurred if the Company had performed or provided these services as a separate entity. The condensed consolidated financial statements reflect the financial position, results of operations and cash flows of the Company as if it were a separate entity for all periods presented.

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 2000 Annual Report on Form 10-K filed on March 15, 2001. 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.

### 2. RECONCILIATION OF SHARES USED IN COMPUTING EARNINGS PER SHARE

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

**THREE  
MONTHS ENDED  
MARCH 31,**

	(in millions)	
	2001	2000
	----	----
Weighted average number of shares - Basic	159.0	161.2
Dilutive effect of shares issuable under stock option, restricted stock and performance share plans	2.1	1.3
	-----	-----
Weighted average number of shares - Diluted	161.1	162.5
	=====	=====

Options to purchase 4.9 million and 9.1 million shares of common stock were outstanding at March 31, 2001 and 2000, respectively, but were not included in the computation of diluted earnings per share for the respective three month periods because the options' exercise prices were greater than the year-to-date average market price of the Company's common stock (as adjusted for the Distribution).

### 3. INDEBTEDNESS

Pursuant to the Distribution Agreement, 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 Notes have a five-year term and bear interest at an annual rate of 7.61%, payable semi-annually. 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. In March 2001, the Company paid \$11.2 million in semi-annual interest.

The revolving credit facility (the "Facility"), which was undrawn as of March 31, 2001, consists of an \$80 million 5-year facility, which expires in September 2005 and an \$80 million 364-day facility, which expires in September 2001. Interest on outstanding borrowings is payable monthly at rates of interest that are based on prevailing short-term interest rates at the time of such borrowings.

The Notes and the Facility contain covenants that, among other things, restrict the ability of the Company and its subsidiaries, without the approval of the lenders, to engage in mergers, consolidations, asset sales and sale-leaseback transactions or to incur liens, and require the Company to maintain certain financial ratios.

### 4. CONTINGENCIES

Moody's is involved in legal proceedings, claims and litigation arising in the ordinary course of business. Although the outcome of such matters cannot be predicted with certainty, in the opinion of management, the ultimate liability of Moody's in connection with such matters will not have a material adverse effect on Moody's financial position, results of operations or cash flows.

In addition, Moody's has certain other contingencies discussed below.

#### **Information Resources, Inc.**

On July 29, 1996, Information Resources, Inc. ("IRI") filed a complaint in the United States District Court for the Southern District of New York, naming as defendants the corporation then known as "The Dun & Bradstreet Corporation" and, as



discussed below, now known as "R.H. Donnelley Corporation" ("Donnelley"), A.C. Nielsen Company (a subsidiary of ACNielsen Corporation) and IMS International, Inc. (a subsidiary of the company then known as Cognizant Corporation). At the time of the filing of the complaint, each of the other defendants was a subsidiary of Donnelley.

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

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

In November 1996, Donnelley completed a distribution to its shareholders (the "1996 Distribution") of the capital stock of ACNielsen Corporation ("ACNielsen") and Cognizant Corporation ("Cognizant"). On October 28, 1996, in connection with the 1996 Distribution, Cognizant, ACNielsen and Donnelley entered into an Indemnity and Joint Defense Agreement (the "Indemnity and Joint Defense Agreement") pursuant to which they have agreed (i) to certain arrangements allocating potential liabilities ("IRI Liabilities") that may arise out of or in connection with the IRI action and (ii) to conduct a joint defense of such action. In particular, the Indemnity and Joint Defense Agreement provides that ACNielsen will assume exclusive liability for IRI Liabilities up to a maximum amount to be calculated at such time such liabilities, if any, become payable (the "ACN Maximum Amount"), and that Donnelley and Cognizant will share liability equally for any amounts in excess of the ACN Maximum Amount. The ACN Maximum Amount will be determined by an investment banking firm as the maximum amount that ACNielsen is able to pay after giving effect to (i) any plan submitted by such investment bank that is designed to maximize the claims-paying ability of ACNielsen without impairing the investment banking firm's ability to deliver a viability opinion (but which will not require any action requiring shareholder approval), and (ii) payment of related fees and expenses. For these purposes, financial viability means the ability of ACNielsen, after giving effect to such plan, the payment of related fees and expenses and the payment of the ACN Maximum Amount, to pay its debts as they become due and to finance the current and anticipated operating and capital requirements of its business, as reconstituted by such plan, for two years from the date any such plan is expected to be implemented. On February 19, 2001, ACNielsen announced that it had merged with VNU N.V. Pursuant to the Indemnity and Joint Defense Agreement, VNU is to be included with ACNielsen for purposes of determining the ACN Maximum Amount, and VNU must assume ACNielsen's liabilities under that agreement.

In June 1998, Donnelley completed a distribution to its shareholders (the "1998 Distribution") of the capital stock of Old D&B and changed its name to R.H. Donnelley Corporation. In connection with the 1998 Distribution, Old D&B and

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

During 1998, Cognizant separated into two companies, IMS Health Incorporated ("IMS Health") and Nielsen Media Research, Inc. ("NMR"). IMS Health and NMR are each jointly and severally liable for all Cognizant liabilities under the Indemnity and Joint Defense Agreement.

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

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

## Tax Matters

Pursuant to the Distribution Agreement, New D&B and Moody's have agreed to each be financially responsible for 50% of any potential liabilities that may arise with respect to the reviews described below, to the extent such potential liabilities are not directly attributable to their respective business operations.

Old D&B and its predecessors entered into global tax planning initiatives in the normal course of business, principally through tax-free restructurings of both their foreign and domestic operations. These initiatives are subject to normal review by tax authorities. It is possible that additional liabilities may be proposed by tax authorities as a result of these reviews and that some of the reviews could be resolved unfavorably. At this time, Moody's management is unable to predict the extent of such reviews, the outcome thereof or whether the resolution of these matters could materially affect Moody's results of operations, cash flows or financial position.

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

On May 12, 2000, an amended tax return was filed for the 1989 and 1990 tax periods, which reflected \$561.6 million of tax and interest due. Old D&B paid the IRS approximately \$349.3 million of this amount on May 12, 2000. 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. Notwithstanding the filing and payment, New D&B is contesting the IRS's formal assessment and would also contest the assessment of amounts, if any, in excess of the amounts paid. Moody's had previously accrued its anticipated share of the probable liability arising from the utilization of these capital losses.

## 5. COMPREHENSIVE INCOME

Total comprehensive income was as follows:

	<b>THREE MONTHS ENDED MARCH 31,</b>	
	(in millions)	
	2001	2000
	-----	-----
Net income.....	\$ 48.0	\$ 35.9
Other comprehensive (loss) income - foreign currency translation adjustment	(1.4)	0.8
	-----	-----
Total comprehensive income.....	\$ 46.6	\$ 36.7
	=====	=====

## 6. SEGMENT INFORMATION

The Company reports segment information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". In accordance with SFAS No. 131, operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company operates primarily in one reportable business segment - ratings, which accounts for approximately 90% of the Company's total revenues. Revenue related to research products and the risk management services business have been aggregated as "Other" for reporting purposes. Given the dominance of the ratings segment to Moody's overall results, the Company does not separately measure and report operating income for the ratings business. Rather, revenue is the predominant measure utilized by senior management for assessing performance and for the allocation of resources, and operating income is evaluated for the Company as a whole. In addition, assets are not allocated on a segment basis but are considered on a total company basis only.

The ratings segment is comprised of four major rating groups, each of which has similar economic and financial characteristics. They are corporate finance ratings, structured finance ratings, financial institutions and sovereign ratings and public finance ratings.

Revenue included in "Other" consists of research products revenue, generated from the sale of investor-oriented credit research, and risk management services revenue, generated from the sale of credit risk assessment software and related products and services.

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

### THREE MONTHS ENDED MARCH 31,

	2001	2000
	----	----
	(in millions)	
Revenue:		
Ratings:		
Structured finance ratings.....	\$ 59.1	\$ 40.5
Corporate finance ratings.....	54.5	44.6
Financial institutions and sovereign ratings...	31.4	27.4
Public finance ratings.....	13.0	9.4
Total ratings revenue.....	158.0	121.9
Other.....	22.2	17.4
Total revenue .....	180.2	139.3
Total expenses.....	90.4	75.5
Operating Income.....	89.8	63.8
Non-operating (expense) income, net.....	(3.5)	0.5
Income before provision for income taxes.....	\$ 86.3	\$ 64.3
	=====	=====
Revenue by geographic area:		
United States.....	\$ 131.9	\$ 99.8
International.....	48.3	39.5
Total revenue.....	\$ 180.2	\$139.3
	=====	=====

## 7. SUBSEQUENT EVENTS

On April 10, 2001, Moody's Investors Service, Inc., a subsidiary of the Company, agreed to a settlement with the Antitrust Division of the U.S. Department of Justice arising from an isolated incident in 1996 involving the destruction of documents. Under the terms of the settlement, Moody's Investors Service, Inc. pleaded guilty to one count of obstruction of justice and agreed to pay a fine of \$195,000. A copy of the plea agreement embodying the settlement is included as an exhibit to the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 11, 2001. The impact of the plea agreement, including the settlement, is not expected to have a material adverse effect on the Company's results of operations, financial position or cash flows.

On April 23, 2001, the Board of Directors increased the authorization under the existing \$250 million share repurchase program by an additional \$50 million.

On April 23, 2001, the Board of Directors also approved a quarterly dividend of 4.5 cents per share of Moody's common stock, payable on June 10, 2001 to shareholders of record at the close of business on May 20, 2001.

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

### THE COMPANY

Except where otherwise indicated, the terms "Moody's" or "the Company" refer to Moody's Corporation and its wholly owned subsidiaries. The Company is a leading global credit rating, research and risk analysis firm in terms of market position, revenue, income and a number of other relevant statistical standards. The Company publishes rating opinions on a broad range of credit obligations. These include various corporate and governmental obligations, structured finance securities and commercial paper programs, issued in domestic and international markets. Moody's also assigns ratings to issuers of securities, insurance company obligations, bank loans, derivative products, bank deposits and other bank debt and managed funds.

Closely integrated with its ratings services, Moody's provides research services that are utilized by institutional investors and other credit professionals. Organized according to industry and market segment, these research services cover investment grade and speculative grade corporate bonds, the global banking sector, municipal bonds, and mortgage- and asset-backed securities, in cross-border and domestic markets worldwide.

Moody's Risk Management Services, Inc., a wholly owned subsidiary of Moody's ("Moody's Risk Management Services"), develops and distributes credit risk assessment software used by banks and other financial institutions in their portfolio management, commercial lending and other activities. Moody's Risk Management Services also provides modeling tools, analytics, credit education materials, seminars, computer-based lending simulations and other products and services.

## **FACTORS AFFECTING COMPARABILITY**

On September 30, 2000 (the "Distribution Date"), The Dun & Bradstreet Corporation ("Old D&B") separated into two independent, publicly traded companies - Moody's Corporation and The New D&B Corporation ("New D&B"). At that time, Old D&B distributed to its shareholders shares of New D&B stock. New D&B comprised the business of Old D&B's Dun & Bradstreet operating company ("the D&B Business"). The remaining business of Old D&B consisted solely of the business of providing ratings and related research and risk management services ("the Moody's Business") and was renamed "Moody's Corporation". Old D&B's common stock became Moody's common stock, and shares of common stock of Old D&B represent a continuing interest in the Moody's Business. The financial statements of Moody's have been restated to reflect the recapitalization described above.

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

Pursuant to the terms of the Distribution Agreement, the Company retained all of the assets and liabilities related to the Moody's Business and New D&B retained all of the assets and liabilities related to the D&B Business. Prior to the Distribution Date, Old D&B provided certain centralized services to the Company, the cost of which was allocated to the Company. Management believes these allocations were reasonable; however, the costs of these services are not necessarily indicative of the costs that would have been incurred if the Company had performed or provided these services as a separate entity. The condensed consolidated financial statements reflect the financial position, results of operations, and cash flows of the Company as if it were a separate entity for all periods presented.

## **OPERATING SEGMENTS**

Moody's operates primarily in one reportable business segment: ratings, which accounts for approximately 90% of the Company's total revenue. The ratings segment is composed of four ratings groups: corporate finance, structured finance, financial institutions and sovereigns, and public finance. Given the dominance of the ratings segment to Moody's overall results, the Company does not separately measure and report operating income for the ratings business. Rather, revenue is the predominant measure utilized by senior management for assessing performance and for the allocation of resources, and operating income is evaluated for Moody's as a whole. Moody's also reports revenue separately for two geographic areas: U.S. and international.

## **RESULTS OF OPERATIONS**

### **THREE MONTHS ENDED MARCH 31, 2001 COMPARED WITH THREE MONTHS ENDED MARCH 31, 2000**

Revenue for the first quarter of 2001 was \$180.2 million, an increase of \$40.9 million or 29.4% from \$139.3 million for the first quarter of the previous year. The revenue growth reflected significant increase in ratings revenue, primarily due to robust debt issuance in the U.S. capital markets coupled with strong gains in European structured finance ratings. Double-digit first quarter growth was achieved in research products revenue, due to strong demand for products delivered via the Internet and increased international sales.

Ratings revenue was \$158.0 million in the first quarter of 2001, up 29.6% from \$121.9 million in the first quarter of 2000. The increased revenue was driven primarily by strong growth in U.S. corporate and public finance issuance, principally as a result of declining interest rates, and significant growth in structured finance issuance in the U.S. and Europe.

Structured finance ratings revenue was \$59.1 million for the first quarter of 2001, an increase of \$18.6 million or 45.9% from \$40.5 million in the first quarter of 2000. The increase was due to strong growth in the U.S. and Europe across several market sectors including credit derivatives, asset backed finance and residential mortgage-backed securities.

Revenue from corporate ratings was \$54.5 million in the first quarter of 2001, up \$9.9 million or 22.2% from \$44.6 million in the first quarter of 2000. Lower interest rates resulted in strong issuance growth in both investment grade and high yield bonds in the U.S. In addition, revenue benefited from Moody's new rating assessment service introduced in the second half of 2000.

Revenue from financial institutions and sovereign ratings was \$31.4 million for the first three months of 2001, an increase of \$4.0 million or 14.6% from \$27.4 million for the same period of 2000. Lower interest rates in the U.S. drove increased investment grade issuance for banks and other financial institutions.

Public finance ratings revenue increased 38.3% to \$13.0 million for the first quarter of 2001, from \$9.4 million for the 2000 first quarter. This growth was principally the result of a 43% increase in issuance in the U.S. municipal bond market in the first three months of 2001, compared with the same period of 2000.

Other revenue increased 27.6% to \$22.2 million for the first quarter of 2001, reflecting 20% growth in research products revenue, principally due to strong demand for products delivered via the Internet. In addition, Moody's Risk Management Services had 61% revenue growth over the first quarter of 2000, reflecting a full quarter of revenue related to a January 2000 acquisition as well as continued strong growth in credit risk management products.

Revenue in the United States was \$131.9 million for the first quarter of 2001, an increase of \$32.1 million or 32.2% from \$99.8 million in the first quarter of 2000. This increase reflected strong growth in ratings revenue, principally due to higher issuance volumes in several market sectors, including corporate and municipal bonds, residential mortgage-backed securities and collateralized bond obligations. The number of investment grade corporate issues was up more than 50% for the first quarter, while the number of high yield issues nearly doubled, compared to the same period in 2000. Issuance in the U.S. asset-backed sector grew 45% during the first three months of 2001 versus the first quarter of 2000.

Moody's international revenue was \$48.3 million in the first quarter of 2001, an increase of 22.3% over \$39.5 million in the same period of 2000. The strong growth was principally driven by higher structured finance ratings revenue in Europe. International research products revenue increased 25% over the first quarter of 2000, reflecting strong demand for Moody's products delivered via the Internet.

Operating, selling, general and administrative expenses were \$86.3 million in the first quarter of 2001, an increase of \$14.8 million, or 20.7% over the first quarter of 2000. This increase was principally due to increased compensation and related costs to support business expansion, higher incentive compensation costs due to strong first quarter results, and increased corporate overhead costs resulting from becoming a separate public company. Depreciation and amortization was \$4.1 million in the first quarter of 2001 versus \$4.0 million in the first quarter of 2000.

Moody's operating income of \$89.8 million for the first quarter of 2001 was up 40.8% from \$63.8 million in the same period of 2000.

Non-operating expense was \$3.5 million for the first quarter of 2001 compared with \$0.5 million of non-operating income for the same period of 2000. The 2001 expense principally reflected interest expense related to Moody's private debt placement that was completed in the fourth quarter of 2000, offset in part by interest income on invested cash. In the first quarter of 2000, Moody's had a nominal amount of net interest expense.

Moody's effective tax rate was 44.4% in the first quarter of 2001 compared to 44.2% in the first quarter of 2000, reflecting a higher international net effective tax rate.

As a result of the foregoing, Moody's reported net income of \$48.0 million for the first quarter of 2001, an increase of 33.7% over \$35.9 million for the same period of 2000. Basic and diluted earnings per share grew 36.4% to \$0.30 for the first quarter of 2001, compared with \$0.22 for the first quarter of 2000. On a pro forma basis, including interest expense on the private placement debt (and excluding any interest income) for both periods, first quarter diluted earnings per share would have been \$0.29 for 2001 compared with \$0.20 for 2000, a gain of 45.0%.

## **LIQUIDITY AND CAPITAL RESOURCES**

Net cash provided by operating activities was \$71.8 million and \$17.7 million for the three months ended March 31, 2001 and 2000, respectively. The significant increase in the first quarter of 2001 principally reflected the growth in net income, as well as, timing of income tax payments, lower payments of prior year bonuses in 2001 than in 2000 and increased cash collections in 2001 compared to 2000.

Net cash used in investing activities was \$2.9 million for the three months ended March 31, 2001 compared with \$20.4 million for the same period of 2000. The first quarter 2000 amount included a \$17.4 million expenditure for the acquisition of a financial software products company.

Net cash used in financing activities was \$88.0 million for the three months ended March 31, 2001 and consisted primarily of \$96.5 million for share repurchases under the Company's share repurchase program and \$7.1 million of dividends paid, offset in part by proceeds and related tax benefits from employee benefit arrangements. For the three months ended March 31, 2000, \$9.2 million was provided by financing activities, representing distributions from Old D&B.

Pursuant to the Distribution Agreement, 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 in a private placement. The private placement notes have a five-year term and bear interest at an annual rate of 7.61%, payable semi-annually. The cash proceeds from the private placement were used in part to repay the outstanding balance on the revolving credit facility and to repay the bridge line of credit.

The revolving credit facility, which was undrawn as of March 31, 2001, consists of an \$80 million 5-year facility and an \$80 million 364-day facility. Interest on borrowings under the facility is payable monthly, at rates of interest that are based on prevailing short-term interest rates at the time of such borrowings.

A share repurchase program of up to \$250 million was approved by the Board of Directors in October 2000, which includes both special share repurchases and systematic repurchases of common stock to offset the dilutive effect of share issuances under Moody's employee benefit arrangements. On April 23, 2001, the Board of Directors increased the authorization under the existing share repurchase program by an additional \$50 million.

On April 23, 2001, the Board of Directors approved a quarterly dividend of 4.5 cents per share of Moody's common stock, payable on June 10, 2001 to shareholders of record at the close of business on May 20, 2001.

Moody's existing balances of cash, cash generated from operations and debt capacity are expected to be sufficient to fund Moody's operating needs, service debt and pay dividends, over the next year.

## **MARKET RISK**

Moody's maintains operations in 14 countries outside of the United States, and approximately 22% of its expenses are incurred in currencies other than the U.S. dollar. Over 90% of Moody's revenues for the three months ended March 31, 2001 were

billed and collected in U.S. dollars. As such, the Company is exposed to market risk from changes in foreign exchange rates.

As of March 31, 2001, approximately 11% of Moody's assets were located outside the U.S. Of Moody's aggregate cash and cash equivalents of \$99.0 million at March 31, 2001, approximately \$24.8 million was located outside the United States (with \$16.6 million in the United Kingdom), making the Company susceptible to fluctuations in foreign exchange rates. Changes in the value of these currencies relative to the U.S. dollar are charged or credited to the cumulative translation adjustment in shareholders' equity.

The Company's policy permits investments in time deposits, commercial paper and money market funds. Market risk associated with these investments is considered insignificant.

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

## **CONTINGENCIES**

Moody's is involved in legal proceedings of a nature considered normal to its business. In the opinion of management, although the outcome of such legal proceedings cannot be predicted with certainty, the ultimate liability of Moody's in connection with such legal proceedings will not have a material effect on Moody's results of operations, cash flows or financial position.

In addition, Moody's has certain other contingencies discussed below.

### **Tax Matters**

Pursuant to the Distribution Agreement, New D&B and Moody's have agreed to each be financially responsible for 50% of any potential liabilities that may arise with respect to the reviews described below, to the extent such potential liabilities are not directly attributable to their respective business operations.

Old D&B and its predecessors entered into global tax planning initiatives in the normal course of business, principally through tax-free restructurings of both their foreign and domestic operations. These initiatives are subject to normal review by tax authorities. It is possible that additional liabilities may be proposed by tax authorities as a result of these reviews and that some of the reviews could be resolved unfavorably. At this time, Moody's management is unable to predict the extent of such reviews, the outcome thereof or whether the resolution of these matters could materially affect Moody's results of operations, cash flows or financial position.

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

On May 12, 2000, an amended tax return was filed for the 1989 and 1990 tax periods, which reflects \$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. IMS Health has 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. Notwithstanding the filing and payment, New D&B is contesting the IRS's formal assessment and would also contest the assessment of amounts, if any, in excess of the amounts paid. Moody's had previously accrued its anticipated share of the probable liability arising from the utilization of these capital losses.

### **Information Resources, Inc.**



On July 29, 1996, IRI filed a complaint in the United States District Court for the Southern District of New York, naming as defendants Donnelley, ACNielsen and IMS Health. At the time of the filing of the complaint, each of the other defendants was a subsidiary of Donnelley.

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

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

Under the terms of the 1998 Distribution Agreement, as a condition to the 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 relating to the IRI action. However, under the Distribution Agreement, as between themselves, each of New D&B and Moody's has agreed to be responsible for 50% of any payments to be made in respect of the IRI action pursuant to the 1998 Distribution Agreement or otherwise, including any legal fees or expenses related thereto.

Management is unable to predict at this time the final outcome of the IRI action or whether the resolution of such matter could materially affect Moody's results of operations, cash flows or financial position. See Note 4 to the condensed consolidated financial statements, Contingencies, for additional information.

## **FORWARD-LOOKING STATEMENTS**

This Form 10-Q contains information about future expectations, plans and prospects for the Company's business and operations that constitute forward-looking statements. The forward-looking statements and other information are made as of the date of this Form 10-Q, and the Company disclaims any duty to supplement, update or revise such statements on a going-forward basis, whether as a result of subsequent developments, changed expectations or otherwise. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is identifying certain factors that could cause actual results to differ, perhaps materially, from those indicated by these forward-looking statements. Those factors include, but are not limited to, customer reaction to, and the exercise by various governmental authorities of their discretionary authority in respect of, the Company's guilty plea on April 10, 2001, and the conduct underlying it; changes in the volume of debt securities issued in domestic and/or global capital markets; changes in interest rates and other volatility in the financial markets; possible loss of market share through competition; introduction of competing products or technologies by other companies; pricing pressures from competitors and/or customers; the potential emergence of government-sponsored credit rating agencies; proposed U.S., foreign, state and local legislation and regulations, including those relating to nationally recognized statistical rating organizations; the possible loss of key employees to investment or commercial banks or elsewhere and related compensation cost pressures; the outcome of any review by controlling tax authorities of the Company's global tax planning initiatives; the uncertainty regarding market acceptance and revenue generating opportunities for web-based research products; and other factors as discussed in The New D&B Corporation Form 10 (Amendment No. 2) filed on September 11, 2000 with the Securities and Exchange Commission and in other filings made by the Company from time to time with the Securities and Exchange Commission.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Information in response to this Item is set forth in Note 4 - Contingencies in Part I, Item 1 of this Form 10-Q. For additional information regarding the IRI matter, reference is made to Part I, Item 3 of Moody's Annual Report on Form 10-K for the year ended December 31, 2000.

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

The shareholders of the Company voted on four items at the Annual Meeting of Shareholders held on April 23, 2001:

1. the election of two directors, to terms ending in 2004;
2. a proposal to approve the 2001 Moody's Corporation Key Employees' Stock Incentive Plan;
3. a proposal to approve the Amended and Restated 1998 Moody's Corporation Non-Employee Directors' Stock Incentive Plan;
4. a proposal to ratify the appointment of PricewaterhouseCoopers LLP as independent accountants for 2001.

The results of the votes were as follows:

1. Votes were cast for election of directors as follows:

Nominee	Votes For	Votes Withheld
-----	-----	-----
Hall Adams, Jr.	137,334,238	1,123,440
John Rutherford, Jr	122,193,378	16,264,300

There were no abstentions for this item.

2. The proposal of the 2001 Moody's Corporation Key Employees' Stock Incentive Plan was approved as follows:

120,661,562 votes for approval; 16,955,831 votes against; and 840,285 abstentions

3. The proposal of the Amended and Restated 1998 Moody's Corporation Non-Employee Directors' Stock Incentive Plan was approved as follows:

122,590,643 votes for approval; 14,981,600 votes against; and 885,435 abstentions

4. The appointment of PricewaterhouseCoopers LLP as independent accountants for 2001 was approved as follows:

134,075,472 votes for approval; 3,873,496 votes against; and 508,710 abstentions

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits

**EXHIBIT NO. DESCRIPTION**

**3. ARTICLES OF INCORPORATION AND BY-LAWS**

.1 Restated Certificate of Incorporation of the Registrant dated June 15, 1998, as amended effective June 30, 1998, and as further amended effective October 1, 2000 (incorporated by reference to Exhibit 3.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed October 4, 2000).

.2 Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form 10, file number 1-14037, filed June 18, 1998).

**10. MATERIAL CONTRACTS**

.1\* Separation Agreement and General Release, dated as of April 10, 2001, between Moody's Investors Service, Inc. and Donald Noe.

.2\* Separation Agreement and General Release, dated as of April 10, 2001, between Moody's Investors Service, Inc. and Kenneth J. H. Pinkes.

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\* Filed herewith

(b) Reports on Form 8-K:

The Company filed a Current Report on Form 8-K on April 11, 2001, on which information was reported under Items 5 and 7.

**SIGNATURES**

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

Date: May 15, 2001:

**MOODY'S CORPORATION**

By: /s/ JEANNE M. DERING  
-----  
Jeanne M. Dering  
Senior Vice President and  
Chief Financial Officer

Date: May 15, 2001:

By: /s/ CHARLES R. BRUSCHI  
-----  
Charles R. Bruschi  
Vice President and  
Corporate Controller

## EXHIBIT 10.1

### SEPARATION AGREEMENT AND GENERAL RELEASE

AGREEMENT made as of April 10, 2001 by and between Donald Noe ("Employee," "You" or "Your") and Moody's Investors Service, Inc. (the "Company" or "We"). In consideration of the promises and conditions set forth below, and intending to be legally bound, you and the Company agree as follows:

#### 1. Resignation from Employment:

(a) The Company hereby accepts your April 10, 2001 resignation from your employment with the Company, effective on May 15, 2001. You agree that, effective as of the resignation date, you were relieved of all management and operational responsibilities and authority to act on behalf of the Company, but you will fully cooperate with the Company to provide such information or assistance as it may deem necessary to ensure an orderly transition of your former duties. You will continue to receive salary and applicable benefits through the May 15, 2001 effective date.

(b) You acknowledge that the Company will be issuing a public statement and an internal announcement concerning your resignation and its surrounding circumstances in content substantially similar to the draft statement attached as Appendix "A," and you agree that the Waiver and Release set forth in paragraph 5 herein includes, inter alia, your release of any claim you might have arising out of or related to the issuance of Exhibit A or of any statements substantially similar in content to it.

(c) During the Salary Continuation Period and through the duration of the investigation being conducted by the United States Department of Justice ("DOJ") and any litigation or regulatory proceeding arising out of the DOJ investigation, the facts underlying that investigation or any facts arising out of, or relating to, your employment, you will be reasonably available to consult on matters, and will cooperate fully with the Company with respect to any claims, litigations or investigations, relating to the Company (including investigations which relate directly or indirectly to Employee's activities at the Company) by providing truthful and complete information and making yourself available to provide testimony whenever requested to do so by the Company.

#### 2. Severance Benefit: If you sign this Agreement and comply with its terms, we will provide you the following severance benefits:

(a) We will continue to pay you salary and provide certain other benefits in accordance with and pursuant to the terms and conditions of The Moody's Career Transition Plan ("CTP"); provided, however, that the period of your Salary Continuation will extend from the effective date of your resignation until the last date of salary continuation set forth in Appendix "B" (the "Salary Continuation Period"). In lieu of the outplacement services provided for in Appendix B, you may elect to receive a payment of \$20,000, less deductions.

(b) We will pay you an amount representing 1/3 of your 2001 Target Bonus, less applicable deductions, within 10 business days after the effective date of your resignation. You acknowledge that the severance benefits described above include compensation and benefits in addition to what you would otherwise be entitled to receive.

#### 3. Undertaking: Your receipt of the severance benefits specified above is subject to your signing the letter of undertaking in the form annexed hereto as Appendix "C" (the "Undertaking").

4. Company Property: You acknowledge that you will not retain or remove (and if you had removed, you will promptly return) any of the Company's or Dun & Bradstreet's property, documents, information or materials, including, but not limited to, all files, records, proposals, drawings, specifications, or other documents, and all computer software, software applications, files, data bases, and the like relating to the business of the Company or Dun & Bradstreet (whether confidential, proprietary or otherwise), and you agree to deliver to the Company

forthwith any such property currently in your possession or custody or under your control.

5. Waiver and Release:

(a) In exchange for the promises and commitments made to you by the Company in this Agreement and the Undertaking, and as a material inducement for such promises and commitments, you hereby WAIVE, RELEASE and FOREVER DISCHARGE the Company and/or related persons from any and all claims, rights and liabilities of every kind, whether or not you now know them to exist, which you have ever had or may in the future have based upon any matter, cause or thing through the date of this Agreement, including but not limited to those claims arising out of your employment with the Company or termination of that employment, except for payments and rights provided for in this Agreement, for vested rights or benefits you may have under any applicable Company benefit plan (or any benefit plan of a predecessor or related entity), for any rights you may have to claim indemnification (either under the Company's by-laws or under the provisions of Delaware General Corporation Law) or to claim coverage under any applicable liability insurance policy relating to your acts while employed by the Company. This WAIVER and RELEASE includes, but is not limited to, any claim for unlawful discrimination under Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act of 1990, 42 U.S.C. Section 1981, the Worker Adjustment and Retraining Notification Act ("WARN"), and the Family and Medical Leave Act of 1993, and any violation of any other federal, state or local constitution, statute, rule, regulation or ordinance, or for breach of contract, wrongful discharge, tort or other civil wrong. To the fullest extent permitted by law, you PROMISE NOT TO SUE or bring any charges, complaints or lawsuits in the future related to the claims you are waiving by this Agreement against the Company and/or related persons, individually or as a member of a class, and you will immediately withdraw with prejudice any such charges, complaints and lawsuits that you began before signing this Agreement.

(b) If you violate this Agreement by bringing or maintaining any charges, claims, grievances, or lawsuits contrary to this Paragraph 5, you will pay all costs and expenses of the Company and/or related persons in defending against such charges, claims or actions brought by you or on your behalf, including reasonable attorneys' fees, and will be required to give back, at the Company's sole discretion, the value of anything paid by the Company in exchange for this Agreement.

(c) As referred to in this Agreement, "the Company and/or related persons" includes the Company, its parents, subsidiaries, affiliates and divisions, their respective successors and assigns, and all of their past and present directors, officers, representatives, attorneys, consultants, employees, whether as individuals or in their official capacity, and the respective heirs and personal representatives of any of them.

(d) This WAIVER, RELEASE and PROMISE NOT TO SUE is binding on you, your heirs, legal representatives and assigns.

6. Non-disparagement: You will not disparage, denigrate or defame the Company or any related person, or any of their business products or services.

7. Non-Disclosure: You agree that you will not directly or indirectly take, publish, use or disclose any Confidential Information, to any person, except as may be required by law, provided that you have first given prompt written notice to the Company of such legal requirement in enough time for it to obtain an appropriate protective order or other remedy. For purposes of this Agreement, "Confidential Information" shall include, but not be limited to, all past, present or future business or trade secrets, know-how and other information, whether or not reduced to writing, that is disclosed to or acquired by you during or in the course of your employment that relates to the business of the Company and is not generally available to the public or generally known in the industry in which the Company is, or may become engaged, including, without limitation, any business, technical, marketing, financial or other information relating to the Company, regardless of its form, means of communication or source, and any formulas, patterns, devices, inventions, methods, techniques, software programs, source codes, reports, specifications, designs, technology or processes, or combinations thereof, or compilations of information, records and specification which are owned by the Company and any other information of the Company relating to its services and products (offered or to be offered) including, among other things, information relating to research, development, marketing, pricing, clients and prospective clients, business methods, strategies, financial condition, personnel, plans, policies or prospects.

## 8. Non-Competition; Non-Solicitation:

(a) You agree that during the Salary Continuation Period, you will not become a stockholder (unless such stock is listed on a national securities exchange or traded on a daily basis in the over-the-counter market and your ownership interest is not in excess of 2% of the company whose shares are being purchased), employee, officer, director or consultant of or to a corporation, or a member or an employee of or a consultant to a partnership or any other business or firm, which competes with any of the businesses owned or operated by the Company; nor if you become associated with a company, partnership or individual which company, partnership or individual acts as a consultant to businesses in competition with the Company will you provide services to such competing businesses. The restrictions contained in this paragraph shall apply whether or not you accept any form of compensation from such competing entity or consultant.

(b) You also agree that during the Salary Continuation Period, you will not (i) directly or indirectly, either personally or on behalf of any other person or entity (whether as director, stockholder, owner, partner, consultant, principal, employee, agent or otherwise) solicit or entice any customers of the Company or any businesses or organizations identified during your employment as a prospective customer of the Company, to become customers of any business entity which competes with any of the businesses owned or operated by the Company, or (ii) recruit, solicit, employ or attempt to employ any employee of the Company to become an employee of any business or entity.

(c) For purposes of this Paragraph 8, the Company's competitors are Standard & Poor's Rating Services, Fitch IBCA, Inc., A.M. Best Company, and any of their subsidiaries and affiliates.

(d) You acknowledge that the restrictions contained in this Paragraph 8 are appropriate and necessary for the protection of the business and goodwill of the Company and are considered by you to be reasonable for such purpose.

9. No Other Assurances: You acknowledge that in deciding to sign this Agreement you have not relied on any promises or commitments, whether spoken or in writing, made to you by any Company representative, except for what is expressly stated in this Agreement, the CTP and the Undertaking. This Agreement, the CTP or the Undertaking constitute the entire understanding and agreement between you and the Company, except as may otherwise be provided herein, and replace and cancel all previous agreements and commitments, whether spoken or written, with respect to the subject matter thereof. In the event of a conflict between the language of the CTP and this Agreement, this Agreement shall be controlling.

10. Effect of Non-Enforcement: If any term, provision, covenant or restriction contained in this Agreement, or any part thereof, is held by a court of competent jurisdiction or any foreign, federal, state, country or local government or any other governmental regulatory or administrative agency or authority or arbitration panel to be invalid, void, unenforceable or against public policy for any reason, the remainder of the terms, provisions, covenants and restrictions of the Agreement shall remain in full force and effect.

11. Governing Law; Jurisdiction; Jury Trial Waiver: This Agreement shall be construed, governed by and enforced in accordance with the laws of the State of New York, without regard to its conflicts of law principles. Any action arising out of or relating to this Agreement may, at the election of the Company, be brought and prosecuted only in that State, and in the event of such election, you consent to the jurisdiction and venue of any courts of or in such jurisdiction and waive trial by jury.

12. Modification in Writing: This Agreement cannot be changed or modified except by written agreement signed by both you and an authorized Company representative.

13. Joint Preparation: The language of all parts of the provisions of this Agreement shall in all cases be construed as a whole, extending to its fair meaning, and not strictly for or against any of the parties. The parties agree that, in consultation with their attorneys, they have jointly prepared and approved the language of the provisions of this Agreement and that should any dispute arise concerning the interpretation of any provision hereof, neither party shall be deemed the drafter nor shall any such language be presumptively construed in favor of or against either party.

14. No Admission of Liability: This Agreement does not constitute an admission of any unlawful discrimination, wrongful acts or liability of any kind by the Company and/or related persons, or anyone acting under their supervision or on their behalf. This Agreement does not constitute an admission of any wrongful conduct of any kind by you. This Agreement may not be used or introduced as evidence in any legal proceeding, except to enforce its terms.

15. Employee Acknowledgement: In signing this Agreement, you acknowledge and adopt the following declaration:

I Donald Noe, acknowledge that I have carefully read and considered this Agreement; that I have been given the opportunity to review this Agreement with legal or other advisors of my choice; that I understand that by signing this Agreement I RELEASE legal claims and WAIVE certain rights; and that I freely and voluntarily consent to all terms of this Agreement with full understanding of what they mean.

DONALD NOE

MOODY'S INVESTORS SERVICE, INC.

\_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

John Rutherford,  
President

## Appendix A

The company also announced today that Donald E. Noe, Senior Vice President - Global Ratings & Research, Kenneth J.H. Pinkes, Senior Vice President and Chief Credit Officer, and M. Douglas Watson, Jr., Group Managing Director, Public Finance, had submitted their resignations and the company has accepted them effective May 15, 2001.

The company emphasized that none of the three individuals resigning today engaged in destruction of documents or any obstruction of justice referred to in the company's plea agreement with the Justice Department. However, issues arose regarding the timeliness of the executives' reporting of information relating to the conduct by another employee underlying the government's charges.

Mr. Rutherford said, "Don, Ken and Doug each have provided long and valuable service to the company. We appreciate that they recognize their resignations are in the best interest of Moody's, and help the company to put this behind us. We are grateful for their service to the company and wish them well in the future."

## Appendix B

### Donald Noe

Termination Date: May 15, 2001

Salary Continuation Period.:

May 16, 2001 - February 15, 2003

Last day of Salary Continuation:

February 15, 2003

Welfare Benefit Continuation Period:

May 16, 2001 - February 15, 2003

Outplacement Services: As provided by the Company to a maximum of \$20,000

The description of benefits contained in this Appendix B is only a summary and is subject to the terms and conditions of the CTP and this Agreement. Stock Options: Employee may exercise any vested stock options which he may have pursuant to and in accordance with the terms and conditions of the CTP and the applicable stock option plan which, inter alia, entitle him to exercise his vested stock options up to May 15, 2001.

## Appendix C

Moody's Investors Service, Inc.  
99 Church Street, New York, NY 10007  
Legal Department  
April \_\_, 2001  
Donald Noe  
New York, New York

### **Re: Undertaking For Reasonable Attorneys' Fees:**

Dear Mr. Noe:

Moody's Investors Service, Inc. ("Moody's") has made a determination at this point to advance to you your reasonable attorneys' fees actually and necessarily incurred by you, on account of any litigation, claim, or official investigation arising out of the United States Department of Justice ("DOJ") investigation, the facts underlying that investigation, or any facts arising out of, or relating to, your employment (the "Proceedings"). These attorneys' fees are being paid to you only on the terms set forth in this letter and the Separation Agreement and General Release dated April 10, 2001 between Moody's and you, and pending a later determination by Moody's that you should be indemnified for such attorney's fees. In order to indemnify you for such attorney's fees, Moody's must find that:

a) No final judgment or other final adjudication by a court or government agency adverse to you establishes that your acts were in violation of the law, committed in bad faith, or were the result of active or deliberate dishonesty, or that you personally gained in fact a financial profit or other advantage to which you were not legally entitled and that you otherwise are eligible for indemnification under applicable by-laws or law. In order for Moody's to continue to pay your reasonable attorneys' fees, it is necessary that you promise to repay such monies, in case you are ultimately found not to be in compliance with paragraph a) above in connection with the Proceedings, and/or you fail to continue to provide truthful and complete information to the Company at all times in connection with the Proceedings. Your signature on this letter will constitute your promise to repay if required.

If the foregoing is acceptable to you, please indicate by signing in the space provided below.

Sincerely yours,

John J. Goggins  
Senior Vice President and General Counsel On Behalf of Moody's Investors Service, Inc.

### **ACCEPTED TO AND AGREED:**

Donald Noe  
Dated: April 10, 2001



## EXHIBIT 10.2

### SEPARATION AGREEMENT AND GENERAL RELEASE

AGREEMENT made as of April 10, 2001 by and between Kenneth J. H. Pinkes ("Employee," "You" or "Your") and Moody's Investors Service, Inc. (the "Company" or "We"). In consideration of the promises and conditions set forth below, and intending to be legally bound, you and the Company agree as follows:

#### 1. Resignation from Employment:

(a) The Company hereby accepts your April 10, 2001 resignation from your employment with the Company, effective on May 15, 2001. You agree that, effective as of the resignation date, you were relieved of all management and operational responsibilities and authority to act on behalf of the Company, but you will fully cooperate with the Company to provide such information or assistance as it may deem necessary to ensure an orderly transition of your former duties. You will continue to receive salary and applicable benefits through the May 15, 2001 effective date.

(b) You acknowledge that the Company will be issuing a public statement and an internal announcement concerning your resignation and its surrounding circumstances in content substantially similar to the draft statement attached as Appendix "A," and you agree that the Waiver and Release set forth in paragraph 5 herein includes, inter alia, your release of any claim you might have arising out of or related to the issuance of Exhibit A or of any statements substantially similar in content to it.

(c) During the Salary Continuation Period and through the duration of the investigation being conducted by the United States Department of Justice ("DOJ") and any litigation or regulatory proceeding arising out of the DOJ investigation, the facts underlying that investigation or any facts arising out of, or relating to, your employment, you will be reasonably available to consult on matters, and will cooperate fully with the Company with respect to any claims, litigations or investigations, relating to the Company (including investigations which relate directly or indirectly to Employee's activities at the Company) by providing truthful and complete information and making yourself available to provide testimony whenever requested to do so by the Company.

#### 2. Severance Benefit: If you sign this Agreement and comply with its terms, we will provide you the following severance benefits:

(a) We will continue to pay you salary and provide certain other benefits in accordance with and pursuant to the terms and conditions of The Moody's Career Transition Plan ("CTP"); provided, however, that the period of your Salary Continuation will extend from the effective date of your resignation until the last date of salary continuation stated in Appendix "B" (the "Salary Continuation Period"). In lieu of the outplacement services provided for in Appendix B, you may elect to receive a payment of \$20,000, less deductions.

(b) We will pay you an amount representing 1/3 of your 2001 Target Bonus, less applicable deductions, within 10 business days after the effective date of your resignation. You acknowledge that the severance benefits described above include compensation and benefits in addition to what you would otherwise be entitled to receive.

#### 3. Undertaking: Your receipt of the severance benefits specified above is subject to your signing the letter of undertaking in the form annexed hereto as Appendix "C" (the "Undertaking").

4. Company Property: You acknowledge that you will not retain or remove (and if you had removed, you will promptly return) any of the Company's or Dun & Bradstreet's property, documents, information or materials, including, but not limited to, all files, records, proposals, drawings, specifications, or other documents, and all computer software, software applications, files, data bases, and the like relating to the business of the Company or Dun & Bradstreet (whether confidential, proprietary or otherwise), and you agree to deliver to the Company forthwith any such property currently in your possession or custody or under your control.

5. Waiver and Release:

(a) In exchange for the promises and commitments made to you by the Company in this Agreement and the Undertaking, and as a material inducement for such promises and commitments, you hereby WAIVE, RELEASE and FOREVER DISCHARGE the Company and/or related persons from any and all claims, rights and liabilities of every kind, whether or not you now know them to exist, which you have ever had or may in the future have based upon any matter, cause or thing through the date of this Agreement, including but not limited to those claims arising out of your employment with the Company or termination of that employment, except for payments and rights provided for in this Agreement, for vested rights or benefits you may have under any applicable Company benefit plan (or the benefit plan of a predecessor or related entity), for any rights you may have to claim indemnification (either under the Company's by-laws or under the provisions of Delaware General Corporation Law) or to claim coverage under any applicable liability insurance policy relating to your acts while employed by the Company. This WAIVER and RELEASE includes, but is not limited to, any claim for unlawful discrimination under Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act of 1990, 42 U.S.C. Section 1981, the Worker Adjustment and Retraining Notification Act ("WARN"), and the Family and Medical Leave Act of 1993, and any violation of any other federal, state or local constitution, statute, rule, regulation or ordinance, or for breach of contract, wrongful discharge, tort or other civil wrong. To the fullest extent permitted by law, you PROMISE NOT TO SUE or bring any charges, complaints or lawsuits in the future related to the claims you are waiving by this Agreement against the Company and/or related persons, individually or as a member of a class, and you will immediately withdraw with prejudice any such charges, complaints and lawsuits that you began before signing this Agreement.

(b) If you violate this Agreement by bringing or maintaining any charges, claims, grievances, or lawsuits contrary to this Paragraph 5, you will pay all costs and expenses of the Company and/or related persons in defending against such charges, claims or actions brought by you or on your behalf, including reasonable attorneys' fees, and will be required to give back, at the Company's sole discretion, the value of anything paid by the Company in exchange for this Agreement. This subparagraph does not apply to any actions to enforce the terms of this Agreement.

(c) As referred to in this Agreement, "the Company and/or related persons" includes the Company, its parents, subsidiaries, affiliates and divisions, their respective successors and assigns, and all of their past and present directors, officers, representatives, agents, employees, whether as individuals or in their official capacity, and the respective heirs and personal representatives of any of them.

(d) This WAIVER, RELEASE and PROMISE NOT TO SUE is binding on you, your heirs, legal representatives and assigns.

6. Non-disparagement: You will not disparage, denigrate or defame the Company or any related person, or any of their business products or services.

7. Non-Disclosure: You agree that you will not directly or indirectly take, publish, use or disclose any Confidential Information, to any person, except as may be required by law, provided that you have first given prompt written notice to the Company of such legal requirement in enough time for it to obtain an appropriate protective order or other remedy. For purposes of this Agreement, "Confidential Information" shall include, but not be limited to, all past, present or future business or trade secrets, know-how and other information, whether or not reduced to writing, that is disclosed to or acquired by you during or in the course of your employment that relates to the business of the Company and is not generally available to the public or generally known in the industry in which the Company is, or may become engaged, including, without limitation, any business, technical, marketing, financial or other information relating to the Company, regardless of its form, means of communication or source, and any formulas, patterns, devices, inventions, methods, techniques, software programs, source codes, reports, specifications, designs, technology or processes, or combinations thereof, or compilations of information, records and specification which are owned by the Company and any other information of the Company relating to its services and products (offered or to be offered) including, among other things, information relating to research, development, marketing, pricing, clients and prospective clients, business methods, strategies, financial condition, personnel, plans, policies or prospects.

## 8. Non-Competition; Non-Solicitation:

(a) You agree that during the Salary Continuation Period, you will not become a stockholder (unless such stock is listed on a national securities exchange or traded on a daily basis in the over-the-counter market and your ownership interest is not in excess of 2% of the company whose shares are being purchased), employee, officer, director or consultant of or to a corporation, or a member or an employee of or a consultant to a partnership or any other business or firm, which competes with any of the businesses owned or operated by the Company; nor if you become associated with a company, partnership or individual which company, partnership or individual acts as a consultant to businesses in competition with the Company will you provide services to such competing businesses. The restrictions contained in this paragraph shall apply whether or not you accept any form of compensation from such competing entity or consultant.

(b) You also agree that during the Salary Continuation Period, you will not (i) directly or indirectly, either personally or on behalf of any other person or entity (whether as director, stockholder, owner, partner, consultant, principal, employee, agent or otherwise) solicit or entice any customers of the Company or any businesses or organizations identified during your employment as a prospective customer of the Company, to become customers of any business entity which competes with any of the businesses owned or operated by the Company, or (ii) recruit, solicit, employ or attempt to employ any employee of the Company to become an employee of any business or entity.

(c) For purposes of this Paragraph 8, the Company's competitors are Standard & Poor's Rating Services, Fitch IBCA, Inc., A.M. Best Company, and any of their subsidiaries and affiliates. Nothing herein is intended to prevent you from obtaining employment so long as such employment is consistent with your obligations under this Agreement.

(d) You acknowledge that the restrictions contained in this Paragraph 8 are appropriate and necessary for the protection of the business and goodwill of the Company and are considered by you to be reasonable for such purpose.

9. No Other Assurances: You acknowledge that in deciding to sign this Agreement you have not relied on any promises or commitments, whether spoken or in writing, made to you by any Company representative, except for what is expressly stated in this Agreement, the CTP and the Undertaking. This Agreement, the CTP or the Undertaking constitute the entire understanding and agreement between you and the Company, except as may otherwise be provided herein, and replace and cancel all previous agreements and commitments, whether spoken or written, with respect to the subject matter thereof. In the event of a conflict between the language of the CTP and this Agreement, this Agreement shall be controlling.

10. Effect of Non-Enforcement: If any term, provision, covenant or restriction contained in this Agreement, or any part thereof, is held by a court of competent jurisdiction or any foreign, federal, state, country or local government or any other governmental regulatory or administrative agency or authority or arbitration panel to be invalid, void, unenforceable or against public policy for any reason, the remainder of the terms, provisions, covenants and restrictions of the Agreement shall remain in full force and effect.

11. Governing Law; Jurisdiction; Jury Trial Waiver: This Agreement shall be construed, governed by and enforced in accordance with the laws of the State of New York, without regard to its conflicts of law principles. Any action arising out of or relating to this Agreement may, at the election of the Company, be brought and prosecuted only in that State, and in the event of such election, you consent to the jurisdiction and venue of any courts of or in such jurisdiction and waive trial by jury.

12. Modification in Writing: This Agreement cannot be changed or modified except by written agreement signed by both you and an authorized Company representative.

13. Joint Preparation: The language of all parts of the provisions of this Agreement shall in all cases be construed as a whole, extending to its fair meaning, and not strictly for or against any of the parties. The parties agree that, in consultation with their attorneys, they have jointly prepared and approved the language of the provisions of this Agreement and that should any dispute arise concerning the interpretation of any provision hereof, neither party shall be deemed the drafter nor shall any such language be presumptively construed in favor of or against either party.

14. No Admission of Liability: This Agreement does not constitute an admission of any unlawful discrimination, wrongful acts or liability of any kind by the Company and/or related persons, or anyone acting under their supervision or on their behalf. This Agreement does not constitute an admission of any wrongful conduct of any kind by you. This Agreement may not be used or introduced as evidence in any legal proceeding, except to enforce its terms.

15. Employee Acknowledgement: In signing this Agreement, you acknowledge and adopt the following declaration:

I Kenneth J. H. Pinkes, acknowledge that I have carefully read and considered this Agreement; that I have been given the opportunity to review this Agreement with legal or other advisors of my choice; that I understand that by signing this Agreement I RELEASE legal claims and WAIVE certain rights; and that I freely and voluntarily consent to all terms of this Agreement with full understanding of what they mean.

KENNETH J. H. PINKES

MOODY'S INVESTORS SERVICE, INC.

\_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

John Rutherford,  
President

## Appendix A

The company also announced today that Donald E. Noe, Senior Vice President - Global Ratings & Research, Kenneth J.H. Pinkes, Senior Vice President and Chief Credit Officer, and M. Douglas Watson, Jr., Group Managing Director, Public Finance, had submitted their resignations and the company has accepted them effective May 15, 2001.

The company emphasized that none of the three individuals resigning today engaged in destruction of documents or any obstruction of justice referred to in the company's plea agreement with the Justice Department. However, issues arose regarding the timeliness of the executives' reporting of information relating to the conduct by another employee underlying the government's charges.

Mr. Rutherford said, "Don, Ken and Doug each have provided long and valuable service to the company. We appreciate that they recognize their resignations are in the best interest of Moody's, and help the company to put this behind us. We are grateful for their service to the company and wish them well in the future."

## Appendix B

### Kenneth J. H. Pinkes

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Termination Date: May 15, 2001

Salary Continuation Period.:

May 16, 2001 - February 15, 2003

Last day of Salary Continuation:

February 15, 2003

Welfare Benefit Continuation Period:

May 16, 2001 - February 15, 2003

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Outplacement Services: As provided by the Company to a maximum of \$20,000

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The description of benefits contained in this Appendix B is only a summary and is subject to the terms and conditions of the CTP and this Agreement. The employee will receive 100% of the Performance Cash Plan Opportunity for the 2000 Performance Period pursuant to and in accordance with the terms of the 1998 Dun & Bradstreet Corporate Key Employees Stock Incentive Plan.

Stock Options: Employee may exercise any vested stock options which he may have pursuant to and in accordance with the terms and conditions of the CTP and the applicable stock option plan which, inter alia, entitle him to exercise his vested stock options up to May 15, 2001.

## Appendix C

Moody's Investors Service, Inc.  
99 Church Street, New York, NY 10007  
Legal Department  
April 10, 2001  
Kenneth J. H. Pinkes  
New York, New York

### **Re: Undertaking For Reasonable Attorneys' Fees:**

Dear Mr. Pinkes:

Moody's Investors Service, Inc. ("Moody's") has made a determination at this point to advance to you your reasonable attorneys' fees actually and necessarily incurred by you, on account of any litigation, claim, or official investigation arising out of the United States Department of Justice ("DOJ") investigation, the facts underlying that investigation, or any facts arising out of, or relating to, your employment (the "Proceedings").

These attorneys' fees are being paid to you only on the terms set forth in this letter and the Separation Agreement and General Release dated April 10, 2001 between Moody's and you, and pending a later determination by Moody's that you should be indemnified for such attorney's fees. In order to indemnify you for such attorney's fees, Moody's must find that:

a) No final judgment or other final adjudication by a court or government agency adverse to you establishes that your acts were in violation of the law, committed in bad faith, or were the result of active or deliberate dishonesty, or that you personally gained in fact a financial profit or other advantage to which you were not legally entitled and that you otherwise are eligible for indemnification under applicable by-laws or law. In order for Moody's to continue to pay your reasonable attorneys' fees, it is necessary that you promise to repay such monies, in case you are ultimately found not to be in compliance with paragraph a) above in connection with the Proceedings, and/or you fail to continue to provide truthful and complete information to the Company at all times in connection with the Proceedings. Your signature on this letter will constitute your promise to repay if required.

If the foregoing is acceptable to you, please indicate by signing in the space provided below.

Sincerely yours,  
John J. Goggins

Senior Vice President and General Counsel On Behalf of Moody's Investors Service, Inc.

### **ACCEPTED TO AND AGREED:**

Kenneth J. H. Pinkes  
Dated: April 10, 2001

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**End of Filing**

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