

MOODYS CORP /DE/
Form 11-K
June 30, 2003

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 11-K

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

For the fiscal year ended December 31, 2002

or

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

For the transition period from _____ to _____

Commission file number 1-14037

Moody s Corporation

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Profit Participation Plan of Moody s Corporation

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Moody s Corporation, 99 Church Street, New York, New York 10007

REQUIRED INFORMATION

The required financial statements are attached to this report.

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CERTIFICATION

CERTIFICATION

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Report of Independent Auditors

To the Participants and Administrator of
the Profit Participation Plan of Moody's Corporation

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Profit Participation Plan of Moody's Corporation (the Plan) at December 31, 2002 and 2001, and the changes in net assets available for benefits for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held for investment purposes is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
New York, New York
June 25, 2003

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Profit Participation Plan of Moody's Corporation
Statements of Net Assets Available for Benefits

(amounts in thousands)

	December 31, 2002	December 31, 2001
	<u> </u>	<u> </u>
Investments	\$ 98,764	\$89,229
Employer contribution receivable	8,554	5,705
Employee contribution receivable	290	280
	<u> </u>	<u> </u>
Net assets available for benefits	\$ 107,608	\$95,214
	<u> </u>	<u> </u>

See accompanying notes to financial statements

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Statement of Changes in Net Assets Available for Benefits

(amounts in thousands)

	Year ended December 31, 2002
Additions:	
Additions to net assets attributed to:	
Investment income (loss):	
Net depreciation in fair value of investments	\$ (10,251)
Interest	636
Dividends	44
	<hr/>
Total investment loss	(9,571)
Contributions:	
Participant	12,604
Employer	12,063
	<hr/>
Total contributions	24,667
	<hr/>
Total additions	15,096
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Deductions:	
Deductions from net assets attributed to:	
Benefits paid to participants	2,685
Plan expenses	17
	<hr/>
Total deductions	2,702
	<hr/>
Net increase in plan assets	12,394
Net assets available for benefits:	
Beginning of the period	95,214
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End of the period	\$ 107,608
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See accompanying notes to financial statements

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Profit Participation Plan of Moody's Corporation

Notes to Financial Statements

1. Background and Plan Description

The Profit Participation Plan of Moody's Corporation (the Plan) is a defined contribution plan established to provide a convenient way for eligible employees to save on a regular and long-term basis. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Prior to September 30, 2000, Moody's Corporation (Moody's or the Company) operated as a subsidiary of The Dun & Bradstreet Corporation (Old D&B). On September 30, 2000 (the Distribution Date), the Company separated from Old D&B and has since operated as an independent public company. On the Distribution Date, the Company established the Profit Participation Plan of Moody's Corporation for the benefit of its eligible employees. Moody's participants' balances were transferred from the Old D&B Profit Participation Plan to the Moody's Plan in October 2000.

The following summary provides an overview of major Plan provisions in effect from October 1, 2000, the date of inception, through December 31, 2002 and is provided for general information purposes. Employees who participate in the Plan or former employees who have assets in the Plan should refer to the Plan document for more complete information and a full description of the Plan provisions and qualifications.

Eligibility

Full time employees of the Company are immediately eligible to participate in the Plan on their date of hire. Part time employees are eligible to participate in the Plan when they work at least one thousand hours either during the consecutive twelve-month period following employment, or in any calendar year following employment.

Contributions

Participants contribute to the Plan by authorizing payroll deductions between 1% and 16% of their compensation as defined in the Plan. The Company makes matching contributions (the Company Matching Contribution) equal to 50% of the first 6% of annual compensation that is contributed to the Plan. Participants' contributions under the Plan may be made from after-tax earnings and/or from before-tax earnings, the latter form of contribution having the effect of reducing the participant's current taxable earnings for federal income tax purposes. A participant's aggregate contributions may not exceed 16% of the participant's compensation subject to an overall limit on before-tax contributions imposed by the Internal Revenue Code (the IRC). Year-end payroll deductions for participant contributions and the corresponding employer match not remitted to the Plan until after year-end are recorded as receivables in the Plan financial statements. At December 31, 2002, the employee contribution receivable was approximately \$290,000 and the employer match contribution receivable was approximately \$80,000.

The Plan provides for additional Company matching contributions (the EPS Match) based on the Company's earnings per share (EPS). In 2002 and 2001, an EPS Match was accrued when the Company's growth in EPS was greater than 7%. The aggregate EPS Match for all eligible Plan participants was \$6.8 million and \$5.6 million for 2002 and 2001, respectively. These amounts were reflected in the financial statements as an employer contribution receivable at December 31, 2002 and 2001 and paid to the Plan in March 2003 and March 2002, respectively. The EPS Match is invested and held in the Moody's Corporation Stock Fund and may not be transferred to another fund within the Plan prior to the participant reaching age 50.

In April 2002, Moody's acquired the business of KMV. During 2002, the employees of KMV were not eligible for the Company Matching Contribution or the EPS Match. Instead, eligible KMV employees as of December 31, 2002 were entitled to receive a discretionary profit sharing contribution from the Company pursuant to a plan amendment. The aggregate discretionary contribution of \$1.7 million was reflected as an employer contribution receivable at December 31, 2002 and was paid to the Plan in March 2003.

Participant Accounts

A separate account is established and maintained for each Plan participant. Contributions are invested in one or more of the Plan's investment funds as designated by the participant. Participants are not permitted to invest more than 50% of their account balance in the Moody's Common Stock Fund. Income earned and net appreciation or depreciation on Plan investments for a given fund is

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allocated on a daily basis in proportion to the participant's account balance in that fund.

Distributions

Upon retirement or other termination of service with the Company, participants become eligible for a lump sum distribution of the vested portion of their account balance or, in the case of account balances in excess of \$5,000, may select a deferred distribution method from various options available under the Plan.

Participant Loans

Participants may obtain loans from the Plan, which are secured by the participant's account balance. The Plan limits the total number of loans outstanding at any time for each participant to two general-purpose loans and a principal residence loan. The minimum loan permitted by the Plan is \$500 and the maximum permissible amount of all loans outstanding at any time is the lower of 50% of a participant's vested account balance or \$50,000. Interest rates applicable to Plan loans are based on the prime rate as reported in The Wall Street Journal on the last business day of the month before the loan is processed plus 200 basis points.

Vested Benefits and Forfeitures

Participants immediately vest in their own contributions to the Plan, as well as any earnings thereon. The Plan provides for vesting in the value of Company contributions to a participant's Plan account after three years of service beginning on the participant's initial employment date with the Company. In addition, a participant becomes 100% vested in the value of Company contributions immediately upon attainment of age 65, upon death, or if they become totally and permanently disabled. When Moody's separated from Old D&B, all Company contributions through the Distribution Date became fully vested. Subsequent Company contributions are subject to the aforementioned vesting provisions.

Amounts forfeited by nonvested or partially vested participants who terminated employment during the year ended December 31, 2002 were approximately \$93,000. Forfeited amounts are used to reduce future Company contributions.

Administration of the Plan

The Plan is administered by the Compensation and Nominating Committee of the Board of Directors of the Company. Fidelity Management Trust Company (the Trustee) is Trustee of the Plan and has custody of the Plan's assets. Certain Plan investments are shares of mutual funds managed by the Trustee, and therefore qualify as party-in-interest transactions. Plan investments in the common stock of the Company also qualify as party-in-interest transactions. The expenses of administering the Plan are paid by the Company except for investment management fees, which are charged to the Plan.

Plan Termination

While the Company has not expressed any intent to discontinue its contributions or to terminate the Plan, it is free to do so at any time subject to the provisions of ERISA and the IRC which state that, in such event, all participants of the Plan shall be fully vested in the amounts credited to their accounts.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan have been prepared using the accrual method of accounting, except for participant withdrawals and distributions (benefit payments). For financial statement purposes, benefit payments are recorded when paid rather than when processed and approved for payment. At December 31, 2002, all benefit payments processed and approved for payment were paid by the Plan.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the Statements of Net Assets Available for Benefits and disclosures at the date of the financial statements and the reported amounts of additions and deductions in the Statement of Changes in Net Assets

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Available for Benefits. Actual results could differ from those estimates.

Risks and Uncertainties

The Plan provides for various investment options consisting of stocks, bonds, fixed income securities, mutual funds, and other investment securities. Certain investment securities are exposed to various risks, such as interest rate fluctuations, market conditions and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in valuations in the near term could materially affect participants' account balances and the amounts reported in the Statements of Net Assets Available for Benefits and the Statement of Changes in Net Assets Available for Benefits.

Investment Valuation

Moody's Corporation common stock and The Dun & Bradstreet Corporation common stock are valued at the closing market price on the last business day of the year. The common trust funds and mutual funds are recorded at fair value based on the closing market prices of the underlying investments held by the fund on the last business day of the year.

The Plan has entered into benefit responsive investment contracts with various insurance companies and financial institutions, which provide for interest at annual rates that are fixed for the duration of such contracts. The Plan maintains the contracts in the Special Fixed Income Fund. The Special Fixed Income Fund is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The contracts are included in the financial statements at contract value as reported to the Plan by the respective contract issuers. Contract values represent the sum of contributions and earnings, less participant withdrawals and administrative expenses. Participant withdrawals are at contract value. There are no reserves against contract value for credit risk of the contract issuer or otherwise as Plan management is not aware of any such risks. The average annual yield and annual crediting interest rates ranged from 6.00% to 6.91% for 2002 and 4.96% to 6.91% for 2001. The aggregate fair value and contract value of the investment contracts were \$5.0 million and \$4.9 million, respectively, at December 31, 2002 and \$11.2 million and \$11.2 million, respectively, at December 31, 2001.

Investment Transactions and Investment Income

Purchases and sales of securities are reflected on a trade-date basis. Dividend income is recorded on the ex-dividend date. Other investment income is recorded as earned on an accrual basis.

Net Appreciation/(Depreciation) of Investments

The net appreciation (depreciation) in the fair value of plan investments presented in the Statement of Changes in Net Assets Available for Benefits consists of realized gains or losses and unrealized appreciation (depreciation) on those investments.

3. Investments

The Plan currently consists of the following fifteen funds:

1. The Special Fixed Income Fund is invested in benefit responsive investment contracts with one or more insurance companies or financial institutions. The interest rates associated with the contracts depend on market conditions when each contract is negotiated. When previously purchased investment contracts mature, proceeds are reinvested in The Fidelity Short Term Investment Fund (STIF), Managed Income Portfolio.
2. The Fidelity U.S. Bond Index Fund is mainly invested in bonds included in the Lehman Brothers Aggregate Bond Index, which is comprised of fixed-rate debt issues including government, corporate, asset-backed and mortgage-backed securities.
3. The Fidelity PIMCO Total Return Fund is invested in all types of bonds, including U.S. government, corporate, mortgage-backed and foreign bonds.
4. The Fidelity Equity-Income Fund is mainly invested in income-producing equity securities, which tends to lead to investments in large-capitalization stocks. The fund may also invest in other types of equity and debt securities, including lower-quality debt securities.

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5. The Fidelity U.S. Equity Index Commingled Pool is primarily invested in common stocks included in the S&P 500 Index, which contains 500 predominantly large, U.S. based companies.
6. The Fidelity Aggressive Growth Fund is primarily invested in common stocks of foreign and domestic issuers. The fund invests in companies that the fund believes offer the potential for accelerated earnings or revenue growth.
7. The Fidelity Blue Chip Growth Fund is mostly invested in common stocks of well-known and established companies considered blue chip by the investment manager. The fund may also invest in companies with strong earnings and future growth potential that the fund's manager believes are positioned to become the blue chips of the future.
8. The Fidelity Low-Priced Stock Fund is mostly invested in low-priced common stocks, which are priced at or below \$35 per share at the time of investment. The fund may potentially invest in stocks not considered low-priced.
9. The Fidelity Mid-Cap Stock Fund is mostly invested in common stocks of companies with market capitalizations that are similar to those of companies in the S&P MidCap 400 Index. The fund may also consider investing in companies with smaller or larger market capitalizations.
10. The Fidelity Diversified International Fund invests the majority of its assets in foreign securities. Normally assets are invested primarily in common stock.
11. The Spartan Extended Market Index Fund is mostly invested in common stocks included in the Wilshire 4500, which represents the performance of stock of mid- to small- capitalization U.S. companies.
12. The Spartan International Index Fund is mostly invested in common stocks included in the Morgan Stanley Capital International Europe, Australasia, and Far East Index, which represents the performance of foreign stock markets. The fund may lend securities to earn income.
13. Fidelity Asset Manager allocates the fund's assets among stocks, bonds, and short-term and money market instruments, with the long-term objective of maintaining the asset allocation at 50%, 40% and 10%, respectively. At any point in time, the fund's asset allocation can be within the following ranges: stock class 30% to 70%; bond class 20% to 60%; and short-term/money market class 0% to 50%.
14. The Moody's Corporation Stock Fund is invested in the common stock of Moody's Corporation. Ownership is measured in units of the fund instead of shares of stock.
15. The Dun & Bradstreet Legacy Fund is primarily invested in the common stock of The Dun & Bradstreet Corporation. Ownership is measured in units of the fund instead of shares of stock. As of the Plan inception date, this fund was not open to new investments. This Fund consists only of amounts transferred from the Old D&B Plan.

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At December 31, 2002 and 2001, the Plan's assets were invested as described below. Individual investment balances that represent 5% or more of net assets at December 31, 2002 and 2001 are listed separately as of the applicable date.

	December 31, 2002	December 31, 2001
	(in thousands)	
Fidelity STIF (23,336,847 and 13,325,887 shares, respectively)	\$ 23,337	\$ 13,326
Fidelity U.S. Equity Index Commingled Pool (881,755 and 822,591 shares, respectively)	23,164	27,762
Moody's Corporation Stock Fund* (770,108 and 387,541 units, respectively)	11,982	5,891
Fidelity U.S. Bond Index Fund (716,919 and 578,201 shares, respectively)	8,058	6,245
Spartan Extended Market Index Fund (204,017 shares in 2001)	**	4,835
Other (investments individually less than 5% of net assets)	32,223	31,170
	<hr/>	<hr/>
Total Investments	\$ 98,764	\$ 89,229
	<hr/>	<hr/>

* Includes nonparticipant-directed investments

** Included in Other for 2002, since it represented less than 5% of net assets at December 31, 2002.

During the year ended December 31, 2002, the Plan's investments, including gains and losses on investments bought and sold, as well as held during the period, (depreciated)/appreciated in value as follows:

	December 31, 2002
Mutual Funds	\$ (4,747)
Common Trust Funds	(5,712)
Moody's Corporation Stock Fund	241
The Dun & Bradstreet Legacy Fund	(33)
	<hr/>
Net Depreciation	\$(10,251)
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4. Nonparticipant-Directed Investments

Participants at their discretion may invest their contributions in any or all of the investment fund options offered under the Plan, including the Moody's Corporation Stock Fund but excluding the D&B Legacy Fund, which is not open to new investments. However, the Company's EPS Match contribution is invested and held in the Moody's Corporation Stock Fund and may not be transferred to another fund within the Plan prior to the participant reaching age 50. This Plan provision was effective beginning with the EPS Match contribution deposited into the Moody's Corporation Stock Fund in March 2002. The components of the market value of the Moody's Corporation Stock Fund are as follows:

	December 31, 2002	December 31, 2001
	(in thousands)	
Participant Directed	\$ 7,081	\$ 5,891
Nonparticipant-Directed	4,901	
	<hr/>	<hr/>
Total market value	\$ 11,982	\$ 5,891
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5. Tax Status

The Internal Revenue Service has determined and informed the Company, by a letter dated July 23, 2002, that the Plan and related trust are designed in accordance with applicable sections of the IRC. The Plan has been amended since receiving the determination letter. The Plan and the Plan's outside legal counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

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Profit Participation Plan of Moody's Corporation
Schedule H, Line 4i - Schedule of Assets Held for Investment Purposes
As of December 31, 2002
(dollar amounts in thousands)

	Identity of issuer, borrower or similar party	Maturity date	Annual interest rate	Number of shares/ Units/ and principal amount	Current value
**	Moody's Corporation Stock Fund			770,108	\$ 11,982
	The Dun & Bradstreet Legacy Fund			125,582	1,645
	Total employer-related investments				13,627
	Common trust funds:				
*	Fidelity U.S. Equity Index Commingled Pool			881,755	23,164
*	Fidelity STIF			23,336,847	23,337
	Total common trust funds				46,501
	Mutual funds:				
*	Fidelity U.S. Bond Index Fund			716,919	8,058
*	Fidelity PIMCO Total Return Fund			247,722	2,643
*	Fidelity Equity-Income Fund			37,570	1,490
*	Fidelity Aggressive Growth Fund			295,143	3,303
*	Fidelity Blue Chip Growth Fund			108,437	3,463
*	Fidelity Low-Priced Stock Fund			118,829	2,991
*	Fidelity Mid-Cap Stock Fund			103,111	1,677
*	Fidelity Diversified International Fund			93,817	1,610
*	Spartan Extended Market Index Fund			219,935	4,229
*	Spartan International Index Fund			109,676	2,209
*	Fidelity Asset Manager			24,856	343
	Total mutual funds				32,016
	Investment contracts:				
	(Current value is contract value)				
	Connecticut General Life Insurance Company #25296	4/1/2003	6.10%	2,221,044	2,221
	Principal Life Insurance Company #44363901	4/1/2003	6.00%	1,112,129	1,112
	Principal Life Insurance Company #44363902	10/1/2003	6.91%	1,607,310	1,607
	Total investment contracts				4,940
	Participant loans	1 mo. to 10 years	6.75% to 11.50%	1,679,725	1,680
					\$98,764

* Custodian of the Plan and therefore a party-in-interest for which a statutory exemption exists.

** Investment qualifies as a party-in-interest for the Plan. The fair value and historical cost of the nonparticipant-directed portion of the Moody's Corporation Stock Fund was \$4,901 and \$4,775, respectively, at December 31, 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Compensation and Nominating Committee of Moody's Corporation has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

PROFIT PARTICIPATION PLAN OF MOODY'S CORPORATION

By: /s/ Jeanne M. Dering

Jeanne M. Dering
Senior Vice President and Chief Financial Officer

By: /s/ Charles R. Bruschi

Charles R. Bruschi
Vice President and Controller

Date: June 30, 2003