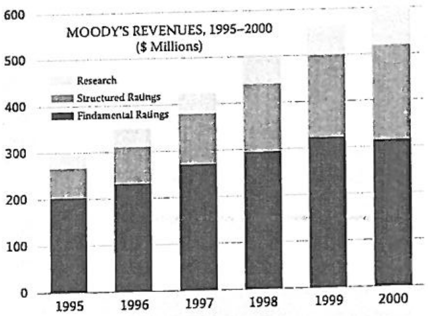
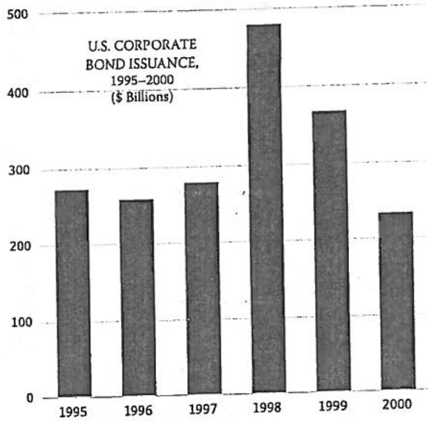
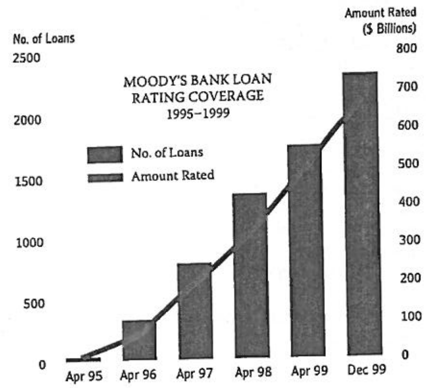
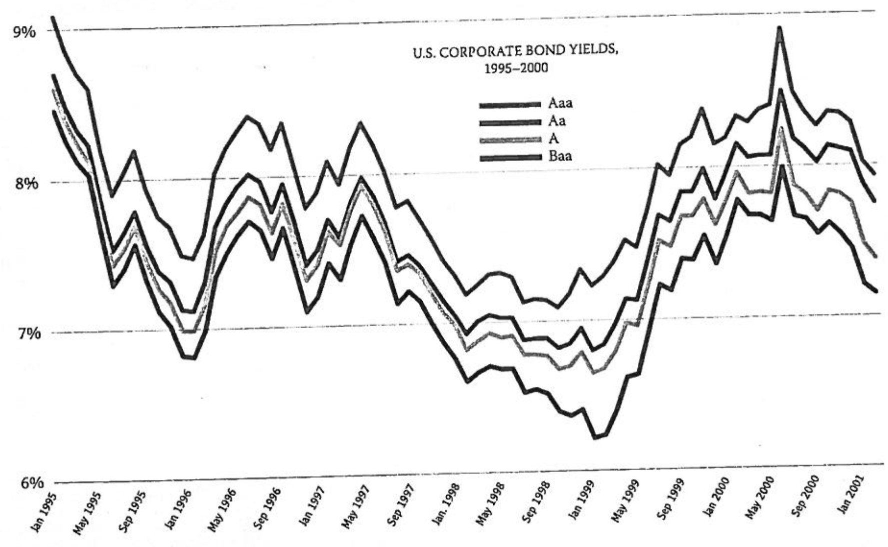




STEADY REVENUE GROWTH AMID RISING INTEREST RATES

Moody's revenues continued their steady rise following the agency's 1996 reorganization. As interest rates began to climb in 1998, new issuance of corporate bonds moderated in the U.S. thereafter. But revenues from a growing structured finance market and from sales of Moody's research—including rating research and risk management services—grew steadily. Growth of rating coverage for syndicated bank loans also helped to supplement revenues in the corporate sector.



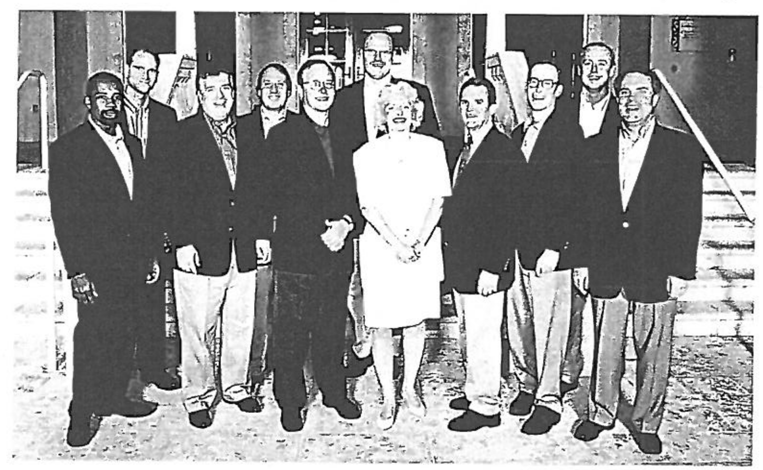


them," he said, "but we do want to be an effective competitor."

On October 19, 2000, it was reported that Fimalac planned to acquire the BankWatch ratings business from financial information services giant Thomson Corporporation. Fimalac would combine BankWatch with Fitch IBCA to create Fitch Ratings. Thomson, in turn, would become a minority owner of Fitch, with a 3.4 percent stake in the ratings company. "The time of the small rating agency has passed," Monro-Davies told the Financial Times, adding that the move mirrored consolidation in the financial services industry as a whole.

YEARS OF GROWTH

Moody's revenues continued to rise to record highs during the first years of Rutherfurd's presidency, while the agency's operating income more than doubled following the 1996 restructuring, from $129 million to $274 million in 1999. Part of that growth was powered by a continuing upswing in corporate bond issuance, which rose to new records in 1998. But the biggest contribution to revenues would come in the fast-growing structured finance markets. In 1998, for example,



Moody's group managing directors in the late 1990s—from left: Noel Kimon, Mortgage Finance; Mike Foley, Energy, Communications & Speculative Grade; Don Noe, co-head, Credit Ratings & Analysis; Chester Murray, European ratings; Dan Curry, Derivatives and Funds; Ken Pinkes, co-head, Credit Ratings & Analysis; Mara Hilderman, Industrials; Brian Clarkson, Asset-Backed Securities; Doug Watson, Public Finance; Ray McDaniel, International; Chris Mahoney, Banks & Sovereigns. Photo taken at a Moody's off-site, Boca Raton Florida, Fall 1999.

the third quarter
2000, Moody's
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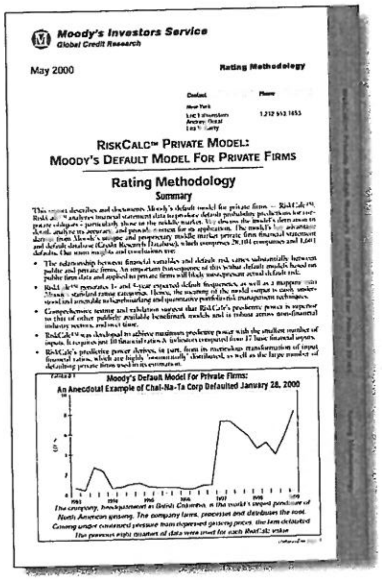
Moody's revenues in the structured finance sector grew by 40 percent, compared with a 10 percent increase in corporate finance.

That growth was supported by the introduction of new security types and structures, as well as beneficial changes in regulatory and legal frameworks in many nations. During 1998, for instance, Moody's rated the first structured transaction in Switzerland, the first student loan transaction in the United Kingdom, the first large French trade receivables deal funded by a long-term ABS transaction, and the first securitization of consumer loans in Japan. In 1999, the trend continued, with the agency rating the first "arena-backed bond" (backed by rights to payments from events at the Staples Center in Los Angeles), and also rating securities backed by New York State tobacco settlements, totaling over $1 billion that year.


Moody's Investors Service
Global Credit Research
May 2000
Rating Methodology
RiskCalc™ Private Model:
Moody's Default Model For Private Firms
Rating Methodology
Summary
Moody's Default Model For Private Firms:
An Anecdotal Example of Chal-Na-Ta Corp Defaulted January 28, 2000

Among other key developments, Moody's research and ratings coverage in the banking and sovereigns area was extended to nearly 1,000 entities in 1999, up from about 400 in 1993. The agency's bank loan rating coverage grew at a spectacular rate, ending 1999 with $700 million of rated debt and ratings on over 2,400 individual loan facilities. In the third quarter of 2000, Moody's Risk Management Services subsidiary introduced its RiskCalc™ public and private firm default risk models. And Moody's credit research and risk management product sales grew by 25 percent in 1998 and 18 percent in 1999.

The agency opened its fourth local subsidiary, Moody's Italia S.r.l. in Milan, at the end of May 1999. And the inception of the European Monetary Union (particularly the introduction of the euro in January 1999) was catalyzing the development of bond markets and growth in European rating revenues, as issuers sought capital and investors sought to diversify their portfolio holdings across European borders.

Revenues from operations outside Europe also increased considerably throughout the period. In 1998, international ratings revenues grew by nearly 29 percent

STRUCTURED FINANCE TAKES OFF

AS THE GLOBAL STRUCTURED FINANCE MARKETS began to expand exponentially in the last years of the 20th century, Moody's revenues grew in tandem. Since the mid 1980s, the agency's structured finance operations had grown moderately; contributing around one-fifth of Moody's overall rating revenues during that period. Beginning in 1995, the business grew at a much faster clip, accounting for about a third of total rating revenues that year, 35 percent by the end of the decade.


Brian Clarkson, managing director of Moody's Asset-Backed Securities Group: "As the name indicates, structured transactions can often be 'structured' to mitigate many of the concerns plaguing other markets."

Brian Clarkson, managing director of the agency's Asset-Backed Securities Group, discussed the reasons behind that acceleration in a September 1998 interview with Moody's *Aaa* magazine. For one thing, said Clarkson, "Moody's has fundamental ratings on the vast majority of issuers that engage in structured finance transactions, so there is a vast amount of expertise on which we can draw to help us understand the companies doing the deals and the assets underlying them."

That Moody's was gearing up to rate new security types was also a plus. "Issuers and investors around the world," Clarkson explained, "have gradually grown more comfortable with the idea of securitization, narrowing spreads on 'traditional' assets—such as auto loans and credit cards—and paving the way for an ever increasing variety of assets."

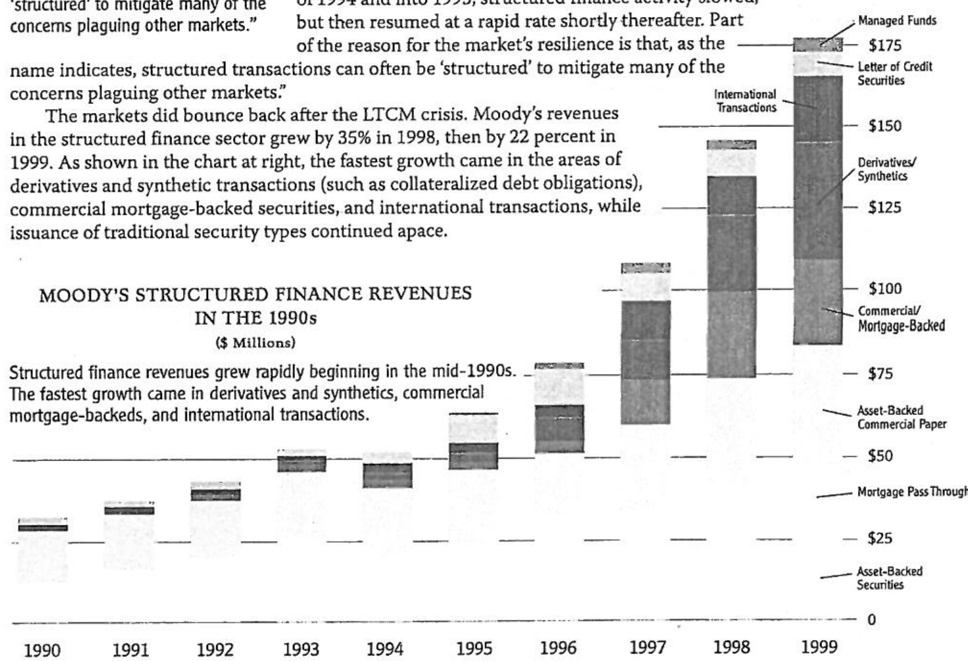
In the summer of 1998, market turmoil stemming from the mounting losses at hedge fund Long Term Capital Management (LTCM) caused many financings to be put on hold. Clarkson, however, predicted a rebound.

"We've seen it before," he said. "For example, when the financial markets in Mexico were shaken by the peso devaluation at the end of 1994 and into 1995, structured finance activity slowed, but then resumed at a rapid rate shortly thereafter. Part of the reason for the market's resilience is that, as the name indicates, structured transactions can often be 'structured' to mitigate many of the concerns plaguing other markets."

The markets did bounce back after the LTCM crisis. Moody's revenues in the structured finance sector grew by 35% in 1998, then by 22 percent in 1999. As shown in the chart at right, the fastest growth came in the areas of derivatives and synthetic transactions (such as collateralized debt obligations), commercial mortgage-backed securities, and international transactions, while issuance of traditional security types continued apace.

MOODY'S STRUCTURED FINANCE REVENUES IN THE 1990s
($ Millions)

Structured finance revenues grew rapidly beginning in the mid-1990s. The fastest growth came in derivatives and synthetics, commercial mortgage-backeds, and international transactions.



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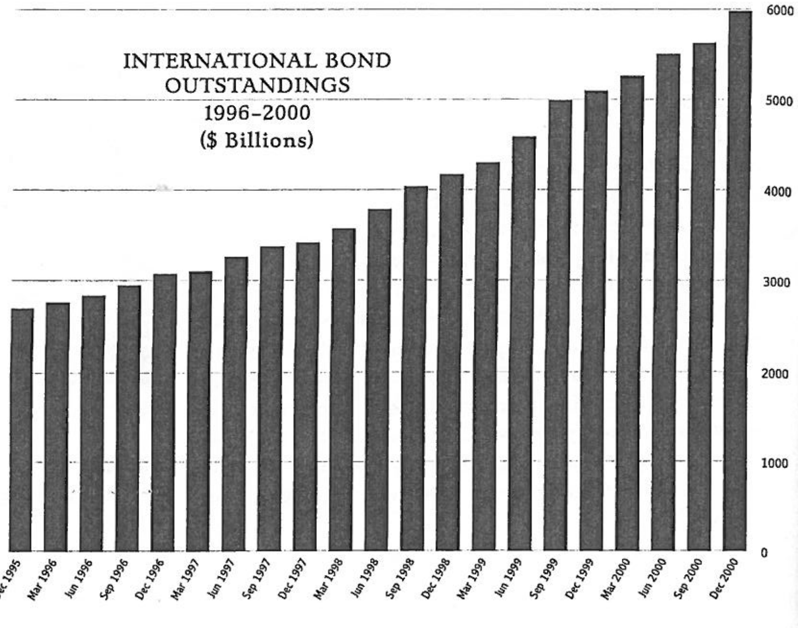


and accounted for a quarter of Moody's overall revenues. International growth continued apace over the next two years, supported by the huge expansion of total debt outstanding in markets outside the United States—to $6 trillion at year end 2000, up from $2.7 trillion at the beginning of 1996.

TROUBLES AT DUN & BRADSTREET

The Moody's brand entered its one-hundredth year in 1999. No celebrations were planned, however, given the events that were about to unfold at Moody's and Dun & Bradstreet.

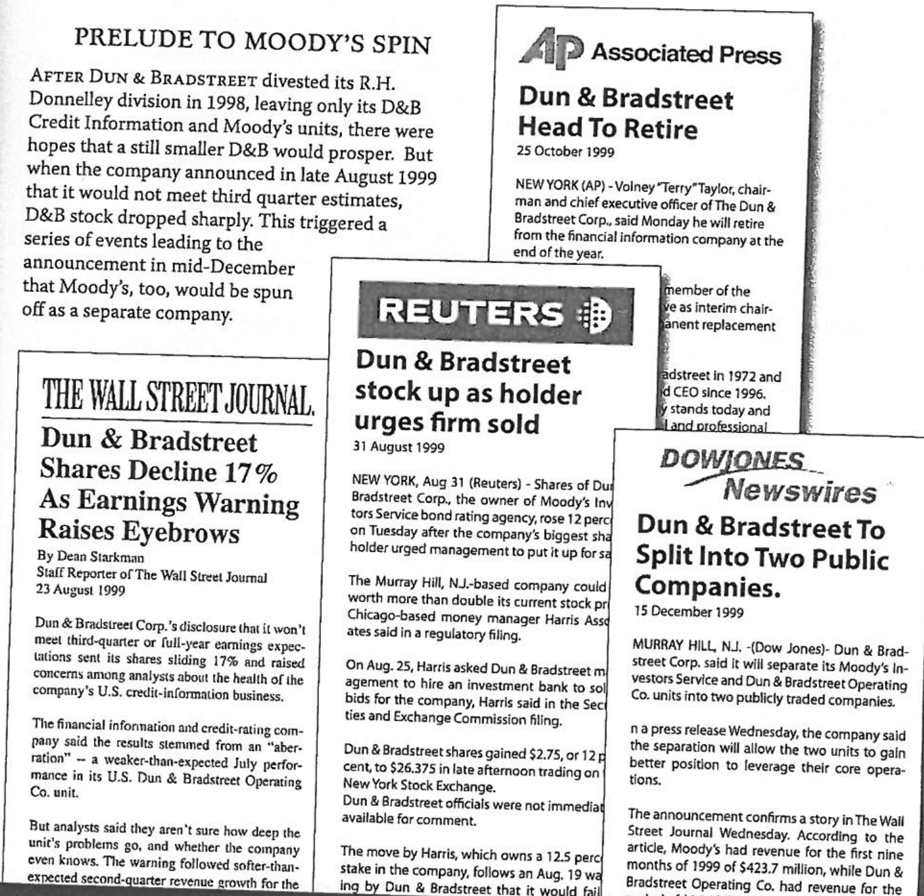
A year earlier, D&B had divested its R.H. Donnelley division, leaving Moody's the only major division outside the original Dun & Bradstreet operating company. At the time, stock analysts applauded the move, most of them noting that Moody's annual growth rate potential of 10 percent or more was the compelling side of a yet-again-slimmed-down Dun & Bradstreet. As the Donnelley divestiture was implemented in 1998, D&B's stock price rose moderately, from $29 per share to a

new high of $34. But despite a general rise in stock prices, D&B shares went down thereafter.

The troubles at D&B began to surface August 19, 1999. After the market's close in New York, the company announced that revenues and operating income for the U.S. unit of the D&B operating company were substantially below year-prior levels. Despite continued strong performance by Moody's, the company said it no longer expected to meet analysts' earnings estimates for the third quarter. The next day, D&B shares fell 17 percent to $25.50 on the New York Stock Exchange. Merrill Lynch analyst Lauren Fine Rich said in a report the same day that D&B's ability to deliver consistent double-digit earnings growth "has officially been shaken." Events moved quickly thereafter:

PRELUDE TO MOODY'S SPIN

AFTER DUN & BRADSTREET divested its R.H. Donnelley division in 1998, leaving only its D&B Credit Information and Moody's units, there were hopes that a still smaller D&B would prosper. But when the company announced in late August 1999 that it would not meet third quarter estimates, D&B stock dropped sharply. This triggered a series of events leading to the announcement in mid-December that Moody's, too, would be spun off as a separate company.



Associated Press

Dun & Bradstreet Head To Retire

25 October 1999

NEW YORK (AP) - Volney "Terry" Taylor, chairman and chief executive officer of The Dun & Bradstreet Corp., said Monday he will retire from the financial information company at the end of the year.

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adstreet in 1972 and
d CEO since 1996.
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REUTERS

Dun & Bradstreet stock up as holder urges firm sold

31 August 1999

NEW YORK, Aug 31 (Reuters) - Shares of Du
Bradstreet Corp., the owner of Moody's Inv
tors Service bond rating agency, rose 12 perc
on Tuesday after the company's biggest sha
holder urged management to put it up for sa

The Murray Hill, N.J.-based company could
worth more than double its current stock pr
Chicago-based money manager Harris Ass
ates said in a regulatory filing.

On Aug. 25, Harris asked Dun & Bradstreet m
agement to hire an investment bank to sol
bids for the company, Harris said in the Sec
ties and Exchange Commission filing.

Dun & Bradstreet shares gained $2.75, or 12 p
cent, to $26.375 in late afternoon trading on
New York Stock Exchange.
Dun & Bradstreet officials were not immedia
available for comment.

The move by Harris, which owns a 12.5 perc
stake in the company, follows an Aug. 19 wa
ing by Dun & Bradstreet that it would fail

THE WALL STREET JOURNAL.

Dun & Bradstreet Shares Decline 17% As Earnings Warning Raises Eyebrows

By Dean Starkman
Staff Reporter of The Wall Street Journal
23 August 1999

Dun & Bradstreet Corp.'s disclosure that it won't meet third-quarter or full-year earnings expectations sent its shares sliding 17% and raised concerns among analysts about the health of the company's U.S. credit-information business.

The financial information and credit-rating company said the results stemmed from an "aberration" – a weaker-than-expected July performance in its U.S. Dun & Bradstreet Operating Co. unit.

But analysts said they aren't sure how deep the unit's problems go, and whether the company even knows. The warning followed softer-than-expected second-quarter revenue growth for the

DOWJONES Newswires

Dun & Bradstreet To Split Into Two Public Companies.

15 December 1999

MURRAY HILL, N.J. -(Dow Jones)- Dun & Bradstreet Corp. said it will separate its Moody's Investors Service and Dun & Bradstreet Operating Co. units into two publicly traded companies.

n a press release Wednesday, the company said the separation will allow the two units to gain better position to leverage their core operations.

The announcement confirms a story in The Wall Street Journal Wednesday. According to the article, Moody's had revenue for the first nine months of 1999 of $423.7 million, while Dun & Bradstreet Operating Co. had revenue for the

August 30 D&B's largest stockholder, Chicago-based Harris Associates LP, sends a public letter to Volney Taylor urging the company to solicit buyers for its operations and remove its anti-takeover poison pill. The current strategy, says Harris, would only increase concerns that D&B's franchise would "erode without faster and more decisive initiatives by the company."

September 15 D&B names CFO Frank Sowinski president of the D&B operating company, succeeding Volney Taylor. This, says the company, will allow Taylor to "devote full attention to his responsibilities as chairman and chief executive officer of The Dun & Bradstreet Corporation."

October 20 D&B reports that while Moody's produced a 33 percent rise in operating income for the third quarter, D&B's operating income fell by 17 percent.

October 25 D&B's board of directors announces that Volney Taylor will resign from the company at the end of the year. D&B director Clifford Alexander then assumes Taylor's responsibilities as chairman and CEO, and the board begins searching for a new CEO. D&B shares surge.

December 15 Dun & Bradstreet's long cycle of divestiture comes to its logical end. The company announces that it has hired investment banking firm Goldman Sachs to assist in the separation of Moody's Investors Service and the Dun & Bradstreet Operating Company into two independent, publicly-traded companies.

December 31 Clifford Alexander announces that D&B will start a formal search for a new CEO to head the stand-alone company. He adds that there are no plans to replace John Rutherfurd as president of Moody's.

AN AUSPICIOUS BEGINNING

Two developments over the next several months would augur well for the fate of Moody's. The first became public in early 2000, when well-known billionaire and value investor Warren Buffett reported that his Berkshire Hathaway investment fund had accumulated holdings of 24 million shares of D&B common stock as of February 28. Having already purchased some 12 million shares by the end of 1999, Buffett had doubled his stake over the following two months to become D&B's largest shareholder. After Moody's and D&B became separate companies, he would sell his D&B shares, but retain the Moody's—making him Moody's largest shareholder,

with a stake of approximately 16 percent of the company.

Mr. Buffett has never served on Moody's board of directors, nor has he had any direct association with the firm's management. Nevertheless, the fact that Moody's was among Berkshire Hathaway's largest stock holdings was taken as a vote of confidence in the company's future.


Warren Buffett

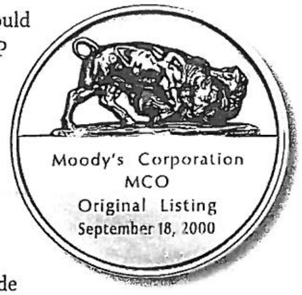
The fact that Moody's was among Berkshire Hathaway's largest stock holdings was taken as a vote of confidence in the company's future.

Buffett, widely known as an investor who looks for solid companies in fields he understands, was already very familiar with Moody's. Like his mentor in value investing, Benjamin Graham, he had long been an avid consumer of Moody's manuals. He got into that habit in the early 1950s, when working at his father's brokerage firm in Omaha, Nebraska, Buffett-Falk & Company. "Searching for investment ideas," writes Roger Lowenstein in *Buffett: The Making of an American Capitalist*, "he read the heavy purple-bound Moody's manuals page for page with the zest of a small boy reading comics." Lowenstein reports further that when the young Buffett later set up his own office at Kiewit Plaza in Omaha (the same space he now occupies), he only hired a secretary and assistant so as to "shake him loose from administrative details—thus, more time for Moody's."

Though he prefers life in Omaha, Buffett also knows a great deal about the ways of Wall Street, including the business of ratings. This was made clear to Moody's former president Richard Simmons, when he applied in July 1981 for a job as head of the Washington Post Company. Buffett, a major shareholder and insider at the Post, was first to interview him (Simmons got the job and went on to serve as the company's president from 1981 through 1991). In his autobiography, Simmons had this to say about his first meeting with Buffett:

> In a series of questions that can only produce wonder about how years go by but personal characteristics remain the same, Warren demonstrated he knew more about Moody's than did I. And, of course, I had been either running it directly or responsible for its results since 1974, a total of seven years. This somewhat unkempt, smiling man not only exhausted my knowledge bank in about five minutes, but revealed an array of concepts about Moody's future operations that I had never even considered. Warren is now, after the D&B spin-off, its largest shareholder and, I assume, at some point may be the sole owner of the preeminent rating firm. I guess I shoulda known!"

The second auspicious event came on September 26, 2000, when Standard &

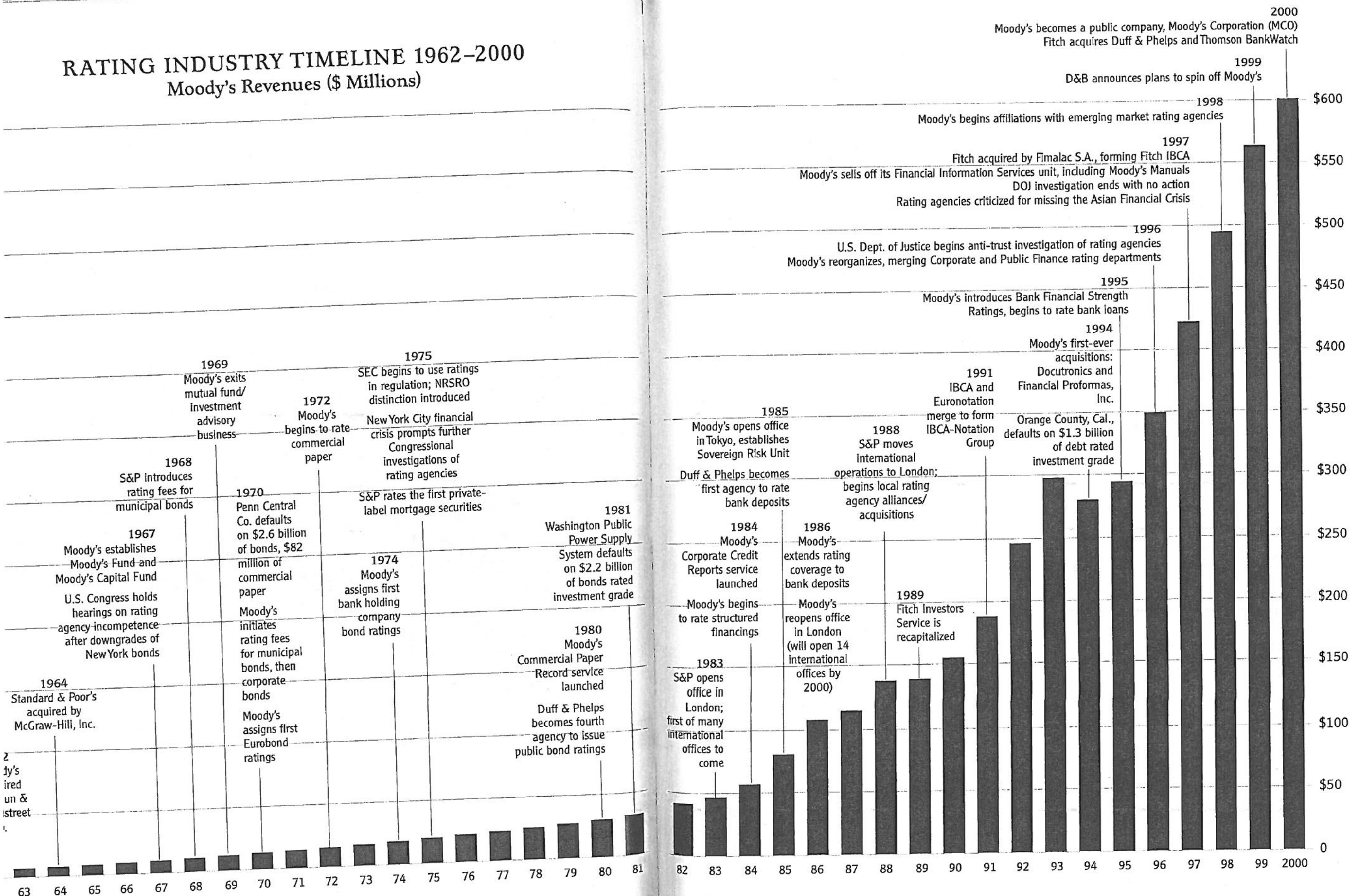


Poor's announced that Moody's Corporation would replace Dun & Bradstreet Corporation in the S&P 500 Index after the close of trading on October 2, 2000. Of course, neither of these developments had any bearing on the fundamentals of Moody's business. But in the worlds of public opinion and stock selection, they were welcome, if indirect, compliments on the soundness of those fundamentals.

On October 4, 2000, Moody's Corporation made its debut on the New York Stock Exchange, with the ticker symbol MCO. The stock had been listed on the exchange on September 18, and Moody's had separated from Dun & Bradstreet on September 30.

Moody's Corporation made its debut on the New York Stock Exchange on October 4, 2001. At the closing bell ceremony were CEO John Rutherfurd, Jr.; Chairman Cliff Alexander, Jr.; NYSE Chairman Dick Grasso; and NYSE President Bill Johnston—along with Moody's staff members Stephany Bushweller, William Thompson, Arlene Issacs-Lowe, Joe Grohotolski, Renee Reisel Tack, Prasanna Venekatesh, Joseph Sicuranza, Carina Benedetti, Sonia Park, and Mark de Tracy.

RATING INDUSTRY TIMELINE 1962–2000
Moody's Revenues ($ Millions)



AFTERWORD

THE EARLY YEARS OF MOODY'S CORPORATION

Moody's Corporation turned seven years old in late September 2007. The company grew significantly during most of those years, as revenues passed the billion-dollar mark in 2002, then topped $2 billion in 2006. Moody's stock price rose more than three-fold during the same period.

The corporation's early years were also replete with challenges. Many were continuations of the sharp public critiques leveled against the rating agencies over the previous four decades. Some, notably the subprime mortgage securities crisis of 2007, were reminiscent of the financial crises faced by John Moody during the first decades of the 20th century. Others would be entirely new. The following is a brief overview of recent developments.

When Moody's went public in September of 2000, John Rutherfurd, who had played a central role in organizing the company's spin-off from Dun & Bradstreet, became president and chief executive officer of the new corporation. For the time being, Rutherfurd remained president of its two subsidiaries, Moody's Investors Service and Moody's Risk Management Services. Raymond McDaniel, formerly head of Moody's credit rating operations, would be named president of Moody's Investors Service in November of 2001.

September 2000 was not an auspicious time for a new offering. Moody's stock came out at $14 (split adjusted) just at the beginning of the tech crash and ensuing recession. It did not rise above that level for half a year. But more serious challenges were on the horizon.

On the morning of September 11, 2001, the main lobby of Moody's 99 Church Street headquarters suddenly became an emergency medical facility for victims of the terror attacks that destroyed the World Trade Center complex, located just a block south. The building itself suffered only minor damage and no Moody's employees were seriously hurt, but the building was closed for more than two months, with New York-based staff working at home or in temporary offices set up in New Jersey, Mid-Town Manhattan, or north of the city in Westchester County. Thanks to support from offices overseas and off-site backup facilities, Moody's issued relevant rating actions and commentary within hours of the disaster and held the first of many global teleconferences on the credit implications of

September Eleven three days after the planes struck the World Trade towers.

Earlier in the year, the corporation had weathered adversity of another sort, when on April 10 Moody's settled charges against a former employee accused of destroying a document relevant to the Department of Justice's investigation of rating agency practices in 1996. In the settlement, the company pleaded guilty to one felony count of obstruction of justice and paid a fine of $195,000. The same day, three executives resigned from the firm.

The biggest challenge during the corporation's infancy came in December of 2001, when Enron Corporation declared bankruptcy, thereby defaulting on some $6 billion of fixed-income securities that had been rated investment grade by Moody's a few days earlier. The other two major agencies had also rated Enron's debt investment grade just before the default; but that only fueled criticism that the rating agencies had again failed to warn investors of the impending debacle. The Enron default and subsequent failures of WorldCom and several other large, highly-rated companies would lead to investigations by the U.S. Congress and the European Union, ultimately leading to the regulation of the industry by the Securities Exchange Commission.

In response to these developments, Moody's redoubled efforts in a number of areas designed to preserve the independence of its rating opinions, while making its rating activity more proactive and transparent to market participants and regulators. These began with the formation of Moody's Enhanced Analysis Initiative, under which outside specialists in financial accounting, corporate governance, and risk management were hired to assess what went wrong during the Enron/WorldCom crises. Building on initiatives begun in the mid-1990s, Moody's Credit Policy Group was formed to take overall responsibility for issuing reports on Moody's rating methodology and measuring the consistency and performance of its ratings. The agency reinforced its long-standing Code of Conduct in line with international standards and established units focusing on corporate governance and regulatory affairs. Moody's Market-Implied Rating service was also established, offering market-based measures of credit risk to supplement traditional ratings based on fundamental credit analysis.

In the meantime, the rating business enjoyed a period of unprecedented growth following the recession of 2001-2002, fostered by low interest rates, continuing globalization of the capital markets, and advances in financial engineering—particularly in the areas of structured finance and computer-assisted modeling of credit and market risk.

Moody's global presence grew accordingly. By mid-year 2007, the corporation maintained on-the-ground presence in 27 countries, up from 21 countries in 2000.

The company opened new offices in emerging financial centers from Beijing and Jakarta to Moscow and Johannesburg. That involved the acquisition of rating agencies in Russia, Czech Republic, and Indonesia, while new affiliations were established with rating concerns in Egypt, Israel, Bulgaria, and China. The agency's total staffing more than doubled over the same period to more than 4,000 worldwide in 2007, with some 38 percent of employees located outside the United States.

As the capital markets continued to expand, the corporation's operating income rose to $1.26 billion in 2006, up from $538 million in 2002. Extending a trend that began a decade earlier, the company's fastest growth in the ratings business came in structured finance, where revenues grew at a compound annual rate of 23 percent during the same period. Growth was also strong outside United States, where revenues expanded at an annual rate of around 22 percent. Sales of Moody's credit research services to investors grew even faster, at a annual rate of 29 percent.

Outside the rating business, Moody's continued to grow through strategic acquisitions. In 2002, Moody's Corporation acquired KMV, a quantitative risk-modeling firm, which was then merged with Moody's Risk Management Services to form Moody's KMV. In 2005 the corporation acquired Economy.com, a provider of economic, financial, and industry research; the unit was renamed Moody's Economy.com. In December the following year, Moody's acquired Wall Street Analytics, a developer of structured finance analysis and monitoring software. The firm was integrated into a broader new product and service platform, Moody's Structured Finance New Products Group, designed to help investors manage their portfolios of securitized instruments worldwide.

In 2004, John Rutherfurd retired and Ray McDaniel succeeded him as CEO of Moody's Corporation. McDaniel took on the additional post as chairman of Moody's Corporation in 2005. During the first years of McDaniel's tenure, Moody's and the other major agencies continued to attract criticism and regulatory scrutiny over their performance during the Enron crisis. After prolonged discussion and deliberation, the U.S. Congress passed the Credit Rating Agency Reform Act of 2006, which directed the SEC to register and regulate credit rating agencies (Nationally Recognized Statistical Rating Organizations, NRSROs). Officials in the European Union and elsewhere around the world held off on passing similar laws. But events the following year would cause regulators and market observers to take yet another look at the role of rating agencies in the capital markets.

At this writing, it appears that 2007 will be the most challenging year yet for Moody's Corporation. Early in the year, the implementation of Moody's Joint Default Analysis (JDA) initiative in the global banking sector was highly criticized by market participants, notably in Europe. (The JDA program is an ongoing effort

by Moody's to bring ratings across major sectors in line with actual default experience in those sectors. Lessons learned in the implementation of recent rating realignments are being applied to that continuing program.)

Then, in the summer of 2007, came the meltdown in the subprime mortgage-securities markets and the ensuing Credit Crisis of 2007. In July, each of the major agencies downgraded ratings on the lower-rated tranches of many securities backed by subprime mortgages. The subprime market only accounted for a small fraction of the total volume of structured deals outstanding. But the rating actions—coupled with a host of other factors, including widely publicized uncertainties over which institutions would be affected and by how much—caused primary and secondary market activity in many sectors to come to a standstill.

The effect on the rating industry was twofold. First, because the sharpest slowdown occurred in many of the fastest growing areas of the capital markets—notably mortgage-backed securities, collateralized debt obligations, asset-backed commercial paper, and syndicated bank loans—rating revenues came under pressure. Accordingly, Moody's stock price fell to multi-year lows in the summer of 2007.

Second, the turmoil triggered widespread criticism that the rating agencies had failed yet again to warn investors of an impending crisis. As the crisis deepened, regulatory concerns were heightened, and investigations were announced by the SEC, the Council of European Securities Regulators, and the Group of Seven nations.

Meanwhile, several major changes were already underway at Moody's. Beginning in early July, the corporation began the process of moving its New York headquarters to new offices at 7 World Trade Center, two blocks west of the building at 99 Church Street where Moody's main offices had been located for 53 years. (The move would be completed in September.)

In August, Ray McDaniel announced several changes in Moody's management structure. Brian Clarkson, who had headed the agency's structured finance rating operations over the previous five years, was named president of Moody's Investors Service. Simultaneously, to better insulate the corporation's regulated ratings business from its unregulated businesses, the latter were placed in a separate subsidiary, Moody's Analytics. Mark Almeida, former head of the agency's Investor Services Group, was named to head the new unit, including the credit analytics, economic analysis, and global sales activities of Moody's KMV and Moody's Economy.com, as well as Moody's ratings-related credit research services. At the same time, Andrew Kimball, former head of the agency's Corporate Finance Group, was named chief credit officer and chairman of credit policy at Moody's Investors Service, reporting to both Clarkson and McDaniel. His group has responsibility for guiding and coordinating all aspects of Moody's credit policy framework, including credit policy research, ratings system process management, performance measurement, and oversight of all credit committees at Moody's.

In September, as rating agency executives were testifying before U.S. congressional committees, Moody's proposed a series of enhancements aimed at bringing greater transparency to the securitization process for subprime residential mortgage-backed securities. The recommendations—based on conversations with market participants, industry trade organizations, and oversight authorities—included calls for third-party oversight of the accuracy of loan information and for issuers to provide stronger and more uniform representations and warranties to investors regarding loan information. Among a broad range of other measures being discussed by legislators, regulators, and academics (to name a few) were calls for tighter regulation of rating agency practices and opinions, as well as the elimination of issuer rating fees. And many, including Moody's, have called for an end to the use of private rating opinions in securities regulations.

It is too early to tell what the subprime mortgage securities crisis and subsequent regulatory actions will mean for Moody's Corporation or the rating business as a whole. Looking back at the history of Moody's first one hundred years, however, there are reasons for optimism.

It is unlikely that the results of the Credit Crisis of 2007 will be anything like those experienced by John Moody following the Panic of 1907. Unlike The Moody Corporation a century earlier, Moody's Corporation is well positioned in a single line of business encompassing credit ratings, credit research, and financial risk management services targeted exclusively at the major participants in the global capital markets. In John Moody's case, moreover, it is well to remember that the challenges he faced in 1907 led to a remarkable response—the invention of the rating business. And in the early 1930s, as we have seen, Moody's Investors Service was well positioned with a range of financial information and portfolio management services that enabled the firm to recover quickly from deepest capital market downturn of the 20th century.

Looking back to more recent history, many observers have compared the Credit Crisis of 2007 with the capital market turmoil in 1998 following huge losses by hedge fund Long-Term Capital Management (LTCM). "We've seen it before," said Moody's Brian Clarkson in the fall of 1998, when he correctly predicted that new issuance would bounce back after the LTCM crisis, as it had when the financial markets in Mexico were shaken by the peso devaluation beginning in 1994. The markets did recover in 1998, and Moody's revenues rose to record levels that year. The virtue of structured financings, Clarkson explained, is that they can

be "structured" to meet new market realities.

Nor is the rating industry a stranger to controversy or regulatory scrutiny. With the onset of the Great Depression, when ratings of debt securities were downgraded at a more rapid pace than at any time thereafter in the century-long history of the rating industry, there was no public outcry that the rating agencies missed the crisis (which they clearly did). But over the last four decades, as described throughout Chapters 6 through 12 above, the industry has encountered, and weathered, frequent, high-profile controversy—first for downgrading too quickly when New York City and other municipalities ran into financial difficulties in the 1960s, then for failing to lower ratings fast enough with the onset of the New York City's financial crisis in the mid-1970s. Rating agency performance was criticized following major defaults by Penn Central in 1970, Washington Public Power Supply System in 1982, and Orange County, California, in 1996. The major agencies were also faulted for acting too fast to lower debt ratings on sovereign nations from Australia to Canada in the 1980s and early 1990s; for failing to predict the Asian Financial Crisis in 1997; then again for failing to warn of the Enron collapse in 2001.

In nearly every case, public controversy—sometimes to the point of outrage—has led to calls for action. Yet, as was the case in the first Congressional hearings on rating agency practices beginning in 1967, when legislators and regulators knuckle down to "solve the problem," the controversy moderates. This tends to happen as officials come to recognize a number key points:

1. That private sector rating agencies play an important and widely acknowledged role in fostering the efficiency and stability of capital markets;
2. That their value stems less from their ability to predict the precise timing and severity of financial crises (which is an impossible task for rating agencies or anyone else) and more from their ability to provide timely, reliable, objective, and globally comparable risk opinions on the broad range of securities available in the markets at a given time;
3. That providing such a service requires that the agencies' risk opinions be free from the influence of governments or any interested parties and supported by adequate staffing, infrastructure, sources of information, and funding; and
4. That regulations should be employed to foster the above points, while rating agencies must be able to adapt to changing conditions as they unfold in the marketplace.

Following each of the above-mentioned crises, the rating industry has adjusted its practices—by incorporating lessons learned from each new crisis; by building up staffing, infrastructure, and research services in line with market needs; by increasing the transparency of its rating practices and performance; and by working with regulators to help determine the proper role of independent rating opinion in the world's fast changing financial system.

In the opening years of the 21st century, the public profile of rating agencies has risen dramatically with the global proliferation of financial media outlets and with the rapid growth of capital markets that the industry has helped to foster. Controversy has thus become as central to the rating business as the need for increased professionalism and adaptability. But the fundamentals of the business have not changed. The future success of Moody's Corporation, or any provider of ratings and associated research, will rest with sticking to those fundamentals, which may be summarized thus—independence, integrity, comprehensive coverage, transparency, and adaptability.

CHRONOLOGY–MOODY'S AND KEY COMPETITORS

1841
Lewis Tappan founds The Mercantile Agency in New York, the first commercial credit agency to employ a network of credit reporters.

1857
John M. Bradstreet publishes the first commercial credit ratings in his "Reference Books," using Aa-through-E rating symbols.

1859
The Mercantile Agency becomes R.G. Dun and Co., and begins to issue commercial credit ratings using numerical symbols, 1 through 4.

1868
Henry Varnum Poor and his son Henry William publish the first in a series of manuals on the railroad industry: *Poor's Manual of Railroads.*

John Moody is born in Jersey City, New Jersey.

1890
Moody goes to work on Wall Street with investment banking firm Spencer Trask & Company (remains there through 1900).

1900
Moody publishes the first financial manual covering industrials companies: *Moody's Manual of Industrial and Miscellaneous Securities* (November).

1901
John Moody & Company is formed and moves from 6 Wall Street to 35 Nassau Street.

1903
Roger Babson's Stock and Bond Card System is launched in New York.

1904
Moody publishes *The Truth About the Trusts.*

The Moody Corporation is formed (December).

1905
First monthly issue of *Moody's Magazine* is published.

1906
Luther Lee Blake founds Standard Statistics Bureau.

1907
Moody's business interests collapse in the Rich Man's Panic of 1907.

Moody agrees to serve as editorial supervisor for the Standard Bond Descriptions service offered by Blake's Standard Statistics Bureau, a service he will continue render for the next several years.

1908
The Moody Corporation enters bankruptcy (February).

Roger Babson buys Moody's manual business, forms Moody Manual Company, and moves its operations to 33 Broadway. Roy W. Porter becomes editor of Moody's Manuals.

Moody's Magazine is sold to Augustin Ferrin. Moody continues to write market and economic commentary for this and other publications.

1909
The securities rating business begins with the publication of *Moody's Analyses of Railroad Investments* (April). The book, published by Moody's Analyses Publishing Company, introduces Moody's Aaa-through-E rating symbols. Both bonds and stocks are rated.

Moody launches his "Real Investment Service" and his first "Weekly Letter" is published (July). The service is operated as a sole-proprietorship.

1913
Moody's Investment Service is founded, combining Moody's investment advisory service and promotion for the Analyses books. (For a time, the latter continue to be published by Moody's Analyses Publishing.)

Luther Blake buys the Stock and Bond Statistical Service founded by Roger Babson and merges it with Standard Statistics Bureau.

Fitch Publishing Company is founded by John Knowles Fitch.

1914
Moody extends bond and stock rating coverage with the publication of *Moody's Analyses of Investments: Public Utilities and Industrials* (January).

Moody's Investors Service is "Founded to Endure and Investors Make Secure," replacing Moody's Investment Service and absorbing Moody's Analyses Publishing (July).

Standard Statistics Bureau is incorporated as Standard Statistics Inc.

Roy W. Porter buys control of Moody Manual Co. from Roger Babson and begins negotiations to purchase Poor's Railroad Manual Co.

1915
Moody correctly predicts a "war boom" with the onset of World War I; Moody's Investors Service thrives as New York becomes the world's financial center.

1916
Poor's Railroad Manual Co. begins to publish bond and stock ratings.

1918
Moody publishes the first municipal securities ratings in Moody's Analyses of Governments and Municipals. Rating coverage extends to government and municipal bonds in the United States and the Dominion of Canada.

1919
Moody publishes the first ratings on bonds issued by governments and municipalities located outside North America.

Roy Porter merges Moody Manual Co. with Poor's Railroad Manual Co. to form Poor's Publishing Company.

1922
Standard Statistics begins to publish bond and stock ratings.

1924
Fitch Publishing begins to issue bond ratings with the publication of the 1924 *Fitch Bond Book.*

Moody buys back rights to the Moody name from Poor's Publishing.

1925
Moody's establishes a European subsidiary, Moody's Investors Service Ltd., London.

1928
Moody's offices move from 35 Nassau Street to the Adams-Express Building at 65 Broadway (July).

Moody's Investors Services goes public, issuing 80,000 shares of participating preference stock (November).

1930
Moody's Investment Management Service takes shape, shifting Moody's emphasis to a highly personalized advisory and consulting service.

1931
Moody's revenues fall sharply as stock and bond markets continue to sell off following the 1929 Crash. Revenues will bounce back to 1928 levels the following year.

Standard Statistics prospers amid increased demand for financial data.

Poor's Publishing enters bankruptcy; Paul T. Babson (Roger Babson's cousin) refinances the company.

The U.S. Comptroller of the Currency issues the first ratings-based securities investment regulations. These will be further regularized in joint rulings issued by the Federal Reserve and other regulators beginning in 1936.

1935
Moody's "Weekly Letters" are split into two new publications: *Moody's Bond Survey* and *Moody's Stock Survey.* Moody's stock ratings are discontinued.

1941
Standard Statistics merges with Poor's Publishing to form Standard & Poor's.

1944
John Moody retires as president of Moody's, stays on as chairman. Louis Holschuh becomes president.

1949
S&P begins to rate municipal bonds.

1955
Moody's Handbook of Widely Held Common Stocks introduced.

1956
John Moody retires as chairman of Moody's. Donald McCruden succeeds Holschuh as president.

1958
John Moody dies in La Jolla, California, age 89 (February).

1960
S&P buys Fitch Publishing Co., including the use of its AAA–D rating symbols.

Moody's revenues pass the $5 million mark (S&P's subscription revenues had passed that level in 1950).

1961
Donald McCruden dies and Alan Wallace is named president of Moody's.

1962
Moody's is acquired by Dun & Bradstreet Corporation (March); Alan Wallace continues as president. Moody's London subsidiary becomes Moodies Investments Ltd, a separate D&B company. The unit is later renamed Moodies Services Ltd.

Standard & Poor's becomes a public company traded on the New York Stock Exchange.

Holland B. Idleman succeeds Wallace as president of Moody's.

1964
S&P is acquired by McGraw-Hill, Inc.

1967
John C. Weiner, Jr. succeeds Idleman as president of Moody's (June).

Moody's enters the investment advisory and mutual fund businesses, launching Moody's Fund and Moody's Capital Fund.

D&B subsidiary Moodies Services closes its doors in London.

Following downgrades of New York City bond ratings, Congress begins holding hearings on rating agency methods and their impact. No legislation resulted from the hearings, which would last through 1968.

1968
S&P announces it will charge a fee for municipal bond ratings.

Moody's refines its municipal bond rating scale, adding 1s to some Aa and Baa ratings to identify better credits in those categories.

1969
D&B decides that Moody's should exit both its investment advisory and mutual fund businesses. Donaldson, Lufkin & Jenrette buys Moody's investment counseling services, which later become Alliance Capital. Moody's mutual funds will be sold to units of Smith Barney.

John Weiner resigns as president of Moody's. Holland Idleman returns briefly as chairman. Both men disagree with the decision to exit the investment management business. In December, D&B vice president George E. Keefe assumes general management of Moody's.

S&P begins to rate commercial paper.

1970
Moody's begins charging fees to issuers of municipal bond ratings (May) and for corporate bond ratings (October). S&P will begin charging for corporate bond ratings in 1974.

Penn Central Company and its affiliates default on $2.6 billion of bonds and $82 million of commercial paper, the latter rated "prime" by S&P and by D&B's National Credit Office (NCO). Congressional hearings reveal NCO's incompetence.

Moody's assigns the first ratings on Eurobonds issued by U.S. companies.

Moody's OTC Industrial Manual launched.

1971
George E. Keefe becomes president of Moody's.

D&B merges is commercial paper rating unit, National Credit Office, into Moody's. Moody's will begin rating commercial paper issuers using a new Prime/Not Prime system beginning in 1972.

S&P begins rating insurance company claims paying ability.

1974
Moody's becomes the first major agency to rate bonds issued by bank holding companies; S&P follows in 1975.

Richard D. Simmons is named president of Moody's; Keefe becomes chairman.

The Twentieth Century Fund Task Force on Municipal Bond Credit Ratings publishes its findings in *The Rating Game.* The report concludes that "the rating agencies are doing a creditable job" and that "public ownership or full regulation seems an extreme solution to an ill-defined problem."

1975
Moody's, then S&P issue the first ratings on Eurobonds issued by non-U.S. companies.

S&P rates the first "private-label" mortgage-backed securities issued.

The U.S. Securities and Exchange Commission begins using ratings in the regulation of bond underwriters and mutual funds, and introduces the Nationally Recognized Statistical Rating Organization (NRSRO) distinction. Moody's, S&P, and Fitch are first to be so recognized, followed by Duff & Pehlps (1982), McCarthy, Crisanti & Maffie (1983), IBCA (1990), and Thomson BankWatch (1991).

1975–1976
As New York City's financial crisis deepens, rating actions affecting the state, the city, and the Municipal Assistance Corporation precipitate public criticism of the rating agencies. Congressional hearings beginning in June 1976 again result in no legislation.

1976
John D. Lockton succeeds Simmons as president of Moody's. Later in the year, John A. Brenner succeeds Lockton as president of Moody's.

1977
Thomas J. McGuire joins Moody's as head of the agency's Commercial Paper Department (December) and begins campaign to shift Moody's business from its focus on publishing to a market-oriented credit ratings and research service.

1978
Moody's initiates value-based pricing for commercial paper rating fees.

1980
Moody's Commercial Paper Record Service launched (November).

Duff & Phelps, Inc. announces that it will offer publicly available ratings on fixed-income securities (December).

1981
William O. Dwyer is named president, as Moody's rating groups are restructured. Thomas J. McGuire becomes director of Moody's Corporate Department (combining the former Corporate Bond and Commercial Paper Departments). Freda S. Ackerman continues as director of Moody's Municipal Department.
Moody's begins to issue press releases on rating actions and special reports.

1982
Washington Public Power Supply System (WPPSS) defaults on $2.2 billion of bonds issued to fund Plant Nos. 4 and 5; they are rated Baa1 by Moody's at the time (January).

Moody's downgrades debt ratings of U.S. money center bank holding companies to Aa from Aaa (March).

Moody's refines its long-term debt rating system using numerical modifiers, increasing the number of rating categories to 19 from five (April). The agency begins to issue rating review announcements.

1983
Moody's takes a stand on credit implications of the Bell System divestiture, assigning new ratings on all public debt of American Telephone & Telegraph and its 24 operating subsidiaries, some $47 billion worth.

S&P opens an office in London to serve the Euromarkets.

1984
Moody's Corporate Credit Reports service is launched, after three years of market research and development. A new version of

Moody's Municipal Credit Report service is introduced shortly thereafter.

Moody's Structured Finance Group is established and Moody's publishes its first methodology report outlining its approach to rating mortgage-backed securities.

The Tax Reform Act of 1984 enables U.S. companies to issue bonds directly into the Euromarkets. Following S&P, Moody's begins to assign unsolicited ratings to Eurobonds of companies based in the U.S.

1985
Moody's Sovereign Risk Unit is established, moving the agency's sovereign rating analysis from the Municipals Department to the Corporate Department.

Moody's establishes a wholly-owned subsidiary in Japan, Moody's Investors Service K.K. (April)

Duff & Phelps becomes the first agency to assign public ratings to bank certificate of deposit.

1986
Moody's Bank Credit Report Service is launched, including ratings on certificates of deposit and other deposit obligations of banks (January).

Moody's reopens a wholly-owned subsidiary in London, Moody's Investors Service Ltd. (June)

Moody's Speculative Grade Credit Report Service is launched, further extending unsolicited ratings in the high-yield bond market.

Moody's annual revenue exceeds $100 million.

EuroRatings Ltd is formed in London by Fitch Investors Service to meet the market's need for a European rating agency. (EuroRatings will fail in 1989.)

1987
Moody's Structured Finance monthly is launched, followed by *Moody's Global Structured Finance* publication a year later.

Moody's France SA opens in Paris.

1988
Moody's Investors Service Pty Ltd opens in Sydney, Australia.

S&P moves its international rating operations to London.

1989
John A. Bohn, Jr. succeeds Dwyer as president of Moody's.

Moody's publishes the first in its annual series of bond default studies covering the corporate debt markets globally.

Moody's announces that it will assign ratings to all Eurobonds of non-U.S. as well as U.S. companies.

Fitch Investors Service is acquired and recapitalized by H. Russell Fraser and Robert D. Van Kampen.

1990
Moody's Speculative Grade Group is established to provide efficient monitoring of speculative-grade credits, as new issuance of high-yield bonds drops sharply.

Moody's ratings and research are made available on Bloomberg. Soon thereafter, the agency begins to disseminate press releases electronically to the media and research service subscribers.

1991
The "Rating Working Party" consortium announces an initiative to form a German rating agency with aspirations to pan-European coverage: *Projectgesellshaft Rating GmbH.* (May)

Moody's opens a subsidiary in Frankfurt, Moody's Deutschland GmbH. (May)

London-based IBCA and Euronotation, a French rating agency, merge to form IBCA-Notation Group (October).

1992
Moody's Investors Service Espana, SA opens in Madrid.

1994
Plans to make *Projectgesellshaft Rating* a pan-European rating agency collapse.

Moody's opens subsidiaries in Toronto (Moody's Canada, Inc.) and Hong Kong (Moody's Asia Pacific, Ltd.).

Moody's acquires Docutronics Information Services, a document research and retrieval service (January).

Moody's acquires Financial Proformas, Inc., a commercial-lending software and credit training company (October).

Orange County, California, declares bankruptcy, defaulting on some $1.3 billion of municipal debt rated Aa1 by Moody's (December).

1995
An editorial in the *New York Times* by Thomas L. Friedman, "Don't' Mess With Moody's," typifies increasing worldwide perception of rating agency "power" in the global capital markets (February). The editorial is one of many articles precipitated by Moody's announcement that it will review Canada's sovereign debt rating for possible downgrade.

Moody's Bank Financial Strength Ratings are introduced, and the agency steps up its program to rate interbank markets globally and to extend sovereign rating coverage to emerging markets. To support the initiative, Moody's Interbank Credit Service Ltd. is established in Limassol, Cyprus.

Moody's Bank Loan Rating Unit is formed and begins assigning ratings using Moody's Aaa-C debt rating scale.

Moody's Asia Pacific, Ltd. opens an office in Singapore.

Moody's hires McKinsey & Co. to study ways to improve organizational efficiency within the firm.

1996
Dun & Bradstreet announces that it will split into three separate companies—A.C. Nielson, Cognizant, and the new D&B (Moody's parent).

Moody's receives notice from the U.S. Department of Justice that it has begun to investigate potentially anti-competitive practices in the rating agency business. (March)

John A. Bohn, Jr. resigns (March). William O. Dwyer comes out of retirement to serve again as Moody's president (April).

A civil anti-trust action against Moody's filed in October 1995 by Jefferson County School District, Colorado, is dismissed from a Colorado court. The presiding judge cites Moody's First Amendment protection as a rating agency (May).

Moody's announces its fist internal reorganization in a quarter-century, as its Public Finance and Corporate Finance rating groups are consolidated into a new Credit Ratings & Analysis (CR&A) group. Daniel Heimowitz, head of Public Finance, and Thomas J. McGuire, head of Corporate Finance, resign in advance of the announcement. Kenneth J.H. Pinkes and Donald E. Noe are named to head the CR&A group. (May)

1997
Moody's opens an office in Sao Paulo, Brazil.

Fitch Investors Service is acquired by Fimalac S.A., a French holding company, then merges operations with Fimalac subsidiary IBCA Ltd. to create Fitch IBCA.

1998
John Rutherfurd, Jr. succeeds William O. Dwyer as president of Moody's (January). Dwyer becomes chairman, a position he will hold until his second retirement in March.

Moody's merges its Financial Proforma unit with its default risk research operations to form a new subsidiary, Moody's Risk Management Services.

Moody's sells its Financial Information Services division, including Moody's Manuals, to Mergent, Inc. The unit will later be sold to China's Xinhua Finance.

The Department of Justice ends its anti-trust investigation with no action against Moody's, but pursues a criminal investigation of obstruction of justice.

Moody's begins actively to establish affiliations with rating agencies in the emerging markets—including a joint venture with Korea Investors Service (KIS) and ICRA Ltd., one of India's two largest credit rating agencies.

1999

Moody's opens an office in Milan, Italy.

Moody's acquires partnership interests in two Latin American rating concerns: Clasificadora de Riesgo Humphreys Ltda (Chile) and Humphreys-Argentina. The agency also enters into a cooperative relationship with Dagong Global Credit Rating Company, China's leading credit agency.

D&B's disclosure that it will not meet third-quarter earnings expectations sends its stock price sliding; and a group including leading shareholder Harris Associates LP urges management to solicit bids for the company.

In December, D&B announces plans to spin off Moody's into a separate public company.

2000

Moody's separates from D&B and forms Moody's Corporation (initial public offering on the New York Stock Exchange September 28-ticker symbol MCO). John Rutherfurd is named president and CEO of Moody's Corporation, and continues as president of its two subsidiaries: Moody's Investors Service and Moody's Risk Management Services. Warren Buffett becomes Moody's leading shareholder.

Fitch IBCA acquires Duff & Phelps Credit Rating Co. to form Fitch (March). Parent company Fimalac S.A. then buys Thomson BankWatch and merges it with Fitch (October). The resulting agency is renamed Fitch Ratings.

GENERAL KEY TO THE RATINGS OF SECURITIES.

Explanation. As already explained in the previous pages, the ratings given the different securities are based jointly on the *security* and the *salability* of the different issues. The security is arrived at through the method of analysis followed uniformly throughout the book, and is based on the average earning results shown for ten-year periods. Each bond issue is entitled to a certain claim on net income, dependent on the position of the bond as a mortgage, on the character of property on which the bond is secured, and on its general position in relation to other security obligations. For example, if a bond issue has a prior claim ahead of all other bond issues or other security issues, on a given piece of mileage, it is necessarily in a better position than the others. At the same time, if it is simply a first mortgage on a section of line which is apparently not of special value to the system, and does not make a profitable showing, then the fact of its being a first mortgage may not affect its rating materially.

On most of the large systems it will be found that many of the issues have practically a joint or equal claim on income. That is to say, while their technical position may give them priority, yet in the actual results they do not stand a much better chance than some other issues of a more junior character. The figures shown in the bond records in relation to the average income available are, of course, simply the approximate averages of the past decade, reduced to a one-year basis, and are not the actual figures shown in any one year. The idea is, as already explained, to show the position of the issue in the results of the decade, thereby enabling one to arrive at a very conservative judgment of the strength and value of the given security. The quotation records are, in most cases, those shown by the Stock Exchange reports for the year 1908, and, while not entirely complete, give a fair idea of the salability and activity in the markets of the different security issues.

The scheme of rating for the securities is based on the following plan:—

Aaa.—The bonds and stocks which are given this rating are regarded as of the highest class, both as regards security and general convertibility. Practically all such issues are dependent for their prices on the current rates for money, rather than the fluctuations in earning power. In other words, their position is such that their value is not affected, or likely to be affected (except in the cases of stocks not limited as to dividends), by any normal changes in the earning capacity of the railroad itself, either for better or worse.

Aa.—This rating is given to those issues which, while high-grade, are, in a broad sense, slightly inferior to those having the first rating. Sometimes this inferiority may be in security and sometimes in salability. There is, however, but slight difference between these two classes of securities.

A.—Bond and stock issues having this rating are affected, to a partial degree, by changing earning power, although they are generally of high grade. No security has been given this rating which is not regarded, as shown by the results of the decade, as being entirely secure, with a permanent and substantial future. In fact, the three ratings, Aaa, Aa, and A, can all be regarded as good, and the differences between them are not very great. In a general sense, they are in the class of securities which are affected more by general conditions and changing money rates, than by fluctuations in earning capacity.

Baa.—Bonds having this rating are generally good, but have a speculative tinge and often are affected to a degree by declines or increases in the earning capacity of the properties. In other words, they are to be regarded, from the investor's standpoint, as good, but second-grade issues.

Ba.—This rating is given to those issues which make a moderately favorable showing and are regarded as well secured, but are more affected by changing earning power. They stand in danger of declining in value with a falling-off in earnings, but, on the other hand, with great improvement in earnings, are apt materially to advance in strength.

B.—Issues having this rating are more susceptible to fluctuations, and are to be regarded as more speculative in position than those just mentioned.

Caa.—Issues which are almost directly responsive to changes in earning power, and have not during the decade had the benefit of available income equal to more than double the interest requirements, are to be regarded in this speculative class.

Ca.—These issues are less strong in position than those mentioned above, and approach more closely to the field of speculative issues with but moderate security.

C.—Issues given this rating are those which usually show but a slight margin in surplus above the amount required for their interest, and which are not well secured, or perhaps have not any readily available markets.

D.—All issues below C are of doubtful character and of almost purely speculative value. There are few such rated in this book, except in the case of stocks, and the differences between them are more those of degree than of character. It is not the purpose of the book to analyze to any pronounced extent the differences between purely speculative securities and, therefore, no attempt has been made to follow the ratings lower than this figure. The vital point has been so to classify and rate the high-grade issues and the good stocks as to give the investor or user of the book an approximate idea of the general position, in a relative sense, of the different investment and semi-investment issues.

E.—This rating has been given to a few defaulted issues, most of which are awaiting the results of reorganization.

As will be seen, the bond tables are all presented with the different Analyses, while the stock issues are, for the sake of convenience, grouped together on pages 195 to 206. The same principle is followed, however, in rating the stock issues as in rating the bonds.

It must not be forgotten that arbitrary judgment is used to a large degree in making all these ratings. The percentages showing the factors of safety, etc., serve as a general guide, but the rating given is, in many cases, affected by other considerations not shown in figures, such as character of management and of traffic, general position of the railroad system, policy of the company in maintenance and other expenses, and in other ways. The ratings are, therefore, to be looked upon as *indicators* of values, rather than as definite and specific opinions.

NEW ORLEANS & NORTHEASTERN RAILROAD.

(A. N. O. T. & P. JUNCTION RYS. SYSTEM.)

Organized in 1868, constructed in 1882 and 1883. Controlled by Alabama, New Orleans, Texas & Pacific Junction Rys. Ltd. of England, which owns 89 per cent of the stock.

Location: Forms portion of "Queen and Crescent Route." Line extends across Mississippi from New Orleans to Meridian, connecting at latter point with Alabama & Vicksburg, Alabama Great Southern, Mobile & Ohio, etc. Population of Mississippi in 1890, 1,289,600; in 1900, 1,551,665; in 1908 (partly est.), 1,750,000. Nature of tonnage in 1908: Agricultural products, 11 per cent; animal products, 35 per cent; forest products, 2 per cent; products of mines, 22 per cent; miscellaneous, 30 per cent.

Management: Officers: D. D. Curran, Pres. and Gen. Mgr.; L. A. Jones, Vice-Pres. and Compt.; H. W. Wenham, Secy. and Treas. Directors: D. D. Curran, Henry Abraham, H. H. Hall, L. A. Jones, B. F. Eshleman, A. Slidell, R. M. Walmsley, J. S. Rainey, Pearl Wight. Office, New Orleans, La.

Definitions: *Average miles operated* indicates average length of lines on which figures apply, and does not include leased and controlled lines except where directly operated. *Extra main track* includes second, third, and fourth tracks, but not switches or sidings. *Equipment owned* includes all owned in fee as well as that embraced in equipment trusts. *Passenger density* indicates number of passengers carried one mile per mile of road, showing increase or decrease in *volume* of passenger business. *Freight density* shows in same way increase or decrease in volume of freight traffic. *Average freight train-load* indicates tonnage of revenue freight carried on each train, showing efficiency of operating methods, etc. *Train-mile earnings* indicate amount earned per mile (average) by each train operated for both passengers and freight, showing the changes in earning power from year to year. *Average rates* per passenger and per ton per mile show the rates received per person or per ton for all traffic.

Note: The following analysis is based entirely on official documents of the Company, including its annual reports of the past ten years.

TABLE A.—Physical Factors (Mileage, Equipment and Operation).

Years Ended June 30	Average Miles Operated.	Extra Main Track.	Locomotives Owned.	Passenger Cars Owned.	Freight and Company Cars.	Fgt. to all Traffic.	Passenger Density.	Freight Density.	Average Freight Tr'n Lo'd (Tons).	Train Mile Earnings.	Average Rate per Passenger per Mile. (Cents)	Average Rate per Ton per Mile. (Cents)
1899	196		41	28	1,683	79%	61,525	702,548	248	$1.26	1.89c	.88c
1900	196		42	30	1,722	78	66,918	824,065	271	1.40	2.15	.91
1901	196		42	32	1,745	76	82,678	900,955	254	1.85	2.12	.83
1902	196		45	36	1,975	75	96,459	819,381	266	1.98	2.12	.94
1903	196		45	39	2,055	73	116,825	906,515	291	2.13	2.08	.94
1904	196		51	38	2,294	73	177,533	894,808	294	2.18	2.12	1.00
1905	196		53	47	2,421	71	126,120	995,134	294	2.16	2.10	.93
1906	196		57	54	2,279	70	134,056	1,169,922	309	2.31	2.06	.92
1907	196		60	54	2,842	70	140,707	1,223,712	303	2.32	2.44	.94
1908	196		66	54	2,629	73	119,992	1,259,189	319	2.10	2.50	.84
10-Year Av.	196	....	50	41	2,165	74%	112,281	969,623	285	$1.97	2.16c.	.91c.

Yard tracks and sidings in 1908, 91 miles.

Comparison on 10-Year Average with Four Properties in Similar Territory.

Ala. Gt. So.	310	....	61	43	4,274	65%	96,688	870,793	328	$1.94	2.39c.	70c.
Ala. & Vicks.	143	...	23	21	920	62	85,556	471,622	237	2.13	2.64	1.11
Mobile & O.	880	....	195	116	7,708	75	48,032	1,045,952	266*	1.61*	2.19	.61
Vicks. S. & P.	171	....	25	24	900	60	77,433	319,080	228	2.05	2.67	1.29

*8-Year Average.

Comment: A high average volume of passenger business, with a steady trend upward, characterizes the New Orleans & Northeastern property. The average for this item is well above that of the other compared properties, being more than double the average reported by the Mobile & Ohio. In freight density the upward tendency has also been pronounced, recent totals reaching high figures. The average is but slightly below the heavy freight figures of the Mobile & Ohio. Train-load and train-mile earnings have moved steadily upward, the former item showing a substantial increase for 1908. Freight and passenger rates have both been firmer in recent years.

TABLE B.—Income Factors (Earnings and their Distribution, Per Mile of Road).

Years Ended June 30.	Gross Earnings.	Maintenance. Way.	Maintenance. Equipment.	Total Maintenance.	Cond. Transportation, Gen. Exp. etc.	Net Earnings.	Total Net Income.	Fixed Charges.	Margin of Safety.	Surplus over Charges.	Disposal of Surplus. For Dividends.	Disposal of Surplus. For Imp. Etc.	Balance Carried Forward
1899	$7,890	$1,503	$1,887	$3,390	$2,251	$2,242	$2,253	$2,231	1%	$22	.....	.....	$22
1900	9,475	1,644	2,451	4,095	2,511	2,806	2,725	2,148	21	577	.....	.....	577
1901	9,851	1,666	2,642	4,208	2,853	2,675	2,708	2,181	19	527	.....	.....	527
1902	10,364	1,742	1,770	3,512	3,845	3,002	3,018	2,034	33	984	.....	.....	984
1903	11,664	2,349	1,871	4,220	3,974	3,469	3,526	1,882	47	1,644	.....	.....	1,644
1904	12,332	2,259	2,060	4,319	4,524	3,489	3,569	1,924	46	1,645	$916	.....	729
1905	13,080	2,364	2,168	4,532	4,881	3,667	3,738	1,968	48	1,770	916	$78	776
1906	15,316	2,609	2,641	5,250	5,785	4,281	4,390	1,989	55	2,401	1,071	20	1,310
1907	16,593	2,172	2,841	5,013	5,993	5,590	5,613	2,609	56	3,004	1,530	737	737
1908	14,619	1,884	2,803	4,687	6,130	3,802	4,449	2,738	40	1,711	1,837	409	535*
10-Year Average	$12,118	$2,019	$2,273	$4,292	$4,275	$3,508	$3,599	$2,170	40%	$1,429	$627	$124	$678

* Deficit.

(Interest on incomes included in charges.)

Comparison on 10-Year Average with Four Properties of Similar Income Characteristics.

Ala. Gt. So.	$9,435	$1,446	$1,905	$3,351	$3,712	$2,412	$2,532	$1,365	46%	$1,667	$636	.....	$531
Ala. & Vicks.	8,176	1,810	1,372	3,182	2,834	2,160	2,338	1,109	53	1,229	452	$377	400
Mobile & O.	8,553	1,184	1,045	2,229	3,615	2,709	2,896	2,136	26	760	143	449	168
Vicks. S. & P.	6,878	1,531	1,212	2,743	2,267	1,927	2,070	1,263*	44*	1,044*	629*	120*	287*

*7-Year Average.

Definitions: *Gross earnings* include all operating income; *conducting transportation, etc.*, includes traffic, general expenses, etc.; *total net income* includes receipts from investments, and other sources distinct from operation; *fixed charges* include all interest, rentals, taxes, etc.; *margin of safety* signifies *percentage* of total net income remaining after payment of all fixed charges.

Comment: Like the other properties embraced in the Queen & Crescent system, the New Orleans & Northeastern has made great progress in volume of business and gross receipts within the past ten years. The gross operating revenue has doubled and the average shown is very heavy for properties in this section of the country, being even much higher than the unusually good figures shown by the Alabama Great Southern. In maintaining its property the company has kept good pace with the growing traffic and the trend has been steadily upward in these items for the entire decade. The average of $4,292 per mile compares with much lighter figures for all of the other properties in the comparison. Other costs of operation have grown in even greater ratio in recent years than have the maintenance costs and, therefore, the percentage of increase in net operating income is not quite so high as in the gross. But it nevertheless has shown a pronounced expansion and the total net income per mile has continuously been well above the amount required for fixed charges. The fixed charges, it will be noted, showed little tendency to change until the past two years, and therefore, the margin of safety which at the beginning was nominal has since reached very high figures. The average of 40 per cent does not quite reflect the present good condition of the property, as the narrow margin of the first year or two has kept it down. But for the past five years the margin has at no time been less than 46 per cent, and in one year reached the high figure of 56 per cent. This record compares very favorably with that of all the other properties in the section, and has, of course, resulted in putting the securities of the road on a high investment plane.

In the earlier years no dividend disbursements were made, but in 1904 payments were begun on the preferred stock at the rate of 3 per cent, and this rate has since been increased to 6 per cent. Ample margin has been shown for these dividend payments, except in the year 1908, but it should be explained that the dividend payment which is made in the fall is charged against the earnings of the previous years. The 1908 dividend, therefore, is properly a charge against 1907 earnings, and in the latter year the surplus was ample for the 6 per cent payment.

Conditions since close of fiscal year: The trend of gross income has been slightly upward in recent months, although the entire period shows results about 10 per cent lower than those of the same months in 1907. No changes have occurred in dividend policy or in fixed charges of any kind. The high average of maintenance shown in recent years enables the company to withstand the set-backs of the panic period with comparative ease, and it will doubtless have no difficulty in holding its high margin during the current year.

TABLE C.—Capitalization Factors (Analysis and Standing of Property).

Capitalization Per Mile of Road. Dividend Record.

Years Ended June 30.	Stock Outstanding and per cent of Whole.		Bonds Outstanding and per cent of Whole.		Rentals Cap. at 5 per cent.	Total Gross Capital.	Owned by Co. as per Balance Sheet.	Net Capitalization.	Net Income on Net Capital.	Preferred Dividend. Amt. per mile.	Preferred Dividend. Rate.	Common Dividend. Amt. per mile.	Common Dividend. Rate.	Margin of Safety Preferred.	Margin of Safety Common.
1899	$25,510	44%	$32,341	56%	.....	$57,851	.....	$57,851	3.9%	.....	.....	.....	.....	.....	.....
1900	25,510	44	32,341	56	.....	57,851	.....	57,851	4.7	.....	.....	.....	.....	.....	.....
1901	25,510	44	32,341	56	.....	57,851	.....	57,851	4.7	.....	.....	.....	.....	.....	.....
1902	30,612	44	39,898	56	.....	70,510	.....	70,510	4.3	.....	.....	.....	.....	.....	.....
1903	30,612	42	41,734	58	.....	72,346	.....	72,346	4.9	.....	.....	.....	.....	.....	.....
1904	30,612	42	41,734	58	.....	72,346	.....	72,346	5	$916	3%	.....	.....	44%	.....
1905	30,612	42	42,867	58	.....	73,479	.....	73,479	5.1	916	3	.....	.....	48	.....
1906	30,612	42	42,867	58	.....	73,479	.....	73,479	6	1,071	3½	.....	.....	55	.....
1907	30,612	42	42,867	58	.....	73,479	.....	73,479	6.3	1,530	5	.....	.....	49	.....
1908	30,612	42	42,867	58	.....	73,479	.....	73,479	6	1,837	6	.....	.....	.....	Def.
10-Year Av.	$29,081	43%	$39,186	57%	.....	$68,267	....	$68,267	5.2%	$627	2%	.....	....	63%	...

Each year's dividend paid from prior year's surplus.

Comparison on 10-Year Average with Four Properties in Similar Territory.

Ala. Gt. So.	$36,162	65%	$19,828	35%	$903	$56,893	$4,828	$52,065	4.9%	$636	6%	.....	.....	55%	.....
Ala. & V.	7,098	32	14,774	68	.....	21,872	.....	21,872	10.7	.....	.....	$452	6.5%	.....	63%
Mobile & O.	6,530	17	30,644	83	7,892	45,066	3,461	41,605	7	.....	.....	143	2.2	.....	80
Vicks. & S.P.	25,310	52	23,230	48	.....	48,540	.....	48,540	4.3	448	3.6	181	1.1	.....	.....

Definitions: *Capitalization per mile* is based exclusively on the *miles directly operated; Rentals* are all capitalized at 5 per cent, and then reduced to the mileage basis of the leasing company; *Net Income on Net Capital* is the percentage of total income to the net capitalization as here shown.

Analysis: As compared with the other properties the nominal capitalization of the New Orleans & Northeastern is high, and an upward tendency has been shown in the bond obligations since 1899. The net capital per mile, which was $57,851 at the beginning of the decade had risen to $73,479 in 1908, with an average for the period of $68,267. This average compares with figures only one-third as large for the Alabama & Vicksburg and about 45 per cent less for the Mobile & Ohio. The earning power of the property, however, has kept pace with the growth in capitalization and even in the later years, with the large increase in bonded debt the percentage of net income on net capital has shown an upward trend. The high figure was reached in 1907 when the return was 6.3. The average of 5.2 is very good as it compares with 10.7 per cent on the Alabama & Vicksburg's capitalization of less than one-third. The margin of safety, it will be noted, for the payment of the preferred dividend has been ample until the last year, and the general record of the earnings indicates a stability which has had much to do with the high favor in which the securities have in recent years been held.

Capital and other changes since close of fiscal year: No new issues have been announced since June 30, 1908, nor other vital changes affecting the status of the property, as shown by the foregoing record.

TABLE D.—Bond Record and Ratings (Based on 10-Year Results, Per Mile of Road).

Explanation: *Interest Payable, Maturity, Lien on Miles,* and *Interest Required per mile of System,* are self-explanatory. *Average Income Available* is the average amount indicated by the record per mile from which payment may be made for interest on the issue, *after all prior charges are deducted.* Prior liens usually have (after taxes) the first and *exclusive* claim to the surplus; junior liens must often share their claim with other issues (see explanatory chapters). The prior or joint claim is indicated in the record below. *Factor of Safety* here indicates the percentage of surplus remaining after payment of interest on the issue, and of other issues having an equal claim on the surplus. The *Net Rating* is based on the average showing for *security* made, and the *saleability* as recorded in the Markets. For *General Key* to all ratings see page 193. The *Price Range* covers the calendar years. *For Stock Ratings and Range of all Stock Prices, see pages* 195–206.

Name of Issue.	Interest Payable.	Maturity.	Lien on Miles.	Average Income Available.	Interest R'q'r'd per Mile of System.	Factor of Safety.	Basis for Rating. Security.	Basis for Rating. Sal'bility.	Net Rating.	1908 Prc. Range. Low. High.	1908 Prc. Range. Last.
1. New Orleans & N.-E. prior-lien 6s	A&O	N 1915	(1st) 196	$3,599	404	89%	Very high.	High.	Aaa.	....	103b
2. New Orleans & N.-E. first 6s	J&J	Ja 1911	(2d) 196	3,195	30	99	" "	"	Aaa.	....	.....
3. New Orleans & N.-E. gen. 4½s.	J&J	Ja 1952	(3d) 196	3,065	1,261	60	High.	"	Aa.	....	.....
4. New Orleans & N.-E. inc. 4½s.	Dec.1	Jl 1952	(4th) 196	1,804	344	75	"	"	Aa.	....	.....

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George E. Keefe	1971–1973 (General management of Moody's 1969–1970)
Richard D. Simmons	1973–1975
John D. Lockton	1976
John A. Brenner	1976–1981
William O. Dwyer	1981–1989 and 1996–1998
John A. Bohn, Jr.	1989–1996
John Rutherfurd, Jr.	1998–2001
Raymond McDaniel	2001–2007
Brian Clarkson	2007–