Thank you, Peter [Appert].

Before we get started today, I need to provide certain cautionary remarks about forward-looking statements. Except for historical information, matters discussed in this conference may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including projections, estimates, and descriptions of future events. Any such statements are based on current expectations and current economic conditions and are subject to risks and uncertainties that may cause actual results to differ materially from results anticipated in these forward-looking statements. In this regard we direct listeners to the cautionary statements contained in our Form 10-K’s, 10-Q’s, and other periodic reports filed with the U.S. Securities and Exchange Commission.

Before starting the question-and-answer period, I would like to make some brief comments on the outlook for The McGraw-Hill Companies.

First, I want to underscore our continuing commitment to building total shareholder value and the actions we are taking to deliver on that commitment.

Second, I want to emphasize that the long-term trends in our core markets are very favorable and a source of more growth as we leverage content, global brands, and technology to take advantage of emerging opportunities.

- The trends in global financial markets favor more growth in the years ahead. Standard & Poor’s will continue to benefit from these trends.
- We are strengthening our education business to take advantage of new growth opportunities.
- The increasing importance of timely and insightful information is creating new opportunities for our third segment, Information & Media.

There are some key measures that underscore our achievements and our priorities. In recent years, as this chart shows, the growth of our free cash flow has been robust and there has been steady improvement in our return on invested capital. We calculate free cash flow conservatively by deducting from cash provided by operating activities, the following items:

- Dividends;
- Capital expenditures for pre-publication investments, purchase of property and equipment, and additions to technology projects;
- We also make some other adjustments, principally for foreign exchange.
We continue to increase the amount of cash returned to our shareholders while making the necessary investments to grow our business. Since 1996, we have returned more than $5.5 billion to shareholders through dividend payments and share buybacks. We have increased the dividend every year since 1974 at a compound annual growth rate of 10.3%.

In the first half of the year, we bought back 26.1 million shares and fully expect to meet our target of 28.4 million shares for 2006. That figure represents approximately 8% of the outstanding shares.

The balance sheet is strong and we expect to return to a net surplus cash position by the end of this year.

Clearly, the marketplace has noticed our record. The McGraw-Hill Companies’ total return has significantly outperformed the S&P 500 for the last ten years, the last five years, the last three years, and again last year.

For 2006, we are still on course to deliver on the guidance provided at the end of July: Earnings per share this year of $2.44 to $2.49 excluding the incremental impact of all stock-based compensation. That excludes $0.13 for incremental stock-based compensation in 2006 and $0.04 for the one-time charge for the elimination of the restoration stock option program. We also expect to return to double-digit earnings growth in 2007.

In assessing the current outlook, Financial Services continues to show strength and may actually do a little better than we originally anticipated. We are seeing, substantial strength in the global issuance of Commercial Mortgage-Backed Securities and Collateralized Debt Obligations. Corporates in both the U.S. and Europe look good, too. We also are seeing the expected slowdown in the rate of growth in U.S. residential mortgage-backed securities issuance.

Education is softening. We face tough comparisons after a strong performance last year and that will be evident in the third quarter. Revenue was up 18.9% for our School Education Group in the third quarter last year, reflecting outstanding results in Texas and the timing of orders. Texas got a late start last year for some products. The order flow from Texas did not begin until the second half of August and carried well into the fourth quarter. As you may recall, our School Education Group led the Texas adoption overall with excellent results in health, music, and other non-core subjects.

The adoption calendar is not as favorable this year. In fact, the available dollars in the market will be down about 30% from last year. Texas isn’t buying this year and we have had some lackluster results in K–5 science in Florida, K–5 social studies in California, and with some older and more limited products in the North Carolina reading and literature adoption.

But we are seeing solid results with our middle and high school programs in the key adoption states this year. We expect to capture the leading position in the secondary market for California social studies. We expect solid results in the secondary science market in Florida, which offers higher dollar volume than the K–5 market. Treasures, our new reading program, is producing good results and may be the leader in the open territory. Several of our newer intervention programs are selling well in open territory and adoption states.

Information and Media is on course. Some positive results are being masked by the impact this year of stock-based compensation and amortization for the acquisition of J.D. Power and Associates. We’ve seen a pick up of about 9.0% in BusinessWeek’s advertising pages in the third quarter. After 37 issues through
the edition of September 25, BusinessWeek’s ad pages for the global edition are off 1.5% versus last year. Of course, the elimination of BusinessWeek’s European and Asian editions at the start of this year impacts revenue even as the decision benefits the bottom line.

Earlier, I indicated that we like the long-term outlook for The McGraw-Hill Companies. Let me share with you some reasons why we are optimistic about our prospects for 2007 and beyond.

There are growing opportunities in international markets. At the end of 2005, 22% of total revenue came from offshore with international revenue growth outpacing domestic results. We expect that trend to continue.

Our Financial Services segment is the biggest driver of international revenue. For Standard & Poor’s, international financial markets are strong, growing, and represent still more potential. In 1994, 21% of S&P ratings revenue came from off-shore. By the end of 2005, that figure was 37% of a much larger business. We expect overseas businesses to contribute an even greater percentage in the years ahead.

The growth of S&P’s international business underscores another key point – the diversification and resiliency we have developed in recent years. The goal was to reduce S&P’s dependence on any asset class or market.

- Building a global network was a critical strategic step in realizing this goal. Today, S&P operates in more than 20 countries around the world.
- We rate virtually every asset class. Each of these has different attributes and behaves differently in different economic environments.
- We developed a fee structure that reduces our dependency on transactions through the growth of frequent issuer and surveillance programs. In 1994, revenue from transactions represented about 60% of ratings. Over the last several years, it has declined to a range of 45% to 50% of ratings revenue.
- We price for value, so more complex instruments produce a better return. With the worldwide surge in securitization, we have definitely seen a rise in complexity.
- We have also improved our ability to rate a growing array of instruments and provide new tools and models to our customers. In 1994, what we call non-traditional rating products and services accounted for 8% of ratings revenue. At the end of 2005, that figure was 22%.

But S&P is more than ratings. We continue to expand S&P’s data and information businesses and indexes for tradeable and investable products and services for institutional, retail, and individual customers. That’s all part of our long-standing goal of diversifying S&P’s revenue stream.

No discussion of credit ratings is complete without a comment on the regulatory outlook. As you undoubtedly know, the House has passed a bill regulating the credit rating agencies and the Senate is about to follow with a version of its own. The Senate bill takes a more constructive approach to increasing competition and transparency in the credit ratings industry than the House bill. The Senate bill also more effectively addresses the issues relating to independence of the credit ratings process and the quality of ratings. Once legislation emerges, we look forward to working with the SEC on various rule-making items that are called for in the legislation.

Education today is also a global business. Nations must have a skilled workforce to compete successfully in a knowledge economy. Currently, there are approximately 100 million students around the world enrolled in 20,000 colleges and universities. Worldwide enrollments could more than double by 2025, creating new opportunities for our higher education and professional operations.
Here at home, we are looking at a very promising K–12 state new adoption market that will increase in size for three straight years. We are looking at a $750-$800 million calendar in 2007. It ramps up to $850-$900 million in 2008. And in 2009, it will be in the $950 million to $1 billion range.

To help position us for the years ahead, we recently created the McGraw-Hill School Solutions Group by integrating our two basal publishing businesses – Macmillan/McGraw-Hill, which served grades Pre-K through 6 and Glencoe/McGraw-Hill, which served grades 6 through 12.

We think this new combination facilitates the leveraging of talent, greater collaboration and coordination, more efficiency, and more effective outsourcing and off-shoring.

The integration will also enable us to improve our top-line opportunities by responding more effectively to a growing market demand for greater continuity in the pedagogical design of instructional materials across all grade levels. Simply put, educators want solutions that will help improve the level of student achievement.

They want it for a very good reason. With the implementation of the No Child Left Behind Act, schools are being measured on whether or not their students make adequate yearly progress. The No Child Left Behind Act is up for renewal in 2007, but we don’t expect the emphasis on measurement and accountability will diminish until the education system markedly improves student proficiency.

Finally, I should also point out that the convergence of content and technology is creating new opportunities to enhance the learning experience for students and improve productivity for instructors. That includes self-paced learning, online courses, and course management tools for instructors. New electronic tools are also enabling us to improve our workflow and productivity.

I will close with a few observations about our third segment, Information & Media. This is a segment in transition. It is undergoing more of a transformation than any of our businesses, moving from a print-based legacy to electronic platforms delivering higher value-added information.

A poor advertising market has contributed to the underperformance in recent years. But with greater emphasis on digital asset management and Web-based delivery, we see a promising future. Collecting our information digitally improves our leverage and there are new opportunities for premium services in the digital world.

We will continue to move this segment from the traditional publishing model serving readers and advertisers to one that provides news and information in text, audio, video and digital formats; data and analytics; and workflow tools and services, so the communities we serve in business, energy, aerospace and defense, and construction can more effectively interact and transact business. We are also pleased with the growth of J.D. Power and Associates products and services. We believe better days are ahead for this segment.

Thank you.


This website includes certain forward-looking statements about the Company's businesses, new products, sales, expenses, cash flows and operating and capital requirements. Such forward-looking statements include, but are not limited to: the strength and sustainability of the U.S. and global economy; Educational Publishing's level of success in
2006 adoptions and enrollment and demographic trends; the level of educational funding; the level of education technology investments; the strength of Higher Education, Professional and International publishing markets and the impact of technology on them; the level of interest rates and the strength of the economic recovery, profit levels and the capital markets in the U.S. and abroad; the level of success of new product development and global expansion and strength of domestic and international markets; the demand and market for debt ratings, including mortgage and asset-backed securities; the regulatory environment affecting Standard & Poor’s; the level of merger and acquisition activity in the U.S. and abroad; the strength of the domestic and international advertising markets; the volatility of the energy marketplace; the contract value of public works, manufacturing and single-family unit construction; the level of political advertising; and the level of future cash flow, debt levels, product-related manufacturing expenses, pension expense, distribution expenses, postal rates, amortization and depreciation expense, income tax rates, capital, technology and other expenditures and prepublication cost investment.

Actual results may differ materially from those in any forward-looking statements because any such statements involve risks and uncertainties and are subject to change based upon various important factors, including, but not limited to, worldwide economic, financial, political and regulatory conditions; currency and foreign exchange volatility; the health of capital and equity markets, including future interest rate changes; the implementation of an expanded regulatory scheme affecting Standard & Poor’s ratings and services; the level of funding in the education market (both domestically and internationally); the pace of recovery in advertising; continued investment by the construction, computer and aviation industries; the successful marketing of new products, and the effect of competitive products and pricing.