Thank you. And good morning and thank you everyone for joining us for The McGraw-Hill Companies’ third quarter 2006 earnings conference call. I’m Donald Rubin, Senior Vice President, Investor Relations for The McGraw-Hill Companies.

With me today are Harold McGraw III, Chairman, President and CEO, and Robert Bahash, Executive Vice President and Chief Financial Officer of the Corporation.

This morning we issued a news release with our third quarter 2006 results. We trust you have all had a chance to review the release. If you need a copy of the release and financial schedules, they can be downloaded from www.mcgraw-hill.com/investor_relations.

Before we begin this morning, I need to provide certain cautionary remarks about forward-looking statements. Except for historical information, the matters discussed in the teleconference 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-Ks, 10-Qs, and other periodic reports filed with the U.S. Securities and Exchange Commission.

We’re aware that we do have some media representatives with us on the call. However this call is for investors and we would ask that questions from the media be directed to Steve Weiss in our New York office at (212) 512-2247 subsequent to this call.

Today’s update will last approximately an hour. After the presentations, we will open the meeting to questions and answers.

It is now my pleasure to introduce the Chairman, President and CEO of The McGraw-Hill Companies, Harold McGraw III.

Terry.
Good morning and thank you for joining us today for a review of The McGraw-Hill Companies’ third quarter results.

As Don mentioned, joining me on today’s conference call is Bob Bahash, Executive Vice President and Chief Financial Officer of The McGraw-Hill Companies.

We will start today’s call by reviewing the performance of our businesses and the outlook for the rest of the year. Then Bob Bahash will review our financial performance and also talk about expectations for the rest of 2006. After the presentations, we will answer your questions about The McGraw-Hill Companies.

Earlier this morning, we announced third quarter results. Diluted earnings per share increased 6% to $1.06, including $0.03 for incremental stock-based compensation and $0.03 for restructuring business operations. I will chat about that in a moment and Bob Bahash will also address that. Net income for the third quarter was $382.3 million. Revenue was $2.0 billion in the quarter.

As a result of this performance, we are again increasing our guidance for the year. Our previous guidance called for earnings per share of $2.44 to $2.49, excluding the incremental impact of all stock-based compensation. That excluded 13 cents for stock-based compensation and 4 cents for the one-time charge for the elimination of the restoration stock option program.

Our new guidance for 2006 calls for earnings per share of $2.53 to $2.55, excluding the incremental impact of all stock-based compensation and restructuring charges. The incremental impact of stock-based compensation has been revised to 11 cents, down from the estimate of 13 cents earlier this year.

For 2007, we fully expect to achieve double-digit earnings growth.

With that, let’s take a closer look at how we achieved our third quarter results and the steps we are taking to prepare for 2007.

**McGraw-Hill Education**

Let’s begin with McGraw-Hill Education.

In this year’s softer market, we worked very hard to protect the bottom line. Two major swing factors—more limited opportunities in 2006 after last year’s robust growth and stringent cost controls—are reflected in the segment’s third quarter results. Revenue decreased by 6.3%. Operating profit declined by 7%. That includes $3.4 million for incremental stock-based compensation. But our operating margin at 33.1% was virtually unchanged from last year’s 33.3%. That achievement reflects our determination to manage costs in a weaker state new adoption market this year.

For the education segment in the third quarter, costs declined by 6% compared to last year. And that’s after a pre-tax restructuring charge of $5.6 million, primarily for the integration of our elementary and secondary basal publishing businesses, and $3.4 million for the incremental stock-based compensation expenses I just mentioned a moment ago.
We took a number of steps to manage costs in the third quarter. In anticipation of the restructuring of our basal publishing business, we sharply curtailed hiring. We also cut marketing and sampling costs in anticipation of this year’s softer state new adoption market. And we also worked very hard to achieve a higher level of operational efficiency. The benefits of the new Global Transformation Platform should be greater in periods of peak activity—and they were in 2006.

As we have pointed out, the year-to-year market shift is pronounced in the McGraw-Hill School Education Group. In 2005, the McGraw-Hill School Education Group increased third quarter revenue by 18.9% in a very strong market. One of the keys to last year’s success was an outstanding performance in Texas, which accounted for $46 million in third quarter new adoption revenue. There is no adoption this year in Texas and that clearly was an important factor in the 12% decline in third quarter revenue this year at the McGraw-Hill School Education Group.

There were other factors, as well. This is an off year in the state new adoption cycle. In 2006, it is off by 30%, or approximately $250 million, which obviously limits the potential. We also fell short of expectations with our elementary products in the Florida science and California social studies adoptions. We took only 4% of the elementary market in Florida and 15% in California.

But that’s not the whole story. Our secondary science programs took 39% of the Florida market and they were very successful in Alabama, New Mexico, Oklahoma, and West Virginia. In California, we captured 32% of the middle school and 43% of the high school market for social studies.

We successfully introduced Treasures, a new elementary reading program in the open territory. Spotlight on Music, an elementary program, was the market leader in Indiana and Oregon. Our alternative basal, Everyday Mathematics, also demonstrated year-over-year growth with particular strength in the open territory.

Still, this is going to be a soft year in the school education business. Through eight months, industry sales were down 6/10ths of 1% according to the Association of American Publishers. We think the industry at best will match last year’s sales, but could be off by as much as 4%. Texas will be an important factor in year-over-year comparisons because that state placed substantial orders in the third and fourth quarters last year. And, as I said, there is no Texas adoption in 2006.

Of course, comparisons do get easier next year with about a 15% increase in the state new adoption market in 2007. We took another step to gear up for those new opportunities in August by integrating our elementary and secondary basal publishing businesses. That new combination improves our efficiency, leverages our talent, and will enhance new product development. Those procedures are all underway and doing well.

There is a growing market demand for greater continuity in terms of curriculum design of instructional materials across all grade levels. We will be in a better position to respond to this demand because there will be a more comprehensive approach and greater continuity in our product development efforts at our newly-integrated publishing centers.

We are creating a very good pipeline of new products in anticipation of the new opportunities. I’ve already mentioned the success this year in the open territory of our new elementary reading program, Treasures. That’s a very good record to build on as we prepare for major new adoptions in reading. We are also encouraged by the reception of Real Math. This is our new skills-oriented math program. It has already won a number of small- and medium-sized adoptions.
Also, two new literature products, *Reading with Purpose* for the middle school and *The Reader’s Choice* for high school, were completed in the spring for submission to adoption states for purchase in 2007. These programs have already captured some business in the open territory and we’re excited about their prospects going into next year.

*Jamestown Reading Navigator*, a new online intervention program for secondary students, was not fully released until May of this year, but is already capturing new business because many students are still entering middle and high school without achieving reading proficiency. And of course, *Jamestown Reading Navigator* can adjust to any level of student proficiency.

Intervention products like this represent an important new category. The market for them has broadened as educators seek to meet the yearly progress goals created by the *No Child Left Behind Act*. The fact is that many children, especially from urban districts, start school without the vocabulary or, for that matter, the number skills needed to deal with standard primary-grade instruction. Efforts to address these needs, often known as Response to Intervention, or RTI programs, have developed around the country. Our school group is offering a growing array of solutions to help educators deal with these kinds of issues.

A new K–8 math program, *Mathematics Connects*, is well along. We will have national as well as state-specific editions ready for next year. For next year, we know that Georgia will be having a very large K–12 math adoption, as will Texas in 6–12 math.

Most adoption lists for next year will not be official until they receive state board of education approval, which usually comes next month. However, many state evaluation committees have already announced their recommendations. So while we don’t have final word, we believe that products which are key to next year’s sales will be approved without difficulty.

In short, we have the new organizational structure in place and an extensive list of new and revised products to address the emerging trends in the K–12 market.

In educational testing, we continue to see pressure on operating margins even as we invest in technology to improve efficiency. In the third quarter, we saw a decrease in our off-the-shelf sales of norm-referenced tests and reduced custom contract work. Partially offsetting this softness were our innovative personalized study guides, which have been adopted in Texas and Arizona. This coming by way of the acquisition of the Grow Network.

Our Higher Education, Professional and International Group grew by 2.2% in the third quarter and is up by 3% after nine months. In the U.S. college and university market, revenue in the third quarter was up for only one major imprint, Science, Engineering and Math. But this is also our largest list for the year. We expect only modest growth from Business and Economics because this is an off-cycle revision year for that imprint. The Humanities, Social Science and Languages imprint was off modestly for the third quarter.

It now appears likely that the U.S. college and university market will grow by about 3% this year instead of the 5% originally anticipated. We still expect to outperform the market. A key factor will be our fall release of new products.
We’re also encouraged by the growth of our digital products for professional markets. India’s largest technical university association will make our online Digital Engineering Library available to 88 engineering schools. In Australia, a consortium of university libraries added AccessMedicine for 17 universities. These Web-based subscription products clearly are growing global opportunities.

Summing up for McGraw-Hill Education:
- Stringent cost controls protected the bottom line in a soft education market, and we’re very pleased about the progress that we made there.
- Our secondary school products captured significant share in key adoption states this year.
- We’ve strengthened the el-hi organization by restructuring our basal business. That is, for the most part, complete.
- Comparisons will be challenging again in the fourth quarter. Last year, the School Education Group had the benefit of $44 million of Texas revenue and grew by 23.6%.
- Margins in the testing business remain under pressure as we move more into the formative side from the summative side where the new growth opportunities exist.
- The U.S. college and university market now looks like it will grow at about 3% this year, and we still expect to outperform.

Financial Services

Now, let’s review Financial Services.

Solid performances across our diversified portfolio of fixed income and equity products and services produced another record quarter in Financial Services. Revenue increased 11.4%. But excluding $33.0 million from Corporate Value Consulting, which was sold at the end of September 2005, revenue was up 17.9% on a non-GAAP basis. Operating profit grew by 17.3%. That includes $8.0 million for incremental stock-based compensation. The operating margin for the third quarter expanded to 43.8%, up from 41.6% for the comparable quarter last year. Our operating margin after nine months is 44.1%, up from 41.9% last year.

The expansion this year stems from:
- A higher drop-through from increased revenue in ratings,
- Improvement in our data and information products and services where acquisitions like Capital IQ have performed so well and are ahead of schedule,
- Expansion of our index products and services,
- Cost controls and the timing of expenditures.

Creating a diversified and resilient portfolio that is not dependent on any one asset class or market has been our strategic goal for many, many years. We will continue to work on that objective, but the progress we have already made is apparent in our results in the face of declining dollar volume issuance in the U.S. Residential Mortgage-Backed Securities and public finance markets and only a modest increase in U.S. Asset-Backed Securities.

There were many global growth drivers in the third quarter:
- Structured finance and corporates were strong,
- Rating products and services that are not tied to new issuance continue to grow and, as a percentage of revenues, continue to go up,
- Data and information products and services is doing quite well, and
- Index services and products, also.
International credit ratings and services accounted for 39% of ratings revenue in the third quarter, up from 36.7% last year. And as we have stated many times, our non-U.S. revenues are growing at a faster rate than our U.S. growth, and we’re very encouraged by that.

Structured finance was the global pacesetter. We saw strong investor demand for cash flow and synthetic Collateralized Debt Obligations. Dollar volume issuance was up 118.7% in the U.S. and 122.9% in Europe—tremendous growth.

In the U.S., growth in the cash flow sector of CDOs was driven by high-yield Collateralized Loan Obligations and Collateralized Debt Obligations of asset-backed securities transactions. Hybrid transactions, a combination of cash flow and synthetics, are driving synthetic issuance.

In Europe, there is strong investor appetite for cash Collateralized Debt Obligations, particularly the leveraged loan Collateralized Debt Obligation products. It’s worth noting that an increasing number of deals in Europe are coming from U.S.-based managers who are targeting a European loan market. They believe the European loan market offers more attractive spreads than the United States.

We also saw strength in the U.S. Commercial Mortgage-Backed Securities market. Issuance has been strong due to the historically-low interest rate environment which is driving commercial originations and refinancing of maturing deals. There is a demand for these instruments especially among life insurance companies and foreign investors. We started noting this about a year-and-a-half ago with the increases on the commercial side, and it has been quite strong and it has done quite well.

As we pointed out earlier, the U.S. Residential Mortgage-Backed Securities Market is starting to slow down—these are the year-over-year comparisons now. Dollar volume issuance declined 11.2% in the third quarter and is up 6.6% through nine months of this year. The number of deals that came to market in the third quarter was up 1.7% from the same period last year. For nine months, the number of deals is up 18.8%. Activity in the U.S. is being driven primarily by the Alt-A sector and the refinancing of adjustable rate mortgages. We continue to benefit from the increased number and mix of deals issued in the non-agency market.

In Europe, Residential Mortgage-Backed Securities dominate the securitization market. In the third quarter, Residential Mortgage-Backed Securities dollar issuance grew by 190.5% versus the same period last year—very, very strong. A buoyant European housing market is a key to the continued strong deal flow there.

In the Asset-Backed Securities market, it’s the same areas that we have been seeing strength for the last several years. Autos, credit card receivables, and student loans remain the primary drivers. As auto manufacturers have reorganized their businesses in recent months, they have curtailed securitization. That will continue to be a factor in this market. In Europe, the Asset-Backed Securities market is far less mature than in the U.S. and new issuers are still entering the market.

The corporate market was strong in the United States and it was very strong overseas. International markets were up solidly in the third quarter. This is coming from booming M&A activity and strong financing activity.

In the U.S., insurance companies and pension funds have been snapping up new issues as five- and 10-year bonds in their portfolios are maturing. Foreign investors are also active here. Many are from nations flush with cash from oil markets. They are looking for a safe place to put their funds.
The speculative-grade market has been very weak. But a combination of historically-low interest rates, an active merger and acquisition market, and multi-million dollar buyouts has stimulated leveraged financing in the bank loan market.

Leveraged loans are replacing high-yield bonds and taking a bigger piece of the capital structure. The growth of the bank loan market is one important reason ratings and services not tied to the new issue market continue to expand. In the third quarter, it represented 23.4% of ratings revenue, up from 21.6% last year. This is a trend we expect will continue. We will continue to push very aggressively to offer products and services in this non-traditional area.

The growth of global financial markets is also stimulating new demand for our data and information products in both fixed income and equity markets. We are attracting new customers and selling more capabilities to existing customers. This is basically a subscription business, so growth here adds to the stability of our revenue stream.

We’re continuing to add information and functionality to the Web-based platform developed by Capital IQ. In the past few months, we have added real-time data, credit research and global corporate issuer ratings from S&P, and macroeconomic time series. We are very pleased with our progress. The revenue growth is well ahead of where we were expecting to be.

We are also continuing to build our index products and services. Assets under management in exchange-traded funds based on S&P indexes grew to $147.1 billion at the end of September. That’s a 23.5% increase compared to the same period last year. Twenty-five new exchange-traded funds have been launched in the U.S. market so far this year with four different sponsors and there are more coming.

We forecasted double-digit top- and bottom-line growth for Financial Services operations for the year and for the second half. That excludes revenue from the divestiture of Corporate Value Consulting and the impact of incremental stock-based compensation. We are on course to achieving those results.

In looking at the fourth quarter:
- The structured finance pipeline still looks very healthy.
- We expect strength in the Collateralized Debt Obligation market, a very large market and getting better, and the Commercial Mortgage-Backed Securities market, which we have seen for the last couple of years gaining strength.
- U.S. Residential Mortgage-Backed Securities issuance in the fourth quarter is expected to decline—that’s the year-over-year comparison. The absolute volume is still quite high.
- Corporates still look very solid, both here and outside of the United States.
- The leveraged loan market will continue to be strong and international issuance looks very good.

Let me also comment for a moment on the current regulatory outlook for the credit rating agencies. We’ve said all along that we expected no material adverse reaction on our business. And that is certainly the case now that President Bush has signed into law the Credit Rating Agency Reform Act. The next step is for the U.S. Securities and Exchange Commission to engage in rule making and implement the legislation. S&P will continue to work with the SEC. We have very good relationships there.
We believe the version that was finally signed into law on September 29 was much more constructive than the original measure passed by the House of Representatives. We see four major improvements:

1. The SEC has not been injected into the analytical process, criteria, or methodology that credit agencies use to arrive at their opinions.
2. The new legislation does not diminish rights, including First Amendment protection, S&P already possesses under the applicable laws.
3. New firms registering to become an NRSRO, a Nationally Recognized Statistical Ratings Organization, must provide evidence that capital market participants regard them as issuers of quality credit opinions.
4. And finally, the law pre-empts regulation by individual states. So it is a very clean and clear posture.

So, let’s sum up for Financial Services:
- Another double-digit growth year is taking shape,
- Solid growth overseas and we’re going to continue to see that in the years ahead,
- Strong performances in the structured and corporate markets,
- Excellent growth in data and information businesses,
- Continued strength in indexes, and
- Expansion of the operating margin.

Information & Media

Now, let’s move to the Information & Media segment.

Growth in higher value-added information products and services and a pick up in Business-to-Business advertising were evident in third quarter results for this segment. Revenue was up 8%. Operating profit improved 10.3% and that includes $2.7 million for incremental stock-based compensation.

The segment incurred a pre-tax restructuring charge in the third quarter of $5.7 million for employee severance costs for the elimination of 100 positions across the segment. Nevertheless, we managed a modest increase in the operating margin for the quarter, increasing it to 5.5%.

Revenue for the Business-to-Business Group was up 9.9%. J.D. Power and Associates was a major factor here, producing top-line growth in both domestic and international products. About 25% of their revenue is outside the United States, and two-thirds of that is in the all-important Asia-Pacific region. Both the automotive and financial services products were strong performers.

We’re continuing to grow in the energy market. For many years, Platts products have successfully served the physical energy markets. In recent years, we have been adding customers who are focused on the financial aspects of the energy market. Like the energy producers and traders, they want real-time information on volatile markets and they want Platts’ price assessments.

Today, four major energy exchanges—The New York Mercantile Exchange, The Intercontinental Exchange, the Tokyo Commodities Exchange, and the Singapore Exchange—use Platts’ price assessments to clear trades. Platts’ prices are used to settle $15 billion in global petroleum transactions every day.

The ad picture was mixed in the third quarter. We saw a pick up in Business-to-Business advertising, which helped offset a decline in national and local-time sales at Broadcasting. Revenue at Broadcasting was off 5.9% to $26.0 million in the third quarter.
The McGraw-Hill Companies

The loss of Monday Night Football in all our markets and Oprah in San Diego and Denver is affecting fourth-quarter pacing. As of October 13, fourth-quarter pacing is up just about 1%. But we expect some improvement as political advertising is booked. The political advertising number for this year looks to be somewhere around $12 million. Typically, political advertising is placed late, so stay tuned.

Ad pages at BusinessWeek were up 7.6% in the third quarter, as measured by the Publishers Information Bureau. After nine months, BusinessWeek’s ad pages were essentially flat, they were off 1.7%.

BusinessWeek.com continues to build traffic and contributed 13.1% of BusinessWeek’s total advertising revenue in the third quarter. We’re very pleased with that. AdWeek’s hot list of Websites listed BusinessWeek.com as one of the Top 10 performers in 2006. BusinessWeek also recently launched a mobile edition. The URL is BusinessWeek.mobi.

Summing up for Information & Media:
- Growth in higher value-added information products,
- J.D. Power and Associates continues to perform exceptionally well,
- Platts is showing very strong performance, and
- A pick-up in Business-to-Business advertising.

Let’s sum up for the Company overall. As I pointed out earlier, we increased guidance for 2006. Our new range is $2.53 to $2.55. I want to spend a moment pointing out what is excluded and included in the new guidance. That guidance excludes the incremental impact of all stock-based compensation and a $0.06 restructuring charge of which we’ll have $0.03 in the third quarter and $0.03 in the fourth quarter. Those are the components that are excluded. The incremental impact of all stock-based compensation is:
- The revised $0.11 estimate for the incremental stock-based compensation in 2006, which is $0.02 less than the original $0.13.
- There is also $0.04 for the one-time charge for the elimination of the restoration grant.

Several important factors are influencing our expectations of earnings per share of 53 to 55 cents in the fourth quarter.
- First and foremost, we still expect double-digit top and bottom-line growth from Financial Services in the fourth quarter.
- But there also will be the one-time $0.04 impact for transforming Sweets from a print catalog business to a subscription-based business. That shift involves a change in revenue recognition, but the impact is somewhat larger than the $0.02 to $0.03 we originally estimated.
- We also face challenging comparisons again in McGraw-Hill Education. Fourth quarter revenue last year for the McGraw-Hill School Education Group grew by 23.6% because of $44 million in late orders from Texas. We had recognized the costs associated with that Texas order earlier in 2005 so the drop-through was significant in the fourth quarter.
- We also expect the pressure on operating margins in our education testing business to continue as the whole nature of the business shifts from the high-stakes to the low-stakes, or the summative to the formative.
- And we will be making some investments in Education that will have an impact on expenses as we prepare for a much bigger year in 2007.

In short, we are taking some important actions to position us for more rapid growth starting in 2007. And we are pleased with the performance in the third quarter, and therefore, the ability to raise earnings guidance for the full year.
So let me leave it with that, and we can go in any direction you’d like. Let me go to Bob Bahash now, our CFO. He has some further information for us on the financial side.

Robert J. Bahash  
Executive Vice President and Chief Financial Officer  
The McGraw-Hill Companies

Thank you Terry.

I will begin this morning with a discussion of cash flow, which was stronger than expected in the third quarter.

At the end of the second quarter, we projected a return to a net surplus cash position by the end of this year. But, with cash flows stronger than expected, we are ahead of schedule and actually reached a net surplus cash position in the third quarter.

Our net cash position at the end of the third quarter is $74.3 million, consisting of debt of $235.4 million which is primarily commercial paper borrowings in the U.S., offset by $309.7 million in foreign cash holdings. Given our strong cash flow, we will probably pay down all commercial paper borrowings by the end of the year.

Net interest expense was $7.5 million in the third quarter compared to $2.8 million for the same period last year. The increase resulted from more commercial paper borrowings at higher interest rates to fund the stepped up share repurchases compared with the prior year. Strong cash flow has enabled the Company to reduce commercial paper borrowings during the quarter. We now expect the full-year interest expense to range from $17-19 million.

Now for share repurchases. We did not purchase any shares during the third quarter. During the first half of this year we acquired 26.1 million shares at a cost of $1.4 billion.

We expect to buy back 2.3 million shares during the fourth quarter to achieve our previously announced 28.4 million share target for this year. When we complete this purchase, 20 million shares will remain from the 45 million share repurchase program approved by the Board in January 2006. This program represents, in total, 12.1% of the Corporation’s outstanding 372.7 million shares as of the end of 2005. Share repurchases will benefit earnings per share this year by approximately $0.03 and is reflected in the earnings guidance that Terry discussed earlier.

With the buyback and dividend programs, we have returned increasing amounts of cash back to our shareholders. In 2004 we returned over $630 million. In 2005 we ramped that up to over $920 million. And so far in 2006 we have returned nearly $1.6 billion. Together these represent a return of more than $3.1 billion to our shareholders.

The diluted weighted average shares outstanding for the third quarter of 2006 was 360.9 million shares, a 20.2 million share decrease compared to third quarter of 2005 and a 4.6 million share decrease compared to the second quarter of this year.
In the earnings release this morning, we reviewed the impact of restructuring a number of business operations in the third and fourth quarters. In the third quarter, the restructuring charge was $15.4 million or about $0.03 per share, primarily for employee severance in McGraw-Hill Education, Information & Media, and at corporate. All told, we eliminated about 600 positions:

- 400 at McGraw-Hill Education,
- 100 at Information & Media, and
- 100 in our corporate business support areas.

We will complete the restructuring this year in the fourth quarter. We anticipate an additional $0.03 restructuring charge in the fourth quarter for actions we contemplate but have not yet taken. The $16.0 million pre-tax restructuring charge in the fourth quarter relates primarily to vacating some facilities and eliminating another 100 positions in McGraw-Hill Education, Information & Media, and at corporate.

The fourth quarter action will bring our total restructuring charge for the year to $31.4 million, or $0.06 per share, primarily from the elimination of approximately 700 positions.

Earlier this year, we reported we were transforming Sweets, the McGraw-Hill Construction Group’s popular building products database, from a print catalog to a fully-integrated Internet-based sales and marketing solution. This move has led to changes in our revenue recognition for the Sweets product sales.

We estimated last year that the impact of the Sweets transformation would be $15 million, or approximately $0.02 to $0.03 per share. We now expect the impact to be in the range of $24 million, or approximately $0.04. We are increasing our estimate because almost all Sweets customers have contracted to purchase a bundled product, consisting of both the print and online editions. This swift migration from standalone print to bundled contracts was not anticipated in our earlier estimate. Accounting standards require us to recognize revenue for subscription products over the contract period, rather than solely in the fourth quarter, which was how we recognized Sweets revenue in the past when only the standalone print product was delivered to customers in December. We will cycle through this change in 2007.

There is another change I want to bring to your attention. When the Company began expensing stock options at the beginning of this year, we had expected an incremental charge of $0.13 per share as a result of this accounting change. However, as a result of lower than expected incremental stock-based compensation activity, the Company now expects the full-year incremental charge to be $0.11 per share.

In the third quarter, the Company incurred incremental stock-based compensation expense of $14.6 million, or $0.03 per share, which brings us to a year-to-date incremental expense of $54.1 million, or $0.09 per share.

Now let us take a look at corporate expenses. In the third quarter, corporate expenses increased $11.9 million, including $4.1 million of restructuring charges. The balance of the remaining increase is due primarily to increased compensation-related expenses.

In 2006, we expect dilution of approximately $0.04 from the acquisitions made in 2004 and 2005. They will be approximately cash neutral. In 2007, we expect these acquisitions will be cash positive. The Company did not make any material acquisitions or dispositions in the first nine months of 2006.
The effective tax rate in the third quarter was 37.2% and we continue to project this rate for the balance of the year.

Let’s take a look now at capital expenditures, which include pre-publication investments and purchases of property and equipment.

In the third quarter our pre-publication investments were $64.3 million compared to $66.6 million for the same period last year. For 2006, our current estimate for pre-publication investments is approximately $300 million. This level of investment is driven mainly for products we are currently developing to realize significant opportunities in the el-hi market in 2007, 2008, and 2009. However, through continued efficiencies, technology and global sourcing, we anticipate a reduction in spending from our earlier projection of $315 million.

Purchases of property and equipment were $24.6 million in the third quarter compared to $28.9 million for the same period last year. We are decreasing our projection of capital expenditures for 2006 from $200 million to $150 million. We’re making this change because of the delay in the timing of expenditures associated with the construction of our new data center and other expenditures related to the implementation of digital technology initiatives until 2007.

Now for some non-cash items:

- In the third quarter, amortization of pre-publication costs was $103.3 million compared to $99.3 million in the same period last year. We now expect $240 million for full-year 2006, down slightly from our previous estimate of $250 million.
- Depreciation was $26.9 million in the third quarter compared to $26.3 million in the same period last year. We continue to expect it to be $130 million in 2006, reflecting the higher level of capital expenditures in 2006 and a full year of depreciation from capital expenditures made in 2005.
- Amortization of intangibles was $12.1 million in the third quarter compared to $12.4 million in the same period last year—virtually flat. For 2006 we expect $50 million, up from $44.2 million in 2005. The increase is driven by the 2005 acquisitions.

Thank you, and now back to Terry.

“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995

This presentation 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, restructuring charges 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.