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Thank you and good morning to our global audience and thank everyone for joining us this morning at The McGraw-Hill Companies’ fourth quarter 2010 earnings call. I am Donald Rubin, Senior Vice President of Investor Relations at The McGraw-Hill Companies.

With me today are Harold McGraw III, Chairman, President and CEO, and Jack Callahan, Executive Vice President and Chief Financial Officer.

This morning, the company issued a news release with fourth quarter 2010 results. We trust you have all had a chance to review the release. If you need a copy of the release and the financial schedules, they can be downloaded at www.mcgraw-hill.com.

In today’s earnings release and during the conference call, we are providing adjusted earnings per share, operating profit and corporate expense information. This information is provided to enable investors to make meaningful comparisons of the Company’s operating performance between periods and to view the Company’s business from the same perspective as management’s. The earnings release contains exhibits that reconcile the differences between the non-GAAP measures and comparable financial measures calculated in accordance with U.S. GAAP.

Before we begin, I also 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 Mr. Jason Feuchtwanger in our New York office at (212) 512-3151 subsequent to this call. Today’s update will last approximately an hour. After our presentation, 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, Terry McGraw.
Good morning and welcome to our conference call. With me today is Jack Callahan, our new chief financial officer. He joined the company in early December and we are very pleased to have him on board.

This morning, we will be reviewing fourth quarter 2010 earnings and prospects for The McGraw-Hill Companies in 2011. Following my presentation, Jack will review our financials. After our presentations, we will be pleased to answer any questions you may have about The McGraw-Hill Companies.

Earlier this morning, we announced fourth quarter 2010 results and provided guidance on another year of earnings growth in 2011.

2010 was a very good year. Briefly recapping our 2010 results, we reported fourth quarter diluted earnings per share of $0.50 and $2.65 for the year. On an adjusted basis, fourth quarter earnings grew by 7.8% to $0.55 compared to $0.51 last year and by 13.5% to $2.69 for the full year. There was dilution from acquisitions of $0.01 in the fourth quarter and $0.02 for the full year. Excluding the impact of acquisitions and divestitures, revenue in 2010 increased by 5.3% to $6.2 billion.

To speed the flow of information and increase transparency for the investment community, we added several new exhibits to the fourth quarter earnings release, including consolidated balance sheet and cash flow statements. To reflect the previously announced realignment of Financial Services, we also provided quarterly 2009 and 2010 recasted revenue and operating profit for our new segments, McGraw-Hill Financial and Standard & Poor’s.

Starting with our 2010 Form 10-K, we will begin reporting our results in four segments — Standard & Poor’s on the credit ratings side, McGraw-Hill Financial, McGraw-Hill Education, and McGraw-Hill Information & Media. This chart illustrates the re-casted revenue and operating profit contributions of each of the four segments in 2010.

**McGraw-Hill Financial**
By forming McGraw-Hill Financial as a fourth segment, we have created a billion-dollar plus business that, recasted, produced 19% of our 2010 revenue and 20% of the adjusted segment operating profit.

The establishment of McGraw-Hill Financial under the leadership of Lou Eccleston is the realization of a strategic concept we began testing in 2008 with the creation of FIRMS, the Fixed Income and Risk Management group, within S&P Investment Services.

We wanted to leverage our intellectual property and create new opportunities for growth by deploying a horizontal management structure across vertical businesses to integrate core capabilities. By creating the new segment, we have brought together a powerful portfolio of assets that were previously managed vertically, but strong and successful business lines. Now, by acting with a coordinated, collaborative, and integrated model, these assets are the foundation of a business that can be greater than the sum of the parts.
We will drive organic growth through the development of new, integrated solutions from our proprietary assets and build new, innovative and differentiated solutions for clients to manage investments and trading strategies. With a new ability to deliver a broad and deep suite of products for investors across asset classes, McGraw-Hill Financial is positioned to capitalize on growth trends in global markets for financial information, data, and analytics.

Capabilities are key to the new segment. With core capabilities, McGraw-Hill Financial will leverage content, data sets, analytics, and technology in a coordinated framework for launching new products and services. To help realize the strategic concept, Lou Eccleston reorganized the products and services from S&P Investment Services into four new units and integrated the Fixed Income and Risk Management operation into the new organization.

The units representing new integrated product capabilities are Enterprise Solutions, Benchmarks, Research & Analytics, and Integrated Desktop Solutions. In this chart, you can see how products and services are now aligned in the McGraw-Hill Financial segment.

- **Enterprise Solutions** is all about leveraging data, comprehensive access, and efficient delivery of critical content. Through Enterprise Solutions, clients will be able to access efficiently all of McGraw-Hill Financial and Standard & Poor’s data and a broad range of third-party content.
- S&P indices are the key to **Benchmarks**. Our liquid, investable indices give investors the benchmarks to measure markets objectively and transparently for a growing range of asset classes.
- **Research & Analytics** leverages proprietary data sets, cross asset-class analytics, commentary, research, and technology to develop market analysis and investment insight for institutional and private wealth management clients.
- Integrated workflow tools will enable **Integrated Desktop Solutions** to create packages of comprehensive, fundamental and quantitative research and analysis for investment managers, banks, private equity funds, credit professionals, advisory firms, corporations and universities worldwide.

In this new configuration, McGraw-Hill Financial is a $1.2 billion business at the end of 2010 with an operating margin of 26.5%. That compares to revenue of $918 million in 2010 for Standard & Poor’s Investment Services. The biggest swing factor is the inclusion in the new segment of the securities information business from S&P Credit Market Services — S&P Ratings Direct and S&P RatingsXpress.

McGraw-Hill Financial is predominantly a subscription business. Revenue from subscriptions produced about 74% of 2010 revenue. About 70% of revenue came from domestic sources in 2010, with international revenue growing at a double-digit rate last year as S&P Indices and Capital IQ continued to expand successfully in foreign markets.

As recast, McGraw-Hill Financial turned in its best performance of 2010 in the fourth quarter. Including $12.7 million in revenue from the acquisition of The Markets.com, revenue in the fourth quarter increased by 12.4% to $321.8 million compared to 2009.

Growth in the number of exchange-traded funds combined with a recovery in global equity markets produced a 21.6% increase in the fourth quarter in assets under management linked to S&P indices. There was $300.3 billion under management at the end of 2010. In 2010, the number of exchange-traded
funds based on S&P indices increased by 95 to 301. It is a record to build on and you can expect more new index products in 2011.

Capital IQ experienced significant client growth, finishing 2010 with more than 3,400 customers, an increase of 15.8% for the year. The integration of TheMarkets.com continues smoothly. It will be a strong addition to our integrated desktop platform this year.

Let’s sum up for McGraw-Hill Financial:
- With momentum building at the end of 2010 and promising market conditions in 2011, we believe McGraw-Hill Financial should get off to a good start this year.
- Our expectations: Strong organic growth and the acquisition of TheMarkets.com will produce low double-digit revenue and operating profit growth in 2011.

Standard & Poor’s

Now, let’s review the performance of Standard & Poor’s, our ratings business, in the new four-segment alignment.

Standard & Poor’s had a solid year and a strong finish in 2010. Recasted revenue grew by 13.4% in the fourth quarter and operating profit increased by 14.3%. Revenue for 2010 increased by 10.3% to $1.7 billion and adjusted operating profit grew by 6.5% to $755.1 million. The adjusted operating margin was 44.5%, down 160 basis points from 2009.

S&P is seeing the strongest activity in key markets since 2007 as worldwide corporate high-yield new dollar volume and U.S. public finance issuance set new records in 2010. The previous annual and quarterly records for worldwide high-yield dollar volume issuance were set in 2007, but 2010 easily topped them. Issuance of $381.4 billion in 2010 compares to $243.5 billion in 2007. In the fourth quarter of 2010, there was $120.5 billion of worldwide high-yield issuance compared to the previous quarterly record of $106.0 billion in the second quarter of 2007.

The need for refinancing, tightening spreads, and investors’ appetite for yield spurred activity in the speculative-grade market. As this table shows, S&P’s high-yield composite spread – excess interest rates over treasury bonds – has been tightening since July and closed the year at 540 basis points. The investment-grade composite spread also gradually tightened since July and ended 2010 at 178 basis points.

U.S. high-yield issuance in 2010 was driven by refinancing as companies took advantage of low rates to replace existing bonds with cheaper debt. According to a report from S&P Leveraged Commentary and Data, refinancing accounted for 64% of U.S. high-yield volume.

Bank loan ratings, primarily to extend maturities, also soared in the fourth quarter

With the popular Build America bond program expiring at the end of 2010, U.S. public finance dollar volume posted all-time record dollar volume issuance for a fourth quarter. It also was a record year for U.S. public finance issuance. The $486.7 billion of dollar volume issuance in 2010 topped the previous record set in 2007 by $18.3 billion.
The structured finance market is still struggling in both the U.S. and Europe.

All things considered, we like our prospects in 2011. We expect to benefit from the same trends that contributed to Standard & Poor’s success in 2010. The year is off to a very good start and corporate issuance, including high-yield bonds, looks strong again.

There are several reasons why we think 2011 will be another good year for ratings. It starts with refinancing:

- Refinancing requirements are substantial and will contribute to a healthy new issuance pipeline. Between 2011 and 2014, S&P estimates there are $5.6 trillion in bond and loan maturities coming due for the U.S. and European markets. Although some of the 2011 maturities have already been refinanced, S&P estimates maturities in the range of $1.2 trillion to $1.5 trillion per year between 2011 and 2014.
- Access to capital markets remains strong and financing costs are still low.
- Tighter spreads will allow for needed refinancing requirements.
- Fundamentals are supportive. Credit investors expect default rates to remain low — in the 2% to 3% range — and U.S. Gross Domestic Product to grow between 2.5% and 3% in 2011.
- Confidence of issuers and investors is improving.
- Companies are generating cash and are more confident about initiating expansion activities.
- The investors’ search for yield will persist. In 2010, S&P saw increased weighting of higher yielding — and higher risk — bonds in some portfolios. In North America, deals were oversubscribed for companies rated B– and sometimes lower.
- Merger and acquisition activity, a key driver of new bond issuance, is growing.
- Continued deleveraging by banks will also contribute to the growth of public debt markets.

Some of the trends driving activity in U.S. markets in 2011 will also contribute to international growth. We anticipate improved results in 2011 from most of our regions.

We look for modest growth in the U.S. public finance sector after record issuance in 2010. S&P expects the current economic and budget climate should result in more borrowing this year by state and local governments in the face of added pension costs and the toll on tax revenues.

In the structured finance market, we expect slow recovery in both the U.S. and in international markets.

The outlook for the leveraged loan market is excellent as banks resume lending and investors’ appetite for the paper is high.

Now, let’s spend a moment reviewing our legal situation. We start the year with 16 of our motions to dismiss granted in their entirety. Seven more lawsuits have been voluntarily withdrawn. Four of the dismissed cases involved fraud charges.

Clearly, we are making progress in the three broad categories we use to keep investors up-to-date on litigation involving Standard & Poor’s and the Corporation.

First are the underwriter claims based on the Securities Act of 1933. The plaintiffs have alleged that Standard & Poor’s is liable as an underwriter or seller of securities. To date, 12 of our motions to dismiss claims under the 1933 Act have been granted. Three of these dismissed claims have been
appealed. On January 11, the U.S. Court of Appeals for the second circuit heard arguments on the plaintiffs’ appeal of the earlier dismissals.

In the second category, there are cases brought by purchasers of our stock. They allege that the Company’s statements about its earnings and ratings business were misleading and violated the Securities Exchange Act of 1934 and ERISA. In three of the four cases in this category, our motions to dismiss have been granted. The plaintiffs appealed two of those decisions and we are waiting for a decision from the U.S. Court of Appeals for the second circuit. In the remaining case, we are waiting for a decision on our motion to dismiss.

In the third category are lawsuits asserting a variety of state law claims, including fraud. Included here is the Rice litigation in which a federal court in California last October granted our motion to dismiss with prejudice a plaintiff’s claims of negligence, intentional misrepresentation, and negligent misrepresentation. The court also acknowledged that ratings are opinions about the future and therefore not actionable unless plaintiffs can demonstrate that the rating agency did not believe the ratings to be true when issued.

In addition to the three categories, there are some lawsuits overseas. They are in very preliminary stages and some involve jurisdictional issues. The most notable at this time is the Parmalat litigation which got started in Italy in the fall of 2005. In a procedural hearing on January 11, the judge ordered final briefs to be submitted in March. We continue to believe that the outcome of this litigation against two subsidiaries of The McGraw-Hill Companies should not have a material effect on our financial condition.

In recent weeks, we have seen favorable decisions by state courts in Pennsylvania and California.

A state court in Pennsylvania dismissed negligence claims and narrowly circumscribed a fraud claim in four related cases brought by the Federal Home Loan Bank of Pittsburgh. By narrowing the fraud claim, the state court established a very high standard for the plaintiffs. To prove that fraud occurred, the judge ruled that the plaintiffs must show that the credit rating agency did not “truly believe that the credit quality of the mortgage pool underlying each certificate plus credit enhancement, if any, was sufficient to support its AAA ratings at the time the ratings were assigned.” Our legal team does not believe that the Federal Home Loan Bank can meet this high standard.

In another case in California brought against Standard & Poor’s and others, CALPERS has alleged negligent misrepresentation in connection with the ratings of three SIVs. In December, a California state court granted our motion that the complaint falls under a California statute protecting speech made in the public interest. The decision in California shifts the burden in the case to CALPERS, which now must demonstrate with a probability of success that it can prove its claim.

It is difficult to estimate when to expect more court rulings. Obviously, the courts have the discretion on when they will act on the lawsuits before them. But we believe the decisions that have already been rendered by the courts constitute meaningful precedent, which should help guide rulings on pending cases. In important ways, these rulings recognize limitations facing plaintiffs who seek to assert legal claims against S&P ratings. And that’s why our overall assessment of legal risk in the various lawsuits remains low.
We are also prepared to operate in the new regulatory environment. That’s why Standard & Poor’s has made significant investments in technology platforms and staffing and created the QCCR governance and control framework. QCCR stands for Quality, Criteria, Compliance, and Risk. It operates independently of the ratings business.

We invested approximately $80 million in the QCCR framework in 2010. That’s on top of $63 million in 2009. To meet new regulatory requirements, there may be an estimated $12 million to $15 million incremental increase in investments in 2011.

In the U.S., we expect the Securities and Exchange Commission to engage in more rulemaking in 2011 to meet the requirements of the Dodd-Frank Act. We also expect there also will be new regulations from Canada and Singapore. New regulations have already been passed in Hong Kong and Taiwan.

In January, the European Securities and Markets Authority, or ESMA, was launched to oversee rating agencies in the European Union and exercise other oversight powers. ESMA is now staffing up. We welcome the move to a more centralized approach to regulation in the European Union. A harmonization process is very much necessary and needed.

Even as the new regulations in Europe are coming on stream, the European Commission last fall issued a paper soliciting comments on the rating agencies for potential new legislation. Much of this ground has been covered before and that’s reflected in comments the Commission is now receiving. For example, the British Bankers Association and the Association for Financial Markets in Europe told the Commission to proceed with caution in introducing still more mandatory requirements and allow time for the practical implementation of the recently passed legislation. They also pointed out that the political pressure to reform credit rating agencies, in particular in the sovereign space, is not grounded in any evidence that ratings in Europe have failed to perform according to expectations.

While we cannot predict when or if new regulations will emerge, we are carefully tracking developments and reviewing the important issues with decision makers. Any new law would require the approval of the European Parliament and the European Union States — a time consuming process. We also believe our QCCR framework prepares us to deal effectively with new and existing regulations in our global marketplace.

So let’s sum up for Standard & Poor’s in 2011:
- The legal risk remains very low.
- We are prepared to deal effectively with new regulatory requirements.
- Continuing strong corporate issuance should produce high single-digit revenue growth.
- Operating profit should grow in the high single-digits in 2011.
McGraw-Hill Education

Now, let’s shift to McGraw-Hill Education.

We finished ahead for the year in education even though our key markets and our business declined in the seasonally slow fourth quarter.

Revenue decreased by 4.6% in the fourth quarter and increased by 1.9% for the year. Operating profit fell by 51.7% in the fourth quarter, but operating profit for the full year grew on an adjusted basis by 25.0% for 2010.

The revenue pattern is also reflected in the latest market data. The elementary-high school market finished 2010 with an increase of 3.3% despite a double-digit decline in the fourth quarter, according to the Association of American Publishers statistics.

U.S. higher education grew by 6.8% in 2010, but sales fell 3.3% in the fourth quarter as second semester purchasing declined. We are assessing that situation, but at the moment we have more questions than answers.

Fourth quarter comparisons in 2010 for McGraw-Hill Education were more difficult because of robust performances in the fourth quarter of 2009 in both the el-hi and higher education markets.

As we had anticipated, a strong state new adoption market was key to our performance and to the el-hi market’s growth in 2010. We captured about 30% of the state new adoption market, which is estimated at $850 million to $875 million in total, and increased market share in 2010.

The gain by the McGraw-Hill School Education Group in the elementary-high school market was offset by a decline in testing. As a result, revenue for McGraw-Hill School Education was flat in 2010. The decline in testing occurred primarily because of the planned discontinuation of custom contracts in three states: Arizona, California, and Florida. All these programs produced revenue in 2009. Our award-winning Acuity program, the leader in the formative assessment market, continued to add new clients in 2010.

The McGraw-Hill Higher Education, Professional and International Group’s revenue declined by 3.3% in the fourth quarter, but increased by 3.8% for the year. In the U.S. higher education market, where enrollments increased again in 2010, we saw growth in all four of our major imprints as well as double-digit gains for our digital products and services. However, we did not match the industry’s overall growth rate.

In 2011, our position in the marketplace will be enhanced by our steadily expanding array of digital products and services and also by our new alliance with Blackboard, the nation’s leading Web-based learning management system. Through this alliance, we will be the only publisher to have a homework management product — McGraw-Hill Connect — and a custom publishing system — McGraw-Hill Create — integrated seamlessly into the Blackboard platform. As a result, we expect to increase the usage of McGraw-Hill Connect within Blackboard’s large institutional imprint. Blackboard currently services approximately 80% of U.S. colleges and universities.
In professional markets, too, we saw double-digit growth for the digital products and services that make up an increasing share of our product mix. The great majority of our new print publications are also released as e-books, and as a result of this policy we ended 2010 with a list of more than 6,000 titles that can be purchased electronically. More than 130 mobile phone applications were also available for download by the end of the year.

Along with e-books, our online resources in science, medicine, and engineering contributed to our digital growth in professional markets. In 2011, expect expansion of our online subscription products and expansion in our e-book offerings, mobile applications and other digital services.

Digital developments will increase our opportunity in international markets. The latest example is the recent announcement that we are joining with Wipro in India to launch a mobile learning platform called mConnect. This initiative combines McGraw-Hill’s digital learning and adaptive educational software with Wipro’s wireless technology capabilities to deliver supplemental educational services by cell phone to students and those seeking job skills.

Incidentally, with 5.3 billion cell phones estimated in the world, there are 700 million cell phones in India at this point. By the end of next year in India, one in five, 20% of all cell phones, will be there. By the way, just to take that a step further, China currently has about 800 million cell phones. And combined, India and China represent somewhere around 42% to 43% of all the cell phones in the world.

In the elementary-high school market for 2011, we expect flat to minimal growth, a reflection of the continuing pressures on state and local budgets. Just as in 2010, the swing factor will be the strength of the state new adoption market. By some estimates, the state new adoption market in 2011 could be the same as 2010, or it could be somewhat larger than it was in 2010.

But the outlook for the state new adoption market in 2011 will depend to a great extent on how much Texas decides to spend for the programs on this year’s adoption list. The State Board of Education in Texas has recommended full funding for all subject categories, but the actual amount will depend on the budget still to be developed and enacted by the Texas legislature. Concerns over the state’s projected deficit could limit funding. As a result, we probably won’t be able to size the opportunity in Texas until we get into the second quarter.

So, let’s sum up.

Our market expectations:
- Flat to minimal growth in the elementary-high school market.
- 4% to 6% growth in U.S. higher education market.

For McGraw-Hill Education in 2011:
- Revenue growth in the low single-digits.
- Operating profit: a decline is anticipated largely driven by investments, especially for digital developments. The decrease could range from mid single-digits to high single-digits.
McGraw-Hill Information & Media

Now, let’s review McGraw-Hill Information & Media.

Strong results all year in global energy markets, growth in digital revenue, and substantial margin expansion marked the performance of this segment in 2010.

Revenue in the fourth quarter decreased by 1.6% and declined by 4.9% for the year. But excluding BusinessWeek revenue, fourth quarter revenue grew by 7.6% and by 6.2% for the full year. Operating profit, including a fourth quarter restructuring charge of $10.6 million, declined by 14.6%, but on an adjusted basis increased by 40.8% for the year. For 2010, operating profit increased by 73.1%, and grew by 98.6% on an adjusted basis.

In 2010, this segment produced the best operating margin in a decade. More importantly, we believe the new level is sustainable. In 2010, we reported an operating margin of 17.7% compared to 9.7% in 2009. On an adjusted basis, the improvement was more pronounced — 18.8% versus 9.0% for 2009. The 2010 adjusted margin is the best Information & Media has achieved since 2000 when it hit 21.1%. Obviously, the divestiture of BusinessWeek in 2009 contributed to the improvement, but so did the continuing strength of Platts and the rebound in the Broadcasting Group’s performance.

Platts produced strong results all year as market demand for its proprietary content grew in U.S. and international markets. More proprietary content, including 24 new price assessments launched in 2010, will keep Platts moving ahead in 2011. Many of the new price assessments are firsts in their market — an indication of Platts’ ability to recognize and respond to trends.

To add new capabilities in energy markets, Platts also acquired BENTEK Energy in January and announced the acquisition of OPIS, Oil Price Information Service, which is subject to regulatory approval. BENTEK is a leading provider of fundamental data and analysis for the natural gas market in North America. The Oil Price Information Service is a leader in news and price information for the wholesale and retail petroleum markets in North America.

Improvement in the domestic auto business contributed to J.D. Power and Associates’ fourth quarter performance and set the stage for more growth in 2011.

Softness in the commercial construction industry continued to hamper McGraw-Hill Construction in 2010, which we are starting to see pick up.

All these brands are part of the Business-to-Business Group, whose revenue declined by 7.0% in 2010, but grew 4.9% excluding BusinessWeek.

The Business-to-Business Group is increasingly a digitally based subscription business. More than 65% of the revenue in 2010 was digital. We expect that proportion to increase again in 2011.

Strong political advertising and improvement in national and local-time sales at our Broadcasting Group produced a 21.7% increase in fourth quarter revenue to $28.4 million and an 18.3% gain for 2010 to $96.0 million.
Summing up for Information & Media segment. The outlook for 2011 calls for:
- Revenue growth in the mid single-digits.
- Adjusted operating profit growth in the mid single-digits.

That wraps up our review of operations, so let’s sum up the outlook for the Corporation in 2011. We are encouraged by our progress in 2010. It was the product of some important decisions and recovering markets that will help set the stage for another year of growth in 2011.
- We expect to build on our strong 2010 results and the solid finish at both Standard & Poor’s and McGraw-Hill Financial.
- We will also make important investments in digital products and services at McGraw-Hill Education to take us to a new level in a rapidly developing market.
- Continuing economic recovery and improving trends in financial markets are the keys to our guidance for 2011 of a range of $2.79 to $2.89 per diluted share.

Okay, with that, let me hold it there and let me turn it over to our CFO, Jack Callahan.

Jack Callahan
Executive Vice President and Chief Financial Officer
The McGraw-Hill Companies

Thank you Terry, and it is a pleasure to join you today in my first earnings conference call representing this terrific team at The McGraw-Hill Companies.

Terry has reviewed the segment results and guidance, but I do want to provide additional detail on our two new reporting segments: Standard & Poor’s and McGraw-Hill Financial. Then, I will focus on corporate and general expenses, free cash flow and investments, share buy backs, and our strong financial position.

Let me start with some additional color on Standard & Poor’s and McGraw-Hill Financial.

McGraw-Hill Financial is being charged a royalty for the right to use and distribute content and data developed by Standard & Poor’s. This fee is recognized as non-transaction revenue for Standard & Poor’s, and as expense for McGraw-Hill Financial. The revenue and expense is then eliminated in consolidation for total McGraw-Hill Company results. The amount for 2010 was approximately $56 million which we have broken out by quarter on Exhibit 7 of the press release.

Also, as Terry has indicated, S&P Ratings Direct and S&P RatingsXpress are now part of McGraw-Hill Financial. Previously, these products were reported as part of Credit Market Services’ non-transaction revenue. As a result of this, as well as some other more minor movements, you will note that Standard & Poor’s revenue is now less than the previous reported Credit Market Services revenue and it is modestly more transaction-oriented. For example, in 2010, 61% of Standard & Poor’s revenue is non-transaction versus 65% for Credit Market Services.
Let me now turn to some corporate items:

Adjusted corporate expense, which excludes the one-time charge of $15.6 million related to subleasing excess space in the Company’s New York facilities, increased by approximately $10 million to $46.7 million in the fourth quarter. For the full year, adjusted corporate expense increased approximately $37 million to $164.4 million. The year-on-year increase is largely due to increased incentive compensation as a result of strong 2010 results, especially coming off a depressed base in 2009, and the impact of the increase in vacant space.

Going forward, we expect the increase in corporate expense to moderate. Currently, we are expecting an increase in the mid single digit range in 2011.

One last point on a number of corporate items — both interest expense and our effective tax rate are expected to remain relatively flat in 2011 versus 2010.

Now let’s review free cash flow. As a reminder, to calculate free cash flow, we start with cash provided by operating activities and deduct capital investments and dividends. What is left is free cash flow—funds we can use to make acquisitions, repurchase stock, or pay down debt.

We finished the year with $881 million in free cash flow. Given those strong results, we made a discretionary payment of $125 million to our U.S. pension plan in December. For 2011, we anticipate making only a relatively minimal contribution to the pension.

We expect another year of strong free cash flow in excess of $700 million in 2011, despite an increase in capital investments.

Let me discuss the drivers of this step up in capital investments. Prepublication investments were approximately $151 million in 2010, in line with previous guidance of approximately $160 million. This level of investment is our lowest ever and reflects the shifting of some investment from 2010 to 2011. We held up some programs in 2010 while the new Common Core State Standards were being finalized and then adopted across the country. To date, 43 states and the District of Columbia have signed on. Even though tests based on the Common Core State Standards are not scheduled until the 2014–2015 academic year, many states want to begin transitioning their teachers and students to the new standards beginning next fall. By delaying some publication dates by several months, we could reflect both the existing state standards and the final versions of the Common Core Standards, as appropriate to each program, in our forthcoming product releases. We are also stepping up digital investments as part of these programs. For 2011, we expect prepublication investment to return to more normalized levels. We expect to spend roughly $200 million to $225 million, or approximately a $50 million to $75 million increase next year.

Amortization of prepublication costs was $246 million in 2010. It is expected to decline slightly in 2011 given the reduced level of investment we saw in 2010.

Capital expenditures were $115 million in 2010. For 2011, we expect capital expenditures of approximately $150 million, driven in part by increased digital and technology related investments.
We continue to return cash to shareholders. In 2010, we returned $548 million through dividends and share repurchases. We did not repurchase any shares in the fourth quarter, but for the year we bought 8.7 million shares for approximately $256 million, averaging $29.37 per share. That leaves 8.4 million shares in the 2007 program as authorized by the Board of Directors.

We plan to continue to repurchase shares at a measured pace in 2011. We are currently targeting to repurchase approximately half of the 8.4 million shares remaining in 2011, subject to market conditions. This share repurchase been factored into our EPS guidance, though the impact is expected to be minimal.

We also recently announced a 6.4% dividend increase, our 38th consecutive increase. We are one of fewer than 25 companies in the S&P 500 that can make that statement. In 2011, our annual dividend is now $1.00 per share.

Our diluted weighted average shares outstanding was 310.3 million in the fourth quarter, a 4.2 million decrease versus the prior year due primarily to the 2010 share repurchase program.

We continue to be well capitalized with net cash and short-term investments at year-end of approximately $350 million. Cash and short-term investments at the end of the quarter totaled $1.548 billion, while gross debt was comprised of approximately $1.2 billion in senior notes. Our debt is entirely in long-term unsecured senior notes. No commercial paper is outstanding.

This strong financial position enables us to selectively add attractive, strategically relevant businesses to the McGraw-Hill portfolio. As Terry mentioned earlier, we have already closed the BENTEK acquisition in 2011 and hope to do the same with the OPIS, Oil Price Information Service, transaction in the near term.

In closing, these last two months at McGraw-Hill have certainly exceeded my admittedly high expectations coming into the organization. The product portfolio is deep with the potential for future growth, the capability and values of the team here is truly impressive, and Bob Bahash has left me a well oiled finance organization to carry on into the future. With that, thank you for joining us today. I look forward to meeting more of you in the coming months.

To access the accompanying slides online, go to:
http://investor.mcgraw-hill.com/phoenix.zhtml?c=96562&p=ir&EventDetails&EventId=3646443

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This presentation includes certain forward-looking statements about our businesses and our prospects, new products, sales, expenses, tax rates, cash flows, prepublication investments 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 2011 adoptions and in open territories and enrollment and demographic trends; the level of educational funding; the strength of School Education including the testing market, Higher Education, Professional and International publishing markets and the impact of technology on them; the level of interest rates and the strength of 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 collateralized debt obligations ("CDO"), residential and commercial mortgage and asset-backed securities and related asset classes; the continued difficulties in the credit markets and their impact on Standard & Poor's and the economy in general; 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 strength and the performance of the domestic and international automotive 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, manufacturing expenses, distribution expenses, prepublication, amortization and depreciation expense, income tax rates, capital, technology, restructuring charges and other expenditures and prepublication cost investment.

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