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Thank you and good morning.

Thank you everyone for joining us for The McGraw-Hill Companies’ third quarter 2008 earnings conference 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 Robert Bahash, Executive Vice President and Chief Financial Officer of the Corporations.

This morning we issued a news release with our third quarter 2008 results. We trust you have all had a chance to review the release. If you need a copy of it and the financial schedules, they can be downloaded at www.mcgraw-hill.com/investor_relations.

Before we begin, 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 Mr. Steve Weiss in our New York office at (212) 512-2247 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 review of The McGraw-Hill Companies’ third quarter results and the outlook for the remainder of 2008. Joining me today on the call is Bob Bahash, our executive vice president and chief financial officer.

On today’s call we will be reviewing third quarter earnings and our guidance for 2008. Bob will then provide an in-depth look at our financial condition. It’s strong and we aim to keep it that way. At the conclusion of Bob’s presentation, as always, we will be pleased to answer your questions about The McGraw-Hill Companies.

Earlier this morning, we announced third quarter results. Let’s get started with a quick recap:

- We took a pre-tax restructuring charge of $23.4 million for a workforce reduction of approximately 270 positions. That’s $14.6 million after tax, or $0.05 per share,
- Including the restructuring charge, earnings per share were $1.23, and
- Revenue declined 6.4% to $2.0 billion.

Restructuring charges in the second and third quarter represent pre-tax charges of $47.1 million, or $29.4 million after tax, and a workforce reduction of approximately 670 positions this year.

We have been taking action since late last year. Including the staff reductions announced in the fourth quarter of 2007, we have eliminated approximately 1,275 positions. In this environment, we will continue to monitor our situation very carefully. I can assure you that we will take more steps if warranted.

In the face of continued economic weakness, we have seen more efforts by the U.S. government to support the financial sector and restore confidence in credit markets. U.S. Treasury Secretary Hank Paulson recently provided more details on bank recapitalization measures. And Fed Chairman Ben Bernanke is supporting another stimulus package.

Additional rate cuts with the Fed funds going down to 1% later this year now seem very likely, according to our economists. The rate cuts by the Federal Reserve and other major central banks have already set the stage for further stimulus. Another Fed rate cut could come this week.

Housing has been in a recession for two years. David Wyss, chief economist at Standard & Poor’s, doesn’t expect housing prices to hit bottom until the end of 2009.

The housing recession and the credit crunch in financial markets continue to have an impact on our results. In the face of challenging conditions, we are now forecasting earnings per share of $2.63 to $2.65 for this year. The projection for 2008 excludes the restructuring charges, but includes the associated benefits. The forecast assumes earnings per share of $0.40 to $0.42 in the fourth quarter.

With this background, let’s examine in more detail the performance and outlook for our three operating segments.
McGraw-Hill Education

Let’s start with McGraw-Hill Education, which in the third quarter produced some expected successes and also experienced some unexpected softness.

In the third quarter:
- Revenue declined by 3.8% as an increase of 3.7% for the Higher Education, Professional and International Group partially offset a decrease of 9.1% at the School Education Group,
- Including a pre-tax restructuring charge of $5.4 million, operating profit was off 14.5%, and
- The operating margin was 31.1%.

After nine months this year:
- Revenue is off 1.0%,
- Including restructuring charges, operating profit is down 17.5%, and
- The operating margin is 15.5%.

To contain costs, we took pre-tax restructuring charges in the second and third quarters. For McGraw-Hill Education, that totaled $13.9 million and represented the reduction of approximately 240 positions.

The most important 60 days of the sales year in the education market normally occur in July and August. Through July, the industry was off to a pretty good start. According to reports from the Association of American Publishers, industry sales in July were up 5.0%. But as we cautioned investors at a conference in September, the situation suddenly began to change in early August. Our concern was validated when the Association of American Publishers, the AAP, subsequently released sales figures for August and September.

Industry sales in August dropped by 16.6%—results that turned the market’s 3.9% gain after seven months into a 1.7% decline after eight months. In September, industry sales fell by 17.6% and the market is down 3.3% after nine months. The reversal of the positive trend we saw earlier in the year has led us to conclude that sales for the elementary-high school market will now decline about 3% to 4% in 2008. However, we expect to gain share in this very difficult environment.

Historically, residual sales are heaviest in the third quarter, but in August we witnessed an unprecedented slowdown in residual sales. As many of you know, residuals are sales of previously-adopted materials. These include hardbound texts that are needed by the schools for new enrollments or to replace lost or damaged books. More importantly, residuals include workbooks, lab manuals, and other consumable softbound materials that support texts. These are designed for students to write in, and so they are normally replaced every year. Residual sales represent a significant percentage of all publishers’ revenues in any given year.

Along with the decline in residual sales, we also saw a decrease in the volume of new textbook business. The decrease was most pronounced in the open territory states, which are mainly in the northern and central regions. Open territory school districts are more dependent on local property tax revenues and more likely to face higher fuel costs for bus transportation and heating in the new school year.

When it comes to purchasing new textbook programs, open territory districts are also more independent than adoption state districts, where there are directives on how budget allocations must
be spent. But all school districts face increased costs for personnel—including salaries, health care, and pensions—which are frequently indexed to the rate of inflation.

On average, the state education budgets that went into effect for the fiscal year starting on July 1 were not sufficient to cover these inflationary increases. As a result, all expenses that might be considered discretionary became low-priority items. Unfortunately, in many districts, the purchase of instructional materials fell into this category. For many large urban districts, this situation was aggravated by the cutback in this year’s federal Reading First funds, which dropped from more than $1 billion last year to only $383 million this year.

The supplemental market has always been very sensitive to discretionary funding constraints because most purchases are made at the school building or classroom level. It is disappointing but not surprising that this market has been slow all year.

To reduce costs, some districts are buying newly-adopted programs for only a few grades, intending to add more grades in the future. We have also seen more buying of classroom sets that are used by successive classes throughout the day as opposed to purchases that would provide one book per student.

As schools have reduced their orders for “consumable” materials, we’ve also seen more copying of workbooks, particularly in grades K–2. These short-term measures are not sustainable. Enrollments in many places are growing and schools will face shortages of standards-aligned materials, which are so important in preparing students to meet the accountability requirements of No Child Left Behind, which remain in force and which have actually become more stringent in the current academic year. Photocopying workbooks, which many financially strapped districts are doing, is an illusory savings. It happens because the expense of photocopying is spread over several months and is charged to a different cost center. In reality, it is more cost-effective to order new workbooks than to copy old ones, but for the time being the cost of copying shows up in someone else’s budget and so there is an appearance of savings.

In the state new adoption market, we have delivered on our forecasts. As we expected, the School Education Group captured approximately 31% of the total available dollars in the state new adoption market, propelled by strong performances in K–5 reading and mathematics. These programs also produced sales gains in the open territory.

- In the Florida K–5 reading adoption, we expect to capture more than 70% of the market—an outstanding achievement.
- We also expect to take about 40% of the K–12 reading/literature state new adoption market.
- In mathematics, we project a 31% capture rate in the Texas K–5 market. A state-specific version of *Math Connects* has also done very well in the first year of the California math adoption. *Everyday Mathematics* has also won some good adoptions in California.
- We led the first-year science adoption in California in 2007, and second-year sales are following that positive trend.
- Our music, fine arts, health, business, and vocational lines have also performed very well in all states adopting in these categories.

In assessment and reporting, the third quarter is typically a seasonally-slow period. Revenue for custom tests declined due to reductions in the volume of work performed for Indiana and Missouri and the expiration of contracts in Mississippi and Tennessee. But we continue to make progress with:

- *Acuity*, our new formative testing program,
- *LAS Links*, our assessments for English-language learners, and
TABE, our suite of assessments and instructional resources for adult students.

In the Higher Education, Professional and International Group, we also saw a shift this year in historical ordering patterns. In the U.S. college and university market, the peak ordering period normally occurs in July and August. This year, we experienced a surge in September as college and retail stores waited to gauge student demand. We still expect the total market to grow 4% to 6% this year; but our own higher education group will underperform the industry in 2008.

All our main academic higher education imprints achieved good growth in the third quarter. That’s in:
- Business and Economics,
- Science, Engineering and Mathematics, and
- Humanities, Social Sciences and World Languages.

But 2008 is also a low point, or off-cycle year, for revisions of our traditional best-sellers in these disciplines, and that will dampen our performance a little bit in 2008.

Our Career Education product line produced a very strong gain. We’ve strengthened our position in the allied health market and the computer information technology markets with products like *Computers in the Medical Office*. This innovative program combines software and print to give medical assistance students practical hands-on experience as well as permanent on-the-job reference materials.

Digital products grew rapidly in the third quarter with study guide products like *Homework Manager* leading the way. Students are embracing this generation of digital products because they provide course-critical content that helps them study and prepare for exams more efficiently.

We continue to make good headway with eBooks. Currently, our higher ed group has 618 titles on www.CourseSmart.com, the industry’s eBook website. New functionality permits sales representatives to provide samples to instructors directly from CourseSmart. Sampling instructors electronically not only offers some cost-savings, but it also represents a cost-effective strategy for increasing awareness of eBook availability among student customers.

To facilitate the sale of eBooks to students, CourseSmart now has partnerships with about 50 campuses in conjunction with the Nebraska Book Company, a textbook retailer and wholesaler. In a significant new agreement, the University System of Ohio will link to CourseSmart through its own textbook site, which is available to all students enrolled in the state’s private and public colleges.

Digital subscriptions and licensing also had a favorable impact in our professional markets, but could not offset softness at retail as bookstores cut back on orders and reduced inventory in face of economic conditions.

In international markets, *Harrison’s Principles of Internal Medicine* continued to perform well in both English and Spanish editions released in recent months. Higher education products sold well in Europe, the Middle East, and India. In the third quarter we also benefited from back-to-school sales in Spain and Mexico.
So, let’s sum up for McGraw-Hill Education:

- Growth in higher education markets here and abroad in the third quarter,
- Digital revenue continued to grow rapidly in higher education and professional markets,
- A strong performance in the state new adoption market with a 31% capture rate,
- A slowdown in the elementary-high school market in August and September that signals a 3% to 4% decline in industry sales for the full year,
- Growth in the college market of 4% to 6% this year, and
- An expectation to increase share in the elementary-high school market and to underperform slightly in the U.S. college and university market.

As we enter a seasonally-slow fourth quarter for education, we are adjusting the 2008 outlook for the segment. We now expect revenue in 2008 to decrease 1% to 2% with an operating margin decline of 300 to 350 basis points.

**Financial Services**

Now, let’s look at Financial Services. In a challenging period for credit markets, the diversity of our portfolio helped cushion the downturn at Standard & Poor’s Credit Market Services. That is the rating portion of Standard & Poor’s.

For the Financial Services segment in the third quarter:

- Revenue declined by 14.2% as an increase of 13.5% for Standard & Poor’s Investment Services helped offset a fall-off of 24.2% for S&P Credit Market Services,
- Including a pre-tax restructuring charge of $4.1 million, operating profit decreased by 18.8%, and
- The operating margin was 43.2%.

After nine months this year:

- Revenue is off 12.0%,
- Including restructuring charges, operating profit is down 23.3%, and
- The operating margin is 41.4%.

We continue to watch costs closely and took restructuring charges in the second and third quarters to contain costs and mitigate the impact of economic conditions. For Financial Services, that totaled $19.3 million and represented the reduction of approximately 290 positions. The reduction climbs to 460 positions when you include the cut backs announced for the fourth quarter of 2007.

The restructuring charges taken this year reduced the operating margin by 64 basis points in the third quarter and by 95 basis points after nine months.

As we all know, turbulence in credit markets continued into the third quarter. The charts illustrate quarterly new issue dollar volume this year for residential mortgage-backed securities, commercial mortgage-backed securities, collateralized debt obligations, and asset-backed securities in the U.S. market.

In looking at these bar charts, it is readily apparent that the third quarter is the weakest of the year for new issuance. You can also see that in most cases the structured finance market volume continued to decline in the fourth quarter of 2007. Structured finance dollar volume issuance in the U.S. was off 78.3% in the third quarter. In this environment, a 2.6% decline for asset-backed securities issuance is
as good as it gets. U.S. public finance dollar volume issuance was off 1.8% and corporates declined by 65.8%.

But new issue volume is not the whole story at Financial Services. As this next chart shows, global new issuance dollar volume declined 44.2% in the third quarter, but revenue was off 14.2% for Financial Services and 24.2% at Credit Market Services. International revenue for S&P Credit Market Services declined 11.6% in the third quarter while non-U.S. issuance fell 21.0%. Domestic revenue for S&P Credit Market Services was off 33.0%, but total U.S. new issuance fell 61.6%.

Clearly, steps we have taken to diversify our portfolio in both S&P Credit Market Services and Standard & Poor’s Investment Services is providing some shelter in the storm. Reducing S&P Credit Market Services’ dependence on the new issue market and expanding internationally were important initiatives that continue to benefit us in turbulent times.

International ratings accounted for 47.9% of S&P Credit Market Services revenue in the third quarter, up from 41% for the comparable quarter last year. In Europe, we saw a substantial drop in structured finance issuance resulting from widening spreads and a decline in fundamentals. There was also some issuance softness in the Asia-Pacific region. CRISIL, our ratings operation in India, continues to post solid gains. We are actively exploring more opportunities to expand our international footprint.

The continued growth of non-transaction revenue is another measure of our diversification strategy. Non-transaction revenue grew by 2.3% in the third quarter and is up 8.9% after nine months. Non-transaction revenue includes surveillance fees, annual contracts, and subscriptions. All three categories grew in the third quarter.

Deferred revenue for this segment also increased in the third quarter. It grew by 7.2% to just over $805 million at the end of the third quarter. Sequentially, that represents a decline from the second quarter. The slower growth reflects the seasonality of our revenue as well as a decline in ratings activity.

We are pleased with another quarter of double-digit growth from Standard & Poor’s Investment Services—our non-ratings business. Capital IQ and index services were key contributors to this performance.

Capital IQ has added new customers all year. Now with more than 2,500 customers, Capital IQ’s base has grown by 22.2% in the past 12 months. Capital IQ also continues to expand its product offering and improve functionality. To accelerate Capital IQ’s own estimates database project and launch into the alternative research marketplace, we recently acquired a copy of Reuters Estimates and the Reuters Research-on-Demand databases. The acquisition adds another piece to the comprehensive global analytical solutions offered by Capital IQ.

In index services, we benefited from higher volume for exchange-traded derivatives, an increase in assets under management in exchange-traded funds based on S&P indices, and growth in data and custom indices.

Assets under management in exchange-traded funds grew to $223.5 billion at the end of the third quarter. That’s a gain of 6.7%. We believe the increase is, in part, due to the use of exchange-traded funds for hedging as well as the asset class mix acting as a natural hedge.
Daily volume for major exchange-traded derivatives based on S&P indices averaged 3.7 million contracts, a year-over-year increase of 27%.

We also continue to expand in index services. In the past nine months of this year, S&P has launched 45 new exchange-traded funds based on its indices compared to 46 for all of 2007. There are now 189 new exchange-traded funds based on S&P indices around the world.

Building on its family of fixed income indices, S&P in October launched the S&P/LSTA U.S. Leveraged Loan 100 index. It is a market value weighted index designed to measure the performance of the U.S. leveraged loan market. LSTA is short for Loan Syndications and Trading Association.

Earlier this month, S&P introduced the S&P U.S. Commercial Paper Index. It consists of commercial paper with one- to three-month maturities issued by financial and non-financial corporate issuers.

In September, S&P signed an agreement with the Korean Exchange to develop a new set of indices to meet the needs of Asian investors. S&P already signed its first exchange partnership in 2000 with the Australian Stock Exchange. Today, we have partnerships with primary exchanges in Tokyo, Milan, Toronto, Moscow, Hong Kong, and India. And there is more in the pipeline this year from Index Services.

Earlier in this presentation, we showed charts indicating that the new issue market for most asset classes continued to soften in 2007. That means S&P faces the easiest comparisons of the year in the fourth quarter of 2008. But some improvement obviously hinges on the start of a market recovery in the fourth quarter.

At this point, visibility on the extent and speed of the recovery remains low. There is growing concern about the economy and markets are assessing the new rescue programs from the federal government and how to respond to various fiscal stimulus packages. The infusion of capital into the banks should help return confidence and credit to the market. Recently, we have seen a decline in the key London interbank offer rate, or LIBOR, a sign that credit markets may be on the mend.

There are indications that investors now on the sidelines are ready to move once markets begin to stabilize. When investors do return, it will be back to basics—less leverage, less risk and more plain vanilla securities.

Our assessment of the outlook for Financial Services this year assumed that the level of activity in the structured finance market would remain at low levels. For 2008, we now anticipate revenue for the Financial Services segment will decrease by approximately 11% to 12%. We have also changed our forecast on the operating margin. Originally, we expected a decline of 500 to 600 basis points. Now, we anticipate a 425–475 basis point decline in the operating margin this year.

No discussion of Financial Services would be complete these days without a review of the regulatory and legal situations.

We’ve now embarked on another round of new Congressional hearings on the rating agencies. Last week, as you may know, Deven Sharma, the president of Standard & Poor’s testified before the U.S. House of Representatives Committee on Oversight and Government Reform.
It was a long day, but there seemed to be three basic charges against the rating agencies that came out of that:
1. Structured finance ratings were not objective,
2. S&P’s only concern was profits, and
3. The business model is prone to conflict.

In a rush to judgment, it can be difficult to be heard, but Deven refuted these charges. We don’t have time this morning to go through all of it, but I do urge you to read his complete testimony. You can get that at http://www.standardandpoors.com. I think you will get a good sense of how he positioned it, and how we feel about it.

He pointed out in his remarks that S&P’s ratings business:
- Has strong policies against analysts structuring transactions that S&P rates,
- Does not provide consulting services to issuers,
- Does not give higher ratings based on how it is paid, and
- But it does make its ratings, criteria, and methodologies available and open to market comment.

No business model is without potential for conflict, but a responsible organization like S&P has policies and procedures in place to manage them:
- Our professionals have never been compensated upon the amount of revenue they generate,
- Credit analysts do not negotiate fees,
- Rating decisions are always made by committee and not by individuals, and
- We have a team of quality officers to promote analytical rigor and safeguard the ratings process. The compliance process is very strong and very clear.

A thorough examination by the SEC recently found “there is no evidence that decisions about rating methodology or models were based on attracting or losing market share.”

Under the issuer-pays model, S&P makes its ratings public free of charge in real time—higher transparency, which is the order of the day. Credit ratings are not investment advice or recommendations to buy, sell or hold a security. Credit ratings primarily address the likelihood that an obligation will be repaid on time with interest. Ratings are also not static.

S&P recognizes the seriousness of the current dislocation in capital markets and that not all of the forecasts used in its ratings analysis have been borne out, even though historical events going back 75 years to the Great Depression were included in our stress tests.

S&P is committed to constant improvement, greater transparency, and independence. That’s why earlier this year, after consulting with policymakers and regulators, both here and abroad, S&P announced 27 actions on its own to enhance the ratings process and promote confidence. You can get an update on S&P’s 27 Leadership Actions by visiting S&P’s website: http://www.standardandpoors.com.

You can get some additional perspective by looking at S&P’s record in rating AAA U.S. structured finance securities. The default rate on U.S. structured finance securities rated AAA by S&P between January 1978 and October 13, 2008 is only 0.28%, that’s one quarter of one percent.
We expect to learn more about regulatory initiatives next month. Some time in November, the SEC could issue new rules for rating agencies. On November 12, the European Commission is expected to issue its proposals on rating agencies. Those will be out for public comment and we will work through that process.

There is little doubt that more regulation is coming. But we will continue to work with policy makers, regulators, and others to assure some global consistency. We believe global consistency should be based on IOSCO’s recently revised code of conduct for the rating agencies.

Basically, not a lot has changed on the legal front since we reviewed the situation at an investor conference on September 18. A new lawsuit was filed at the end of September against Federal National Mortgage Association and a number of defendants, a class action suit, and included in that was The McGraw-Hill Companies. The central allegation is that the company issued inappropriate credit ratings on certain securities issued by Federal National Mortgage Association. We believe the litigation is without merit.

We continue to believe that any pending legal, governmental or self-regulatory proceedings or investigation will not result in a material adverse effect on our financial condition or results of operations.

Let’s sum up for Financial Services:
- Revenue will decline 11% to 12% in 2008,
- The operating margin will decline 425–475 basis points this year—better than we thought,
- Low visibility in credit markets, and

Information & Media
Now, let’s review our third segment, Information and Media, where Business-to-Business products and services again drove results.

In the third quarter:
- Revenue increased 5.3% as the Business-to-Business Group grew by 5.4% and Broadcasting was up 4.4%,
- Including a pre-tax restructuring charge of $13.9 million, operating profit increased 22.6%,
- The operating margin was 8.6%, and
- The restructuring charge for the workforce cutback reduced the operating margin by 523 basis points in the third quarter.

After nine months:
- Revenue is up 5.1%,
- Including the restructuring charge, operating profit is up 37.3%, and
- The operating margin is 7.7%.

The key revenue driver this year continues to be Platts. It was true again in the third quarter.

Platts is a leading provider of global energy information to customers in more than 160 countries. With continued volatility in crude oil and other commodity prices these customers increasingly depend on our news and pricing information to help with decision making in uncertain times. That’s what happens when your information becomes embedded in the customers’ workflow. This is a global
phenomenon—growth at Platts is coming both in North America and overseas. As you know we headquarter it in three locations: Singapore, New York, and London.

Aviation Week benefited from the timing of a major international air show in the United Kingdom. That’s the Farnborough Air Show which is held every other year in the third quarter.

Advertising pages for BusinessWeek’s global edition were down 13.9% in the third quarter. Even in this environment, BusinessWeek continues to attract new subscribers and improve its renewal rate.

BusinessWeek also took an important step in September by launching the Business Exchange. It enables users to create topics around business issues that matter to them and connect with BusinessWeek’s community. In a short period of time, more than 500 topics have been created on the Business Exchange—a very nice start. The introduction of social media in the business spaces will create an opportunity to leverage context and content for users and advertisers.

We are enhancing the Business Exchange with two important partnerships—LinkedIn and Federation Media, which taps the blogosphere. The partnership with LinkedIn helps BusinessWeek readers network with others and provides LinkedIn users with broader access to content. Over 30 million professionals use LinkedIn.

For the Broadcasting Group, a solid increase in political advertising offset softness in local and national advertising in the third quarter.

In the Denver market, we benefited from:

- Colorado’s status as a swing state in the presidential election,
- Advertising by candidates for the U.S. Senate and House, and
- Significant spending on issues propositions.

Spending has also been strong in Indiana because of the Governor’s race and the presidential contest.

Let’s sum up for Information and Media:

- More progress this year with our Business-to-Business Group,
- Solid growth in political advertising for Broadcasting, and
- Revenue growth of 4% to 6% and an improvement in the operating margin for the segment.

Let’s sum up now for The McGraw-Hill Companies. We are now forecasting earnings per share of $2.63 to $2.65 for 2008. The projection excludes the restructuring charges, but includes the associated benefits. The forecast assumes earnings per share of $0.40 to $0.42 for the fourth quarter.

We have started work on our budgets for 2009, but until that process is completed, we are not in a position to make a forecast for next year.

We already know the state new adoption market will not match this year’s total. Texas is not scheduled for a new adoption in 2009 and that always makes a difference in the market. The good news is that the state adoption market calendar improves sharply in 2010.

We also know the college and university market is counter-cyclical. In times of economic difficulty, enrollments increase.
In financial markets, visibility is low and it will be important to see when various stimulus packages begin to have an impact.

In this environment, we are very focused on managing costs and maintaining liquidity, so let’s hear now from Bob.

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

Thank you, Terry.

As we began to feel the full force of the decline in credit markets last year, revenue for S&P Credit Market Services dropped in 4Q 2007 by 14.1% and the Financial Services segment was off by 7.2%.

But while we are looking at easier comparisons for Financial Services during the fourth quarter of this year, the rate of decline has been steeper and that’s reflected in our guidance for the segment. We don’t expect a pick up in Credit Market Services and we have seen a sequential decline in the revenue growth at S&P Investment Services. Growth will probably slow again in the fourth quarter for S&P Investment Services, although it will still grow by double-digits this year.

For McGraw-Hill Education, the fourth quarter is seasonally slow. In the elementary-high school market, we may realize some sales from postponements earlier this year, but that is hard to call in this environment.

In the U.S. college and university market, we will be introducing some new titles in the fourth quarter, but the timing of any pick up is difficult to gauge…sometimes the sales materialize in December and in other years they don’t show up until January.

Under these circumstances, we continue to take a very hard look at our costs and expenses. As Terry discussed, we recorded a restructuring charge of $23.4 million in the third quarter, primarily for severance costs related to a workforce reduction of approximately 270 positions to contain costs and mitigate the impact of current and future economic conditions.

Additionally, we took a significant reduction in both long-term and short-term incentive compensation at all segments as well as at Corporate. The year-over-year decline of $117 million was comprised of a $71 million decline in stock-based compensation, the remainder being short-term incentive compensation. We lowered accruals for long-term awards due to reduced operating results. This resulted in a negative $39 million for stock-based compensation in the third quarter. As mentioned previously, the cash savings from reducing our short-term incentives in 2008 will not be realized until the awards are paid out in March 2009.

The impact of reduced incentive compensation as noted in the earnings release is as follows:

- McGraw-Hill Education: $15.9 million
- Financial Services: $60.0 million
- Information & Media: $12.4 million
- Corporate: $29.1 million
I’d like to take a few moments to discuss expenses at Financial Services, McGraw-Hill Education, and Corporate.

At Financial Services, expenses decreased $43 million, or 10.4%. Excluding the $4.1 million pre-tax restructuring charge in the third quarter, expenses decreased $47 million, or 11.5%.

This year-over-year expense comparison benefits from a $60 million reduction in incentive compensation. This is up from a $30 million year-over-year reduction in incentive compensation in the second quarter primarily due to the negative stock-based compensation I previously mentioned. Expenses also benefit from savings from restructuring actions taken in the fourth quarter of 2007 and the second quarter of 2008 that Terry referred to. These expense savings were partially offset by the impact of acquisitions and investments in our fast-growing areas, such as CRISIL, Capital IQ, and Index Services.

Financial Services’ sequential third quarter expenses decreased $66 million, or 15.2%, versus the second quarter as reported. The primary contributors to this expense decrease are:

- A $46 million decrease in incentive compensation,
- A reduction in third quarter versus second quarter restructuring charges of $11 million, and
- Savings from the restructuring actions.

McGraw-Hill Education reported expense growth of 2.0%, or $15.0 million. Excluding the restructuring charge of $5.4 million, expense growth was 1.3%, or $9.6 million.

The minimal expense growth at Education is driven by:

- A $14.1 million increase in prepublication amortization,
- Increased costs related to strong state new adoption opportunities, and
- Investments in technology including $4 million in data center migration costs.

This is offset by:

- A $15.9 million decline in incentive compensation,
- As well as lower cost of goods sold due to the reduction in revenue.

The migration to our new data center is nearly complete. In the third quarter, the migration cost was $8 million. For the nine month period, it was $21 million. Now that we are nearing the end of the project, we expect the overall cost will be around $30–35 million for 2008 which is $5–10 million lower than our original forecast. We expect McGraw-Hill Education to represent about half of the total cost as the segment continues to deliver more digital content and services.

Corporate expenses were $9.7 million in the third quarter, a $28 million or 74.3% decrease versus the same period last year. This overall decrease is driven by a $29.1 million reduction in incentive compensation accruals for the quarter. Excluding the reduction in incentive compensation accruals, expenses were approximately flat with the prior year.

We had previously forecasted a mid single-digit decrease in corporate expenses for 2008. Due to the reduction in incentive compensation, we now expect corporate expenses to be down about $50 million. This would imply an approximate $10 million decline in corporate expenses in the fourth quarter.

Now, let me recap the Corporation’s strong financial position.
Net debt as of September 30 was $1.0 billion. This is down approximately $349 million from the end of the second quarter as a result of free cash flow generated in the third quarter. The second half is when we generate the majority of our free cash flow, primarily due to the seasonality of our education business.

As of September 30, on a gross basis, total debt was $1.5 billion and is comprised of $1.2 billion of unsecured senior notes that we issued in 2007 and $307 million in commercial paper outstanding. This is offset by $485 million in cash, primarily in foreign holdings.

The outstanding commercial paper is supported by a $1.15 billion credit facility which was renewed in the third quarter. Our commercial paper rating is F-1/P-1 from the credit rating agencies Moody’s and Fitch. Given the current liquidity issues in the CP market, being a Tier 1 issuer is very important not only for pricing, but for availability as well.

We plan to reduce commercial paper outstanding through the balance of the year with our seasonal cash inflows. As discussed previously, our objective is to maintain a net debt level comparable to year-end 2007.

As we typically do at this time of year, we are evaluating repatriating cash from overseas which is primarily invested in money market instruments. Obviously repatriation does not impact net debt, but causes swings between where cash is held and the level of commercial paper outstanding.

Regarding net interest expense, in the third quarter we had $22 million compared to $15.4 million in the same period last year. We expect interest expense in the fourth quarter to be roughly comparable with the third quarter, resulting in full-year interest expense of approximately $80 million.

Let’s now review free cash flow. As a reminder of our free cash flow calculation, we start with after-tax cash from operations, which is after working capital, and deduct prepublication investments, CapEx, and dividends. What’s left is free cash flow—funds we can use to repurchase stock, make acquisitions, or pay down debt.

Despite a challenging 2008, we continue to generate free cash flow. Third quarter free cash flow was approximately $500 million, roughly flat with last year. As we indicated on the second quarter earnings call, free cash flow as of June 30 was approximately $300 million lower than a year before. While third quarter free cash flow performance was comparable to the prior year, given the reduction in third quarter revenue and its impact on cash collections in the fourth quarter, we now project free cash flow to be approximately $500 million for 2008 versus the $600 million forecast we provided during our second quarter earnings call in July.

To help offset the lower operating cash flow, we are carefully managing costs and capital investments while continuing to invest in fast-growing areas, such as CRISIL, Capital IQ, and Index Services. Given the uncertain economic environment, we will continue to monitor our investment priorities this year. I will discuss capital expenditures in greater detail shortly but will now recap our acquisition and share repurchase activity.

For the first nine months, we spent approximately $40 million on acquisitions. On October 7th of this quarter, we announced that we had acquired a copy of the Reuters Estimates and the Reuters Research-on-Demand databases to enhance Capital IQ’s data offering.
In the third quarter, we repurchased 3.5 million shares for a total cost of $142.4 million at an average price of $40.70 per share. That brings the year-to-date repurchases to 10.9 million shares for a cost of $447.2 million at an average price of $41.03 per share. 17.1 million shares remain in the 2007 program authorized by the Board of Directors.

Given our new forecast for reduced free cash flow, and our desire to maintain net debt levels comparable to year-end 2007, we are currently evaluating the extent of our share repurchases for the fourth quarter. We remain committed to returning cash to shareholders through dividend payments and share repurchases, but it is important to balance this while maintaining appropriate liquidity during this difficult credit environment.

Our diluted weighted average shares outstanding declined in the third quarter to 317.2 million shares. This reflects a 20.5 million share decrease compared to the third quarter of 2007 and a 3.9 million share decrease compared to second quarter of 2008. Our fully-diluted shares at the end of the third quarter were approximately 315 million shares.

I will now review unearned revenue, which ended the quarter at approximately $1.1 billion, a 6.4% year-over-year increase. Financial Services’ unearned revenue grew 7.2% versus the prior year. The year-over-year revenue decline for Credit Market Services, primarily structured finance, accounts for the slower growth in unearned revenue. Financial Services represents three quarters of our unearned revenue balance, and with the reduced revenue guidance for Financial Services, we now expect minimal growth in the Corporation’s unearned revenue for 2008.

Our effective tax rate was 37.5% in the third quarter. We expect it to be approximately the same level for the full year.

Let’s now look at capital expenditures, which include prepublication investments and purchases of property and equipment.

In the third quarter, our prepublication investments were $65.4 million compared to $76.9 million in the same period last year. We continue to expect $270 million for 2008.

Purchases of property and equipment were $17.7 million in the third quarter compared to $63.0 million in the same period last year. This was higher last year while we were building the data center.

In light of slower operating free cash flow, as well as the uncertain economic environment, we are delaying a number of capital projects. We now project CapEx will be $115 million for 2008, versus our previous forecast of $160 million.

I’d like to wrap up with a quick review of non-cash items.

Amortization of prepublication costs was $124.6 million compared to $110.5 million last year. For 2008, we continue to expect it to be about $275 million.

Depreciation was $30.0 million compared to $26.2 million in the same period last year. We still expect it to be approximately $125 million in 2008, primarily due to the completion of the data center, as well as the purchase of new technology equipment.
Amortization of intangibles was $13.6 million compared to $11.7 million in the same period last year. For 2008 we continue to expect it to be approximately $52 million.

So, let’s sum up. We are taking a hard line on company expenses while prudently managing investments to support areas of high growth potential. In short, we are making every effort to protect the company’s strong financial position in a very difficult environment. Our priorities are clear:
- Reduce expenses,
- Ensure we have the resources to fund our growth, and
- Maintain liquidity.

Thank you.

To access the accompanying slides online, go to: [http://investor.mcgraw-hill.com/phoenix.zhtml?c=96562&p=ir-EventDetails&EventId=1984006](http://investor.mcgraw-hill.com/phoenix.zhtml?c=96562&p=ir-EventDetails&EventId=1984006)


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