Thank you and good morning to our worldwide audience and thank everyone for joining us this morning at The McGraw-Hill Companies’ second quarter 2009 earnings call. I am Donald Rubin, Senior Vice President of Investor Relations at The McGraw-Hill Companies.

With me this morning are Harold McGraw III, Chairman, President and CEO, and Robert Bahash, Executive Vice President and Chief Financial Officer.

This morning we issued a news release with our second quarter 2009 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/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 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 second quarter earnings and the outlook for the remainder of 2009. With me today is Bob Bahash, executive vice president and chief financial officer.

I will start off by reviewing our operating results, and Bob will provide in-depth outlook on our key financials. Of course as Don said, after our presentation, we will go in any direction that anybody would like to go with questions or comments.

Earlier today, we reported second quarter results:
- Earnings per diluted share were $0.52, including $0.06 for a net restructuring charge and a loss on a divestiture.
- Revenue in the second quarter decreased 12.4% to $1.5 billion.

At this point in the year, we still see challenges in the school market as states’ budget pressures persist. But there are also signs that the economic activity has begun to recover.

An improving flow of credit is helping to lay the groundwork for recovery. In financial markets, spreads are narrowing and should continue to tighten. Money managers and insurance companies are putting more money to work and there is renewed investor interest in non-financial investment-grade bonds and even speculative-grade instruments as well.

In the second quarter, we took some important steps to prepare for the future:
- First, we took a $0.03 restructuring charge for a workforce reduction of approximately 550 positions, about 2.5% of the total workforce. A key step in this restructuring was the reduction of approximately 340 positions at McGraw-Hill Education as we combined our supplemental and basal operations. I will discuss this action a little later.
- Secondly, we sold Vista Research, which resulted in a pre-tax loss of $13.8 million, or $0.03 per diluted share.
- Thirdly, we announced that we are exploring strategic options for BusinessWeek.

The take away is clear. In preparing for the future, this management team will continue to align resources with the company’s strategic outlook and growth opportunities in the market.

With that background, let’s now look at how our segments performed and prospects for the rest of the year and how we’re looking at 2010 in each of these markets.

McGraw-Hill Education
For McGraw-Hill Education, this year is a tale of two markets:
- Declining sales in the elementary-high school market
- Sustained growth in the U.S. college and university market

Both trends were evident in the segment’s second quarter performance and undoubtedly will be factors in our second half results.
For the segment in the second quarter:

- Revenue declined 17.2%, reflecting a 22.7% fall off for the McGraw-Hill School Education Group and a 6.9% decline for the McGraw-Hill Higher Education, Professional and International Group
- Including a net pre-tax restructuring charge of $11.6 million, operating profit declined by 70.1%
- The operating margin was 3.8%

By now, you have probably heard about the challenges in this year’s elementary-high school market.

- State budgets for education are under pressure
- There are substantial cut backs in historic buying levels in the adoption states
- Federal stimulus funds are still trickling into the market

With the sales opportunities shrinking this year in Florida and California, we are reducing our estimate for the 2009 state new adoption market to $500 million—$550 million. Our new estimate includes some modest benefits from federal stimulus funds that we have been able to identify. We had been forecasting $550 million to $600 million.

Federal stimulus funds are still the wild card in this year’s market. Without the benefit of stimulus funds, we still expect the el-hi market to decline by 15% to 20% this year. We don’t expect more state-level postponements, but there could be additional school district postponements in economically stressed states like California.

Although the rate of purchasing is much lower than originally forecast, we expect to capture available business across a range of subjects. We should perform well in the following state new adoptions:

- Reading in California and Louisiana
- Math in California, South Carolina, Kentucky, and Oregon
- Science in Tennessee
- Social studies in Indiana

We now estimate a capture rate of 30% of the total available dollars in the state new adoption market this year.

In testing, our formative assessment program—we call it Acuity—continues to win new adoptions and renewals, but these gains were offset by declines in custom and off-the-shelf products.

The revenue outlook in higher education is very different. The U.S. college and university market is off to a very strong start this year and so are we. As a result, we are increasing our forecast for the market in 2009. We now expect the U.S. college market to grow between 5% to 7%. Previously we had forecasted growth of 3% to 4%.

We have a solid new publications list for all four imprints, successful new digital offerings, and the benefits of higher enrollments last fall and again this spring. There are indications that enrollments will grow again in the semester that starts in the fall.

But because of the softness in the el-hi market, we are reducing our revenue guidance for the segment. Previously, we had forecasted a decrease of 7% to 8% in 2009. We now expect segment revenue in 2009 to decline by 8.5% to 9.5%.
Under the circumstances, some have started to question prospects for education in 2010. We expect the outlook for education to improve for several reasons:

- Comparisons will get easier
- The benefits of our recent restructuring will be realized
- We expect to operate more efficiently and lower development costs
- A growing lineup of digital products will produce more growth
- Federal stimulus funds will make a difference
- The state new adoption calendar improves in 2010
- There will be more students. Enrollments are still growing.

Let’s now look at these reasons in more detail:

1. Comparisons will get easier.

   Revenue for the McGraw-Hill School Education Group is off by 20.1% for the first half and while we expect the rate of decline to diminish in the second half, there’s no doubt we will be cycling against easier comparisons in 2010.

2. We will begin to see the benefits of the restructuring of our elementary-high school business in the second half, with more to be realized in 2010.

   We recently announced the combination of our basal and supplemental school operations in a new, streamlined Pre-K–12 organization. As a result, we took a net restructuring charge of $11.6 million for this segment as approximately 340 positions were eliminated.

3. Lowering development costs and reducing time-to-market are key objectives for the new organization.

   By increasing our focus on growth areas such as intervention and college and career readiness, and by streamlining our product creation in four learning solution centers, we are improving our operating efficiencies and revenue potential.

4. The integration of content, technology, and distribution offers significant opportunities for growth. We will be increasingly digital in the school market, in testing, in higher education, and professional markets.

   To create the same digital environment in the elementary and secondary classrooms that is emerging outside the school, we recently created the McGraw-Hill Education Center for Digital Innovation. It’s focused on developing digital platforms. It’s why we could introduce CINCH mathematics, an all-digital curriculum that combines online capabilities with the power of interactive whiteboards.

   In testing, we just introduced Acuity UnWired, a version of our formative assessment system that permits students to respond by using wireless hand-held devices. By the way, Acuity recently won the prestigious CODiE Award from the educational software association for the “Best Student Assessment System.”

   Online study tools are rapidly gaining traction in the college and university market as we find new ways to incorporate the printed page into a dynamic online learning environment.
5. The potential impact of the federal stimulus package remains difficult to gauge at this time, but the Title I funds for schools serving disadvantaged students and the IDEA funds for special education programs could make a meaningful difference in some states and some product categories in the second half. There’s a total of $25.2 billion available for Title I and IDEA special education funds in the system.

Federal stimulus money is moving into the states but with few exceptions it is moving very slowly into districts. As of July 24, 44 states, the District of Columbia, and Puerto Rico been approved for about $29 billion in funding. Six states have applications pending. It is widely expected that the first wave of stabilization funding would be used by states and districts to cover shortfalls and save teaching jobs in 2009 rather than to initiate new purchases. We expect to have a solid list of stimulus-funded adoptions to report at the end of the third quarter. We also expect to see some fourth quarter sales activity as well.

The administration’s focus on real-time assessments and multiple measures combined with stimulus money and state and local interest in formative assessments will also provide new opportunities for Acuity.

Undoubtedly, the stimulus package will have greater impact in 2010 than in 2009 on the elementary-high school market.

And don’t overlook the fact that the federal stimulus package contains several provisions with positive implications for postsecondary education. That includes increases in the maximum Pell Grants and increased support for work-study programs.

6. We still expect to see an improved state new adoption calendar next year. We currently estimate approximately $950 million to $1 billion for state new adoptions in 2010.

The market should benefit from the increased availability of stimulus funds, the implementation of 2009 postponements in 2010, and the return of Texas to the market for a K–12 reading/literature adoption. That program has already been funded by the Texas state legislature. The opportunity in Florida for K–12 math in 2010 also looks solid. The state needs new textbooks so math can be taught according to newly-revised state standards.

7. Enrollments are growing across the entire pre-K–16 student population.

According to the latest projections from the National Center for Education Statistics, and by the way that is a good Web site to monitor, there will be 56.4 million students enrolled in elementary and secondary institutions next year and 18.6 million in U.S. higher education.

So, summing up for McGraw-Hill Education. Before the benefits of the federal stimulus package:

- 15% to 20% decline in the el-hi market
- 5% to 7% increase in the U.S. college and university market

For the segment in 2009:

- 8.5% to 9.5% decline in revenue
- 300 to 400 basis point decline in the operating margin, excluding the 2008 and 2009 restructuring charges
- Implies an operating margin of 9% to 10%
Financial Services

In Financial Services, growth in the industrial sector here and abroad, another decline in structured finance, and some softness in index services were important factors in the second quarter performance.

For the segment in the second quarter:
- Revenue was off 8.4%, reflecting a 9.9% decline at S&P Credit Market Services and a 4.9% decline at S&P Investment Services
- Including a pre-tax loss of $13.8 million from the divestiture of Vista Research and a pre-tax net benefit of $0.4 million from restructuring charges, operating profit declined by 8.8%
- The operating margin was 41.0%

Two things are not immediately apparent from these results. First, comparisons were especially challenging because the second quarter in 2008 was the biggest revenue and profit producer last year for Financial Services, and second, there were signs of a thaw in credit markets in this year’s second quarter:
- One of the keys to thawing the credit markets has been the ability of the banks in the second quarter to issue debt without government guarantees. In the first quarter, guaranteed debt accounted for more than 80% of the financial sector issuance. It has now fallen to less than 50%.
- As the capital base of banks improves, there is renewed ability to attract capital from the private sector.
- Liquidity also has improved. One sign is the banks’ decreasing demand for short-term funding from federal programs.
- The sharp drop in LIBOR indicates that banks are more comfortable getting funds from each other. The spread between the three-month LIBOR and the Fed’s overnight rate, a gauge of how banks assess the riskiness of lending to one another, is down to approximately 0.4%.
- There is a greater willingness of investors to take on some risk. That trend undoubtedly contributed to the 82.6% increase in U.S. speculative-grade issuance in the second quarter. Much of the issuance was used to refinance bonds and loans. There remains a significant need for speculative-grade companies to raise cash, especially those looking to shift debt from short-term loans into longer-term maturities.

We also saw an increase in dollar volume issuance in the industrial sector in the second quarter—it was up 2.1% in the U.S. and 34.8% in Europe. Issuance has risen because issuers turned to public markets to avoid refinancing risks over the next 18 months. At the same time, low short-term interest rates and an aversion to equity and structured finance risk have channeled investors toward industrial bonds.

Even though the structured finance market declined again in the U.S. and in Europe, the impact of the corporate activity on S&P’s Credit Market Services’ transaction revenue was significant. In the second quarter, we saw a 31.6% sequential increase in transaction revenue. Compared to the biggest quarter of 2008, transaction revenue was down year-over-year by 21.6%.

The outlook for structured finance for the rest of the year remains uncertain. The U.S. residential mortgage-backed securities market has benefited in the short-term from increased re-REMIC issuance, but the longer term outlook for this market and the European residential mortgage-backed securities market is dependent upon a recovery in the housing market. The majority of the European structured finance transaction revenue continues to be derived from government and central bank liquidity programs. In both Europe and the U.S., the markets for commercial mortgage-backed securities and
collateralized debt obligations continue to experience very little new issuance and very low trading volume in the secondary markets.

The TALF program has stimulated some new activity in the U.S. asset-backed securities market, but year-over-year new issuance declined by 25.8% in the second quarter of 2009. Since the beginning of the year, there has been a substantial tightening of spreads in three important consumer asset classes—autos, credit cards, and student loans. We anticipate further recovery in the asset-backed securities sector, an important factor for 2009, but also as we go into 2010.

The new activity in the bond market is encouraging. A continuation of this trend will favorably impact transaction revenue in the second half as our year-over-year comparisons get much easier. As a result, we are changing our forecast for transaction revenue for the year. We had expected a 10% to 12% decline in transaction revenue in 2009. We now expect a mid single-digit decline in transaction revenue for the year—a very encouraging and very good sign.

Non-transaction revenue was off 3.1% in the second quarter. The primary reason was a reduction in fees earned for work on canceled transactions, or breakage fees, and the impact of foreign exchange. Non-transaction revenue is derived from annual contracts, surveillance fees, and subscription services and produced 67.9% of S&P Credit Market Services’ revenue in the second quarter. Unlike transaction revenue, non-transactions are a resilient source of revenue. For the first half of 2009, non-transaction revenue represented 69.6% of S&P Credit Market Services total revenue.

We still expect only a slight decline for the year in non-transaction revenue, primarily because of less breakage fees in 2009 versus 2008, and the impact of foreign exchange.

International revenue at S&P Credit Market Services declined by $24.0 million in the second quarter, but $21.0 million of that decrease can be attributed to foreign exchange rates. Rates moved strongly in the second half of 2008, so they will probably be less of a factor in the upcoming 2009 comparisons.

For the year, we continue to expect low single-digit revenue decline in S&P Credit Market Services in 2009.

The near-term outlook is somewhat mixed for S&P Investment Services. Revenue declined 4.9% in the second quarter and we now expect a low single-digit decrease for the year. The sale of Vista Research in May is a contributing factor. At the end of July, the settlement contracts with the investment banks expire for our equity research products. There are currently nine firms purchasing independent research from S&P. The good news is that we are going to retain some of these clients. We are negotiating with these firms and some will continue stock coverage and purchase other products as well. We have already signed a new agreement with Citibank and more are in the works.

Index services experienced a decline in the second quarter, primarily driven by a reduction in asset-based fees from exchange-traded funds and a drop in over-the-counter derivatives trading all linked to various S&P indices. Assets under management in exchange-traded funds based on S&P indices fell by 8.0% to $189.8 billion at the end of the second quarter versus the same period last year. But as the market rebounded, we also saw a sequential improvement over the first quarter, which had ended at $158.6 billion. We did see increased purchasing of our data and growth in the custom index business as well.
Eleven new exchange-traded funds based on S&P indices were launched in the second quarter. There are now a total of 209 exchange-traded funds based on S&P indices. We have more indices in the pipeline to help our clients accumulate assets.

Capital IQ continues to attract new clients, finishing the second quarter with more than 2,800 clients—an increase of 5.2% since the end of 2008. Capital IQ is continuing to expand overseas and benefited from international growth in the second quarter.

Now, let’s spend a couple of minutes on the regulatory outlook for credit rating agencies.

In the United States, we are working with the Securities & Exchange Commission, the White House, the Treasury Department, and the Congress on proposed new legislation. In Europe, we are working with CESR, the European Commission, IOSCO, and others. We will continue to work with IOSCO and are reaching out to regulators and policymakers in Japan, Australia, and Canada. In short, we are touching all the bases as we work for globally consistent oversight, analytical independence, and a level playing field for everyone.

A lot has changed at S&P, especially on the credit rating side, in the last two years and we are using all the means at our disposal to convey how our internal initiatives complement proposed new regulations here and abroad. We are focused on measures in four key areas:

1. Quality
2. Prevention of conflicts
3. Increased transparency
4. Accountability

We continue to work in all four areas and communicate our commitment to improvement to policymakers, legislators, and regulators to help restore confidence in credit markets.

The latest effort in our global outreach was an ad on Standard & Poor’s commitment to reform. It ran in The Financial Times, The Wall Street Journal, The New York Times and The Washington Post. You can find the full text at www.standardandpoors.com which addresses the changes S&P has made in its business in the last two years.

The timeline on the new regulatory framework remains fluid. In the U.S., we hope the legislative process will be completed by the end of the year, but depending on congressional priorities, it may not be finished until some time in 2010. But we really believe it is a 2009 action. In Europe, we expect the new European Union legislation on credit rating agencies to be formally adopted this fall. The effective date for rating agencies to be in compliance is expected to be by mid 2010 and we will be ahead of that in terms of initiatives.

In this period, we will continue to deal with the issues as they arise. There is, for example, the misleading notion that S&P Credit Market Services has not changed its practices in light of recent market difficulties and is not subject to meaningful regulatory oversight. The fact that S&P Credit Market Services is now a highly regulated business doesn’t seem to get much recognition from these critics. The new regulations were recently described in the press as “mostly innocuous,” an observation that fails to appreciate the breadth and depth of the regulatory scheme under which we operate. The Credit Rating Agency Reform Act of 2006 gave the SEC a significant amount of regulatory authority. I can assure you that it is being exercised vigorously and on a regular basis.
Earlier this year, new wide-ranging SEC rules took effect. They include measures related to disclosure and management of potential conflicts related to the issuer-pay model, a ban on certain conduct involving gifts and fee discussions with analysts, increased record-keeping requirements for material deviations assigned from model outputs and complaints about analysts’ performance...just to name a few. More new rules may be coming, according to the SEC. In short, it is quite clear that S&P Credit Market Services is—and I can assure you will continue to be—subject to robust regulatory oversight.

Accountability is another issue. In addition to our daily accountability to the market, which is the most important check on our ratings business, we are accountable to the SEC and subject to private litigation. Like all other participants in the financial markets, we can be sued for securities fraud.

While courts have recognized that ratings opinions are entitled to First Amendment protection against certain claims, it is important to state clearly that the First Amendment provides no exemption from potential liability for intentionally misleading or defrauding investors. That fundamental legal point seems to have eluded some of our critics. We have approximately three dozen lawsuits from plaintiffs and their counsel who clearly think they have stated causes of action against S&P notwithstanding the First Amendment.

On the litigation front, the newest lawsuit was filed by CALPERS and has gained a lot of attention. CALPERS says it purchased without due diligence $1.3 billion of securities based solely on ratings opinions issued by S&P, Moody’s, and Fitch. And that’s notwithstanding our clear and long standing public disclosure that a rating is not a recommendation to buy, to sell, or to hold. Some in the media have expressed surprise that a sophisticated institutional investor like CALPERS would make such a significant investment decision like this without conducting its own first hand analysis. We think the lawsuit is totally without merit and intend to defend against it vigorously.

Let’s sum up for Financial Services, for 2009:
- Slight decline in revenue
- Margin decline of 225 to 275 basis points, excluding 2008 and 2009 restructuring charges and the loss on Vista Research
- Low single-digit growth in expenses
- Implied operating margin of approximately 39%

Information & Media
And finally, let’s look at the Information & Media segment.

The continuing weakness in the advertising market was a key factor in the performance of this segment.

For the second quarter:
- Revenue declined 11.5% reflecting a 23.1% decrease at Broadcasting, and a 10.2% fall off in the Business-to-Business Group
- Including a pre-tax restructuring charge of $4.0 million, the operating profit declined by 41.8%
- The operating margin was 6.1%

In Broadcasting, we experienced declines in national and local time sales. Softness in auto advertising was clearly a contributor to this picture. The absence of political advertising after last year’s strong performance is obviously a factor in 2009, in comparison to 2008.
Print advertising is also soft across the board in the Business-to-Business Group. That includes our publications in the construction and aviation markets and *BusinessWeek*. Advertising pages in *BusinessWeek*’s global edition were off 34.3% in the second quarter, according to the Publishers Information Bureau.

During the second quarter, oil prices have more than doubled since hitting a low of $33.98 a barrel on February 12th. That volatility also contributes to the strong performance of Platts, our global energy information service. Platts is growing in the petroleum, natural gas, nuclear, and metals markets.

Summing up then for Information & Media:
- In view of continued weakness in advertising, we are reducing revenue guidance. We now expect a decline of 8% to 9%. Previously, the forecast called for a decrease of 5% to 6%.
- A 300 to 400 basis point decline in the operating margin, excluding the 2008 and 2009 restructuring charges

Finally, summing up for the corporation:
- Revenue to decline 5.5% to 6.5% for the year
- Excluding the second quarter restructuring charge and the divestiture of Vista Research, our guidance for earnings per share of $2.20 to $2.25, although it appears we will come in at the low end of the range

That wraps up our review of operations. Now, let’s hear from Bob Bahash.

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

Thank you Terry.

The key to the year is our second half performance, so I want to focus this morning on factors that will influence results during this crucial period.

The obvious one, of course, is the seasonality of the education business, which makes the third quarter the biggest earnings contributor each year, but there are other influences that will be important as well.

If you do the math on our full year revenue guidance—and I am sure you will—it will be apparent that we expect the rate of decline we saw in our revenue in the first half, it was off 9.6%, to diminish in the second half.

This is also true for expenses. In the first half they are down 7.1%. For the full year, excluding restructuring charges in 2008 and 2009 and the loss on the divestiture of Vista in 2009, we expect consolidated expenses to decline in the low single-digit range, implying minimal growth in expenses in the second half.
Now, let’s review some other factors that influenced the first-half performance and our expectations for the second half, including:

- Restructuring
- The impact of foreign exchange on revenue and expense, and
- Incentive compensation

In doing so, I hope three things become clear:

1. We’ve been able to mitigate the revenue decline in the first half through stringent expense controls, and we are not going to let up in the second half
2. The company’s financial position is strong and will remain so
3. The actions we have taken leave us well positioned when economic conditions improve

In the second quarter we took a restructuring charge of $24.3 million relating to the reduction of approximately 550 positions. This was partially offset by a reversal of $9.1 million related to prior restructuring initiatives, resulting in a net charge of $15.2 million, pre-tax, or approximately $0.03 per diluted share of second quarter earnings.

The majority of the restructuring charge related to our decision to combine our core basal publishing operations with our alternative basal and supplemental publishing operations. Due to the timing of the actions as well as implementation costs, the cost benefits of this combination will largely be realized in 2010.

The reversal of $9.1 million related to prior restructuring initiatives is primarily due to two factors:

- Instances where we eliminated the position but were able to place affected employees in open positions within some of our faster growing businesses.
- Lower than anticipated severance payments. This was most pronounced at some of our international locations. Country rules vary significantly, making estimating international severance a little challenging. Our estimates turned out to be conservative.

Foreign exchange will be a factor in our results all year. In the first and second quarters, foreign exchange significantly reduced revenue. It reduced second quarter revenue by $37.2 million, increasing the revenue decline by 220 basis points. In the first half, foreign exchange reduced revenue by $74.6 million, increasing the revenue decline by 260 basis points. Based on current rates, we anticipate the impact on revenue to lessen in the second half.

Foreign exchange reduced segment expenses by $32.4 million in the second quarter and by $82 million in the first half. Excluding restructuring charges in 2008 and 2009 and the loss on the divestiture of Vista, segment expenses would have declined 7.6% in the second quarter at constant currencies versus the reported 10.1% decline. Year-to-date expenses would have declined 3.8% versus the reported 7.4% decline. Based on current rates, we anticipate the impact of foreign exchange on expenses to lessen in the second half.

In the first half, the impact to operating profit from foreign exchange was a benefit of $7.3 million. These different top and bottom line outcomes occur because we primarily bill in Euros and U.S. dollars while significant expenses are denominated in currencies such as the British pound, which has significantly weakened compared to the U.S. dollar.
Changing levels of incentive compensation were a factor in the first half and will be even more significant in the second half. In the second quarter, we benefited from a $23 million decline in incentive compensation for the segments as well as corporate. For the first half, the benefit was approximately $29 million.

In our year-end call I indicated that we expected full year incentive compensation to increase $110 million. We have refined our estimates taking into account current projections as well as the impact of restructuring actions. We now believe that the full year increase will be approximately $90 million. That implies a $119 million increase in incentive compensation in the second half because we reduced our long-term and short-term accruals in the second half of 2008, particularly in the third quarter. As a result we had negative stock-based compensation of $39 million in the third quarter of 2008.

Our cost containment initiatives should enable us to reduce expenses in two of our three segments, even as revenue declines.

At McGraw-Hill Education, as Terry indicated, we now expect revenue to decline 8.5% to 9.5% versus the previous guidance of a 7% to 8% decrease. We also anticipate a mid single-digit decline in expenses versus our previous estimate of a low single-digit decline. On that basis, we are maintaining our margin guidance of a 300 to 400 basis point decline, excluding the 2008 and 2009 restructuring charges.

Expenses were down 11.7% year-over-year in the second quarter and 10% in the first half excluding the restructuring actions in both years. At constant currencies, first half expenses were down 7.1%, benefiting from 2007 and 2008 restructuring actions, lower cost of goods sold given the lower revenue, and lower sales and marketing costs, which in some cases will shift to the third quarter of 2009.

In the Financial Services segment, Credit Market Services transaction revenue was down 20% in the first half but we expect strong growth in the second half as comparisons, particularly in the fourth quarter, get significantly easier due to the depressed issuance in 2008.

Credit Market Services non-transaction revenue increased from $280 million in the first quarter to $311 million in the second quarter. Part of the reason for the sequential increase is the fact that the first quarter was depressed due to the timing of renewals for certain contracts.

Due to tight expense controls, we now expect margins for the segment to decline 225 to 275 basis points versus our previous margin guidance of a 250 to 300 basis point decline. This implies a low single-digit increase in expenses and a modest improvement from our previous guidance.

For the second quarter, expenses were down 8.0% excluding restructuring charges in 2008 and 2009 and the loss on the Vista divestiture. Adjusting for currency, expenses were down $15.2 million, or 3.6%. This decrease was primarily driven by reduced incentive compensation and restructuring benefits from previous actions, and we also benefited from the divestitures of Vista and CRISIL’s Gas Strategies Group. For the first half, expenses were down 4.4%. At constant currencies, they were up 1.3%. Second half comparisons are more difficult given increased incentive compensation and reduced impact of foreign exchange. Partially offsetting these are the benefits of previous restructuring actions.

In Information & Media, Compass, an online reporting and analytical tool recently introduced by J.D. Power, is having a significant impact on segment revenue and profits. As I’ve indicated previously, the segment’s results for the year will be adversely affected by the non-cash accounting impact of
converting studies onto this online platform. Revenue previously recognized at the time of syndicated studies’ release will now be recognized ratably over the 12 month life of the subscription. This is similar to the Sweets transition in 2006.

For the full year, we now expect a $12 million decrease in revenue and a $7 million decrease in profit due to the impact of Compass versus our prior guidance of a $15 million decline in revenue and $10 million decline in profit. The revised estimate is due to changes in scope and timing of conversions. For the second quarter, the Compass conversion resulted in a $3.4 million decrease in revenue and a $2.9 million decrease in profit. For the first half, it resulted in an $8.1 million decrease in revenue and a $5.2 million decrease in profit.

Due to the additional revenue decline we are projecting for the segment, partially mitigated by continued cost containment initiatives, we now are forecasting a 300 to 400 basis point decline in margins, excluding the 2008 and 2009 restructuring charges, versus our previous forecast of a 200 to 300 basis point decline. This essentially implies a mid single-digit decline in expenses for the year versus our previous guidance of a low single-digit decline.

Corporate expenses in the second quarter were $29.3 million, a $4.2 million decline from the same period last year largely due to reduced stock-based compensation. Second-half comparisons, particularly third quarter, become significantly more challenging reflecting the increase in stock-based and short-term incentive compensation I previously mentioned. We continue to expect that corporate expenses will increase this year by $25 million to $30 million due to the increased incentive compensation.

The company’s effective tax rate was 36.4% in the second quarter versus 37.0% in the same period last year. We expect the full year 2009 tax rate to be 36.4%, an approximate 60 basis point decline from 2008.

Let’s now review free cash flow. To calculate free cash flow, we start with after-tax cash from operations and deduct investments and dividends. What’s left is free cash flow—funds we can use to repurchase stock, make acquisitions, or pay down debt.

Our free cash flow guidance previously did not reflect any pension plan contributions although we indicated that there could be a contribution in the second half. Based on current expectations, we plan to make a pension contribution of approximately $25 million in the third quarter. We have now incorporated this into our free cash flow projections.

Even with the pension contribution, we continue to expect free cash flow for the year to be in the range of $430 million to $450 million, the guidance we had previously given, although most likely at the low end of the range. This is approximately equal to last year, despite lower profit, due to continuing working capital improvements and our focus on cost containment and prudent investments.

In the first half of 2009, free cash flow improved by $337 million relative to prior year. In the first half, free cash flow is generally negative due to the seasonality of our businesses. But, as we had anticipated, it was substantially higher than prior year, driven by a significant reduction in cash incentive compensation payments and continuing working capital improvements, particularly for inventories and accounts receivable. Second half comparisons will be more difficult given lower anticipated receipts.
The Corporation’s financial position remains strong. Net debt decreased to $731 million, down $130 million versus the first quarter and $65 million versus year-end. We continue to have access to the commercial paper market at very low rates.

On a gross basis, total debt at the end of the quarter was $1.3 billion. It is comprised of $1.2 billion in unsecured senior notes, as well as $89.6 million in commercial paper. This is offset by $556.1 million in cash, primarily foreign holdings. The first long-term debt payment is not due until the end of 2012, so we are in a comfortable position in terms of managing maturities.

Our diluted weighted average shares outstanding were 313.0 million in the second quarter, an 8.1 million share decline versus the same period last year. That is roughly flat compared to the first quarter of 2009. The year-over-year decline is primarily due to 2008 share repurchases and to a lesser extent, the decline in our stock price. Fully-diluted shares at the end of the quarter were approximately 313 million.

Interest expense was $18.5 million in the second quarter, a $1.9 million decline from prior year. For the full year, we expect interest expense to be roughly comparable to 2008.

In today’s challenging environment, we are continuing to manage investments prudently without hurting the enterprise. New efficiencies and softening market conditions will result in more reductions this year in prepublication costs and a cutback in the purchase of property and equipment.

Prepublication investments were $42.3 million in the second quarter, a decrease of $22.9 million compared to the second quarter of 2008. For 2009, we now expect prepublication investments of approximately $200 million, down from our previous guidance of $225 million and the $254 million we invested last year. Prepublication costs are being reduced because:

- In the current economic environment, the scope of some programs is being reduced
- A change in the timing of some programs, and
- The benefits of off-shoring and other efficiencies.

Purchases of property and equipment were $8.9 million in the second quarter compared to $25.2 million in the same period last year, reflecting year-over-year reductions in technology spend and real estate improvements. We now anticipate full year expenditures of approximately $75 million to $80 million, versus our previous estimate of $90 million.

Now let’s review non-cash items:

- Amortization of prepublication costs in the second quarter was $71 million versus $66 million in prior year. For the full year, we continue to expect prepublication amortization of $275 million to $280 million versus $270 million in 2008.
- Depreciation was $28.8 million in the second quarter. This is $1.6 million lower than the same period last year. We still forecast approximately $130 million for the full year.
- Amortization of intangibles was $11.4 million for second quarter of 2009 versus $13.1 million for the same period last year. For the full year we expect approximately $50 million versus our previous estimate of $55 million.
I’ll conclude with a comment on the growth of unearned revenue, which ended the second quarter of 2009 at $1.1 billion. That is roughly flat with the prior year and the first quarter. But in constant currency, it grew 2.6% versus prior year. At the end of the second quarter, Financial Services represented approximately 75% of the corporation’s total unearned revenue. We still expect unearned revenue to grow slightly in 2009.

Now thanks, and back to Terry.

To access the accompanying slides online, go to:

“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995
This presentation includes certain forward-looking statements about the Company's businesses and our prospects, new products, sales, expenses, tax rates, cash flows, republishing 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; the duration and depth of the current recession; Educational Publishing's level of success in 2009 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 the economy, 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.

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 debt and equity markets, including interest rates, credit quality and spreads, the level of liquidity, future debt issuances including residential and commercial mortgage-backed securities and CDOs backed by residential mortgages and related asset classes; 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, automotive, computer and aviation industries; the successful marketing of new products, and the effect of competitive products and pricing.