

MCGRAW-HILL COMPANIES INC

FORM 10-Q (Quarterly Report)

Filed 5/9/1994 For Period Ending 3/31/1994

Address	1221 AVENUE OF THE AMERICAS NEW YORK, New York 10020
Telephone	212-512-2000
CIK	0000064040
Industry	Printing & Publishing
Sector	Services
Fiscal Year	12/31

**UNITED STATES SECURITIES AND EXCHANGE
COMMISSION**
Washington, D.C. 20549
FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE

----- SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1994 or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE

----- SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number 1-1023

McGRAW-HILL, INC.

(Exact name of registrant as specified in its charter)

New York	13-1026995
-----	-----
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1221 AVENUE OF THE AMERICAS, NEW YORK, N.Y.	10020
-----	-----
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (212) 512-2000 Not Applicable

(Former name, former address and former fiscal year, if changed since
last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Number of shares of Common Stock (par value \$1.00 per share) outstanding as of April 29, 1994: 49,521,916.

PART I

Financial Information

McGraw-Hill, Inc.

Consolidated Statement of Income

Three Months Ended March 31, 1994 and 1993

	1994	1993
	(In thousands, except per share data)	
Operating revenue	\$ 559,774	\$ 466,947
Expenses:		
Operating	295,854	245,520
Selling and general	230,341	169,269
Total expenses	526,195	414,789
Share of loss of Macmillan/McGraw-Hill joint venture (Note 3)	-	(20,345)
Other income - net	3,223	3,000
Income from operations	36,802	34,813
Interest expense - net	(11,348)	(8,199)
Income before taxes on income	25,454	26,614
Provision for taxes on income	10,487	11,364
Net income	\$ 14,967	\$ 15,250
	=====	=====
Earnings per common share	\$ 0.30	\$ 0.31
	=====	=====
Average number of common shares outstanding	49,445	49,063

McGraw-Hill, Inc.

Consolidated Balance Sheet

	March 31, 1994	Dec. 31, 1993	March 31, 1993
	-----	-----	-----
	(In thousands)		
ASSETS			
Current assets:			
Cash and equivalents	\$ 28,744	\$ 47,953	\$ 10,556
Accounts receivable (net of allowance for doubtful accounts) (Note 4)	621,680	711,919	507,110
Receivable from broker-dealers and dealer banks (Note 5)	17,110	19,136	21,350
Inventories (Note 4)	225,953	215,228	106,808
Prepaid income taxes	92,536	92,912	42,469
Prepaid and other current assets	45,203	44,634	44,800
	-----	-----	-----
Total current assets	1,031,226	1,131,782	733,093
	-----	-----	-----
Prepublication costs (net of accumulated amortization) (Note 4)	293,893	285,445	92,410
Investments and other assets:			
Investment in Macmillan/McGraw-Hill School Publishing Company - at equity (Note 3)	-	-	488,721
Investment in Rock-McGraw, Inc. - at equity	54,157	53,077	51,298
Prepaid pension expense	90,160	87,655	80,067
Other	156,476	159,861	125,673
	-----	-----	-----
Total investments and other assets	300,793	300,593	745,759
	-----	-----	-----
Property and equipment - at cost	745,149	753,452	628,375
Less - accumulated depreciation	409,696	408,126	349,702
	-----	-----	-----
Net property and equipment	335,453	345,326	278,673
Goodwill and other intangible assets - at cost (net of accumulated amortization)			
	1,007,823	1,021,017	548,266
	-----	-----	-----
	\$2,969,188	\$3,084,163	\$2,398,201
	=====	=====	=====

McGraw-Hill, Inc.

Consolidated Balance Sheet

	March 31, 1994	Dec. 31, 1993	March 31, 1993
	-----	-----	-----
	(In thousands)		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes payable	\$ 154,243	\$ 170,780	\$ 125,385
Accounts payable	173,914	178,466	115,990
Payable to broker-dealers and dealer banks (Note 5)	16,338	18,695	20,944
Accrued liabilities	106,542	182,156	86,781
Income taxes currently payable	46,677	42,783	34,532
Unearned revenue	250,339	248,036	229,719
Other current liabilities	216,229	227,979	151,697
	-----	-----	-----
Total current liabilities	964,282	1,068,895	765,048
	-----	-----	-----
Other liabilities:			
Long-term debt (Note 6)	757,890	757,567	333,419
Deferred income taxes	114,853	119,548	109,797
Accrued postretirement healthcare and other benefits	191,477	190,985	187,237
Other non-current liabilities	123,356	124,160	103,627
	-----	-----	-----
Total other liabilities	1,187,576	1,192,260	734,080
	-----	-----	-----
Total liabilities	2,151,858	2,261,155	1,499,128
	-----	-----	-----
Shareholders' equity (Note 7):			
Capital stock	51,475	51,475	51,475
Additional paid-in capital	66,732	63,512	59,531
Retained income	820,614	834,250	922,009
Foreign currency translation adjustments	(26,449)	(28,577)	(21,746)
	-----	-----	-----
	912,372	920,660	1,011,269
	-----	-----	-----
Less - common stock in treasury-at cost	83,320	87,687	99,925
unearned compensation on restricted stock	11,722	9,965	12,271
	-----	-----	-----
Total shareholders' equity	817,330	823,008	899,073
	-----	-----	-----
	\$2,969,188	\$3,084,163	\$2,398,201
	=====	=====	=====

McGraw-Hill, Inc.

Consolidated Statement of Cash Flows

Three Months Ended March 31, 1994 and 1993

	1994	1993
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 14,967	\$ 15,250
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	15,524	12,519
Amortization of goodwill and intangibles	9,706	5,809
Amortization of prepublication costs	15,247	8,621
Provision for losses on accounts receivable	18,174	19,032
Share of loss of and distribution from Macmillan/McGraw-Hill joint venture	-	22,403
Other	(1,205)	(171)
Changes in assets and liabilities net of effect of acquisitions and dispositions:		
Decrease in accounts receivable	69,720	61,975
Increase in inventories	(10,111)	(9,029)
Decrease in accounts payable and accrued expenses	(80,423)	(56,415)
Decrease in interest and income taxes payable	(2,289)	(9,519)
Net change in other assets and liabilities	(1,208)	(4,465)
Cash provided by operating activities	48,102	66,010
Investing activities		
Purchases of property and equipment	(7,089)	(6,958)
Investment in prepublication costs	(24,089)	(11,258)
Disposition of property & equipment	2,285	249
Other	2,653	-
Cash used for investing activities	(26,240)	(17,967)
Financing activities		
Dividends paid to shareholders	(28,603)	(27,883)
Repayment of commercial paper and other short-term debt-net	(16,707)	(24,002)
Exercise of stock options	4,485	1,929
Other	(246)	(759)
Cash used for financing activities	(41,071)	(50,715)
Net change in cash and equivalents	(19,209)	(2,672)
Cash and equivalents at beginning of period	47,953	13,228
Cash and equivalents at end of period	\$ 28,744	\$ 10,556

Financial Information (cont'd)

McGraw-Hill, Inc.

Notes to Financial Statements

1. The financial information in this report has not been audited, but in the opinion of management is based on estimates which include all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly such information. The operating results for the three months ended March 31, 1994 and 1993, are not necessarily indicative of results to be expected for the full year due to the seasonal nature of some of the company's businesses. The financial statements included herein should be read in conjunction with the financial statements and notes included in the company's Annual Report on Form 10-K for the year ended December 31, 1993.

Certain prior year amounts have been reclassified for comparability purposes.

2. Operating profit by segment is total operating revenue less expenses which are deemed to be related to the unit's operating revenue. A summary of operating results by segment for the three months ended March 31, 1994 and 1993 follows:

	1994		1993 (Note)	
	Revenue	Operating Profit/(Loss)	Revenue	Operating Profit/(Loss)
	(In thousands)			
Educational and Professional Publishing	\$ 176,315	\$ (24,933)	\$ 109,935	\$ (1,644)
Financial Services	194,446	58,782	172,821	51,731
Information and Media Services	189,013	14,472	184,191	16,105
Total operating segments	559,774	48,321	466,947	66,192
Share of loss of Macmillan/McGraw-Hill joint venture	-	-	-	(20,345)
General corporate expense - net	-	(11,519)	-	(11,034)
Interest expense - net	-	(11,348)	-	(8,199)
Total company	\$ 559,774	\$ 25,454*	\$ 466,947	\$ 26,614*

*Income before taxes on income.

Note: Revenue and operating profit by segment for the 1993 period have been restated to reflect the combining of the Broadcasting and Information and Publications Services segments and Tower Group International operations into one segment, Information and Media Services.

Financial Information (cont'd)

McGraw-Hill, Inc.
Notes to Financial Statements

3. On October 4, 1993, the company purchased the additional 50% interest in the Macmillan/McGraw-Hill School Publishing Company for \$337.5 million in cash. The company now owns 100% of Macmillan/McGraw-Hill and it is consolidated in McGraw-Hill's operations from the date of acquisition of the additional 50% interest. Prior to the acquisition of the additional 50% interest, the company accounted for its 50% interest under the equity method.

The following pro forma information presents the consolidated results of operations of the company for the three months ended March 31, 1993 as if the acquisition of the additional 50% of Macmillan/McGraw-Hill had occurred at the beginning of 1993, after giving effect to certain adjustments, including amortization of goodwill and other intangibles, increased interest expense from debt issued to fund the acquisition and related income tax effects. Pro forma results are: operating revenue \$519.2 million; net income \$2.7 million and earnings per common share \$.06. These pro forma results are not necessarily indicative of those that would have occurred had the acquisition taken place at the beginning of 1993.

4. The allowance for doubtful accounts, the components of inventory and the accumulated amortization of prepublication costs were as follows:

	March 31, 1994	Dec. 31, 1993	March 31, 1993
	-----	-----	-----
	(In thousands)		
Allowance for doubtful accounts	\$ 79,057	\$ 79,461	\$ 82,668
	=====	=====	=====
Inventories:			
Finished goods	\$ 168,478	\$ 166,584	\$ 67,817
Work-in-process	36,571	29,259	20,425
Paper and other materials	20,904	19,385	18,566
	-----	-----	-----
Total inventories	\$ 225,953	\$ 215,228	\$ 106,808
	=====	=====	=====
Accumulated amortization of prepublication costs	\$ 252,169	\$ 282,052	\$ 149,449
	=====	=====	=====

Prepublication costs of \$92.4 million included in inventory at March 31, 1993 have been reclassified to a separate non-current category to conform with current industry practice.

Financial Information (cont'd)

McGraw-Hill, Inc.
Notes to Financial Statements

5. A subsidiary of J.J Kenny Co. acts as an undisclosed agent in the purchase and sale of municipal securities for broker-dealers and dealer banks and the company had \$560.5 million of matched purchase and sale commitments at March 31, 1994. Only those transactions not closed at the settlement date are reflected in the balance sheet as receivables and payables.

6. A summary of long-term debt follows:

	March 31, 1994	Dec. 31, 1993	March 31, 1993
	-----	-----	-----
		(In thousands)	
9.43% senior notes due 2000	\$ 250,000	\$ 250,000	\$ 250,000
Commercial paper supported by bank revolving credit agreement	500,000	500,000	75,000
Other	7,943	7,930	8,499
	-----	-----	-----
	757,943	757,930	333,499
Less: portion included in other current liabilities	53	363	80
	-----	-----	-----
Total long-term debt	\$ 757,890	\$ 757,567	\$ 333,419
	=====	=====	=====

7. Common shares reserved for issuance, for conversions and for the exercise of stock options were as follows:

	March 31, 1994	Dec. 31, 1993	March 31, 1993
	-----	-----	-----
\$1.20 convertible preference stock at the rate of 3.3 shares for each share of preference stock	5,277	5,277	5,326
Exercise of stock options	1,956,218	2,054,087	2,140,085
	-----	-----	-----
	1,961,495	2,059,364	2,145,411
	=====	=====	=====

8. Cash dividends per share declared during the three months ended March 31, 1994 and 1993 were as follows:

	1994	1993
	----	----
Common stock	\$.58	\$.57
Preference stock	.30	.30

Financial Information (cont'd)

Management's Discussion and Analysis of Operating Results and Financial Condition

Operating Results - Comparing Three Months Ended March 31, 1994 and 1993

Consolidated Review

The company acquired its partner's 50% interest in the Macmillan/McGraw-Hill School Publishing Company in October 1993. The company now owns 100% of the former joint venture company which was renamed the McGraw-Hill School Publishing Company in 1994. School Publishing's results are consolidated in the company's 1994 first quarter segment results in the Educational and Professional Publishing segment. 1993's results reflect the company's 50% equity share of the former joint venture's seasonal loss.

Operating revenue for the quarter grew \$92.8 million, or 19.9%, to \$559.8 million. \$57 million of the revenue increase reflects the consolidation of School Publishing. The remainder of the revenue increase reflects volume increases and new products in the Financial Services' units as well as a mix of price and volume increases in Educational and Professional Publishing and Information and Media Services.

Net income declined 1.9% to \$15 million from \$15.3 million reflecting the seasonal impact of owning 100% of School Publishing. Excellent results in Financial Services, gains in Broadcasting and some of the other advertising-based businesses, and improved results in School Publishing significantly offset the incremental impact of recognizing 100% of School Publishing's first quarter seasonal loss. Earnings per share were 30 cents versus 31 cents last year.

Total expenses in 1994 increased \$111.4 million or 26.9% reflecting the inclusion of School Publishing. Excluding School Publishing, the company's expenses increased 7.4% due primarily to volume increases in some market focus groups and some cost increases.

Net interest expense increased \$3.1 million due primarily to increased borrowings associated with the acquisition of the additional 50% of the school publishing joint venture.

The provision for taxes as a percent of income before taxes was 41.2% in the 1994 quarter and 42.7% in 1993. The 1994 rate reflects a reduction in the state effective tax rate due to a restructuring of subsidiaries in the second quarter of 1993, partially offset by an increase in the federal tax rate.

Financial Information (cont'd)

Segment Review

Educational and Professional Publishing revenue increased \$66.4 million or 60.4%, due largely to the inclusion of School Publishing revenues of \$57 million. Revenue increases were also reported by all of the market focus groups in the segment, with excellent growth in medical publishing. Operating profit declined sharply due to the seasonal loss of School Publishing. School publishers typically report losses in the first quarter. School Publishing's improved year to year performance significantly reduced the impact of absorbing the full seasonal loss in 1994's first quarter. School Publishing's operating results improved from last year reflecting increased sales, principally reorders from adoption states, and reduced costs from actions taken last year. Despite the revenue increase in the first quarter, School Publishing still anticipates a full year revenue decline in 1994 due to an unfavorable state adoption cycle. The impact on profits from the full year revenue decline will be mitigated by cost reduction measures. Excluding School Publishing, the combined operating results of the company's other publishing units improved slightly from last year. The company is proceeding with plans to consolidate certain functions and systems of School Publishing and its other book publishing operations. This consolidation should be completed by mid-1995 and is expected to generate annual savings of more than \$10 million, which will begin to be realized later this year.

Financial Services' revenue grew \$21.6 million or 12.5% and operating profit increased \$7.1 million, or 13.6%. Standard & Poor's Debt Rating benefited from increased activity in the high yield bond market. The Ratings Group' growth reflects greater penetration in international markets and new ratings initiatives. The Financial Information Services Group benefited from gains at S&P ComStock and Kenny Evaluation and Information Services.

Information and Media Services revenue increased \$4.8 million or 2.6%, while operating profit declined \$1.6 million, or 10.1%. Strong performance in Broadcasting and improved advertising pages at Business Week and several other publications contributed to the revenue increase. Broadcasting's results reflect strong gains at the Denver station due to improved overall ratings and the Winter Olympics. Construction Information Group' profits declined due to the continued sluggish recovery in the construction industry, particularly in the northeast where the severe winter had a harsh impact on the industry.

Financial Condition

The company continues to maintain a strong financial position. Cash flow from operations declined to \$48 million from \$66 million last year, reflecting the company's 100% ownership and the seasonal impact of the School Publishing business. Total debt was \$912.2 million, down \$16.5 million from yearend.

Financial Information (cont'd)

Financial Condition (cont'd)

Commercial paper borrowings at March 31, 1994 totaled \$651.1 million, a decrease of \$16.6 million from December 31, 1993. Commercial paper debt is supported by a \$500 million revolving credit agreement with a group of banks terminating in November 1997, and \$500 million has been classified as long-term. The company has several other revolving credit agreements that terminate in 1994 totaling \$350 million. There are no amounts outstanding under these agreements.

Under a shelf registration which became effective with the Securities and Exchange Commission in mid-1990, the company can issue an additional \$250 million of debt securities. The new debt could be used to replace a portion of the commercial paper borrowings with longer term securities.

Accounts receivable before reserves of \$700.7 million decreased by \$90.6 million from the end of 1993, due primarily to the seasonal nature of some of the company's businesses. Receivables were \$111 million higher than at March 31, 1993, as a result of the inclusion of School Publishing in 1994 and increased receivables resulting from higher revenues than a year ago.

Inventories increased \$10.7 million to \$226 million from the end of 1993 due primarily to the seasonal buildup for the Sweet's Files. Inventories were \$119.1 million higher than at March 31, 1993 as a result of the inclusion of School Publishing in 1994.

Net prepublication costs at March 31 increased \$8.5 million from the end of 1993 to \$293.9 million due to additional spending on new titles and school programs net of first quarter amortization expense. Net prepublication costs were \$201.5 million higher than at March 31, 1993 as a result of the inclusion of School Publishing in 1994. Investment in prepublication costs of \$24.1 million in the quarter ended March 31, 1994 increased \$12.8 million over last year's first quarter, and amortization expense increased \$6.6 million, due primarily to the inclusion of School Publishing in 1994.

Purchases of property and equipment of \$7.1 million approximated the level of the prior year. The purchases were primarily for computer equipment for the market focus groups.

Part II

Other Information

Item 6. Exhibits and Report on Form 8-K

a) Exhibits

(12) Computation of ratio of earnings to fixed charges.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

McGRAW-HILL, INC.

Date: 5/6/94

By Robert J. Bahash

Robert J. Bahash
Executive Vice President
and Chief Financial Officer

Date: 5/6/94

By Thomas J. Kilkenny

Thomas J. Kilkenny
Vice President and Controller

Date: 5/6/94

By Robert N. Landes

Robert N. Landes
Executive Vice President,
Secretary and General Counsel

McGraw-Hill, Inc.

Computation of Ratio of Earnings to Fixed Charges

Periods Ended March 31, 1994

	Three Months	Twelve Months
	-----	-----
	(In thousands)	
Earnings		
Earnings from continuing operations		
before income tax expense and unusual		
charges in 1993 (a) (b).....	\$ 24,013	\$ 291,183
Fixed charges.....	20,292	76,508
Capitalized interest.....	(88)	(527)
	-----	-----
Total Earnings.....	\$ 44,217	\$ 367,164
	=====	=====
Earnings from continuing operations		
before income tax expense (b).....	\$ 24,013	\$ 61,383
Fixed charges.....	20,292	76,508
Capitalized interest.....	(88)	(527)
	-----	-----
Total Earnings.....	\$ 44,217	\$ 137,364
	=====	=====
Fixed Charges (b)		
Interest expense.....	\$ 12,267	\$ 48,271
Portion of rental payments deemed to be		
interest.....	8,025	28,237
	-----	-----
Total Fixed Charges.....	\$ 20,292	\$ 76,508
	=====	=====
Ratio of Earnings to Fixed Charges		
Before unusual charges	2.2x	4.8x
After unusual charges	2.2x	1.8x

(a) Unusual charges in 1993 totaled \$229.8 million before taxes in connection with the purchase of 50% interest in the Macmillan/McGraw-Hill School Publishing Company owned by Macmillan for \$337.5 million in cash. The unusual charges consisted of \$199.8 million primarily to adjust the company's original investment to values established in this transaction. This charge has been allocated primarily to goodwill and other intangibles. In addition, the company recorded a provision of \$30 million relating to the consolidation of certain functions and systems of Macmillan/McGraw-Hill and the company's book publishing operations.

(b) For purposes of computing the ratio of earnings to fixed charges, "earnings from continuing operations before income taxes" excludes undistributed equity in income of less than 50%-owned companies. "Fixed charges" consist of (1) interest on debt and capital leases, (2) the portion of the company's rental expense deemed representative of the interest factor in rental expense, and (3) the company's proportionate share of such fixed charges of the Macmillan/McGraw-Hill joint venture through September 30, 1993.