

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2005

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

THE MCGRAW-HILL COMPANIES, INC.

(Exact name of registrant as specified in its charter)

New York

(State of other jurisdiction of
incorporation or organization)

13-1026995

(I.R.S. Employer
Identification No.)

1221 Avenue of the Americas, New York, N.Y.

(Address of Principal executive offices)

10020

(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

NO

Indicate by check mark whether the Registrant is an accelerated filer.

YES

NO

On July 15, 2005 there were approximately 373.8 million shares of common stock (par value \$1.00 per share) outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Report of Independent Registered Public Accounting Firm	3
Consolidated Statement of Income for the three and six month periods ended June 30, 2005 and 2004	4
Consolidated Balance Sheet at June 30, 2005, December 31, 2004 and June 30, 2004	5
Consolidated Statement of Cash Flows for the six months ended June 30, 2005 and 2004	7
Notes to Consolidated Financial Statements	8

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	17
---	----

Item 3. Quantitative and Qualitative Disclosures About Market Risk	41
--	----

Item 4. Controls and Procedures	41
---------------------------------	----

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	42
---------------------------	----

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	42
---	----

Item 4. Submission of Matters to a Vote of Security Holders	43
---	----

Item 6. Exhibits	43
------------------	----

- EX-3: RESTATED CERTIFICATE OF INCORPORATION
- EX-10: FIRST AMENDMENT TO FIVE-YEAR CREDIT AGREEMENT
- EX-12: COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
- EX-15: LETTER ON UNAUDITED INTERIM FINANCIALS
- EX-31.1: CERTIFICATION
- EX-31.2: CERTIFICATION
- EX-32: CERTIFICATION

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
of The McGraw-Hill Companies, Inc.

We have reviewed the consolidated balance sheet of The McGraw-Hill Companies, Inc., as of June 30, 2005, and the related consolidated statements of income for the three-month and six-month periods ended June 30, 2005 and 2004, and the consolidated statements of cash flows for the six-month periods ended June 30, 2005 and 2004. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The McGraw-Hill Companies, Inc. as of December 31, 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated February 22, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2004, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Ernst & Young LLP

July 26, 2005

Part I
Financial Information

Item 1. Financial Statements

The McGraw-Hill Companies, Inc.
Consolidated Statement of Income
Periods Ended June 30, 2005 and 2004

(in thousands, except per share data)	Three Months		Six Months	
	2005	2004	2005	2004
Revenue (Note 3)				
Product revenue	\$ 649,096	\$ 577,260	\$ 977,942	\$ 892,285
Service revenue	807,181	668,702	1,507,341	1,273,544
Total revenue	1,456,277	1,245,962	2,485,283	2,165,829
Expenses				
Operating related expense				
Product	322,185	280,702	526,160	462,849
Service	252,256	213,737	479,008	417,950
Total operating related expense	574,441	494,439	1,005,168	880,799
Selling and general expense				
Product	254,584	230,908	455,383	422,073
Service	275,135	225,789	513,809	448,022
Total selling and general expense	529,719	456,697	969,192	870,095
Depreciation	26,134	22,992	50,837	45,188
Amortization of intangibles	12,010	6,774	20,439	13,639
Total expenses	1,142,304	980,902	2,045,636	1,809,721
Income from operations	313,973	265,060	439,647	356,108
Interest expense	3,512	2,161	4,210	3,898
Income from continuing operations before taxes on income	310,461	262,899	435,437	352,210
Provision for taxes on income (Note 12)	115,491	97,273	161,732	110,318
Income from continuing operations	194,970	165,626	273,705	241,892
Discontinued operations (Note 4):				
Juvenile retail publishing business	—	—	—	(931)
Income tax benefit	—	—	—	(344)
Loss from discontinued operations	—	—	—	(587)
Net income (Notes 1 and 2)	\$ 194,970	\$ 165,626	\$ 273,705	\$ 241,305
Basic earnings per common share				
Income from continuing operations	\$ 0.52	\$ 0.44	\$ 0.73	\$ 0.64
Net income	\$ 0.52	\$ 0.44	\$ 0.73	\$ 0.63
Diluted earnings per common share				
Income from continuing operations	\$ 0.51	\$ 0.43	\$ 0.71	\$ 0.63
Net income	\$ 0.51	\$ 0.43	\$ 0.71	\$ 0.63
Average number of common shares outstanding: (Notes 7 and 9)				
Basic	373,534	379,180	376,191	380,226
Diluted	380,047	385,214	383,332	386,152

See accompanying notes.

The McGraw-Hill Companies, Inc.

Consolidated Balance Sheet

(in thousands)	June 30, 2005	Dec. 31, 2004	June 30, 2004
ASSETS			
Current assets:			
Cash and equivalents	\$ 245,895	\$ 680,623	\$ 383,578
Accounts receivable (net of allowance for doubtful accounts and sales returns) (Note 5)	1,121,069	1,002,408	916,203
Inventories (Note 5)	433,879	327,781	375,716
Deferred income taxes	267,058	258,157	235,221
Prepaid and other current assets	148,925	157,153	114,645
Total current assets	<u>2,216,826</u>	<u>2,426,122</u>	<u>2,025,363</u>
Prepublication costs (net of accumulated amortization) (Note 5)	455,584	428,205	455,395
Investments and other assets:			
Prepaid pension expense (Note 10)	294,330	299,792	293,825
Other	225,444	220,611	220,493
Total investments and other assets	<u>519,774</u>	<u>520,403</u>	<u>514,318</u>
Property and equipment — at cost	1,244,602	1,195,792	1,109,567
Less — accumulated depreciation	729,964	682,726	657,083
Net property and equipment	514,638	513,066	452,484
Goodwill and other intangible assets:			
Goodwill — net (Note 4)	1,741,769	1,505,340	1,240,326
Copyrights — net	220,911	228,502	236,460
Other intangible assets — net	495,284	219,643	178,033
Net goodwill and intangible assets	<u>2,457,964</u>	<u>1,953,485</u>	<u>1,654,819</u>
Total assets	<u>\$6,164,786</u>	<u>\$5,841,281</u>	<u>\$5,102,379</u>

See accompanying notes.

The McGraw-Hill Companies, Inc.

Consolidated Balance Sheet

(in thousands)	June 30, 2005	Dec. 31, 2004	June 30, 2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes payable	\$ 389,205	\$ 4,613	\$ 4,398
Accounts payable	285,522	318,301	276,025
Accrued royalties	51,925	103,844	45,198
Accrued compensation and contributions to retirement plans (Note 10)	314,084	411,330	271,072
Income taxes currently payable	166,741	78,776	96,727
Unearned revenue	796,920	719,948	654,080
Deferred gain on sale leaseback (Note 11)	7,516	7,516	7,516
Other current liabilities	333,851	302,626	332,478
Total current liabilities	<u>2,345,764</u>	<u>1,946,954</u>	<u>1,687,494</u>
Other liabilities:			
Long-term debt (Note 6)	350	513	380
Deferred income taxes	321,740	232,081	170,316
Accrued postretirement healthcare and other benefits (Note 10)	161,817	164,021	166,775
Deferred gain on sale leaseback (Note 11)	193,513	197,267	201,069
Other non-current liabilities	329,774	315,932	270,569
Total other liabilities	<u>1,007,194</u>	<u>909,814</u>	<u>809,109</u>
Total liabilities	<u>3,352,958</u>	<u>2,856,768</u>	<u>2,496,603</u>
Shareholders' equity (Notes 7 and 8):			
Capital stock	411,709	205,855	205,854
Additional paid-in capital	3,831	113,843	112,641
Retained income	3,751,498	3,680,852	3,280,199
Accumulated other comprehensive income	(55,347)	(32,255)	(65,529)
	<u>4,111,691</u>	<u>3,968,295</u>	<u>3,533,165</u>
Less — common stock in treasury-at cost	1,271,727	963,751	899,662
Unearned compensation on restricted stock	28,136	20,031	27,727
Total shareholders' equity	<u>2,811,828</u>	<u>2,984,513</u>	<u>2,605,776</u>
Total liabilities and shareholders' equity	<u>\$6,164,786</u>	<u>\$5,841,281</u>	<u>\$5,102,379</u>

See accompanying notes.

Table of Contents

The McGraw-Hill Companies, Inc.
 Consolidated Statement of Cash Flows
 For the Six Months Ended June 30, 2005 and 2004

(in thousands)	2005	2004
Cash flows from operating activities		
Net income	\$ 273,705	\$ 241,305
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	50,837	45,277
Amortization of intangibles	20,439	13,639
Amortization of prepublication costs	80,380	105,151
Provision for losses on accounts receivable	13,233	8,483
Other	(122)	3,777
Changes in assets and liabilities net of effect of acquisitions and dispositions:		
(Increase)in accounts receivable	(106,881)	(30,940)
(Increase) in inventories	(106,768)	(78,230)
Decrease/(Increase)in prepaid and other current Assets	26,039	(42,860)
(Decrease)in accounts payable and accrued expenses	(216,174)	(159,585)
Increase in unearned revenue	63,479	60,400
Increase/(Decrease) in other current liabilities	10,687	(3,800)
Increase/(Decrease) in interest and income taxes currently payable	106,163	(120,153)
Net change in deferred income taxes	(5,865)	(10,398)
Net change in other assets and liabilities	19,937	(3,851)
Cash provided by operating activities	<u>229,089</u>	<u>28,215</u>
Investing activities		
Investment in prepublication costs	(109,890)	(104,938)
Purchases of property and equipment	(43,826)	(39,028)
Acquisition of businesses and equity interests	(449,965)	(4,753)
Disposition of property, equipment and businesses	18,033	45,678
Additions to technology projects	(5,978)	(6,596)
Cash (used for) investing activities	<u>(591,626)</u>	<u>(109,637)</u>
Financing activities		
Additions/(Payments) on short-term debt — net	371,003	(21,693)
Dividends paid to shareholders	(122,782)	(114,301)
Repurchase of treasury shares	(383,923)	(223,025)
Exercise of stock options	80,281	132,171
Other	(95)	(166)
Cash (used for) financing activities	<u>(55,516)</u>	<u>(227,014)</u>
Effect of exchange rate changes on cash	<u>(16,675)</u>	<u>(3,577)</u>
Net change in cash and equivalents	<u>(434,728)</u>	<u>(312,013)</u>
Cash and equivalents at beginning of period	<u>680,623</u>	<u>695,591</u>
Cash and equivalents at end of period	<u>\$ 245,895</u>	<u>\$ 383,578</u>

See accompanying notes.

The McGraw-Hill Companies, Inc.
Notes to Consolidated Financial Statements

1. Basis of Presentation

The financial information in this report has not been audited, but in the opinion of management all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly such information have been included. The operating results for the three and six months ended June 30, 2005 and 2004 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, 2004.

The Company's critical accounting policies and estimates are disclosed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Company's annual report on Form 10-K for the year ended December 31, 2004. On an ongoing basis, the Company evaluates its estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts and sales returns, valuation of inventories, prepublication costs, valuation of long-lived assets, goodwill and other intangible assets, retirement plans and postretirement healthcare and other benefits and income taxes. Since the date of the annual report on Form 10-K, there have been no material changes to the Company's critical accounting policies and estimates.

Certain prior year amounts have been reclassified for comparability purposes.

All share and per share figures have been restated to reflect the two-for-one stock split announced April 27, 2005. See Note 7 for further detail.

In December 2002, The FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation, and requires additional disclosures in interim and annual financial statements. The disclosure in interim periods requires pro forma net income and net income per share as if the Company adopted the fair value method of accounting for stock-based awards. Pro forma net income and earnings per share primarily reflecting compensation cost for the fair value of stock options were as follows:

(in thousands except earnings per share data)	Three Months		Six Months	
	2005	2004	2005	2004
Net income, as reported	\$194,970	\$165,626	\$273,705	\$241,305
Stock-based compensation cost included in net income, net of tax	5,099	3,380	8,658	6,299
Fair value of stock based compensation cost, net of tax	(18,006)	(13,796)	(33,592)	(27,294)
Pro forma net income	<u>\$182,063</u>	<u>\$155,210</u>	<u>\$248,771</u>	<u>\$220,310</u>
Basic earnings per common share as reported	\$ 0.52	\$ 0.44	\$ 0.73	\$ 0.63
Pro forma	\$ 0.49	\$ 0.41	\$ 0.66	\$ 0.58
Diluted earnings per common share as reported	\$ 0.51	\$ 0.43	\$ 0.71	\$ 0.63
Pro forma	\$ 0.48	\$ 0.40	\$ 0.65	\$ 0.57
Basic weighted average shares outstanding	373,534	379,180	376,191	380,226
Diluted weighted average shares outstanding	380,047	385,214	383,332	386,152

The McGraw-Hill Companies, Inc.
Notes to Consolidated Financial Statements

The weighted average fair value of options granted during the six months ended June 30, 2005 and 2004 was \$7.91 and \$6.40, respectively. The fair value of each option grant was estimated on the date of the grant using a lattice option-pricing model in 2005 and the Black-Scholes option-pricing model in 2004, using the following assumptions:

	<u>2005</u>	<u>2004</u>
Risk free average interest rate	1.99 — 4.64%	2.9%
Dividend yield	1.6%	1.6%
Volatility	16 — 24%	17.0%
Expected life (years)	0.5 — 6.8	5.0

2. Comprehensive Income

The following table is a reconciliation of the Company's net income to comprehensive income for the three and six month periods ended June 30:

(in thousands)	<u>Three Months</u>		<u>Six Months</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net income	\$194,970	\$165,626	\$273,705	\$241,305
Other comprehensive (loss)/ income:				
Foreign currency translation adjustments	(20,237)	(1,055)	(23,092)	3,995
Comprehensive income	<u>\$174,733</u>	<u>\$164,571</u>	<u>\$250,613</u>	<u>\$245,300</u>

3. Segment and Related Information

The Company has three reportable segments: McGraw-Hill Education, Financial Services, and Information and Media Services. McGraw-Hill Education is one of the premier global educational publishers serving the elementary and high school, college and university, professional and international markets. In January 2004, the Company divested Landoll, Frank Schaffer and related juvenile retail publishing businesses, which were part of the McGraw-Hill Education segment. In accordance with SFAS No. 144, the Company reflected the results of these businesses as discontinued operations as of December 31, 2003 (See Note 4). The Financial Services segment operates under the Standard & Poor's brand and provides credit ratings, evaluation services, and analyses globally on corporations, financial institutions, securitized and project financings, and local, state and sovereign governments. Financial Services provides a wide range of analytical and data services for investment managers and investment advisors globally. The Financial Services segment is also a leading provider of valuation and consulting services. During the first six months of 2005, the Company acquired Vista Research and an additional 49.07% investment in CRISIL Limited. The assets of these acquisitions total approximately \$133 million. These acquisitions are included as part of the Financial Services segment. The results and assets of these acquisitions are not considered material to the Company. The Information and Media Services (IMS) segment includes business and professional media offering information, insight and analysis. Included in the results of the IMS segment are the results of J.D. Power and Associates which was acquired on April 1, 2005 (see Note 4). The assets acquired in this acquisition totaled approximately \$507 million. J.D. Power and Associates results and assets are not considered material to the Company.

The McGraw-Hill Companies, Inc.

Notes to Consolidated Financial Statements

In accordance with Emerging Issues Task Force Issue 00-10, "Accounting for Shipping and Handling Fees and Costs," all amounts billed to customers in a sales transaction for shipping and handling are classified as revenue. All prior periods have been reclassified to comply with the classification guidelines of this issue.

Operating profit by segment is the primary basis for the chief operating decision maker of the Company, the Executive Committee, to evaluate the performance of each segment. A summary of operating results by segment for the three and six months ended June 30, 2005 and 2004 follows:

(in thousands)	2005		2004	
	Revenue	Operating Profit	Revenue	Operating Profit
Three Months				
McGraw-Hill Education	\$ 628,647	\$ 71,591	\$ 547,386	\$ 57,055
Financial Services	597,366	258,286	504,472	214,205
Information and Media Services	230,264	13,608	194,104	24,841
Total operating segments	1,456,277	343,485	1,245,962	296,101
General corporate expense	—	(29,512)	—	(31,041)
Interest expense	—	(3,512)	—	(2,161)
Total Company	<u>\$1,456,277</u>	<u>\$310,461*</u>	<u>\$1,245,962</u>	<u>\$262,899*</u>

* Income from continuing operations before taxes on income.

(in thousands)	2005		2004	
	Revenue	Operating Profit	Revenue	Operating Profit
Six Months				
McGraw-Hill Education	\$ 935,947	\$ (7,083)	\$ 833,875	\$ (11,741)
Financial Services	1,144,647	480,798	961,107	388,044
Information and Media Services	404,689	18,354	370,847	38,492
Total operating segments	2,485,283	492,069	2,165,829	414,795
General corporate expense	—	(52,422)	—	(58,687)
Interest expense	—	(4,210)	—	(3,898)
Total Company	<u>\$2,485,283</u>	<u>\$435,437*</u>	<u>\$2,165,829</u>	<u>\$352,210*</u>

* Income from continuing operations before taxes on income.

4. Acquisitions and Dispositions

Acquisitions: During the first six months of 2005, the Company paid approximately \$450.0 million for the acquisitions of Vista Research, Inc. and J.D. Power and Associates and an additional 49.07% investment in its investment in CRISIL Limited. The excess of the purchase price over the net assets acquired for these acquisitions was preliminarily allocated to goodwill and other intangibles in the amount of \$234.3 million and \$279.7 million, respectively. These acquisitions are discussed in further detail below.

On May 9, 2005, the Company announced that it became the majority shareholder of CRISIL Limited (CRISIL), a leading provider of credit ratings, financial news and risk and policy advisory services in India. During the Company's recent tender offer, it received valid acceptances for 3,120,948 shares, representing 49.07% of CRISIL. When combined with

The McGraw-Hill Companies, Inc.

Notes to Consolidated Financial Statements

its existing interest, the Company now owns 3,720,948 shares, or 58.5% of CRISIL. CRISIL's operations will be integrated with the Financial Services segment and will allow the Company to leverage opportunities in India. CRISIL is now part of the Financial Services segment.

On April 1, 2005, the Company acquired Vista Research, Inc., a leading provider of primary research. Vista will enhance the growth prospects of the Financial Services segment's research product suite by providing clients with access to professionals with direct experience in industries such as technology, media, telecommunications and healthcare.

Vista's network of industry practitioners is able to offer investors fresh, field-level insights about issues and conditions affecting companies and sectors. Vista Research, Inc. is now part of the Financial Services segment.

On April 1, 2005, the Company acquired J.D. Power and Associates. J.D. Power and Associates, founded in 1968 by J.D. Power III, is a leading provider of marketing information services for the global automotive industry and has established a strong and growing presence in several other important industries, including finance and insurance, healthcare, home building, telecommunications and energy. Its customer satisfaction ratings and market research are recognized worldwide as benchmarks for quality and independence. The company, which includes the Power Information Network, LLC, has 787 employees, and operates globally in 12 locations.

The acquisition will enhance our growth prospects for our core business information platform by providing a new direct link to consumers, while also providing new collaborative opportunities with our leading franchises including *BusinessWeek*, Platts, McGraw-Hill Construction, Aviation Week and healthcare. J.D. Power and Associates is now part of the Information and Media Services (IMS) segment.

Dispositions: In January 2004, the Company sold the juvenile retail publishing business, which was part of the McGraw-Hill Education segment's School Education Group. The juvenile retail publishing business produced consumer-oriented learning products for sale through educational dealers, mass merchandisers, bookstores and e-commerce. This business was selected for divestiture as it no longer fit within the Company's strategic plans. The market was considered to have limited future growth potential, unique sales channels and low profit margins and would have required significant investment to achieve the limited growth potential.

As of December 31, 2003, in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company reviewed the carrying value of the juvenile retail publishing business's net assets and adjusted the net assets to their fair market value less cost to sell. Accordingly, the Company recognized impairments to the carrying value of these net assets of approximately \$75.9 million (\$54.1 million after-tax, or 28 cents per diluted share) in 2003. Approximately \$70.1 million of that charge was a write-off of goodwill and intangibles.

The McGraw-Hill Companies, Inc.

Notes to Consolidated Financial Statements

As a result of the Company's disposition of the juvenile retail publishing business, the results of these businesses are reflected as discontinued operations for all periods presented. For the six months ended June 30, 2004, the juvenile retail publishing business generated revenue of approximately \$3.9 million and had an immaterial impact on operating profit.

5. Allowances, Inventories and Accumulated Amortization of Prepublication Costs

The allowances for doubtful accounts and sales returns, the components of inventory and the accumulated amortization of prepublication costs were as follows:

(in thousands)	June 30, 2005	Dec. 31, 2004	June 30, 2004
Allowance for doubtful accounts	\$ 76,949	\$ 80,570	\$ 87,722
Allowance for sales returns	\$107,276	\$ 178,128	\$115,397
Inventories:			
Finished goods	\$395,773	\$ 292,693	\$343,260
Work-in-process	16,190	15,255	11,853
Paper and other materials	21,916	19,833	20,603
Total inventories	\$433,879	\$ 327,781	\$375,716
Accumulated amortization of prepublication costs	\$876,471	\$1,074,645	\$930,797

6. Debt

A summary of long-term debt follows:

(in thousands)	June 30, 2005	Dec. 31, 2004	June 30, 2004
Total long-term debt	\$ 350	\$ 513	\$ 380

Commercial paper borrowings at June 30, 2005, totaled \$384.8 million and are categorized as current. There were no commercial paper borrowings as of June 30, 2004.

The Company has a five-year revolving credit facility agreement of \$1.2 billion that expires on July 20, 2009. The Company pays a facility fee of seven basis points on the credit facility agreement whether or not amounts have been borrowed, and borrowings may be made at a spread of 13 basis points above the prevailing LIBOR rates. This spread increases to 18 basis points for borrowings exceeding 50% of the total capacity available under the facility.

On July 5, 2005, the Company amended its credit facility to implement a materiality threshold for determining whether the effects of acquisitions and dispositions are included in the financial calculations for covenant reporting. The amended facility contains certain covenants and the only financial covenant requires that the Company not exceed indebtedness to cash flow ratio, as defined of 4 to 1 at any time. This restriction has never been exceeded. There were no borrowings under the amended facility as of June 30, 2005 and 2004.

The McGraw-Hill Companies, Inc.
Notes to Consolidated Financial Statements

7. Capital Structure

On April 27, 2005, the Company's Board of Directors approved a two-for-one stock split of the Company's common stock to be effected in the form of a 100 percent stock dividend to shareholders of record as of May 6, 2005. On May 17, 2005, the Company's shareholders received one additional share for each share in their possession on the date of record. This did not change the proportionate interest a shareholder maintains in the Company.

The number of common shares reserved for issuance for employee stock plan awards and under the Director Deferred Stock Ownership Plan, were as follows:

(in thousands)	June 30, 2005	Dec. 31, 2004	June 30, 2004
Stock based awards	<u>63,300</u>	<u>64,396</u>	<u>65,648</u>

The number of common shares issued upon exercise of stock based awards were as follows:

(in thousands)	2005	2004	2004
Stock based awards exercised	<u>3,201</u>	<u>10,176</u>	<u>5,272</u>

8. Cash Dividends

Cash dividends per share have been restated to reflect the two-for-one stock split announced April 27, 2005 and effective May 17, 2005 to shareholders of record on May 6, 2005.

Cash dividends per share declared during the three and six months ended June 30, 2005 and 2004 were as follows:

	Three Months		Six Months	
	2005	2004	2005	2004
Common stock	\$ 0.165	\$ 0.150	\$ 0.330	\$ 0.300

9. Common Shares Outstanding

A reconciliation of the number of shares used for calculating basic earnings per common share and diluted earnings per common share for the three and six months ended June 30, 2005 and 2004 follows:

(in thousands)	Three Months		Six Months	
	2005	2004	2005	2004
Average number of common shares outstanding	373,534	379,180	376,191	380,226
Effect of stock options and other diluted securities	<u>6,513</u>	<u>6,034</u>	<u>7,141</u>	<u>5,926</u>
Average number of common shares outstanding including effect of dilutive securities	<u>380,047</u>	<u>385,214</u>	<u>383,332</u>	<u>386,152</u>

The McGraw-Hill Companies, Inc.

Notes to Consolidated Financial Statements

Restricted performance shares outstanding at June 30, 2005 and 2004 of 1,458,000 and 1,528,000 were not included in the computation of diluted earnings per common shares because the necessary vesting conditions have not yet been met.

10. Retirement Plans and Postretirement Healthcare and Other Benefits

A summary of net periodic benefit cost for the Company's defined benefit plans and postretirement healthcare and other benefits for the three and six months ended June 30, 2005 and 2004 is as follows:

(in thousands) Defined Benefit Plan	Three Months		Six Months	
	2005	2004	2005	2004
Service cost	\$ 11,967	\$ 10,599	\$ 24,445	\$ 21,431
Interest cost	15,004	13,711	30,019	27,315
Expected return on plan assets	(22,150)	(24,470)	(44,335)	(49,063)
Amortization of prior service cost	83	94	167	164
Recognized net actuarial loss	1,491	130	2,843	260
Net periodic benefit cost	<u>\$ 6,395</u>	<u>\$ 64</u>	<u>\$ 13,139</u>	<u>\$ 107</u>

(in thousands) Postretirement Healthcare and Other Benefits	Three Months		Six Months	
	2005	2004	2005	2004
Service cost	\$ 475	\$ 572	\$ 950	\$ 1,145
Interest cost	2,324	2,758	4,648	5,516
Amortization of prior service cost	(266)	(593)	(532)	(1,187)
Net periodic benefit cost	<u>\$ 2,533</u>	<u>\$ 2,737</u>	<u>\$ 5,066</u>	<u>\$ 5,474</u>

Effective January 1, 2005 the Company changed its expected rate of return on plan assets to 8.0% from 8.75%. The expected rate of return on plan assets is based on a market-related value of assets, which recognizes changes in market value over five years. Additionally, effective January 1, 2005, the Company changed its discount rate assumptions on its retirement plans to 5.75% from 6.25% in 2004. The effect of these changes on pension expense for the three and six months ended June 30, 2005 was an increase in expense of \$3.8 million pretax and \$7.5 million pretax, respectively. On a post-split basis, the per share impact for the quarter was a half cent per diluted share, and for the six months ended June 30, 2005, the increase in expense was one cent per diluted share. There has been no significant change in the Company's expected contributions to the above plans from what was disclosed in the Company's 2004 consolidated financial statements.

11. Sale Leaseback Transaction

In December 2003, the Company sold its 45% equity investment in Rock-McGraw, Inc. Rock-McGraw, Inc. owns the Company's headquarters building in New York City. The transaction was valued at \$450.0 million, including assumed debt. Proceeds from the disposition were \$382.1 million. The sale resulted in a pre-tax gain of \$131.3 million and an after-tax benefit of \$58.4 million, or 15 cents per diluted share (post-split) in 2003.

The McGraw-Hill Companies, Inc.

Notes to Consolidated Financial Statements

The Company remains an anchor tenant of what continues to be known as The McGraw-Hill Companies building and will continue to lease space from Rock-McGraw, Inc., under an existing lease. As of December 31, 2004, the Company had a lease for approximately 17% of the building space for approximately 15 years, which is being accounted for as an operating lease. Pursuant to sale leaseback accounting rules, as a result of the Company's continued involvement, a gain of approximately \$212.3 million (\$126.3 million after-tax) was deferred and will be amortized over the remaining lease term as a reduction in rent expense. Information relating to the sale-leaseback transaction for the three and six months ended June 30, 2005 and 2004 is as follows:

(in millions)	Three Months		Six Months	
	2005	2004	2005	2004
Reduction in rent expense	\$(4.2)	\$(4.3)	\$(8.4)	\$(8.6)
Interest expense	2.3	2.4	4.7	4.8

12. Income Taxes

In calculating the provision for income taxes on an interim basis, the Company uses an estimate of the annual effective tax rate based upon the facts and circumstances known. The Company's effective tax rate is based on expected income, statutory tax rates and permanent differences between financial statement and tax return income applicable to the Company in the various jurisdictions in which the Company operates.

Significant judgment is required in determining the Company's effective tax rate and in evaluating the Company's tax position. The Company establishes reserves when, despite its belief that the tax return positions are supportable, it believes that certain positions are likely to be challenged and it may not succeed. Based on an evaluation of the Company's tax positions, the Company believes that it is appropriately accrued under SFAS No. 5, "Accounting for Contingencies" for all probable and estimable expenses. All periods presented utilized these same basic assumptions. The Company adjusts these reserves in light of changing facts and circumstances. The effective tax rate includes the impact of reserve provisions and changes to reserves that the Company considers appropriate.

The Company has completed various federal, state and local, and foreign tax audit cycles and, in the first quarter of 2004, accordingly removed approximately \$20.0 million from its accrued income tax liability accounts. This non-cash item resulted in a reduction to the overall effective tax rate for continuing operations for the first six months of 2004 from 37.0% to 31.3%. The effective tax rate for the first six months of 2005 of approximately 37.1% is a weighted blend of the rates for the first and second quarters of 2005; 37.0% and 37.2%, respectively. The Company remains subject to federal audits for 2002 and subsequent years, and to state and local and foreign tax audits for a variety of open years depending upon the jurisdiction in question.

The McGraw-Hill Companies, Inc.
Notes to Consolidated Financial Statements

13. Recently Issued Accounting Standards

On December 16, 2004, the FASB issued Statement No. 123 (revised 2004), “Share-Based Payment” (Statement 123(R)), which replaces Statement No. 123, “Accounting for Stock-Based Compensation,” and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.” Statement 123(R) requires all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value and recognize the cost in the financial statements beginning with the first interim or annual reporting period that begins after June 15, 2005. The pro forma disclosures previously permitted under Statement 123 will no longer be an alternative to financial statement recognition. This statement applies to all awards granted after the date of adoption and to awards modified, repurchased, or cancelled after that date. The cumulative effect of initially applying Statement 123(R), if any, is recognized as of the date of adoption.

On April 14, 2005, the Securities and Exchange Commission announced that it would provide for a phased-in implementation process for FASB Statement No. 123(R), “Share-Based Payment”. The SEC now requires that registrants adopt Statement 123(R)’s fair value method of accounting for share-based payments to employees no later than the beginning of the first fiscal year beginning after June 15, 2005. The Company is required to adopt Statement 123(R) beginning January 1, 2006.

The Company is required to apply Statement 123(R) using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the date of adoption for the portion of outstanding awards, for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under Statement 123 for pro forma disclosures. For periods before the date of adoption, the Company may elect to apply a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by Statement 123. The Company is currently evaluating the impact of the statement.

On December 21, 2004, the FASB issued FASB Staff Position (FSP) No. 109-2, “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004” (FSP 109-2). FSP 109-2 provides guidance under FASB Statement No. 109, “Accounting for Income Taxes,” with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the Jobs Act) on enterprises’ income tax expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FASB Statement No. 109. The Company has not yet completed evaluating the impact of the repatriation provisions. Accordingly, as provided for in FSP 109-2, the Company has not adjusted its tax expense or deferred tax liability to reflect the repatriation provisions of the Jobs Act.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations — Comparing Three Months Ended June 30, 2005 and 2004

Consolidated Review

The Segment Review that follows is incorporated herein by reference.

Revenue and Operating Profit

(millions of dollars)	Second Quarter 2005	% Increase	Second Quarter 2004
Revenue	\$1,456.3	16.9	\$1,246.0
Operating profit*	343.5	16.0	296.1
% Operating margin	24		24

* Operating profit is income from continuing operations before taxes on income, interest expense and corporate expense.

In the second quarter of 2005, the Company achieved growth in revenue and income from continuing operations of 16.9% and 17.7%, respectively. The increase in revenue is primarily attributable to growth in the Financial Services and McGraw-Hill Education segments, which contributed \$92.9 million and \$81.3 million to the growth in revenue, respectively. Foreign exchange rates contributed \$7.9 million to revenue and \$5.3 million to income from continuing operations during the second quarter.

Product revenue increased 12.4% in the second quarter of 2005, due primarily to an increase in revenue in the School Education Group (SEG) as the Group benefited from the success of elementary and secondary products in the state adoption market. Service revenue increased 20.7% in the second quarter of 2005, due primarily to an increase in revenue in the Financial Services segment of \$92.9 million and the acquisition of J.D. Power and Associates which contributed \$33.6 million of revenue. Strong growth in structured finance reflects continued favorable global market conditions, including a low interest rate environment. Growth in corporate finance ratings (corporate finance and financial services) is attributable primarily to revenues from recurring fees for surveillance activities and customers on annual fee arrangements.

During 2005 and the last half of 2004 the Company made several acquisitions to add new capabilities. These acquisitions are as follows:

- **CRISIL Limited** : On May 9, 2005, the Company announced that it became the majority shareholder of CRISIL Limited (CRISIL), a leading provider of credit ratings, financial news and risk and policy advisory services in India. During the Company’s recent tender offer, it received valid acceptances for 3,120,948 shares, representing 49.07% of CRISIL. When combined with its existing interest, the Company now owns 3,720,948 shares, or 58.5% of CRISIL. CRISIL’s operations will be integrated with the Financial Services segment and will allow the Company to leverage opportunities in India.
- **Vista Research, Inc:** The Company acquired Vista Research, Inc., a leading provider of primary research on April 1, 2005. Vista will enhance the growth prospects of the Financial Services segment’s research product suite by providing clients with access to professionals

Table of Contents

with direct experience in industries such as technology, media, telecommunications and healthcare. Vista's network of industry practitioners is able to offer investors fresh, field-level insights about issues and conditions affecting companies and sectors. Vista Research, Inc. is now part of the Financial Services segment.

- **J.D. Power and Associates (JDPA)** : The Company acquired JDPA, on April 1, 2005. JDPA, founded in 1968 by J.D. Power III, is a leading provider of marketing information services for the global automotive industry and has established a strong and growing presence in several other important industries, including finance and insurance, healthcare, home building, telecommunications and energy. Its customer satisfaction ratings and market research are recognized worldwide as benchmarks for quality and independence. The company, which includes the Power Information Network, LLC, has 787 employees and operates globally in 12 locations.

The acquisition will enhance the Company's growth prospects for its core business information platform by providing a new direct link to consumers, while also providing new collaborative opportunities with the Company's leading franchises including *BusinessWeek*, Platts, McGraw-Hill Construction, Aviation Week and healthcare. J.D. Power and Associates is now part of the Information and Media Services segment.

- **Capital IQ** : The Company acquired Capital IQ, a leading provider of high-impact information solutions to the global investment and financial services communities on September 17, 2004. Its innovative technology and data platform and rapidly growing client base will complement Standard & Poor's content covering fixed income, equities, indices, and mutual funds, as well as fundamental data from Compustat. Capital IQ is a unit of the Financial Services segment.
- **The Grow Network**: The Company acquired The Grow Network, a privately held company, on July 16, 2004. The Grow Network is a leading provider of assessment, reporting and customized content for states and large school districts across the country. The acquisition supports McGraw-Hill Education's strategy to provide a full range of customized education solutions to help improve teaching and learning. The Grow Network is now part of the School Education Group and has been renamed Grow Network/McGraw-Hill.

During the second quarter of 2005, these acquisitions diluted earnings per share by \$0.03. The Company expects that these acquisitions will negatively affect diluted earnings per share in 2005 by \$0.06 to \$0.07 per share.

In 2005, the Company paid approximately \$450 million for the acquisitions of Vista Research, Inc., JDPA and a 49.07% increase in the investment in CRISIL Limited.

Total expenses in the second quarter of 2005 increased 16.5% primarily as a result of an increase in compensation. A significant portion of both operating related and selling and general expense is compensation expense, which increased approximately 22% in 2005, primarily as a result of an increase in the employee base. The employee base increased approximately 16.0% year over year from 15,942 on June 30, 2004 to 18,497 as of June 30, 2005. Increases were primarily due to acquisitions and the timing of new hires, which occurred in the latter half of 2004. Product operating related expenses increased 14.8%, due to compensation expense increases at McGraw-Hill Education. Increases in the employee base were required in SEG's editorial and production groups to develop new products for increased opportunities in

Table of Contents

the K-6 and secondary markets in 2005 and beyond. Product operating related expenses include the amortization of prepublication costs of \$55.2 million, which decreased by \$17.2 million as compared with the second quarter of 2004. This decrease is the result of cost saving initiatives and the timing of adoption cycles. Service operating related expenses increased 18.0% due primarily to growth in the Financial Services segment and the acquisition of J.D. Power and Associates which contributed 47% to the growth. Selling and general expenses increased 16.0%. Selling and general product expenses increased 10.3% primarily as a result of increased compensation expenses at McGraw-Hill Education. Increases in the employee base were required in the SEG sales group as a result of the increased market opportunities in the K-6 and secondary markets. Included in selling and general product expenses are expenses related to the Global Transformation Project which increased \$1.6 million over prior year. In addition, marketing costs increased as the School Education Group prepares for major adoptions in California and Florida. Selling and general service expenses increased 21.9% from the prior year, primarily from the growth of the Financial Services segment and the acquisition of J.D. Power and Associates which contributed 43.7% to the growth. Also contributing to the increase in expense is the increase in pension expense from the Company's U.S. retirement plans. Effective January 1, 2005, the Company changed its U.S. retirement plan's discount rate assumption to 5.75% from 6.25% in 2004. Additionally, effective January 1, 2005, the Company changed its expected rate of return on plan assets to 8.00% from 8.75%. The effect of these changes resulted in an increase in pension expense for the three months ended June 30, 2005 of \$3.8 million pre-tax, or half a cent per diluted share on a post-split basis.

In the second quarter of 2005, depreciation expense increased 13.7% to \$26.1 million as a result of acquisitions and increase in depreciation related to technology related equipment. Amortization of intangibles increased 77.3% to \$12.0 million in the second quarter of 2005 due to acquisitions.

Interest expense increased to \$3.5 million in the second quarter of 2005. The primary reason for the increase is due to an increase in average commercial paper borrowings to \$360.6 million. There was no commercial paper outstanding for the three months ended June 30, 2004. The average interest rate on commercial paper borrowings for the three months ended June 30, 2005 was 3.0%. This increase was partially offset by an increase in interest income due to higher interest rates on higher average cash levels in the Company's European operations. For the second quarter, average domestic investments were \$43.8 million in 2005 at an average interest rate of 2.9%, compared to \$283.8 million at an average rate of 0.9% in 2004. European investments were \$188.3 million at an average rate of 3.1% in 2005 compared to \$110.4 million at a rate of 2.8% in 2004. Included in the second quarter of 2005 and 2004 is approximately \$2.3 million and \$2.4 million, respectively, of interest expense related to the sale leaseback of the Company's headquarters building in New York City (See Note 11).

For the quarter ended June 30, 2005 the effective tax rate was 37.2% compared to 37.0% in the prior period. This minor increase is due to changes in foreign tax laws. The Company expects the effective tax rate to remain at 37.2% for the remainder of the year in the absence of intervening audit settlements or further federal, state or foreign law changes or changes in the locational mix of the Company's income.

Net income for the quarter increased 17.7% over the comparable quarter in the prior year.

Diluted earnings per share on net income were \$0.51 versus \$0.43 on a post-split basis in the prior year. All prior year earnings per share have been adjusted to reflect the two-for-one stock split effective to shareholders of record on May 6, 2005.

Segment Review

McGraw-Hill Education

(millions of dollars)	Second Quarter 2005	% Increase	Second Quarter 2004
Revenue			
School Education Group	\$ 414.4	17.0	\$ 354.2
Higher Education, Professional and International	214.2	10.9	193.2
Total revenue	628.6	14.8	547.4
Operating profit	\$ 71.6	25.5	\$ 57.1
% Operating margin	11		10

Revenue for the McGraw-Hill Education segment increased over the prior year primarily due to improvement at the School Education Group (SEG). Operating profit increased 25.5% to \$71.6 million over prior year. Foreign exchange rates benefited revenue by \$3.4 million and had a slightly positive impact on operating profit.

Operating margin improved over the prior year primarily due to a decrease in prepublication amortization of \$17.2 million. However, expenses increased 13.6% over prior year primarily due to an increase in compensation expense as a result of a 5.7% increase in the employee base, an increase in marketing costs and an increase in technology related expenses resulting from ongoing technology initiatives. Additions to the employee base were required in the sales, editorial, and production groups to develop and market new products for increased opportunities in the elementary and secondary markets in 2005 and beyond. Marketing costs increased as SEG prepares for major adoptions in California and Florida.

On July 16, 2004, the Company acquired The Grow Network, a privately held company. The Grow Network is a leading provider of assessment reporting and customized content for states and large school districts across the country. The acquisition supports McGraw-Hill Education's strategy to provide a full range of customized education solutions to help improve teaching and learning. The Grow Network is now part of SEG and has been renamed Grow Network/McGraw-Hill.

The McGraw-Hill School Education Group's revenue increased 17.0% in the second quarter of 2005, benefiting from the success of elementary and secondary school products in the state adoption market. The Group's strong state adoption results were driven by success with the elementary science program in North Carolina and Indiana, and the secondary science program in Indiana. The Group also performed well in elementary and secondary health programs in Indiana and California and in secondary social studies in Florida. In addition, the Group benefited from sales of vocational and technical products as a result of Texas funding that was postponed from 2004. Residual sales of elementary reading and math products in Texas also contributed to growth, as did sales of the research-based programs *Open Court Reading* and *Everyday Mathematics* in the open territories.

According to the Association of American Publishers' year-to-date statistics through May 2005, total adoption and open territory sales of basal and supplementary materials for grades K-12, excluding testing, increased 4.1%.

Table of Contents

Custom contract testing grew in the second quarter contributing to the segment's revenue growth. Higher custom contract revenue was driven by the Arizona, Kentucky and Massachusetts programs and by the expansion of the program and timing related to the state of Qatar's National Assessment Program. Expenses also increased in the second quarter of 2005, as SEG devoted resources to winning additional custom contracts in key states and continued to invest in the technology necessary for the development of summative and formative assessment products that can be offered online. The "shelf" or norm-referenced test business was lower than prior year due to an ongoing shift from shelf tests to custom assessments driven by the No Child Left Behind legislation.

The 2005 new state adoption market is projected to increase approximately 70% to \$900 million, with the greatest impact expected to occur in the second half of the year. Texas will play an important role in determining the ultimate size of the market. The Company continues to monitor the situation regarding the Texas textbook funding for fine arts (music/art), world languages, and health (Proclamation 2002). Before ending its regular session on May 30, 2005, the Texas legislature passed a biennial budget that included funding for general school operations and for the purchase of vocational and technical materials that had been deferred from 2004. However, the legislators in the House of Representatives and Senate failed to fund textbooks adopted under Proclamation 2002. Observers remain cautiously optimistic that the funding will be approved and that appropriations will cover all planned purchasing.

SEG is well positioned to take advantage of the Texas adoption opportunity. The state adoption market is favorable not only because of its size but also because the schedule affords opportunities in a range of subject areas, allowing SEG to leverage the breadth and depth of its product offerings. Social studies represents the year's largest subject-area market, and strong performances in Florida and Alabama have positioned SEG to lead the high-volume secondary portion of that market. Excellent results are projected for science in North Carolina, where the state's largest district, Charlotte-Mecklenburg, selected the McGraw-Hill elementary program. SEG has also performed well in health in California, where the Los Angeles Unified School District (LAUSD) chose McGraw-Hill programs for use at both the elementary and middle school grades. In addition, the LAUSD will adopt the Group's reading intervention program, *Kaleidoscope*, in 2005.

McGraw-Hill Higher Education, Professional and International Group's (HPI) revenue increased by 10.9% to \$214.2 million for the second quarter of 2005. Higher education products performed well in both the domestic and international markets, benefiting from the success of new and revised titles in all three major product categories: Science, Engineering, and Mathematics; Business and Economics; and Humanities, Social Science, and Languages. Key titles contributing to the second quarter performance include:

- Silberberg, *Chemistry*, 4/e
- McConnell and Brue, *Economics*, 16/e; and
- Knorr, *Puntos de Partida*, 7/e

In the professional marketplace, Science, Technical and Medical products benefited from a strong 2005 frontlist and from the publication of *Harrison's Principles of Internal Medicine*, 16/e in the third quarter of 2004 and *Harrison's Manual of Medicine*, 16/e published in the first quarter of 2005. Science, Technical and Medical products also performed well internationally with the release of *Harrison's Principles of Internal Medicine*, 16/e, Spanish translation in June 2005. Trade products experienced strong growth, as

Table of Contents

several titles reached best seller status including John Wooden's, *Wooden on Leadership* and *Crucial Conversations: Tools for Talking When Stakes Are High* by Kerry Patterson, Joseph Grenny, Ron McMillan and Al Switzler. Softness continued in the technology sector.

School education imprints performed well in Europe. Lower sales in Latin America were primarily due to a shift in the timing of orders. However, the Mexican Education Ministry, through Conaliteg, an official Mexican Government agency, confirmed its 2005 order. The order, which was approximately 10% higher than prior years, was delivered in the second quarter.

Financial Services

(millions of dollars)	Second Quarter 2005	% Increase	Second Quarter 2004
Revenue	\$597.4	18.4	\$504.5
Operating profit	258.3	20.6	214.2
% Operating margin	43		42

Financial Services revenue and operating profit dramatically increased over 2004 second quarter results. Foreign exchange rates contributed \$4.4 million to revenue and had a positive impact on operating profit of \$5.3 million.

The Financial Services segment's increase in revenue and operating profit is due primarily to the performance of structured finance ratings and corporate finance (corporate finance and financial services) ratings, which represented approximately 38.6% and 8.7% of the growth in revenue, respectively. In structured finance, the continuing favorable interest rate environment led to strong growth in the issuance of U.S. residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and collateralized debt obligations (CDOs). The growth in corporate finance ratings is attributable primarily to revenues from recurring fees for surveillance activities and customers on annual fee arrangements.

Over the past twelve months, the Financial Services segment acquired Vista Research, Capital IQ and a majority interest in CRISIL Limited. These acquisitions are discussed in further detail in the consolidated review and Footnote 4 of the Consolidated Financial Statements for the period ended June 30, 2005.

Total U.S. structured finance new issue dollar volume increased 42.3%; solid growth was experienced across all asset classes. U.S. CDO issuance increased 64.1% according to Harrison Scott Publications. The U.S. CDO market was driven by stabilization of the asset class due to fewer downgrades, strong investor demand as well as an increase in new structures (customizations) and arbitrage opportunities. U.S. CMBS issuance increased 75.8% over the prior year primarily due to the favorable interest rate environment and the refinancing of maturing debt. U.S. RMBS issuance increased 39.9% according to Harrison Scott Publications. Issuance in this asset class continues to benefit from the low interest rate environment, continuing appreciation in home prices, as well as a shift from agency to private origination associated with innovative new and variable rate mortgage products. These variable rate mortgage products are commanding between 55%-60% of total mortgage originations. Although U.S. RMBS issuance volumes have been strong overall, the number of issues increased only slightly, leading to issue sizes that are substantially larger than last year. The Company had originally anticipated that RMBS issuance would decline approximately 15%-20% in 2005. Assuming no change in current market conditions such as a large and sudden rise in

Table of Contents

interest rates, no decline is anticipated in issuance versus last year's levels. According to Securities Data, U.S. new issue dollar volume for corporates for the second quarter of 2005 decreased 2.0% with high yield dollar volume issuance decreasing 36.1%. Corporations continue to generate strong cash flows and maintain high cash balances and excess production capacity. The high level of refinancing activity which took place in 2004 has lessened the need for new debt financing in 2005. Public finance issuance increased slightly due to accelerated refundings by municipalities as they took advantage of a flattening yield curve. International growth was also strong as the favorable trends of securitization, disintermediation and privatization continue. In Europe, issuance levels rose in the quarter driven by strong issuance in structured finance, especially mortgage-backed securities and CDOs. The European CDO market was driven primarily by an increase in private synthetic CDOs. Issuance for corporates in Europe was up reflecting strength in financial services as a result of low rates and favorable spreads.

Conditions in the financial services marketplace continue to show improvement and demand for research and financial information has been increasing. As a leading provider of independent equity research, the Financial Services segment benefited during the quarter from the increased demand resulting from the Global Research Settlement as well as demand from customers that were not affected by the Settlement.

Revenue related to Standard & Poor's indices increased as assets under management for Exchange-Traded Funds rose 31.2% from June 30, 2004 to \$118.2 billion as of June 30, 2005. Assets under management at December 31, 2004 were \$113.7 billion.

The financial services industry is subject to the potential for increasing regulation in the United States and abroad. The businesses conducted by the Financial Services segment are in certain cases regulated under the U.S. Investment Advisers Act of 1940, the U.S. Securities Exchange Act of 1934, the National Association of Securities Dealers and/or the laws of the states or other jurisdictions in which they conduct business.

Standard & Poor's Ratings Services is a credit rating agency that has been designated as one of five Nationally Recognized Statistical Rating Organizations, or NRSROs, by the SEC. The SEC first began designating NRSROs in 1975, for use of their credit ratings, in the determination of capital charges for registered brokers and dealers under the SEC's Net Capital Rule. During the last three years, the SEC has been examining the purpose of and the need for greater regulation of NRSROs. In January 2003, the SEC issued a report on the role and function of credit rating agencies in the operation of the securities markets. The report addressed issues that the SEC was required to examine under the Sarbanes-Oxley Act of 2002, as well as other issues arising from the SEC's own review of credit rating agencies. In June 2003, the SEC solicited comments on a concept release that questioned: (1) whether the SEC should continue to designate NRSROs for regulatory purposes and, if so, what the criteria for designation should be; and (2) the level of oversight that the SEC should apply to NRSROs. In February 2005, Standard & Poor's and other NRSROs' representatives testified before the Senate Committee on Banking, Housing and Urban Affairs at a hearing to examine the role of credit rating agencies. In March 2005, SEC Chairman Donaldson also testified before the Senate Committee on Banking, Housing and Urban Affairs. He raised an issue about the SEC's current authority to oversee NRSROs and referred to a voluntary framework for oversight that the NRSROs have been discussing with the SEC staff. The Chairman noted that the question of whether to impose a regulatory regime raises important issues that need to be examined, including the First Amendment. The legal status of rating agencies has also been addressed by courts in the United States in various decisions and is likely to

Table of Contents

be considered and addressed in legal proceedings from time to time in the future.

In March 2005, the SEC voted to issue a rule proposal to define NRSROs. The SEC issued its proposed rule for public comment on April 19th. Standard & Poor's submitted its comments on June 9th, largely supporting a more formal designation process and clear criteria, but without involving the SEC in the substance of the ratings process or in second-guessing rating opinions. In April 2005, Annette Nazareth, Director of the SEC's Division of Market Regulation, testified before the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises of the House Financial Services Committee on the SEC's proposed rule and on the oversight framework. She also raised questions on the SEC's authority over NRSROs. Following this hearing, Rep. Kanjorski asked the SEC to provide technical assistance on the specific authority the SEC would need to effectively oversee rating agencies. In June 2005, the SEC submitted an outline to Rep. Kanjorski of key issues to be addressed if Congress proceeds with legislation. Also in June 2005, Standard & Poor's testified before the same House Subcommittee on H.R.2990, the "Credit Rating Agency Duopoly Relief Act". This bill, proposed by Rep. Fitzpatrick on June 20th, would set up a mandatory licensing regime with the SEC for credit rating agencies. Standard & Poor's objected to the bill for legal and policy reasons.

Outside the United States, the European Parliament has adopted resolutions requiring the European Commission to analyze the desirability of registering credit rating agencies in Europe and the need for registration criteria. The European Commission, through the Committee of European Securities Regulators (CESR), solicited comments on these issues from regulators and the public, including rating agencies, and in late March, CESR issued its final advice to the European Commission. CESR recommended that rating agencies should not be regulated but should implement and enforce internally a code of conduct and other policies to address key issues.

In addition, European Union member states are in the process of implementing the European Commission's Market Abuse Directive which, depending on how the Directive is implemented, could affect rating agencies' communications with issuers as part of the rating process. Local, national and multinational bodies have considered and adopted other legislation and regulations relating to credit rating agencies from time to time and are likely to continue to do so in the future.

The International Organization of Securities Commissions (IOSCO), a global group of securities commissioners, has also been reviewing the role of rating agencies and their processes. In September 2003, the IOSCO published a set of principles relating to rating agencies' processes and procedures. On December 23, 2004, it published its Code of Conduct Fundamentals for rating agencies that builds upon the 2003 principles. Standard & Poor's worked closely with the IOSCO in its drafting of both the principles and the code. In September 2004, Standard & Poor's also published its own code of practices that is broadly consistent with the IOSCO's code and represents a compilation of existing policies and procedures around key aspects of the ratings process.

New legislation, regulations or judicial determinations applicable to credit rating agencies in the United States and abroad could affect the competitive position of Standard & Poor's ratings; however, the Company does not believe that any new or currently proposed legislation, regulations or judicial determinations would have a materially adverse effect on its financial condition or results of operations.

The market for credit ratings as well as research, investment advisory and broker-dealer services is very competitive. The Financial Services segment

Table of Contents

competes domestically and internationally on the basis of a number of factors, including quality of ratings, research and investment advice, client service, reputation, price, geographic scope, range of products and technological innovation. In addition, in some of the countries in which Standard & Poor's competes, governments may provide financial or other support to locally-based rating agencies and may from time to time establish official credit rating agencies, credit ratings criteria or procedures for evaluating local issuers.

Information and Media Services Segment

(millions of dollars)	Second Quarter 2005	% Increase/ (Decrease)	Second Quarter 2004
Revenue			
Business-to-Business	\$202.4	21.8	\$166.1
Broadcasting	27.9	(0.4)	28.0
Total revenue	230.3	18.6	194.1
Operating profit	\$ 13.6	(45.2)	\$ 24.8
% Operating margin	5.9		12.8

In the second quarter of 2005, revenue grew by 18.6% or \$36.2 million over the prior year. Operating profit decreased 45.2%. J.D. Power and Associates (JDPA), which was acquired on April 1, 2005, contributed \$33.6 million in revenue and decreased the segment's operating profit by \$8.9 million in the second quarter primarily due to acquisition related costs. The Business-to-Business and Broadcasting Groups were also both negatively impacted by the continued soft advertising market. Foreign exchange rates negatively impacted operating profit by \$0.2 million and had no significant impact on revenue.

On April 1, 2005, the Company acquired JDPA, a privately held company. JDPA, founded in 1968 by J.D. Power III, is a leading provider of marketing information services for the global automotive industry and has established a strong and growing presence in several other important industries, including finance and insurance, healthcare, home building, telecommunications and energy. Its customer satisfaction ratings and market research are recognized worldwide as benchmarks for quality and independence.

The acquisition will enhance the Company's growth prospects for its core business information platform by providing a new direct link to consumers, while also providing new collaborative opportunities with the Company's leading franchises including *BusinessWeek*, Standard & Poor's, Platts, McGraw-Hill Construction, Aviation Week and healthcare.

Revenue increased at the Business-to-Business Group compared to prior year due primarily to the acquisition of J.D. Power and Associates. Revenue in J.D. Power and Associates was driven by its U.S. client services business in the auto, telecommunications and insurance sectors. According to the Publishers Information Bureau (PIB), *BusinessWeek's* advertising pages in the North America edition for the second quarter were down 9.2% with the same number of issues. Advertising pages were also down in the Europe and Asia editions in the second quarter of 2005. According to the PIB, advertising pages in the technology category decreased 13.4%. Advertising growth for business publications is heavily dependent on the global technology sector.

Platts' news and pricing products experienced growth as a result of the increased need for market transparency due to the volatility of crude oil prices and as U.S. energy markets continued to be affected by natural gas supplies. Increased customer demand for news and pricing products added to the subscriber base. The resulting revenue is recognized over the life of the

Table of Contents

related product subscriptions. Conversely, increased competition in energy research and analytic products resulted in a decrease in that portion of the subscriber base adversely affecting results. Also in the Business-to-Business Group, the Global Power conference took place in the second quarter in 2005 compared to the first quarter of 2004. In the Aviation industry, the biennial Paris Air Show occurred in the second quarter of 2005, with no comparable event in 2004. Attendance and sponsorship was up when compared to the 2003 air show due to reduced geopolitical tensions.

As of June 2005, total U.S. construction starts were up 5% versus prior year. Both residential building (up 9%) and non-building construction (up 9%) were higher than prior year, while U.S. nonresidential building was down 6%. Commercial construction was weak from lower manufacturing building, warehouse, hotel and office starts. Display advertising pages in construction publications increased. The Engineering News Record Award of Excellence event occurred in the second quarter of 2004 with no comparable event in the second quarter of 2005. The McGraw-Hill Construction Network, a Web-based integrated product, continued to perform well, adding new customers to the subscriber base. The resulting revenue is recognized over the life of the related product subscription. In the second quarter of 2005, the Business-to-Business Group continued to make investments in the McGraw-Hill Construction Network to strengthen its effectiveness and efficiency.

At the Broadcasting group revenue in the second quarter was flat compared to prior year. The improved ratings position of the ABC network helped to offset the loss of political advertising in the second quarter of 2005. The automotive and leisure time categories of advertisers contributed to growth while the retailing, service and consumer products categories were weak. The Broadcasting group was also negatively impacted by a reduction in network compensation. During the second quarter the Broadcasting Group negotiated affiliation agreements with the ABC network, which decreased network compensation for 2005.

SIX MONTHS

Consolidated Review

The Segment Review that follows is incorporated herein by reference.

Revenue and Operating Profit

(millions of dollars)	Six Months 2005	% Increase	Six Months 2004
Revenue	\$2,485.3	14.8	\$2,165.8
Operating profit*	492.1	18.6	414.8
% Operating margin	20		19

* Operating profit is income from continuing operations before taxes on income, interest expense and corporate expense.

In the first six months of 2005, the Company achieved growth in revenue and income from continuing operations. Revenue growth of 14.8% resulted in a 13.2% increase in income from continuing operations. The increase in revenue is primarily attributable to growth in the Financial Services segment of \$183.5 million and the McGraw-Hill Education segment of \$102.1 million. Foreign exchange rates contributed \$13.2 million to revenue and \$5.5 million to income from continuing operations.

Table of Contents

Product revenue increased 9.6% in the first six months of 2005, due to an increase in revenue in the School Education Group (SEG) as the Group benefited from the success of elementary and secondary products in the state adoption market. The first half reflects the seasonal nature of the Company's educational publishing operations, with the first half being the least significant. Service revenue increased 18.4% in the first six months of 2005, due to an increase in revenue in the Financial Services segment. Strong growth in structured finance reflects continued favorable global market conditions, including a low interest rate environment. Growth in corporate finance ratings (corporate finance and financial services) is attributable primarily to revenues from recurring fees for surveillance activities and customers on annual fee arrangements.

During 2005 and the last half of 2004 the Company made several acquisitions to add new capabilities. These acquisitions are as follows:

- **CRISIL Limited** : On May 9, 2005, the Company announced that it became the majority shareholder of CRISIL Limited (CRISIL), a leading provider of credit ratings, financial news and risk and policy advisory services in India. During the Company's recent tender offer, it received valid acceptances for 3,120,948 shares, representing 49.07% of CRISIL. When combined with its existing interest, the Company now owns 3,720,948 shares, or 58.5% of CRISIL. CRISIL's operations will be integrated with the Financial Services segment and will allow the Company to fully leverage opportunities in India.
- **Vista Research, Inc** : The Company acquired Vista Research, Inc., a leading provider of primary research on April 1, 2005. Vista will enhance the growth prospects of the Financial Services segment's research product suite by providing clients with access to professionals with direct experience in industries such as technology, media, telecommunications and healthcare. Vista's network of industry practitioners is able to offer investors fresh, field-level insights about issues and conditions affecting companies and sectors. Vista Research, Inc. is now part of the Financial Services segment.
- **J.D. Power and Associates (JDPA)** : The Company acquired JDPA, on April 1, 2005. JDPA, founded in 1968 by J.D. Power III, is a leading provider of marketing information services for the global automotive industry and has established a strong and growing presence in several other important industries, including finance and insurance, healthcare, home building, telecommunications and energy. Its customer satisfaction ratings and market research are recognized worldwide as benchmarks for quality and independence. The company, which includes the Power Information Network, LLC, has 787 employees and operates globally in 12 locations.

The acquisition will enhance the Company's growth prospects for its core business information platform by providing a new direct link to consumers, while also providing new collaborative opportunities with the Company's leading franchises including *BusinessWeek*, Platts, McGraw-Hill Construction, Aviation Week and healthcare. J.D. Power and Associates is now part of the Information and Media Services segment.

- **Capital IQ** : The Company acquired Capital IQ, a leading provider of high-impact information solutions to the global investment and financial services communities on September 17, 2004. Its innovative technology and data platform and rapidly growing client base will complement Standard & Poor's content covering fixed income, equities, indices, and mutual funds, as well as fundamental data from Compustat. Capital IQ is a unit of the Financial Services segment.

Table of Contents

The Grow Network: The Company acquired The Grow Network, a privately held company, on July 16, 2004. The Grow Network is a leading provider of assessment reporting and customized content for states and large school districts across the country. The acquisition supports McGraw-Hill Education's strategy to provide a full range of customized education solutions to help improve teaching and learning. The Grow Network is now part of the School Education Group and has been renamed Grow Network/McGraw-Hill.

For the six months ended June 30, 2005, these acquisitions diluted earnings per share by \$0.04. The Company expects that these acquisitions will negatively affect diluted earnings per share in 2005 by \$0.06 to \$0.07 per share.

In 2005, the Company paid approximately \$450 million for the acquisitions of Vista Research, Inc., JDPA and a 49.07% increase in the investment in CRISIL Limited.

Total expenses in the first six months of 2005 increased 13.0% primarily as a result of an increase in compensation expense. A significant portion of both operating related and selling and general expense is compensation expense, which increased approximately 17.5% in 2005, primarily as a result of an increase in the employee base. The employee base increased approximately 16.0% year over year from 15,942 on June 30, 2004 to 18,497 as of June 30, 2005. Increases were primarily due to acquisitions and the timing of new hires, which occurred in the latter half of 2004. Product operating related expenses increased 13.7%, due to compensation expense increases at McGraw-Hill Education. Increases in the employee base were required in SEG's editorial and production groups to develop new products for increased opportunities in the K-6 and secondary markets in 2005 and beyond. Product operating related expenses include the amortization of prepublication costs of \$80.4 million, which decreased by \$24.8 million as compared with the first half of 2004 as a result of cost saving initiatives and adoption cycles. Service operating related expenses increased 14.6% due primarily to growth in the Financial Services segment and the acquisition of J.D. Power and Associates which contributed 29.6% to the growth. Selling and general expenses increased 11.4%. Selling and general product expenses increased 7.9% primarily as a result of increased compensation expenses at McGraw-Hill Education. Increases in the employee base were required in the SEG sales group as a result of the increased market opportunities in the K-6 and secondary markets. Included in selling and general product expenses are expenses related to the Global Transformation Project which increased \$2.5 million over prior year. In addition, marketing costs increased as the School Education Group prepares for major adoptions in California and Florida. Selling and general service expenses increased 14.7% from the prior year, primarily from the growth of the Financial Services segment and the acquisition of J.D. Power and Associates which contributed 32.8% to the growth. Also contributing to the increase in expense is the increase in pension expense from the Company's U.S. retirement plans. Effective January 1, 2005, the Company changed its U.S. retirement plan's discount rate assumption to 5.75% from 6.25% in 2004. Additionally, effective January 1, 2005, the Company changed its expected rate of return on plan assets to 8.0% from 8.75%. The effect of these changes resulted in an increase in pension expense for the six months ended June 30, 2005 of \$7.5 million pre-tax, or 1 cent per diluted share on a post-split basis.

In the first six months of 2005, depreciation expense increased 12.5% to \$50.8 million as a result of acquisitions and increase in depreciation related to technology related equipment. Amortization of intangibles increased 49.9% to \$20.4 million as of June 30, 2005 due to acquisitions.

Table of Contents

Interest expense increased to \$4.2 million in the first half of 2005. The primary reason for the increase is an increase in average commercial paper borrowings to \$181.4 million. Average commercial paper outstanding during the six months ended June 30, 2004 was \$7.1 million at a rate of 1.1%. The average interest rate on commercial paper borrowings for the six months ended June 30, 2005 was 3.0%. This increase was partially offset by an increase in interest income due to higher interest rates on lower cash levels in the U.S. and higher interest rates on higher average cash levels in the Company's European operations. For the first six months of 2005, average domestic investments were \$269 million at an average interest rate of 1.9%, compared to \$438.7 million at an average rate of 0.9% in 2004. European investments averaged \$193.7 million for the first half of 2005 at an average rate of 3.1%. Comparable figures for 2004 were average investments of \$120.5 million at an average rate of 2.7%. Included in the six months ended June 30, 2005 and 2004 is approximately \$4.7 million and \$4.8 million, respectively, of interest expense related to the sale leaseback of the Company's headquarters building in New York City (See Note 11).

In the first quarter of 2004, the Company completed various federal, state and local, and foreign tax audit cycles and accordingly removed approximately \$20.0 million from its accrued income tax liability accounts. This non-cash item resulted in a reduction to the overall effective tax rate for continuing operations in the first half of 2004 from 37.0% to 31.3%. The effective tax rate for the first six months of 2005 is 37.1%. The Company expects its effective tax rate to be 37.2% for the remainder of the year in the absence of intervening audit settlements or further federal, state or foreign law changes or changes in the locational mix of the Company's income. The Company remains subject to federal audits for 2002 and subsequent years, and to state and local and foreign tax audits for a variety of open years depending upon the jurisdiction in question.

The loss on discontinued operations relates to the disposition of Landoll, Frank Schaffer and the related juvenile retail publishing businesses (juvenile retail publishing business), which was disposed of during January 2004. The juvenile retail publishing business was part of the McGraw-Hill Education segment. The revenue impact for the first half of 2004 for the juvenile retail publishing business was \$3.9 million. Loss from discontinued operations for the period ended June 30, 2004 was \$0.6 million.

Net income for the first half of 2005 increased 13.4% over the comparable period in the prior year. Diluted earnings per share from continuing operations for the first half of 2005 were \$0.71 versus \$0.63 in the prior year. Diluted earnings per share on net income were \$0.71 versus \$0.63 in the prior year. All prior year earnings per share have been adjusted to reflect the two-for-one stock split effective to shareholders of record on May 6, 2005. Included in 2004 is a \$0.05 benefit from the reversal of \$20.0 million in accrued tax liabilities following the completion of various federal, state and local, and foreign tax audit cycles in the first quarter of 2004.

Table of Contents

Segment Review

McGraw-Hill Education

(millions of dollars)	Six Months 2005	% Increase/ (Decrease)	Six Months 2004
Revenue			
School Education Group	\$562.4	15.8	\$485.8
Higher Education, Professional and International	373.5	7.3	348.1
Total revenue	935.9	12.2	833.9
Operating loss	\$ (7.1)	(39.7)	\$ (11.7)
% Operating margin	(1)		(1)

Revenue for the McGraw-Hill Education segment increased over the prior year primarily due to improvement at the School Education Group (SEG). Operating loss decreased 39.7% to \$7.1 million over the prior year. Foreign exchange rates benefited revenue by \$5.1 million and had a negative impact of \$0.7 million on operating results. The segment's performance also reflects the seasonal nature of the business, with the first quarter being the least significant and the third quarter the most significant.

Operating margin was flat compared to the prior year. Expenses increased 11.5% over the prior year primarily due to an increase in compensation expense as a result of a 5.7% increase in the employee base, an increase in marketing costs and an increase in technology related expenses resulting from ongoing technology initiatives. Additions to the employee base were required in the sales, editorial, and production groups to develop and market new products for increased opportunities in the elementary and secondary markets in 2005 and beyond. Marketing costs increased as SEG prepares for major adoptions in California and Florida.

On July 16, 2004, the Company acquired The Grow Network, a privately held company. The Grow Network is a leading provider of assessment reporting and customized content for states and large school districts across the country. The acquisition supports McGraw-Hill Education's strategy to provide a full range of customized education solutions to help improve teaching and learning. The Grow Network is now part of SEG and has been renamed Grow Network/McGraw-Hill.

The McGraw-Hill School Education Group's revenue increased 15.8% in the first six months of 2005 benefiting from the success of elementary and secondary school products in the state adoption market. The Group's strong state adoption results were driven by success with the elementary and secondary science program in North Carolina and Indiana. The Group also performed well in elementary and secondary health programs in Indiana and California and in secondary social studies in Florida. In the open territories, elementary sales across the curriculum benefited from a \$29 million state textbook fund in Illinois that supplemented local purchasing of materials for grades K-4 in 2005. In 2004, funding was provided for grades 9-12. In addition, the Group benefited from sales of vocational and technical products as a result of Texas funding that was postponed from 2004. Residual sales of elementary reading and math products in Texas also contributed to growth, as did sales of the research-based programs *Open Court Reading* and *Everyday Mathematics* in the open territories.

According to the Association of American Publishers' year-to-date statistics through May 2005, total adoption and open territory sales of basal and

Table of Contents

supplementary materials for grades K-12, excluding testing, increased 4.1%.

Custom contract testing grew in the first half contributing to the segment's revenue growth. Higher custom contract revenue was driven by the contract wins in Arizona, Kentucky, Massachusetts and Florida, the timing of custom contracts in the New York, Kentucky, Indiana, and Missouri programs and by the expansion of the program and timing related to the state of Qatar's National Assessment Program. Expenses also increased in the first half of 2005, as SEG devoted resources to winning additional custom contracts in key states and continued to invest in the technology necessary for the continued development of summative and formative assessment products that can be offered online and added facilities to address increased scoring demands. The "shelf" or norm-referenced test business was lower than prior year due to an ongoing shift from shelf tests to custom assessments driven by the No Child Left Behind legislation.

The 2005 new state adoption market is projected to increase approximately 70% to \$900 million, with the greatest impact expected to occur in the second half of the year. Texas will play an important role in determining the ultimate size of the market. The Company continues to monitor the situation regarding the Texas textbook funding for fine arts (music/art), world languages, and health (Proclamation 2002). Before ending its regular session on May 30, 2005, the Texas legislature passed a biennial budget that included funding for general school operations and for the purchase of vocational and technical materials that had been deferred from 2004. However, the legislators in the House of Representatives and Senate failed to fund textbooks adopted under Proclamation 2002. Observers remain cautiously optimistic that the funding will be approved and that appropriations will cover all planned purchasing.

SEG is well positioned to take advantage of the Texas adoption opportunity. The state adoption market is favorable not only because of its size but also because the schedule affords opportunities in a range of subject areas, allowing SEG to leverage the breadth and depth of its product offerings. Social studies represents the year's largest subject-area market, and strong performances in Florida and Alabama have positioned SEG to lead the high-volume secondary portion of that market. Excellent results are projected for science in North Carolina, where the state's largest district, Charlotte-Mecklenburg, selected the McGraw-Hill elementary program. SEG has also performed well in health in California, where the Los Angeles Unified School District (LAUSD) chose McGraw-Hill programs for use at both the elementary and middle school grades. In addition LAUSD adopted the Group's reading intervention program, *Kaleidoscope*, in 2005.

In open territories, major adoptions announced to date include *Everyday Mathematics* in Washington, DC; *Open Court Reading* in Baltimore; and Direct Instruction in Minneapolis and St. Louis.

McGraw-Hill Higher Education, Professional and International Group's (HPI) revenue increased by 7.3% to \$373.5 million for the first half of 2005. Higher Education products performed well in both the domestic and international markets, benefiting from the success of new and revised titles in all three major product categories: Science, Engineering, and Mathematics; Business and Economics; and Humanities, Social Science, and Languages. Key titles contributing to the performance in the first half of 2005 include:

- Sabin, *Gregg Reference Manual*, 10/e
- McConnell and Brue, *Economics*, 16/e; and
- Sanderson, *Computers in the Medical Office*, 4/e

Table of Contents

In the professional marketplace, Science, Technical and Medical products benefited from a strong 2005 frontlist and from the publication of *Harrison's Principles of Internal Medicine*, 16/e in the third quarter of 2004 and *Harrison's Manual of Medicine*, 16/e published in the first quarter of 2005. Sales of the new edition were substantially higher in the first six months of 2005 than those of the previous edition in the first six months of 2004. Science, Technical and Medical products also performed well internationally with the release of *Harrison's Principles of Internal Medicine*, 16/e, Spanish translation in June 2005. Trade products experienced strong growth, as several titles reached best seller status including John Wooden's, *Wooden on Leadership* and *Crucial Conversations: Tools for Talking When Stakes Are High* by Kerry Patterson, Joseph Grenny, Ron McMillan and Al Switzler. Softness continued in the technology sector. Distributing agreements with Entrepreneur Press and the American Diabetes Association signed in the second quarter of 2004 contributed favorably to results.

School education imprints were weak in Latin America and Canada. Lower sales in Latin America and Canada were primarily due to a shift in the timing of orders. Canada had ordered earlier in the fourth quarter of 2004, while Mexico is expected to order later in 2005. In addition, the Mexican Education Ministry, through Conaliteg, an official Mexican Government agency, has confirmed its 2005 order. The order, which is approximately 10% higher than prior years, was delivered in the second quarter in 2005.

Financial Services

(millions of dollars)	Six Months 2005	% Increase	Six Months 2004
Revenue	\$1,144.7	19.1	\$961.1
Operating profit	\$ 480.8	23.9	\$388.0
% Operating margin	42		40

Financial Services revenue and operating profit increased dramatically over 2004 first half results. Foreign exchange rates contributed \$8.0 million to revenue and had a positive impact on operating profit of \$6.8 million.

The Financial Services segment's increase in revenue and operating profit for the first six months of 2005 is due primarily to the performance of structured finance ratings and corporate finance (corporate finance and financial services) ratings, which represented approximately 35.9% and 12.1% of the growth in revenue, respectively. In structured finance, the continuing favorable interest rate environment led to strong growth in the issuance of U.S. residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and collateralized debt obligations (CDOs). The growth in corporate finance ratings is attributable primarily to revenues from recurring fees for surveillance activities and customers on annual fee arrangements.

Over the past twelve months the Financial Services segment acquired Vista Research, Capital IQ and a majority interest in CRISIL Limited. These acquisitions are discussed in further detail in the consolidated review and Footnote 4 of the Consolidated Financial Statements for the period ended June 30, 2005.

Total U.S. structured finance new issue dollar volume increased 48.6%; solid growth was experienced across all asset classes. U.S. CDO issuance increased 94.4% according to Harrison Scott Publications. The U.S. CDO market was driven by stabilization of the asset class, improving credit quality, strong investor demand as well as an increase in new structures (customizations) and

Table of Contents

arbitrage opportunities. CMBS issuance through June 2005 was at record levels, driven by low interest rates and refinancing opportunities. U.S. RMBS issuance increased 51.1% according to Harrison Scott Publications with the growth driven by the low interest rate environment, rising home values as well as a proliferation of non-agency mortgage products which are commanding 55%-60% of total mortgage originations. Although U.S. RMBS issuance volumes have been strong overall, the number of issues increased only moderately leading to issue sizes that are substantially larger than last year. The Company had originally anticipated that RMBS issuance would decline approximately 15%-20% in 2005. Assuming no change in current market conditions such as a large and sudden rise in interest rates, no decline is anticipated in issuance versus last year's levels. According to Securities Data, U.S. new issue dollar volume for corporate issuers for the six months ended June 30, 2005 decreased 11.5%, with investment grade issuance down 6.6% and high yield issuance down 33.2%. Strong cash flows, high cash balances, excess production capacity and the high level of refinancing activity which took place in 2004 have lessened the need for new debt financing. Public finance issuance increased due to accelerated refundings by municipalities as they took advantage of rising short-term rates coupled with stable long-term rates. Refundings are up nearly 45% over prior year, while new money issuance is down. International growth was also strong as the favorable trends of securitization, disintermediation and privatization continue. In Europe, issuance levels rose 29.3% in the first six months of 2005 with strong growth in issuance in structured finance, which experienced solid growth in mortgage-backed securities and CDOs. Corporate issuance in Europe was up reflecting strength in financial services as disintermediation continues and the interest rate environment remains positive.

Conditions in the financial services marketplace continue to show improvement. As a leading provider of independent equity research, the Financial Services segment benefited during the period from the increased demand resulting from the Global Research Settlement between the SEC and 12 large investment banks as well as non-settlement sources. Ten of those banks were required to be in compliance with the settlement requirements by August 1, 2004, with the remaining two subject to a later date.

Revenue related to Standard & Poor's indices increased as assets under management for Exchange-Traded Funds rose 31.2% from June 30, 2004 to \$118.2 billion as of June 30, 2005. Assets under management at December 31, 2004 were \$113.7 billion.

The financial services industry is subject to the potential for increasing regulation in the United States and abroad. The businesses conducted by the Financial Services segment are in certain cases regulated under the U.S. Investment Advisers Act of 1940, the U.S. Securities Exchange Act of 1934, the National Association of Securities Dealers and/or the laws of the states or other jurisdictions in which they conduct business.

Standard & Poor's Ratings Services is a credit rating agency that has been designated as one of five Nationally Recognized Statistical Rating Organizations, or NRSROs, by the SEC. The SEC first began designating NRSROs in 1975, for use of their credit ratings, in the determination of capital charges for registered brokers and dealers under the SEC's Net Capital Rule. During the last three years, the SEC has been examining the purpose of and the need for greater regulation of NRSROs. In January 2003, the SEC issued a report on the role and function of credit rating agencies in the operation of the securities markets. The report addressed issues that the SEC was required to examine under the Sarbanes-Oxley Act of 2002, as well as other issues arising from the SEC's own review of credit rating agencies. In June 2003, the SEC solicited comments on a concept release that questioned: (1) whether the SEC should continue to designate NRSROs for regulatory purposes and, if so,

Table of Contents

what the criteria for designation should be; and (2) the level of oversight that the SEC should apply to NRSROs. In February 2005, Standard & Poor's and other NRSROs' representatives testified before the Senate Committee on Banking, Housing and Urban Affairs at a hearing to examine the role of credit rating agencies. In March 2005, SEC Chairman Donaldson also testified before the Senate Committee on Banking, Housing and Urban Affairs. He raised an issue about the SEC's current authority to oversee NRSROs and referred to a voluntary framework for oversight that the NRSROs have been discussing with the SEC staff. The Chairman noted that the question of whether to impose a regulatory regime raises important issues that need to be examined, including the First Amendment. The legal status of rating agencies has also been addressed by courts in the United States in various decisions and is likely to be considered and addressed in legal proceedings from time to time in the future.

In March 2005, the SEC voted to issue a rule proposal to define NRSROs. The SEC issued its proposed rule for public comment on April 19th. Standard & Poor's submitted its comments on June 9th, largely supporting a more formal designation process and clear criteria, but without involving the SEC in the substance of the ratings process or in second-guessing rating opinions. In April 2005, Annette Nazareth, Director of the SEC's Division of Market Regulation, testified before the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises of the House Financial Services Committee on the SEC's proposed rule and on the oversight framework. She also raised questions on the SEC's authority over NRSROs. Following this hearing, Rep. Kanjorski asked the SEC to provide technical assistance on the specific authority the SEC would need to effectively oversee rating agencies. In June 2005, the SEC submitted an outline to Rep. Kanjorski of key issues to be addressed if Congress proceeds with legislation. Also in June 2005, Standard & Poor's testified before the same House Subcommittee on H.R.2990, the "Credit Rating Agency Duopoly Relief Act". This bill, proposed by Rep. Fitzpatrick on June 20th, would set up a mandatory licensing regime with the SEC for credit rating agencies. Standard & Poor's objected to the bill for legal and policy reasons.

Outside the United States, the European Parliament has adopted resolutions requiring the European Commission to analyze the desirability of registering credit rating agencies in Europe and the need for registration criteria. The European Commission, through the Committee of European Securities Regulators (CESR), solicited comments on these issues from regulators and the public, including rating agencies, and in late March, CESR issued its final advice to the European Commission. CESR recommended that rating agencies should not be regulated but should implement and enforce internally a code of conduct and other policies to address key issues.

In addition, European Union member states are in the process of implementing the European Commission's Market Abuse Directive which, depending on how the Directive is implemented, could affect rating agencies' communications with issuers as part of the rating process. Local, national and multinational bodies have considered and adopted other legislation and regulations relating to credit rating agencies from time to time and are likely to continue to do so in the future.

The International Organization of Securities Commissions (IOSCO), a global group of securities commissioners, has also been reviewing the role of rating agencies and their processes. In September 2003, the IOSCO published a set of principles relating to rating agencies' processes and procedures. On December 23, 2004, it published its Code of Conduct Fundamentals for rating agencies that builds upon the 2003 principles. Standard & Poor's worked closely with the IOSCO in its drafting of both the principles and the code. In September 2004, Standard & Poor's also published its own code of practices

Table of Contents

that is broadly consistent with the IOSCO's code and represents a compilation of existing policies and procedures around key aspects of the ratings process.

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The market for credit ratings as well as research, investment advisory and broker-dealer services is very competitive. The Financial Services segment competes domestically and internationally on the basis of a number of factors, including quality of ratings, research and investment advice, client service, reputation, price, geographic scope, range of products and technological innovation. In addition, in some of the countries in which Standard & Poor's competes, governments may provide financial or other support to locally-based rating agencies and may from time to time establish official credit rating agencies, credit ratings criteria or procedures for evaluating local issuers.

Information and Media Services Segment

(millions of dollars)	Six Months 2005	% Increase/ (Decrease)	Six Months 2004
Revenue			
Business-to-Business	\$352.6	10.8	\$318.1
Broadcasting	52.1	(1.1)	52.7
Total revenue	404.7	9.1	370.8
Operating profit	\$ 18.4	(52.3)	\$ 38.5
% Operating margin	5		10

In the first half of 2005, revenue grew by 9.1% or \$33.9 million over the prior year. Operating profit decreased 52.3% compared to 2004. J.D. Power and Associates (JDPA), which was acquired on April 1, 2005, contributed \$33.6 million in revenue and decreased the segment's operating profits by \$8.9 million for the six month period ended June 30, 2005, primarily due to acquisition related costs. The Business-to-Business and Broadcasting Groups were also both negatively impacted by the continued soft advertising market. Foreign exchange rates negatively impacted operating profit by \$0.6 million and had no significant impact on revenue.

On April 1, 2005, the Company acquired JDPA, a privately held company. JDPA, founded in 1968 by J.D. Power III, is a leading provider of marketing information services for the global automotive industry and has established a strong and growing presence in several other important industries, including finance and insurance, healthcare, home building, telecommunications and energy. Its customer satisfaction ratings and market research are recognized worldwide as benchmarks for quality and independence. The company, which includes the Power Information Network, LLC, has 787 employees and operates globally in 12 locations.

The acquisition will enhance the Company's growth prospects for its core business information platform by providing a new direct link to consumers, while also providing new collaborative opportunities with the Company's leading franchises including *BusinessWeek*, Standard & Poor's, Platts, McGraw-Hill Construction, Aviation Week and healthcare.

Table of Contents

Revenue increased at the Business-to-Business Group compared to prior year primarily due to the acquisition of J.D. Power and Associates. Revenue in J.D. Power and Associates was driven by its U.S. client services businesses in the auto, telecommunications and insurance sectors. According to the Publishers Information Bureau (PIB), *BusinessWeek's* advertising pages in the North America edition for the first six months of 2005 were down 10.1% with the same number of issues. Advertising pages were also down in the Europe and Asia editions in the first six months of 2005. According to the PIB, advertising pages in the technology category decreased 16.2%. Advertising growth for business publications is heavily dependent on the global technology sector. During the first six months of 2005, the Group also benefited from *BusinessWeek* SmallBiz, which was launched in the second quarter of 2004.

Platts' news and pricing products experienced growth as a result of the increased need for market transparency due to the volatility of crude oil prices and as U.S. energy markets continued to be affected by natural gas supplies. Increased customer demand for news and pricing products added to the subscriber base. The resulting revenue is recognized over the life of the related product subscriptions. Conversely, increased competition in energy research and analytic products resulted in a decrease in that portion of the subscriber base adversely affecting results. The Aviation industry is beginning to show signs of economic recovery. The biennial Paris Air Show occurred in the second quarter of 2005, with no comparable event in 2004. Attendance and sponsorship was up when compared to the 2003 air show. However, the Singapore Air Show occurred in the first quarter of 2004 with no comparable event in 2005.

As of June 2005, total U.S. construction starts were up 5% versus prior year. Both residential building (up 9%) and non-building construction (up 9%) were higher than prior year, while U.S. nonresidential building was down 6%. Commercial construction was weak from lower manufacturing building, warehouse, hotel and office starts. Display advertising pages in construction publications increased. The McGraw-Hill Construction Network, a Web-based integrated product, continued to perform well, adding new customers to the subscriber base. The resulting revenue is recognized over the life of the related product subscription. In the first six months of 2005, the Business-to-Business Group continued to make investments in the McGraw-Hill Construction Network to strengthen its effectiveness and efficiency.

At the Broadcasting group, the improved ratings position of the ABC network could not fully offset the loss of political advertising in the first six months of 2005. The retailing, automotive, leisure time and services categories of advertisers contributed to growth while the consumer products category remained weak. The Broadcasting group was also negatively impacted by a reduction in network compensation. During the second quarter the Broadcasting Group negotiated affiliation agreements with the ABC network, which will result in a decrease in network compensation for 2005.

Liquidity and Capital Resources

The Company continues to maintain a strong financial position. The Company's primary source of funds for operations is cash generated by operating activities. The Company's core businesses have been strong cash generators. Income and consequently cash provided from operations during the year are significantly impacted by the seasonality of businesses, particularly educational publishing. This seasonality also impacts cash flow and related borrowing patterns. The Company's cash flow is typically negative to neutral in the first half of the year and turns positive during the third and fourth quarters. Debt financing is used as necessary for acquisitions and for seasonal fluctuations in working capital. Cash and cash equivalents were \$245.9 million at June 30, 2005, a decline of \$434.7 million from December 31,

Table of Contents

2004. The Company's subsidiaries maintain cash balances at several financial institutions located throughout the world. These cash balances are subject to normal currency exchange fluctuations. At June 30, 2005 and 2004, the Company's overseas cash balances totaled \$263.5 million and \$152.3 million, respectively. As a result of the American Jobs Creation Act of 2004, which was enacted on October 22, 2004, the Company is considering the repatriation of foreign earnings, in the latter part of 2005. This repatriation of funds is presently estimated to be between \$175 million and \$225 million at a tax advantaged Federal tax rate presently estimated to be about 3% after foreign tax credits. (see Note 13).

Cash Flow

Operating Activities: Cash provided by operations was \$229.1 million for 2005, as compared to \$28.2 million in 2004. The change in cash provided from operating activities is primarily a result of an increase in income taxes payable as a result of tax payments in 2004. Prepaid assets increased in 2004 as a result of a tax receivable which was received in 2005.

Accounts receivable (before reserves) increased \$106.9 million from the prior year-end primarily from the seasonality of the educational business. This increase compares to a \$30.9 million increase in 2004 from the prior year-end. Total inventories increased \$106.8 million in 2005 as the Company prepares for its selling season. This increase compares to a \$78.2 million increase in 2004. The increase in inventories and accounts receivable over prior year is primarily from the increase in adoption opportunities in 2005.

Income taxes payable increased by \$106.2 million over the prior year-end. This increase compares to a \$120.2 million decrease in 2004 as a result of higher-than-usual tax payments made in the first quarter of 2004, but accrued at December 31, 2003. These payments are attributable to the gain on the sale of the Company's 45% equity investment in Rock-McGraw, Inc. and a large international tax payment. Also included in the operating cash flow for the six months ended June 30, 2004 is a \$20.0 million non-cash reduction of the Company's accrued income tax liability (see Note 12). The increase in 2005 income taxes payable is primarily due to the increase in the provision of taxes payable on income from continuing operations.

Investing Activities: Cash used by investing activities was \$591.6 million in the first half of 2005, compared to \$109.6 million in 2004. The change over the prior year is primarily due to the payments related to acquisitions in 2005.

Purchases of property and equipment totaled \$43.8 million in 2005 compared with \$39.0 million in 2004. 2005 spending primarily relates to investments in the Company's distribution centers and facilities and technology related equipment. 2004 spending related primarily to the facilities consolidation at London's Canary Wharf, which occurred in the first quarter of 2004. For 2005, capital expenditures are expected to be approximately \$130 million.

Additions to technology projects totaled \$6.0 million in the first half of 2005 compared with \$6.6 million in 2004. For 2005, additions to deferred technology projects are expected to be approximately \$30 million.

Net prepublication costs increased by \$27.4 million at June 30, 2005, as spending outpaced amortization. Prepublication investment totaled \$109.9 million as of June 30, 2005, \$5.0 million more than the same period in 2004 reflecting the significant adoption opportunities in 2005 and beyond. Prepublication spending for 2005 is expected to increase to approximately \$270 million as the Company begins to ramp up spending to reflect the significant adoption opportunities in key states in 2005 and beyond.

Table of Contents

Financing Activities: Cash used by financing activities was \$55.5 million as of June 30, 2005 compared to \$227.0 million in 2004. The difference is primarily attributable to the increase in net commercial paper borrowings, as a result of recent acquisitions, the increased adoption opportunities and the increase in the repurchase of treasury shares. On a settlement basis, cash was utilized to repurchase approximately 8.7 million of treasury shares for \$383.9 million in 2005. Shares repurchased under the repurchase program were used for general corporate purposes, including the issuance of shares for stock compensation plans and to offset the dilutive effect of the exercise of employee stock options.

Commercial paper borrowings at June 30, 2005 totaled \$384.8 million. There were no commercial paper borrowings as of June 30, 2004. The Company has a five-year revolving credit facility agreement of \$1.2 billion that expires on July 20, 2009. The Company pays a facility fee of seven basis points on the credit facility whether or not amounts have been borrowed, and borrowings may be made at a spread of 13 basis points above the prevailing LIBOR rates. This spread increases to 18 basis points for borrowings exceeding 50% of the total capacity available under the facility. On July 5, 2005, the Company amended its credit facility to implement a materiality threshold for determining whether the effects of acquisitions and dispositions are included in the financial calculation for covenant reporting. The amended facility contains certain covenants, and the only financial covenant requires that the Company not exceed indebtedness to cash flow ratio, as defined, of 4 to 1 at any time. This restriction has never been exceeded. There were no borrowings under this agreement as of June 30, 2005 and 2004.

The Company also has the capacity to issue Extendible Commercial Notes (ECNs) of up to \$240 million. ECNs replicate commercial paper, except that the Company has an option to extend the note beyond its initial redemption date to a maximum final maturity of 390 days. However, if exercised, such an extension is at a higher reset rate, which is at a predetermined spread over LIBOR and is related to the Company's commercial paper rating at the time of extension. As a result of the extension option, no backup facilities for these borrowings are required. As is the case with commercial paper, ECNs have no financial covenants. There were no ECNs outstanding at June 30, 2005 and 2004.

Under the shelf registration that became effective with the Securities and Exchange Commission in 1990, an additional \$250 million of debt securities can be issued.

On April 27, 2005, the Company's Board of Directors approved a two-for-one stock split of the Company's common stock that was effected in the form of a 100 percent stock dividend to shareholders of record on May 6, 2005. The Company's shareholders received one additional share for each share in their possession on that date. This did not change the proportionate interest a shareholder maintains in the Company. The additional shares were distributed on May 17, 2005.

On January 26, 2005, the Board of Directors approved an increase of 10% in the quarterly common stock dividend from \$0.15 to \$0.165 per share on a post-split basis.

On January 29, 2003, the Board of Directors approved a new stock repurchase program authorizing the purchase of up to 30 million additional shares (post-split), which was approximately 7.8% of the total shares of the Company's outstanding common stock. The repurchased shares may be used for general corporate purposes, including the issuance of shares in connection with the exercise of employee stock options. Purchases under this program may be made from time to time on the open market and in private transactions depending on

Table of Contents

market conditions. On a trade date basis, the Company repurchased 9.2 million shares for \$405.5 million in 2005 at an average price of approximately \$44.07 per share on a post-split basis. Approximately 21.4 million shares on a post-split basis have been repurchased for \$882.8 million at an average price of \$41.16 under this program through June 30, 2005.

Quantitative and Qualitative Disclosure about Market Risk

The Company is exposed to market risk from changes in foreign exchange rates. The Company has operations in various foreign countries. The functional currency is the local currency for all locations, except in the McGraw-Hill Education segment, where operations that are extensions of the parent have the U.S. dollar as the functional currency. For hyper-inflationary economies, the functional currency is the U.S. dollar. In the normal course of business, these operations are exposed to fluctuations in currency values. The Company does not generally enter into derivative financial instruments in the normal course of business, nor are such instruments used for speculative purposes. The Company has no such instruments outstanding at this time.

The Company has naturally hedged positions in most countries with a local currency perspective with offsetting assets and liabilities. The gross amount of the Company's foreign exchange balance sheet exposure from operations is \$163.5 million as of June 30, 2005. Management has estimated using an undiversified value at risk analysis with 95% certainty that the foreign exchange gains and losses should not exceed \$18.4 million over the next year based on the historical volatilities of the portfolio.

The Company's net interest expense is sensitive to changes in the general level of U.S. interest rates. Based on average debt and investments outstanding over the past six months, the following is the projected annual impact on interest expense on current operations:

Percent change in interest rates (+/-)	Projected annual impact on operations (millions)
1%	\$2.8 million

Recently Issued Accounting Standards

See Note 13 to the Company's Consolidated Financial Statements for disclosure of the impact that recently issued accounting standards will have on the Company's financial statements.

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

This section, as well as other portions of this document, includes certain forward-looking statements about the Company's businesses, new products, sales, expenses, cash flows and operating and capital requirements. Such forward-looking statements include, but are not limited to: the strength and sustainability of the U.S. and global economy; Educational Publishing's level of success in 2005 adoptions and enrollment and demographic trends; the level of educational funding; the level of education technology investments; the strength of Higher Education, Professional and International publishing markets and the impact of technology on them; the level of interest rates and the strength of profit levels and the capital markets in the U.S. and abroad; the level of success of new product development and global expansion and strength of domestic and international markets; the demand and market for debt ratings, including mortgage and asset-backed securities; the regulatory environment affecting Standard & Poor's; the level of merger and acquisition activity in the U.S. and abroad; the strength of the domestic and international advertising markets; the volatility of the energy marketplace;

Table of Contents

the contract value of public works, manufacturing and single-family unit construction; the level of political advertising; and the level of future cash flow, debt levels, product-related manufacturing expenses, pension expense, distribution expenses, postal rates, amortization and depreciation expense, income tax rates, capital, technology and other expenditures and prepublication cost investment.

Actual results may differ materially from those in any forward-looking statements because any such statements involve risks and uncertainties and are subject to change based upon various important factors, including, but not limited to, worldwide economic, financial, political and regulatory conditions; currency and foreign exchange volatility; the health of capital and equity markets, including future interest rate changes; the implementation of an expanded regulatory scheme affecting Standard & Poor's ratings and services; the level of funding in the education market (both domestically and internationally); the pace of recovery of the economy and in advertising; continued investment by the construction, computer and aviation industries; the successful marketing of new products, and the effect of competitive products and pricing.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company has no material changes to the disclosure made on this matter in the Company's report on Form 10-K for the year ended December 31, 2004. Please see the financial condition section in Item 2 of this Form 10-Q for additional market risk disclosures.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed with the Securities and Exchange Commission (SEC) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2005, an evaluation was performed under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) under the U.S. Securities Exchange Act of 1934). Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2005.

Other Matters

There have been no changes in the Company's internal controls over financial reporting during the most recent quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II
Other Information

Item 1 . Legal Proceedings

In the normal course of business both in the United States and abroad, the Company and its subsidiaries are defendants in numerous legal proceedings and are also involved, from time to time, in governmental and self-regulatory agency proceedings, which may result in adverse judgments, damages, fines or penalties. In addition, various governmental and self-regulatory agencies regularly make inquiries and conduct investigations concerning compliance with applicable laws and regulations. Based on information currently known by the Company's management, the Company does not believe that any pending legal, governmental or self-regulatory proceedings or investigations will result in a material adverse effect on its financial condition or results of operations.

Item 2 . Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information on purchases made by the Company of its outstanding common stock during the second quarter of 2005 pursuant to the stock repurchase program authorized on January 29, 2003 by the Board of Directors (column c). The stock repurchase program authorizes the purchase of up to 30 million additional shares (post-split), which was approximately 7.8% of the total shares of the Company's outstanding common stock as of January 29, 2003. The repurchase program has no expiration date. The repurchased shares may be used for general corporate purposes, including the issuance of shares in connection with the exercise of employee stock options. Purchases under this program may be made from time to time on the open market and in private transactions, depending on market conditions. In addition to purchases under the 2003 stock repurchase program, the number of shares in column (a) include; 1) shares of common stock that are tendered to the Registrant to satisfy the employees' tax withholding obligations in connection with the vesting of awards of restricted performance shares (such shares are repurchased by the Registrant based on their fair market value on the vesting date), and 2) shares of the Registrant deemed surrendered to the Registrant to pay the exercise price and to satisfy the employees' tax withholding obligations in connection with the exercise of employee stock options. There were no other share repurchases outside the above stock repurchase program.

Period	(a) Total Number of Shares Purchased (in millions)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Programs (in millions)	(d) Maximum Number of Shares that may yet be Purchased Under the Programs (in millions)
(Apr. 1 — Apr. 30, 2005)	0.1	\$43.33	—	10.6
(May 1 — May 31, 2005)	—	—	—	10.6
(June 1 — June 30, 2005)	<u>2.1</u>	<u>\$44.01</u>	<u>2.0</u>	<u>8.6</u>
Total — Qtr	<u>2.2</u>	<u>\$43.97</u>	<u>2.0</u>	<u>8.6</u>

Table of Contents

Item 4. Submission of Matters to a Vote of Security Holders

- (a) The 2005 Annual Meeting of Shareholders of the Registrant was held on April 27, 2005.
- (b) The following nominees, having received the FOR votes set forth opposite their respective names, constituting a plurality of the votes cast at the Annual Meeting for the election of Directors, were duly elected Directors of the Registrant:

DIRECTOR	FOR	WITHHOLD AUTHORITY
Sir Winfried F.W. Bischoff	103,155,079	56,674,360
Douglas N. Daft	104,798,292	55,031,147
Linda Koch Lorimer	100,294,229	59,535,210
Harold McGraw III	109,356,052	50,473,387

The terms of office of the following directors continued after the meeting:

Pedro Aspe, Robert P. McGraw, Hilda Ochoa-Brillembourg, James H. Ross, Edward B. Rust, Jr., Kurt L. Schmoke and Sidney Taurel.

- (c) Shareholders approved the Key Executive Short-Term Incentive Compensation Plan. The vote was 129,350,895 shares FOR and 12,607,176 shares AGAINST, with 1,383,860 shares abstaining and 16,487,508 broker non-votes.
- (d) Shareholders approved the increase in authorized Common Stock to 600,000,000 shares from 300,000,000 shares. The vote was 144,007,873 shares FOR and 14,667,204 shares AGAINST, with 1,154,362 shares abstaining.
- (e) Shareholders ratified the appointment of Ernst & Young LLP as independent auditors for the Registrant and its subsidiaries for 2005. The vote was 152,085,973 shares FOR and 6,687,732 shares AGAINST, and 1,055,734 shares abstaining.
- (f) The shareholder proposal requesting a shareholder vote on “poison pills” received the following number of votes: 102,239,530 shares FOR and 39,379,376 shares AGAINST, with 1,723,026 shares abstaining and 16,487,507 broker non-votes.

Item 6. Exhibits

- (3) Restated Certificate of Incorporation of the Registrant
- (10) First Amendment, dated as of July 5, 2005, to the Five-Year Credit Agreement, dated as of July 20, 2004, among the Registrant, the several banks and other financial institutions from time to time parties thereto, and JP Morgan Chase Bank, N.A., as administrative agent.
- (12) Computation of Ratio of Earnings to Fixed Charges
- (15) Letter on Unaudited Interim Financials

Table of Contents

- (31.1) Quarterly Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (31.2) Quarterly Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32) Quarterly Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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 thereunto duly authorized.

THE MCGRAW-HILL COMPANIES, INC.

Date: July 29, 2005

By /s/ Robert J. Bahash
Robert J. Bahash
Executive Vice President
and Chief Financial Officer

Date: July 29, 2005

By /s/ Kenneth M. Vittor
Kenneth M. Vittor
Executive Vice President
and General Counsel

Date: July 29, 2005

By /s/ Talia M. Griep
Talia M. Griep
Corporate Controller
and Senior Vice President,
Global Business Services

RESTATED CERTIFICATE

OF

INCORPORATION

OF

McGRAW-HILL, INC.

Under Section 807 of the Business Corporation Law

Pursuant to the provisions of Section 807 of the Business Corporation Law, the undersigned hereby certify:

1. The name of the Corporation is McGraw-Hill, Inc. The name under which the Corporation was formed is McGraw-Hill Publishing Company, Inc., which name was changed to McGraw-Hill, Inc. on January 2, 1964.
2. The Certificate of Incorporation of the Corporation was filed by the Department of State on the 29th of December, 1925.
3. The text of the Certificate of Incorporation of the Corporation, as heretofore amended, is hereby restated without further amendment or change to read as herein set forth in full:

ARTICLE I.

The corporate name shall be: McGRAW-HILL, INC.

ARTICLE II.

The purposes for which the Corporation is to be formed are:

To manufacture, print, publish, bind, conduct, circulate, sell, distribute, deliver and otherwise deal in and with magazines, periodicals, journals, and other publications and books of any and every description whatsoever, and generally to carry on the business of magazines, periodicals, journal, and book proprietors and publishers and that of general publishers and printers, to undertake and carry on all

kinds of business relative to the dissemination of information of every nature and kind; to carry on the stationery business and any other merchandising business, book printing, book manufacturing, book binding and book selling, designing, engraving, lithographing, etching, wood typing, stereotyping, electroplating and photographing, and the making and printing of illustrations and letter press of every nature and kind, by and with every process whatsoever now existing or at any time hereafter to be discovered, incidental to and necessary for a general publishing business and for such purpose to purchase or lease or otherwise acquire, build, construct, maintain and operate and in any way to utilize building structures, manufactories, machinery, storehouses and warehouses, and any and all other personal property, rights and privileges necessary or convenient in connection with any of the purposes herein mentioned, and to mortgage, improve and otherwise deal in and with the same without limit as to the amount, and to carry on the above business or any other business directly or indirectly connected therewith, and in carrying on its business for the purpose of attaining or furthering any of its obligations, express or implied, to do any and all acts and things, to carry on any business and to exercise any and all powers which a natural person could do and exercise, provided such business is not of the nature which can be carried on only by Corporations organized under the Banking, the Insurance, the Educational and the Transportation Corporation Laws.

To enter into, make, perform and carry out contracts of every kind which a corporation organized under the Stock Corporation Law may enter into with any person, firm, association or corporation.

To issue bonds, debentures, or obligations of the company from time to time, for any of the objects or purposes of the company and to secure the same by mortgage, pledge, deed of trust or otherwise as may be allowed by the laws of New York.

To acquire, hold, use, sell, assign, lease, grant licenses in respect of, mortgage, or otherwise dispose of Letters Patent of the United States, or any foreign country, patents, patent rights, licenses and privileges, inventions, improvements and processes, trademarks and trade names relating to or useful in connection with any business of the Corporation, but always subject to statute.

To purchase, acquire, hold and dispose of the shares of its capital stock in the manner and to the extent permitted by laws of New York.

To conduct and transact business in any of the states, territories, colonies or dependencies of the United States, and in any and all foreign countries; to have one or more offices therein and therein to hold, purchase, mortgage, and convey real and personal property, without limit as to amount, but always subject to local laws.

To purchase, acquire, hold, sell, assign, transfer, mortgage, pledge and otherwise dispose of the shares of capital stock, bonds, debentures or other evidences of indebtedness of any corporation, domestic or foreign, and while the holder thereof, to exercise all the rights and privileges of ownership, including the right to vote thereon, and to issue in exchange therefor its own stock, bonds and other obligations.

The foregoing clauses shall be construed both as objects and powers, and it is hereby expressly provided that the foregoing enumeration of specific powers shall not be held to limit or restrict in any manner the powers of the Corporation.

In general, to carry on any other lawful business of the same general nature in connection with the foregoing whether manufacturing or otherwise, and to have and to exercise all the powers conferred by the laws of New York upon corporations formed under the act hereinafter referred to.

ARTICLE III.

The aggregate number of shares which the Corporation shall have authority to issue shall be 82,891,256 shares, 891,256 shares of which shall have a par value of \$10 per share and 82,000,000 shares of which shall have a par value of \$1 per share. All of these shares are to be classified and the designations, number of shares in each class and the par value of the shares shall be as follows: \$1.20 Convertible Preference Stock, 891,256 shares of the par value of \$10 per share; Series Preferred Stock, 2,000,000 shares of the par value of \$1 per share; and Common Stock, 80,000,000 shares of the par value of \$1 per share.

A statement of the designations, preferences, privileges and voting powers of the shares of each class and the restrictions and qualifications thereof is as set forth below. All references to Convertible Preferred Stock apply to the \$1.20 Convertible Preference Stock.

A.

CONVERTIBLE PREFERRED STOCK

Dividends. The holders of Convertible Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative cash dividends from the last day of the month of March, June, September or December next preceding the date on which such stock is issued, at the rate of \$1.20 per share per annum in the case of the \$1.20 Convertible Preference Stock, and no more, payable quarterly on the first day of the months of January, April, July and October in the case of the \$1.20 Convertible Preference Stock, but in no event shall such dividends accrue for any period prior to January 1, 1966 in the case of the \$1.20 Convertible Preference Stock. In no event, so long as any Convertible Preferred Stock shall remain outstanding, shall any dividend whatsoever, other than a dividend payable in shares of junior stock, be declared or paid upon, nor shall any distribution be made upon, any junior stock, nor shall any shares of junior stock be purchased or redeemed by the Corporation otherwise than in connection with a refunding of junior stock through the issue of other junior stock, nor shall any moneys be paid to or made available for a sinking fund for the purchase or redemption of any junior stock, unless in each instance dividends on all outstanding shares of the Convertible Preferred Stock for all past dividend periods shall have been paid and the dividend on all outstanding shares of the Convertible Preferred Stock for the then current quarterly dividend period shall have been paid or declared and sufficient funds are available for the payment thereof. Subject to the foregoing, dividends may be paid upon junior stock as and when declared by the Board of Directors out of any funds of the Corporation legally available therefor.

Redemption. The Corporation, at the option of the Board of Directors, at any time after January 1, 1972 in the case of the \$1.20 Convertible Preference Stock, may redeem, in whole, or from time to time in part, the Convertible Preferred Stock, upon notice given as hereinafter provided, by paying for each share in cash the sum of Forty Dollars (\$40) in the case of the \$1.20 Convertible Preference Stock, plus in each case an amount equal to dividends accrued thereon to the date fixed for redemption. In case of the redemption of less than all of the outstanding shares of Convertible Preferred Stock, the shares to be redeemed shall be selected by lot or pro rata in such manner as the

Board of Directors shall determine from among the outstanding shares of Convertible Preferred Stock. Not less than thirty (30) days' prior written notice shall be given by mail, postage prepaid, to the holders of record of the Convertible Preferred Stock to be redeemed, such notice to contain a statement of or reference to the conversion right set forth in the paragraph entitled 'Conversion' and to be addressed to each such shareholder at his post office address as shown by the records of the Corporation.

If such notice of redemption shall have been duly given, and if on or before the redemption date specified in such notice the funds necessary for such redemption shall have been set aside so as to be and continue to be available therefor, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, from and after such redemption date, the shares so called for redemption shall no longer be deemed outstanding, the dividends thereon shall cease to accrue, and all rights with respect to shares so called for redemption, including the rights, if any, to receive notices and to vote, shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable upon redemption thereof, without interest; provided, however, that if such notice of redemption shall have been duly given, and if on or before the redemption date specified in such notice, there shall have been deposited with a bank or trust company in the Borough of Manhattan, City and State of New York, having capital, surplus and undivided profits of at least Five Million Dollars (\$5,000,000) in trust for the account of the holders of the shares so called for redemption which shall not have been surrendered for conversion pursuant to the paragraph entitled 'Conversion', the funds necessary for such redemption, then upon the making of such deposit in trust, the shares with respect to which such deposit shall have been made shall no longer be deemed to be outstanding, and all rights with respect to such shares, including the rights, if any, to receive notices and to vote, shall forthwith cease and terminate, except only the right of the holders thereof to receive, out of the funds so deposited in trust, from and after the date of such deposit, the amount payable upon the redemption thereof, without interest, or to convert their shares, up to the close of business on the third full business day prior to the date fixed for redemption, into Common Stock pursuant to the paragraph entitled 'Conversion'. Any funds so deposited which shall not be required for such redemption because of the exercise of any right of conversion or exchange or otherwise

subsequent to the date of such deposit shall be returned to the Corporation forthwith. Any interest accrued on any funds so deposited shall belong to the Corporation and be paid to it from time to time. Any other funds so set aside or deposited by the Corporation and unclaimed at the end of six years from the date fixed for such redemption shall be repaid to the Corporation, upon its request, after which repayment the holders of such shares so called for redemption shall look only to the Corporation for the payment of the amount payable upon the redemption thereof. Subject to the provisions hereof the Board of Directors shall have authority to prescribe the manner in which the Convertible Preferred Stock shall be redeemed from time to time. All shares of Convertible Preferred Stock so redeemed shall be permanently retired and shall not under any circumstances be reissued; and the Corporation may from time to time take such appropriate corporate action as may be necessary to reduce the authorized Convertible Preferred Stock accordingly.

Liquidation . Upon any liquidation, dissolution or winding up of the Corporation, and after the holders of the Series Preferred Stock shall have been paid in full the amounts to which they shall be entitled, or after an amount sufficient to pay the aggregate amount to which the holders of the Series Preferred Stock shall be entitled shall have been deposited with a bank or trust company in the Borough of Manhattan, City and State of New York, having capital, surplus and undivided profits of at least Five Million Dollars (\$5,000,000), in trust for the account of the holders of the Series Preferred Stock, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the \$1.20 Convertible Preference Stock and the Common Stock in proportion to the number of shares of each such class at the time outstanding. Written notice of such liquidation, dissolution or winding up, stating a payment date and the place where said sums shall be payable and containing a statement of or reference to the conversion right set forth in the paragraph entitled 'Conversion', shall be given by mail, postage prepaid, not less than thirty (30) days prior to the payment date stated therein, to the holders of record of the Convertible Preferred Stock, such notice to be addressed to each such shareholder at his post office address as shown by the records of the Corporation. Neither the consolidation or merger of the Corporation into or with any other corporation or corporations, nor the sale or transfer by the Corporation of all or any part of its assets, nor the reduction of the capital stock of the Corporation,

shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of any of the provisions of this paragraph.

Conversion. (1) Any share or shares of Convertible Preferred Stock may be converted, at the option of the holder thereof, in the manner hereinafter provided, into full-paid and non-assessable shares of Common Stock of the Corporation; provided, however, that (a) as to any share of Convertible Preferred Stock which shall have been called for redemption, the right of conversion shall terminate at the close of business on the third full business day prior to the date fixed for redemption, and (b) on any liquidation of the Corporation the right of conversion shall terminate at the close of business on the third full business day before the date fixed for the initial payment of distributable amounts on the Convertible Preferred Stock.

(2) [Deleted]

(3) The conversion rate with respect to the \$1.20 Convertible Preference Stock shall be .825 of a share of Common Stock for each one share of such \$1.20 Convertible Preference Stock surrendered for conversion, subject to adjustment as hereinafter provided.

(a) In case at any time shares of Common Stock outstanding shall be combined into a lesser number of shares, whether by reclassification, recapitalization, reduction of capital stock or otherwise, the conversion rate shall be proportionately decreased.

(b) In case the shares of Common Stock at any time outstanding shall, at any time after December 31, 1965, be subdivided, by reclassification, recapitalization or otherwise (including the issuance of shares of Common Stock as a dividend on the Common Stock), into a greater number of shares without the actual receipt by the Corporation of any consideration for the additional number of shares so issued, the conversion rate shall be proportionately increased.

(4) Any conversion rate determined or adjusted as herein provided shall remain in effect until further adjustment as required herein. Upon each adjustment of the conversion rate a written instrument signed by an officer of the Corporation, setting forth such adjustment and the computation and a summary of the facts upon which it is based, shall forthwith be filed

with the principal transfer agent for the Convertible Preferred Stock of the class or classes affected and made available for inspection by the shareholders, and any adjustment so evidenced, made in good faith, shall be binding upon all shareholders and upon the Corporation. Upon any conversion, fractional shares shall not be issued but any fractions shall be adjusted in cash, unless the Board of Directors shall determine to adjust them by the issue of fractional scrip certificates or in some other manner. Upon any conversion, no adjustment shall be made for dividends on the Convertible Preferred Stock surrendered for conversion or on the Common Stock delivered. The Corporation shall pay all issue taxes, if any, incurred in respect of the issue of the Common Stock on conversion, provided, however, that the Corporation shall not be required to pay any transfer or other taxes incurred by reason of the issuance of such Common Stock in names other than those in which the Convertible Preferred Stock surrendered for conversion may stand.

(5) Any conversion of Convertible Preferred Stock into shares of Common Stock shall be made by the surrender to the Corporation, at the office of any transfer agent for the Convertible Preferred Stock, of the certificate or certificates representing the share or shares of Convertible Preferred Stock to be converted, duly endorsed or assigned (unless such endorsement or assignment be waived by the Corporation), together with a written request for conversion.

(6) All shares of Convertible Preferred Stock which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares, including the rights, if any, to receive notices and to vote, shall forthwith cease and terminate except only the right of the holders thereof to receive Common Stock in exchange therefor. Any shares of Convertible Preferred Stock so converted shall be permanently retired, shall no longer be deemed outstanding and shall not under any circumstances be reissued and the Corporation may from time to time take such appropriate corporate action as may be necessary to reduce the authorized Convertible Preferred Stock accordingly.

(7) In case of any reclassification or change of outstanding shares of Common Stock of the class issuable upon conversion of the shares of Convertible

Preferred Stock, or in case of any consolidation or merger of the Corporation with or into another corporation, or in case of any sale or conveyance to another corporation of the property of the Corporation as an entirety or substantially as an entirety, the holder of each share of Convertible Preferred Stock then outstanding shall have the right thereafter to convert such share into the kind and amount of shares of stock and other securities and property receivable, upon such reclassification, change, consolidation, merger, sale or conveyance, by a holder of the number of shares of Common Stock (whole or fractional) of the Corporation into which such share of Convertible Preferred Stock might have been converted immediately prior to such reclassification, change, consolidation, merger, sale or conveyance. In the event of any such consolidation, merger, sale or conveyance (a) effective provision shall be made, in the charter of the continuing or successor Corporation or otherwise, so that in the opinion of the Board of Directors of the Corporation, the provisions set forth herein for the protection of the conversion rights of the Convertible Preferred Stock shall thereafter be applicable, as nearly as reasonably may be, to any such other shares of stock and other securities and property deliverable upon conversion of the Convertible Preferred Stock remaining outstanding or other Convertible Preferred Stock received by the holders in place thereof, and (b) any such continuing or successor Corporation shall expressly assume the obligation to deliver, upon the exercise of the conversion privilege, such shares, securities or property as the holders of shares of the Convertible Preferred Stock remaining outstanding, or other convertible preferred stock received by the holders in place thereof, shall be entitled to receive pursuant to the provisions hereof, and to make provision for the protection of the conversion right as above provided. In case securities or property other than Common Stock shall be issuable or deliverable upon conversion as aforesaid, then all references in this paragraph entitled 'Conversion' shall be deemed to apply so far as appropriate and as nearly as may be, to such other securities or property.

(8) A number of shares of authorized Common Stock sufficient to provide for the conversion of the Convertible Preferred Stock outstanding upon the basis hereinbefore provided shall at all times be reserved for such conversion. If the Corporation shall propose to make any change in its capital structure which would change the number of shares of Common Stock into which each share of the Convertible Preferred Stock shall be convertible as herein provided, the Corporation

shall at the same time also make proper provision so that thereafter there shall be a sufficient number of shares of Common Stock authorized and reserved for conversion of the outstanding Convertible Preferred Stock on the new basis.

Voting Rights. Each holder of Convertible Preferred Stock shall be entitled to one vote for each share held and, except as otherwise by law provided or as provided with respect to any series of the Series Preferred Stock, the Convertible Preferred Stock, the shares of any series of the Series Preferred Stock having general voting rights and the Common Stock of the Corporation shall vote together as one class.

Denial of Preemptive Rights. No holder of the Convertible Preferred Stock shall be entitled, as such, as a matter of right, to subscribe for or to purchase any part of any new or additional issue of stock of any class whatsoever or of securities convertible into stock of any class whatsoever, whether now or hereafter authorized, or whether issued for cash, or other consideration, or by way of dividend. Notwithstanding the foregoing, or the provisions of Section E of this Article III, in the event that the Corporation grants to the holders of its Common Stock generally rights to subscribe for or purchase any stock or securities, the Corporation shall also grant to the holders of the Convertible Preferred Stock rights to subscribe for or purchase, on the same terms as such stock or securities are offered to the holders of the Common Stock, an amount of such stock or securities equal to the amount which they would be entitled to purchase if the Convertible Preferred Stock had been converted into Common Stock at the then applicable conversion rate.

B.

SERIES PREFERRED STOCK

1. Board Authority. The Series Preferred Stock may be issued from time to time as herein provided in one or more series. The designations, relative rights, preferences and limitations of the Series Preferred Stock, and particularly of the shares of each series thereof, may, to the extent permitted by law, be similar to or differ from those of any other series. The Board of Directors of the Corporation is hereby expressly granted authority, subject to the provisions of this Article III, to fix from time to time before issuance thereof the number of shares in

each series of such class and all designations, relative rights, preferences and limitations of the shares in each such series, including, but without limiting the generality of the foregoing, the following:

- (i) The number of shares to constitute such series and the distinctive designation thereof;
- (ii) The dividend rate on the shares of such series, whether or not dividends on the shares shall be cumulative, and the date or dates, if any, from which dividends thereon shall be cumulative;
- (iii) Whether or not the shares of such series shall be redeemable, and, if redeemable, the date or dates upon or after which they shall be redeemable, the amount per share payable thereon in the case of the redemption thereof, which amount may vary at different redemption dates or otherwise as permitted by law;
- (iv) Whether or not the shares of such series shall be subject to the operation of a retirement or sinking fund to be applied to the purchase or redemption of such shares for retirement and, if such retirement or sinking fund be established, the amount thereof, and the terms and provisions relative to the operation thereof;
- (v) The right, if any, of holders of shares of such series to convert the same into or exchange the same for Common Stock, and the terms and conditions of such conversion or exchange, as well as provisions for adjustment of the conversion rate in such events as the Board of Directors shall determine;
- (vi) The amount per share payable on the shares of such series upon the voluntary and involuntary liquidation, dissolution or winding up of the Corporation;
- (vii) Whether the holders of shares of such series shall have voting power, full or limited, in addition to the voting powers provided by law, and in case additional voting powers are accorded to fix the extent thereof; and
- (viii) Generally to fix the other rights and privileges and any qualifications, limitations or restrictions of such rights and privileges of such series, provided, however, that no such rights,

privileges, qualifications, limitations or restrictions shall be in conflict with the Certificate of Incorporation of the Corporation or with the resolution or resolutions adopted by the Board of Directors providing for the issue of any series of which there are shares then outstanding.

All shares of Series Preferred Stock of the same series shall be identical in all respects, except that shares of any one series issued at different times may differ as to dates, if any, from which dividends thereon may accumulate. All shares of Series Preferred Stock of all series shall be of equal rank (ranking equally as to dividends with the \$1.20 Convertible Preference Stock) and shall be identical in all respects except that to the extent not otherwise limited in this Article III any series may differ from any other series with respect to any one or more of the designations, relative rights, preferences and limitations described or referred to in subparagraphs (i) to (viii) inclusive above.

2. Dividends. The holders of shares of the Series Preferred Stock of each series shall be entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, dividends at the rates fixed by the Board of Directors for such series, and no more, before any dividends, other than dividends payable in Common Stock, shall be declared and paid, or set apart for payment, on the Common Stock with respect to the same dividend period.

All shares of Series Preferred Stock of all series shall be of equal rank, preference and priority as to dividends irrespective of whether or not the rates of dividends to which the same shall be entitled shall be the same and when the stated dividends are not paid in full, the shares of all series of the Series Preferred Stock shall share ratably in the payment thereof in accordance with the sums which would be payable on such shares if all dividends were paid in full, provided, however, that any two or more series of the Series Preferred Stock may differ from each other as to the existence and extent of the right to cumulative dividends, as aforesaid.

3. Voting Rights. Except as otherwise specifically provided in the certificate filed pursuant to law with respect to any series of the Series Preferred Stock, or as otherwise provided by law, the Series Preferred Stock shall not have any right to vote for the election of directors or for any

other purpose and the Convertible Preferred Stock and the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes.

4. Liquidation. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, each series of the Series Preferred Stock shall have preference and priority over the \$1.20 Convertible Preference Stock and the Common Stock for payment of the amount to which each outstanding series of the Series Preferred Stock shall be entitled in accordance with the provisions thereof and each holder of the Series Preferred Stock shall be entitled to be paid in full such amounts, or have a sum sufficient for the payment in full set aside, before any payments shall be made to the holders of the \$1.20 Convertible Preference Stock or the Common Stock. If, upon liquidation, dissolution or winding up of the Corporation, the assets of the Corporation or proceeds thereof, distributable among the holders of the shares of all series of the Series Preferred Stock shall be insufficient to pay in full the preferential amounts aforesaid, then such assets, or the proceeds thereof, shall be distributed among such holders ratably in accordance with the respective amounts which would be payable if all amounts payable thereon were paid in full. After the payment to the holders of the Series Preferred Stock of all such amounts to which they are entitled, as above provided, the remaining assets and funds of the Corporation shall be divided and paid to the holders of the \$1.20 Convertible Preference Stock and the Common Stock. Neither the consolidation or merger of the Corporation into or with any other corporation or corporations, nor the sale or transfer by the Corporation of all or any part of its assets, nor the reduction of the capital stock of the Corporation, shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of any of the provisions of this paragraph.

5. Redemption. In the event that the Series Preferred Stock of any series shall be made redeemable as provided in clause (iii) of paragraph 1 of this Section B of Article III, the Corporation, at the option of the Board of Directors, may redeem at any time or times, and from time to time, all or any part of any one or more series of Series Preferred Stock outstanding, upon notice and terms as may be specifically provided in the certificate filed pursuant to law with respect to the series, by paying for each share the then applicable redemption price

fixed by the Board of Directors plus an amount equal to accrued and unpaid dividends to the date fixed for redemption.

C.

COMMON STOCK

Dividends. Subject to all of the rights of the Convertible Preferred Stock and the rights of the Series Preferred Stock, dividends may be paid upon the Common Stock as and when declared by the Board of Directors out of any funds legally available for the payment of dividends.

Liquidation. Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, and after the holders of the Series Preferred Stock shall have been paid in full amounts to which they respectively shall be entitled, or an amount sufficient to pay the aggregate amount to which the holders of the Series Preferred Stock shall be entitled shall have been deposited with a bank or trust company having its principal office in the Borough of Manhattan, The City of New York, and having capital, surplus and undivided profits of at least Five Million Dollars (\$5,000,000), as a trust fund for the benefit of the holders of the Series Preferred Stock, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the \$1.20 Convertible Preference Stock and the Common Stock in proportion to the number of shares of each such class at the time outstanding.

Voting Rights. Each holder of Common Stock of the Corporation shall be entitled to one vote for each share held and, except as otherwise by law provided or as provided with respect to any series of the Series Preferred Stock, the Convertible Preferred Stock, the shares of any series of Series Preferred Stock having general voting rights and the Common Stock of the Corporation shall vote together as one class.

D.

CERTAIN DEFINITIONS

For the purposes of this Article III the following terms shall be deemed to have the meanings specified below:

The terms 'dividends accrued' and 'an amount equal to dividends accrued,' whenever used herein with reference to shares of Convertible Preferred Stock, shall mean an amount per share computed at the annual rate set forth in the paragraph entitled 'Dividends' under 'Convertible Preferred Stock' above, or a quarterly rate equal to one-fourth (1/4) of such annual rate, from and including the dividend payment date to which the dividends on such share have been paid, to but not including the date to which dividends are to be accrued. The amount per share for less than a full quarterly dividend period shall be computed by (a) assuming that there are 90 days in such full quarterly dividend period, (b) determining the number of days from and including the next preceding dividend payment date, to but not including the date to which the dividend is to be accrued, and (c) multiplying the applicable quarterly dividend rate by a fraction, the numerator of which shall be the number of days of the accrual as in (b) and the denominator of which shall be 90, but in no event shall such accrual be more than such applicable quarterly dividend rate.

The term 'junior stock' shall mean the Common Stock and any other stock ranking junior to the Convertible Preferred Stock in respect of the payment of dividends or of payment in liquidation, or both, in accordance with the subject matter of the context, provided that the \$1.20 Convertible Preference Stock shall not be deemed to be 'junior stock' for the purposes of the paragraph entitled 'Dividends' under 'Convertible Preferred Stock' above.

E.

WAIVER OF PREEMPTIVE RIGHTS

No holder of Convertible Preferred Stock, Series Preferred Stock or Common Stock shall be entitled as of right to purchase or subscribe for any part of any unissued stock of any class or of any additional Convertible Preferred Stock, Series Preferred Stock or Common Stock to be issued by reason of any increase of the authorized capital stock of the Corporation of any class, or of bonds, certificates of indebtedness, debentures or other securities convertible into stock of the Corporation, but any such unissued stock or such additional authorized issue of new stock or of other securities convertible into stock may be issued and disposed of pursuant to resolution of the Board of

Directors to such persons, firms, corporations or associations and upon such terms as may be deemed advisable by the Board of Directors in the exercise of their discretion.

F.

SCRIP

In no case shall fractions of shares of any class be issued by the Corporation, but in lieu thereof the Corporation may issue fractional Scrip Certificates, in either bearer or registered form, and in such denominations as shall be determined by the Board of Directors. Such Scrip Certificates shall be exchangeable on or before such date as the Board of Directors may fix, when surrendered with other similar Scrip Certificates in sufficient aggregate amounts, for certificates for full paid and non-assessable shares of the stock for which such Scrip Certificates are exchangeable, and the amount of dividends theretofore paid upon such full shares, and new Scrip Certificates of a like tenor for the remaining fraction of a share, if any. Such Scrip Certificates shall not entitle any holder thereof to voting rights, dividend rights or any other right of a shareholder or any rights other than the rights herein set forth, and no dividend or interest shall be payable or shall accrue with respect to the Scrip Certificates or the interests represented thereby. All such Scrip Certificates which are not surrendered in exchange for shares of stock on or before such date as the Board of Directors may fix, shall thereafter be void and of no effect whatever, except that the holders thereof shall be entitled to receive their pro rata share of the proceeds resulting from the sale of the full shares of stock for which such Scrip Certificates are exchangeable, together with their pro rata share of dividends theretofore paid upon such full shares; such sale (which may be effected either publicly or privately at the current market price, and as to which the Corporation may be the purchaser) to be made by the Corporation or by an agent of the Corporation (which agent may be a transfer agent or registrar of the shares for which such Scrip Certificates are exchangeable), as agent and on behalf of the holders of the Scrip Certificates.

ARTICLE IV.

The company may use and apply its surplus earnings or accumulated profits to the purchase or acquisition of property and to the purchase and acquisition of its own capital stock from time to time, to such extent and in such manner, and upon such terms as its Board

of Directors shall determine, and neither the property nor the capital stock so purchased and acquired shall be regarded as profits for the purpose of declaration or payment of dividends, unless otherwise determined by a majority of the Board of Directors.

ARTICLE V.

[Deleted]

ARTICLE VI.

The office of the Corporation is to be located in the Borough of Manhattan, City, County and State of New York.

ARTICLE VII.

The duration of the Corporation is to be perpetual.

ARTICLE VIII.

A. Number, Election and Terms of Directors. The business and affairs of the Corporation shall be managed under the direction of its Board of Directors which, subject to any rights of the holders of any series of Preferred Stock then outstanding to elect additional directors under specified circumstances, shall consist of not less than twelve (12) nor more than twenty-five (25) persons. The exact number of directors within the minimum and maximum limitations specified in the preceding sentence shall be determined from time to time by the affirmative vote of (i) a majority of the Board of Directors, or (ii) the holders of at least 80% of the voting power of all of the shares of the Corporation entitled to vote generally in the election of directors, voting together as a single class. At the 1985 Annual Meeting of Shareholders, the directors shall be divided into three classes, as nearly equal in number as possible, with the term of office of the first class to expire at the 1986 Annual Meeting of Shareholders, the term of office of the second class to expire at the 1987 Annual Meeting of Shareholders and the term of office of the third class to expire at the 1988 Annual Meeting of Shareholders, and with the members of each class to hold office until their successors have been duly elected and qualified. At each Annual Meeting of Shareholders following such initial classification and election, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding Annual Meeting of Shareholders after their election and after their successors have been duly elected and qualified.

B. Newly Created Directorships and Vacancies. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors and any vacancies on the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause shall be filled by a majority vote of the directors then in office (even though less than a quorum of the Board of Directors), and directors so chosen shall hold office for a term expiring at the next Annual Meeting of Shareholders and after their successors have been duly elected and qualified. If the number of directors is increased by the Board of Directors and the newly created directorship is filled by the Board, there shall be no classification of the additional directors so chosen until the next Annual Meeting of Shareholders at which time a majority of the Board shall designate the class of the director to be elected to fill such directorship by the shareholders. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

C. Removal. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any director or directors may be removed from office at any time, but only for cause and only by the affirmative vote of (i) the holders of at least 80% of the voting power of all of the shares of the Corporation entitled to vote generally in the election of directors, voting together as a single class, or (ii) a majority of the Board of Directors.

D. Special Meetings of Shareholders. Special meetings of Shareholders of the Corporation may be called only by the Board of Directors pursuant to a resolution approved by a majority of the Board of Directors, upon not less than 30 nor more than 50 days' written notice.

E. Amendment, Repeal, Etc. Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least 80% of the voting power of all of the shares of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article Eighth.

ARTICLE IX.

A.

VOTE REQUIRED FOR CERTAIN BUSINESS COMBINATIONS

1. Higher Vote for Certain Business Combinations. In addition to any affirmative vote required by law or this Certificate of Incorporation, and except as otherwise expressly provided in Section B of this Article Ninth:

(a) any merger or consolidation of the Corporation or any Subsidiary (as hereinafter defined) with (i) any Interested Shareholder (as hereinafter defined) or (ii) any other Corporation (whether or not itself an Interested Shareholder) which is, or after such merger or consolidation would be, an Affiliate (as hereinafter defined) of an Interested Shareholder; or

(b) any sale, lease, license, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Shareholder or any Affiliate of any Interested Shareholder of any assets of the Corporation or any Subsidiary having an aggregate Fair Market Value (as hereinafter defined) of \$1,000,000 or more; or

(c) the issuance or transfer by the Corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the Corporation or any Subsidiary to any Interested Shareholder or any Affiliate of any Interested Shareholder having an aggregate Fair Market Value of \$1,000,000 or more; or

(d) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of an Interested Shareholder or any Affiliate of any Interested Shareholder; or

(e) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its Subsidiaries or any other transaction (whether or not with or into or otherwise involving an Interested Shareholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the Corporation or any Subsidiary which is directly or

indirectly owned by any Interested Shareholder or any Affiliate of any Interested Shareholder;

shall require the affirmative vote of the holders of at least 80% of the voting power of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (the "Voting Stock"), voting together as a single class (it being understood that for purposes of this Article Ninth, each share of the Voting Stock shall have the number of votes granted to it pursuant to Article Third of this Certificate of Incorporation). Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or in any agreement with any national securities exchange or otherwise.

2. Definition of "Business Combination". The term "Business Combination" as used in this Article Ninth shall mean any transaction which is referred to in any one or more of clauses (a) through (e) of paragraph 1 of this Section A of Article Ninth.

B.

WHEN HIGHER VOTE IS NOT REQUIRED

The provisions of Section A of this Article Ninth shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote as is required by law and any other provision of this Certificate of Incorporation, if all of the conditions specified in either of the following paragraphs 1 or 2 are met:

1. Approval by Disinterested Directors. The Business Combination shall have been approved by a majority of the total number of Disinterested Directors (as hereinafter defined).

2. Price and Procedural Requirements. All of the following conditions shall have been met:

(a) The aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the higher of the following:

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Shareholder for any shares of Common Stock acquired by it (1) within the two-year period immediately prior to the first public announcement of the proposal of the Business Combination (the "Announcement Date") or (2) in the transaction in which it became an Interested Shareholder, whichever is higher; and

(ii) the Fair Market Value per share of Common Stock on the Announcement Date or on the date on which the Interested Shareholder became an Interested Shareholder (such latter date is referred to in this Article Ninth as the "Determination Date"), whichever is higher.

(b) The aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of shares of any other class of outstanding Voting Stock (other than Institutional Voting Stock, as hereinafter defined) shall be at least equal to the highest of the following (it being intended that the requirements of this clause (b) shall be required to be met with respect to every class of outstanding Voting Stock (other than Institutional Voting Stock), whether or not the Interested Shareholder has previously acquired any shares of a particular class of Voting Stock):

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Shareholder for any shares of such class of Voting Stock acquired by it (x) within the two-year period immediately prior to the Announcement Date or (y) in the transaction in which it became an Interested Shareholder, whichever is higher;

(ii) the Fair Market Value per share of such class of Voting Stock on the Announcement Date or on the Determination Date, whichever is higher; and

(iii) (if applicable) the highest preferential amount per share to which the holders of shares of such class of Voting Stock are entitled in the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary.

(c) The consideration to be received by holders of a particular class of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as the Interested Shareholder has previously paid for shares of such class of Voting Stock. If the Interested Shareholder has paid for shares of any class of Voting Stock with varying forms of consideration, the form of consideration for such class of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such class of Voting Stock previously acquired by it.

(d) After such Interested Shareholder has become an Interested Shareholder and prior to the consummation of such Business Combination: (i) except as approved by a majority of the total number of Disinterested Directors, there shall have been no failure to declare and pay at the regular date therefor any full quarterly dividends (whether or not cumulative) on the outstanding preferred stock of the Corporation; (ii) there shall have been (x) no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock), except as approved by a majority of the total number of Disinterested Directors, and (y) an increase in such annual rate of dividends as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock, unless the failure so to increase such annual rate is approved by a majority of the total number of Disinterested Directors; and (iii) such Interested Shareholder shall have not become the beneficial owner of any additional shares of Voting Stock except as part of the transaction which results in such Interested Shareholder becoming an Interested Shareholder.

(e) After such Interested Shareholder has become an Interested Shareholder, such Interested Shareholder shall not have received the benefit, directly or indirectly (except proportionately as a shareholder), of any loans,

advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the Corporation, whether in anticipation of or in connection with such Business Combination or otherwise.

(f) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to public shareholders of the Corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

(g) The holders of all outstanding shares of Voting Stock not beneficially owned by the Interested Shareholder prior to the consummation of any Business Combination shall be entitled to receive in such Business Combination cash or other consideration for their shares of such Voting Stock in compliance with paragraphs 2(a), (b) and (c) of this Section B (provided, however, that the failure of any such holders who are exercising their statutory rights to dissent from such Business Combination and receive payment of the fair value of their shares to exchange their shares in such Business Combination shall not be deemed to have prevented the condition set forth in this paragraph 2(g) from being satisfied).

C.

CERTAIN DEFINITIONS

For the purposes of this Article Ninth the following terms shall be deemed to have the meanings specified below:

1. The term “person” shall mean any individual, firm, Corporation or other entity.
2. The term “Interested Shareholder” shall mean any person (other than the Corporation or any Subsidiary) who or which:
 - (a) is the beneficial owner, directly or indirectly, of more than 10% of the voting power of the then outstanding Voting Stock; or

(b) is an Affiliate of the Corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding Voting Stock; or

(c) is an assignee of or has otherwise succeeded to any shares of Voting Stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by any Interested Shareholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

3. A person shall be deemed a “beneficial owner” of any Voting Stock:

(a) which such person or any of its Affiliates or Associates (as hereinafter defined) beneficially owns, directly or indirectly; or

(b) which such person or any of its Affiliates or Associates has (i) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (ii) the right to vote pursuant to any agreement, arrangement or understanding; or

(c) which is beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

4. For the purpose of determining whether a person is an Interested Shareholder pursuant to paragraph 2 of this Section C of this Article Ninth, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of paragraph 3 of this Section C of this Article Ninth but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

5. The terms “Affiliate” or “Associate” shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on November 28, 1984.

6. The term “Subsidiary” shall mean any Corporation of which a majority of any class of equity security is owned, directly or indirectly, by the Corporation; provided, however, that for the purposes of the definition of Interested Shareholder set forth in paragraph 2 of this Section C of this Article Ninth, the term “Subsidiary” shall mean only a Corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Corporation.

7. The term “Fair Market Value” shall mean: (a) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the total number of Disinterested Directors in good faith, in each case with respect to any class of such stock, appropriately adjusted for any dividend or distribution in shares of such stock or any stock split or reclassification of outstanding shares of such stock into a greater number of shares of such stock or any combination or reclassification of outstanding shares of such stock into a smaller number of shares of such stock; and (b) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the total number of Disinterested Directors in good faith.

8. The term “Institutional Voting Stock” shall mean any class of Voting Stock which was issued to and continues to be held solely by one or more

insurance companies, pension funds, commercial banks, savings banks or similar financial institutions or institutional investors.

9. In the event of any Business Combination in which the Corporation survives, the phrase “consideration other than cash to be received” as used in clauses (a) and (b) of paragraph 2 of Section B of this Article Ninth shall include the shares of Common Stock and/or the shares of any other class of outstanding Voting Stock retained by the holders of such shares.

10. The term “Disinterested Director” shall mean any member of the Board of Directors of the Corporation who is unaffiliated with the Interested Shareholder and who was a member of the Board of Directors prior to the Determination Date, and any successor of a Disinterested Director who is unaffiliated with the Interested Shareholder and is recommended to succeed a Disinterested Director by a majority of the total number of Disinterested Directors then on the Board of Directors.

11. References to “highest per share price” shall in each case with respect to any class of stock reflect an appropriate adjustment for any dividend or distribution in shares of such stock or any stock split or reclassification of outstanding shares of such stock into a greater number of shares of such stock or any combination or reclassification of outstanding shares of such stock into a smaller number of shares of such stock.

D.

POWERS OF THE BOARD OF DIRECTORS

A majority of the Board of Directors of the Corporation shall have the power and duty to determine for the purposes of this Article Ninth, on the basis of information known to them after reasonable inquiry, whether a person is an Interested Shareholder. Once the Board of Directors has made a determination, pursuant to the preceding sentence, that a person is an Interested Shareholder, a majority of the total number of Directors of the Corporation who would qualify as Disinterested Directors shall have the power and duty to interpret all of the terms and provisions of this Article Ninth, and to determine on the basis of information known to them after reasonable inquiry all facts necessary to ascertain compliance with this

Article Ninth, including, without limitation, (A) the number of shares of Voting Stock beneficially owned by any person, (B) whether a person is an Affiliate or Associate of another, (C) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Corporation or any Subsidiary in any Business Combination has, an aggregate Fair Market Value of \$1,000,000 or more and (D) whether all of the applicable conditions set forth in paragraph 2 of Section B of this Article Ninth have been met with respect to any Business Combination. Any determination pursuant to this Section D of this Article Ninth made in good faith shall be binding and conclusive on all parties.

E.

NO EFFECT ON FIDUCIARY OBLIGATIONS OF INTERESTED SHAREHOLDERS

Nothing contained in this Article Ninth shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

F.

AMENDMENT, REPEAL, ETC.

Notwithstanding any other provisions of this Certificate of Incorporation or the By-Laws of the Corporation (and notwithstanding the fact that a lesser percentage may be specified by law, this Certificate of Incorporation or the By-Laws of the Corporation), the affirmative vote of the holders of 80% or more of the outstanding Voting Stock, voting together as a single class, shall be required to amend or repeal, or adopt any provisions inconsistent with, this Article Ninth of this Certificate of Incorporation.

ARTICLE X.

The Corporation hereby designates the Secretary of State of the State of New York as its agent upon whom process in any action or proceeding against it may be served within the State of New York. The address to which the Secretary of State shall mail a copy of any process against the Corporation which may be served upon him pursuant to law is 1221 Avenue of the Americas, New York, New York.

The restatement of the Certificate of Incorporation was authorized by vote of the Board of Directors of the Corporation at a meeting of the Board of Directors held on July 31, 1985.

IN WITNESS WHEREOF, this certificate has been signed this 31st day of July, 1985.

/s/ Robert N. Landes

Robert N. Landes
Executive Vice President

/s/ Kurt D. Steele

Kurt D. Steele
Assistant Secretary

STATE OF NEW YORK)
): ss:
COUNTY OF NEW YORK)

ROBERT N. LANDES, being duly sworn, deposes and says that he is an Executive Vice President of McGraw-Hill, Inc., the Corporation mentioned and described in the foregoing instrument; that he is one of the persons who signed the foregoing Restated Certificate of Incorporation; that he signed said Certificate in the capacity beneath his signature therein; that he has read the foregoing Certificate and knows the contents thereof; and that the statements contained therein are true to his knowledge.

/s/ Robert N. Landes
Robert N. Landes

Sworn to before me this 9

day of August, 1985.

 [ILLEGIBLE]
Notary Public

[ILLEGIBLE STAMP]

CERTIFICATE OF AMENDMENT
OF THE
CERTIFICATE OF INCORPORATION
OF
McGRAW-HILL, INC.

Under Section 805 of the Business Corporation Law

Pursuant to the provisions of Sections 502 and 805 of the Business Corporation Law, the undersigned hereby certify:

1. The name of the Corporation is McGraw-Hill, Inc. The name under which the Corporation was formed is McGraw-Hill Publishing Company, Inc., which name was changed to McGraw-Hill, Inc. on January 2, 1964.
2. The Certificate of Incorporation of the Corporation was filed by the Department of State on the 29th of December, 1925.
3. The Certificate of Incorporation of the Corporation is hereby amended by the addition of the following provision stating the number, designations, relative rights, preferences and limitations of a series of Series Preferred Stock of the Corporation, designated as Series A Preferred Stock, as fixed by the Board of Directors of the Corporation pursuant to the authority vested in it by the Restated Certificate of Incorporation of the Corporation:

SERIES A PREFERRED STOCK

1. Designation and Amount. The shares of such series shall be designated as "Series A Preferred Stock"
-

(the “Series A Preferred Stock”) and the number of shares constituting such series shall be 600,000.

2. Dividends and Distributions.

(i) The holders of shares of Series A Preferred Stock, in preference to the holders of Common Stock and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the fifteenth day of March, June, September and December in each year (each such date being referred to herein as a “Quarterly Dividend Payment Date”), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$25 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock of the Corporation or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Corporation shall at any time after the date hereof declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Serial A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(ii) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided

in subparagraph (i) of this paragraph 2 immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$25 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(iii) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

3. Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(i) Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time after the date hereof declare or pay any dividend on Common Stock payable in shares of Common Stock,

or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(ii) Except as otherwise provided herein or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

(iii) Except as set forth herein, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock and any other capital stock of the Corporation having general voting rights as set forth herein) for taking any corporate action.

4. Certain Restrictions.

(i) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in paragraph 2 of this Section are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(a) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(b) declare or pay dividends on or make any other distributions on any shares of stock ranking

on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(c) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(d) purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(ii) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under subparagraph (i) of this paragraph 4, purchase or otherwise acquire such shares at such time and in such manner.

5. Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Series Preferred Stock and may be reissued as part of a new series of Series Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

6. Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Corporation no distribution shall be made (a) to the holders of shares of stock ranking Junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series A Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock, or (b) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all other such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time after the date hereof declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (a) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at

any time after the date hereof declare or pay any dividend on Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

8. No Redemption. The shares of Series A Preferred Stock shall not be redeemable.

9. Amendment. The [] Certificate of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds of the outstanding shares of Series A Preferred Stock, voting together as a single class.

The foregoing amendment to the [] Certificate of Incorporation was authorized by the Board of Directors of the Corporation, pursuant to the authority vested in it by the [Restated] Certificate of Incorporation of the Corporation and Section 502 of the Business Corporation Law, at a meeting of the Board duly held on the 29th day of January, 1986.

IN WITNESS WHEREOF, we have executed and subscribed this Certificate of Amendment, and do affirm the foregoing as true, this 29th day of January, 1986.

/s/ Robert N. Landes

Robert N. Landes
Executive Vice President

/s/ Scott L. Bennett

Scott L. Bennett
Assistant Secretary

CERTIFICATE OF AMENDMENT
OF THE
CERTIFICATE OF INCORPORATION
OF McGRAW-HILL, INC.
UNDER SECTION 805 OF THE BUSINESS CORPORATION LAW

It is hereby certified that:

(1) The name of the Corporation is McGRAW-HILL, INC. The name under which the Corporation was formed was McGraw-Hill Publishing Company, Inc. which name was changed to McGraw-Hill, Inc. on January 2, 1964.

(2) The Certificate of Incorporation of the Corporation was filed by the Department of State on December 29, 1925.

(3) Article III of the Certificate of Incorporation of the Corporation is hereby amended to effect an increase in the number of authorized shares of Common Stock, par value \$1 per share, from 80,000,000 shares to 150,000,000 shares. The first paragraph of Article III of the Certificate of Incorporation of the Corporation is hereby amended to read as follows:

“ARTICLE III. The aggregate number of shares which the Corporation shall have authority to issue shall be

152,891,256 shares, 891,256 shares of which shall have a par value of \$10 per share and 152,000,000 shares of which shall have a par value of \$1 per share. All of these shares are to be classified and the designations, number of shares in each class and the par value of the shares shall be as follows: \$1.20 Convertible Preference Stock, 891,256 shares of the par value of \$10 per share; Series Preferred Stock, 2,000,000 shares of the par value of \$1 per share; and Common Stock, 150,000,000 shares of the par value of \$1 per share.”

(4) The Certificate of the Incorporation of the Corporation is hereby amended with respect to the elimination of directors’ liability under certain circumstances. The Certificate of Incorporation is hereby amended to add a new Article XI to read in its entirety, as follows:

“ARTICLE ELEVENTH: No director of the Corporation shall be personally liable to the Corporation or its

shareholders for damages for any breach of duty in such capacity except to the extent that such elimination or limitation of liability is expressly prohibited by the Business Corporation Law of the State of New York as currently in effect or as the same may hereafter be amended. No amendment, modification or repeal of this Article shall adversely affect any right or protection of any director that exists at the time of such amendment, modification or repeal.”

(5) This amendment to the Certificate of Incorporation of the Corporation was properly authorized by vote at a meeting of the board of directors, followed by vote of the holders of a majority of all outstanding shares entitled to vote thereon at the Annual Meeting of Shareholders of the Corporation duly held on April 27, 1988.

IN WITNESS WHEREOF, this Certificate has been signed this 27th day of April, 1988.

/s/ Robert N. Landes

Robert N. Landes,
Executive Vice President

/s/ Scott L. Bennett

Scott L. Bennett,
Assistant Secretary

CERTIFICATE OF AMENDMENT
OF THE
CERTIFICATE OF INCORPORATION
OF McGRAW-HILL, INC.
UNDER SECTION 805 OF THE BUSINESS CORPORATION LAW

It is hereby certified that:

- (1) The name of the Corporation is McGRAW-HILL, INC. The name under which the Corporation was formed was McGraw-Hill Publishing Company, Inc. which name was changed to McGraw-Hill, Inc. on January 2, 1964.
- (2) The Certificate of Incorporation of the Corporation was filed by the Department of State on December 29, 1925.
- (3) Article I of the Certificate of Incorporation of the Corporation is hereby amended to effect a change in the Corporation's name from "McGraw-Hill, Inc." to "The McGraw-Hill Companies, Inc." Article I of the Certificate of Incorporation of the Corporation is hereby amended to read as follows:

"ARTICLE I. The Corporate name shall be:
The McGraw-Hill Companies, Inc."

(4) This Amendment to the Certificate of Incorporation of the Corporation was properly authorized by vote at a meeting of the board of directors, duly held on January 25, 1995, followed by the vote of the holders of at least a majority of all outstanding shares of Common Stock and \$1.20 Convertible Preference Stock, voting together as a single class, entitled to vote thereon on the Annual Meeting of Shareholders of the Corporation duly held on April 26, 1995.

IN WITNESS WHEREOF, this Certificate has been signed this 26th day of April, 1995.

/s/ Robert N. Landes

Robert N. Landes
Executive Vice President

/s/ Scott L. Bennett

Scott L. Bennett
Assistant Secretary

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

ROBERT N. LANDES, being duly sworn deposes and says that he is the person who signed the foregoing Certificate of Amendment; that he signed said Certificate in the capacity set forth beneath his signature thereon; that he has read said Certificate and knows the contents thereof; and that the statements contained therein are true to his own knowledge.

/s/ Robert N. Landes
Robert N. Landes
Executive Vice President

Subscribed and sworn to
before me on April 26, 1995

/s/ Peter J. O’Conor
PETER J. O’CONOR
Notary Public, State of New York
No. 41-4816506, Qual in Queens County
Certificate Filed in New York County
Commission Expires May 31, 1996

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CERTIFICATE OF AMENDMENT
OF THE
CERTIFICATE OF INCORPORATION
OF THE MCGRAW-HILL COMPANIES, INC.
UNDER SECTION 805 OF THE BUSINESS CORPORATION LAW

It is hereby certified that:

(1) The name of the Corporation is THE MCGRAW-HILL COMPANIES, INC. The name under which the Corporation was formed was McGraw-Hill Publishing Company, Inc. which name was changed to McGraw-Hill, Inc. on January 2, 1964 and to The McGraw-Hill Companies, Inc. on April 26, 1995.

(2) The Certificate of Incorporation of the Corporation was filed by the Department of State on December 29, 1925.

(3) Article III of the Certificate of Incorporation of the Corporation is hereby amended to effect an increase in the number of authorized shares of Common Stock, par value \$1 per share, from 150,000,000 shares to 300,000,000 shares. The first paragraph of Article III of the Certificate of Incorporation of the Corporation is hereby amended to read as follows:

“ARTICLE III. The aggregate number of shares which the Corporation shall have authority to issue shall be 302,891,256 shares, 891,256 shares of which shall have a par value of \$10 per share and 302,000,000 shares of which shall have a par value of \$1 per share. All of these shares are to be classified and the designations, number of shares in each class and the par value of the shares shall be as follows: \$1.20 Convertible Preference Stock, 891,256 shares of the par value of \$10 per share; Series Preferred Stock, 2,000,000 shares of the par value of \$1 per share; and Common Stock, 300,000,000 shares of the par value of \$1 per share.”

(4) This Amendment to the Certificate of Incorporation of the Corporation was properly authorized by vote at a meeting of the board of directors, duly held on February 25, 1998, followed by the vote of at least a majority of all outstanding shares of Common Stock and \$1.20 Convertible Preference Stock, voting together as a single class, entitled to vote thereon at the Annual Meeting of Shareholders of the Corporation duly held on April 29, 1998.

IN WITNESS WHEREOF, this Certificate has been signed this 29th day of April, 1998.

/s/ Kenneth M. Vittor

Kenneth M. Vittor
Senior Vice President

/s/ Scott L. Bennett

Scott L. Bennett
Secretary

STATE OF NEW YORK)
) SS.:
COUNTY OF NEW YORK)

KENNETH M. VITTOR, being duly sworn deposes and says that he is the person who signed the foregoing Certificate of Amendment; that he signed said Certificate in the capacity set forth beneath his signature thereon; that he has read said Certificate and knows the contents thereof; and that the statements contained therein are true to his own knowledge.

/s/ Kenneth M. Vittor
Kenneth M. Vittor,
Senior Vice President

Subscribed and sworn to
Before me on April 29, 1998.

 /s/ LINDA WIDMER
LINDA WIDMER
Notary Public, State of New York
No. 31-4985714
Qualified in New York County
Commission Expires August 26, 1999

CERTIFICATE OF AMENDMENT
OF THE
CERTIFICATE OF INCORPORATION
OF THE McGRAW-HILL COMPANIES, INC.
UNDER SECTION 805 OF THE BUSINESS CORPORATION LAW

It is hereby certified that:

(1) The name of the Corporation is THE McGRAW-HILL COMPANIES, INC. The name under which the Corporation was formed was McGraw-Hill Publishing Company, Inc. which name was changed to McGraw-Hill, Inc. on January 2, 1964 and to The McGraw-Hill Companies, Inc. on April 26, 1995.

(2) The Certificate of Incorporation of the Corporation was filed by the Department of State on December 29, 1925.

(3) Article III of the Certificate of Incorporation of the Corporation is hereby amended to effect an increase in the number of authorized shares of Common Stock, par value \$1 per share, from 300,000,000 shares to 600,000,000 shares. The first paragraph of Article III of the Certificate of Incorporation of the Corporation is hereby amended to read as follows:

“ARTICLE III. The aggregate number of shares which the Corporation shall have authority to issue shall be 602,891,256 shares, 891,256 shares of which shall have a par value of \$10 per share and 602,000,000 shares of which shall have a par value of \$1 per share. All of these shares are to be classified and the designations, number of shares in each class and the par value of the shares shall be as follows: \$1.20 Convertible Preference Stock, 891,256 shares of the par value of \$10 per share; Series Preferred Stock, 2,000,000 shares of the par value

of \$1 per share; and Common Stock, 600,000,000 shares of the par value of \$1 per share.”

(4) This Amendment to the Certificate of Incorporation of the Corporation was properly authorized by vote at a meeting of the board of directors, duly held on January 26, 2005, followed by the vote of at least a majority of all outstanding shares of Common Stock entitled to vote thereon at the Annual Meeting of Shareholders of the Corporation duly held on April 27, 2005.

IN WITNESS WHEREOF, this Certificate has been signed this 27th day of April, 2005.

/s/ Kenneth M. Vittor

Kenneth M. Vittor
Executive Vice President

/s/ Scott L. Bennett

Scott L. Bennett
Secretary

STATE OF NEW YORK)
) SS.:
COUNTY OF NEW YORK)

KENNETH M. VITTOR, being duly sworn deposes and says that he is the person who signed the foregoing Certificate of Amendment; that he signed said Certificate in the capacity set forth beneath his signature thereon; that he has read said Certificate and knows the contents thereof; and that the statements contained therein are true to his own knowledge.

/s/ Kenneth M. Vittor
Kenneth M. Vittor,
Executive Vice President

Subscribed and sworn to
Before me on April 27, 2005.

/s/ Linda Widmer

Linda Widmer
Notary Public, State of New York
No. 31-4985714
Qualified in New York County
Commission Expires August 26, 2005

FIRST AMENDMENT

FIRST AMENDMENT, dated as of July 5, 2005 (this “Amendment”), to the FIVE-YEAR CREDIT AGREEMENT dated as of July 20, 2004 (the “Credit Agreement”), among THE MCGRAW-HILL COMPANIES, INC. (the “Borrower”), the several banks and other financial institutions from time to time parties thereto (the “Lenders”) and JPMORGAN CHASE BANK, N.A., as administrative agent (in such capacity, the “Administrative Agent”).

WITNESSETH:

WHEREAS, the Borrower, the Administrative Agent and the Lenders are parties to the Credit Agreement;

WHEREAS, the Borrower has requested that a certain provision of the Credit Agreement be amended as set forth herein; and

WHEREAS, the Lenders are willing to agree to such amendment on the terms set forth herein;

NOW THEREFORE, in consideration of the premises and mutual covenants contained herein, the undersigned hereby agree as follows:

I. Defined Terms . Terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

II. Amendment to Section 1.01 . The definition of “Consolidated Cash Flow” is hereby amended by deleting the definition therein in its entirety and substituting, in lieu thereof, the following new definition:

“Consolidated Cash Flow” of the Borrower and the Subsidiaries for any period (the “Determination Period”) means the sum of (i) Consolidated Net Income for the Determination Period, plus (ii) all amounts deducted in the determination of such Consolidated Net Income in respect of (a) depreciation and amortization (including without limitation amortization of assets held under Capitalized Leases) excluding amortization relating to prepublication costs, (b) Consolidated Interest Expense, and (c) provisions for taxes based on or measured by income; provided, however, that (A) if during the Determination Period the Borrower disposes of any asset and such disposition constitutes a Material Disposition, the sum of (x) the net income (loss) produced by such asset, before extraordinary items, during the portion of the Determination Period prior to the date on which such asset was disposed of, plus (y) all amounts deducted in determining such net income (loss) for such period in respect of depreciation and amortization (including without limitation amortization of assets held under Capitalized Leases), interest on Indebtedness, and provisions for taxes based on or measured

by income shall be excluded on a pro forma adjusted and consolidated basis in Consolidated Cash Flow for the Determination Period (to the extent they would otherwise have been included thereto), and (B) if during the Determination Period the Borrower makes an investment in any asset and such investment constitutes a Material Investment, the sum of (x) the net income (loss) produced by such asset, before extraordinary items, during the portion of the Determination Period prior to the date on which such investment in such asset was made, plus (y) all amounts deducted in determining such net income (loss) for such period in respect of depreciation and amortization (including, without limitation, amortization of assets held under Capitalized Leases), interest on Indebtedness, and provisions for taxes based on or measured by income shall be included on a pro forma adjusted and consolidated basis in Consolidated Cash Flow for the Determination Period (to the extent they would have otherwise been excluded therefrom). As used in this definition, "Material Disposition" means any disposition of assets or series of related dispositions of assets that yield gross proceeds to the Borrower or any of its Subsidiaries in excess of \$100,000,000, provided that such proceeds, together with the proceeds received by the Borrower or such Subsidiary in any other such disposition of assets that yield gross proceeds to the Borrower or such Subsidiary in excess of \$100,000,000 during the Determination Period, exceeds \$200,000,000; and "Material Investment" means any acquisition of assets or series of related acquisitions of assets by the Borrower or any of its Subsidiaries that (a) constitutes assets comprising all or substantially all of an operating unit of a business or constitutes all or substantially all of the common stock of a Person and (b) involves the payment of consideration by the Borrower or such Subsidiary in excess of \$100,000,000, provided that such consideration, together with the consideration paid in any other such acquisitions of assets that involves the payment of consideration by the Borrower or such Subsidiary in excess of \$100,000,000 during the Determination Period, exceeds \$200,000,000.

III. Effective Date. This Amendment shall become effective on the date (the "Effective Date") on which the Borrower, the Administrative Agent and the Required Lenders under the Credit Agreement shall have duly executed and delivered to the Administrative Agent this Amendment.

IV. Representations and Warranties. The Borrower hereby represents and warrants that (a) each of the representations and warranties in Article III of the Credit Agreement shall be, after giving effect to this Amendment, true and correct in all material respects as if made on and as of the Effective Date (unless such representations and warranties are stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date) and (b) after giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing.

V. No Other Amendments; Confirmation. Except as expressly amended hereby, the provisions of the Credit Agreement are and shall remain in full force and effect.

VI. Governing Law. This Amendment and the rights and obligations of the parties hereto shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

VII. Counterparts. This Amendment may be executed by one or more of the parties hereto on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. This Amendment may be delivered by facsimile transmission of the relevant signature pages hereof.

IN WITNESS WHEREOF, the undersigned have caused this Amendment to be executed and delivered by their duly authorized officers as of the date first above written.

THE MCGRAW-HILL COMPANIES, INC.

By: /s/ John C. Weisenseel

Name: John C. Weisenseel

Title: Senior Vice President & Treasurer

JPMORGAN CHASE BANK, N.A.
as Administrative Agent and as a Lender

By: /s/ Peter B. Thauer

Name: Peter B. Thauer

Title: Vice President

BANK OF AMERICA, N.A.,
as Co-Syndication Agent and as a Lender

By: /s/ Amy Peden

Name: Amy Peden

Title: Vice President

CITIBANK, N.A.,
as Co-Syndication Agent and as a Lender

By: /s/ Maureen Maroney

Name: Maureen Maroney

Title: Director

DEUTSCHE BANK SECURITIES INC.,
as Co-Syndication Agent

By: /s/ Yvonne Preil

Name: Yvonne Preil
Title: Vice President

By: /s/ Andreas Neumeier

Name: Andreas Neumeier
Title: Director

DEUTSCHE BANK AG NEW YORK BRANCH,
as a Lender

By: /s/ Yvonne Preil

Name: Yvonne Preil
Title: Vice President

By: /s/ Andreas Neumeier

Name: Andreas Neumeier
Title: Director

ROYAL BANK OF SCOTLAND PLC,
as Co-Syndication Agent and as a Lender

By: /s/ Andrew Wynn

Name: Andrew Wynn

Title: Senior Vice President

THE BANK OF NEW YORK

By: /s/ Kristen E. Talaber

Name: Kristen E. Talaber

Title: Vice President

BARCLAYS BANK PLC

By: /s/ David Barton

Name: David Barton

Title: Associate Director

KEYBANK NATIONAL ASSOCIATION

By: /s/ Francis W. Lutz

Name: Francis W. Lutz

Title: Vice President

LLOYDS TSB BANK, PLC

By: /s/ Windsor R. Davies

Name: Windsor R. Davies

Title: Director, Corporate Banking, USA

By: /s/ Deborah Carlson

Name: Deborah Carlson

Title: VP & Manager – Business
Development C.B.

THE NORTHERN TRUST COMPANY

By: /s/ Preeti Jain

Name: Preeti Jain

Title: Vice President

UFJ BANK LIMITED

By: _____
Name:
Title:

BANCO BILBAO VIZCAYA ARGENTARIA

By: _____
Name:
Title:

By: _____
Name:
Title:

SUMITOMO MITSUI BANKING CORPORATION

By: /s/ David A. Buck

Name: David A. Buck

Title: Senior Vice President

UNION BANK OF CALIFORNIA, N.A.

By: _____
Name:
Title:

NATIONAL AUSTRALIA BANK LIMITED

By: /s/ Eduardo Salazar

Name: Eduardo Salazar

Title: Senior Vice President

UBS LOAN FINANCE LLC

By: /s/ Wilfred V. Saint

Name: Wilfred V. Saint
Title: Director – Banking
Products Services, US

By: /s/ Joselin Fernandes

Name: Joselin Fernandes
Title: Associate Director – Banking
Products Services, US

The McGraw-Hill Companies, Inc.
Computation of Ratio of Earnings to Fixed Charges

(in thousands)	June 30, 2005		June 30, 2004
	Six Months	Twelve Months	Six Months
Earnings			
Earnings from continuing operations before income tax expense	\$435,437	\$1,252,132	\$352,210
Fixed charges	<u>41,587</u>	<u>78,509</u>	<u>38,934</u>
Total Earnings	<u>\$477,024</u>	<u>\$1,330,641</u>	<u>\$391,144</u>
Fixed Charges (Note)			
Interest expense	\$ 10,802	\$ 18,458	\$ 7,985
Portion of rental payments deemed to be interest	<u>30,785</u>	<u>60,051</u>	<u>30,949</u>
Total Fixed Charges	<u>\$ 41,587</u>	<u>\$ 78,509</u>	<u>\$ 38,934</u>
Ratio of Earnings to Fixed Charges	11.5x	16.9x	10.0x

(Note) "Fixed charges" consist of (1) interest on debt and interest related to the sale leaseback of Rock-McGraw, Inc. (See Note 11 to the Company's consolidated financial statements); and (2) the portion of the Company's rental expense deemed representative of the interest factor in rental expense.

The Board of Directors and Shareholders of
The McGraw-Hill Companies, Inc.

We are aware of the incorporation by reference in the Registration Statement on Form S-3 (No. 33-33667) pertaining to the Debt Securities of The McGraw-Hill Companies, Inc. and in the Registration Statements on Form S-8 pertaining to the 1987 Key Employee Stock Incentive Plan (No. 33-22344), the 1993 Employee Stock Incentive Plan (No. 33-49743, No. 33-30043 and No. 33-40502), the 2002 Stock Incentive Plan (No. 33-92224 and No. 33-116993), the Director Deferred Stock Ownership Plan (No. 33-06871), The Savings Incentive Plan of McGraw-Hill, Inc. and its Subsidiaries, The Employee Retirement Account Plan of McGraw-Hill, Inc. and its Subsidiaries, The Standard & Poor's Savings Incentive Plan for Represented Employees, The Standard & Poor's Employee Retirement Account Plan for Represented Employees, and The Employee's Investment Plan of McGraw-Hill Broadcasting Company, Inc. and its Subsidiaries (No. 33-50856), and The Savings Incentive Plan of The McGraw-Hill Companies, Inc. and its Subsidiaries, The Employee Retirement Account Plan of The McGraw-Hill Companies, Inc. and its Subsidiaries, The Standard & Poor's Savings Incentive Plan for Represented Employees, and The Standard & Poor's Employee Retirement Account Plan for Represented Employees (No. 33-126465) of our report dated July 26, 2005 relating to the unaudited consolidated interim financial statements of The McGraw-Hill Companies, Inc. which are included in its Form 10-Q for the quarter ended June 30, 2005.

ERNST & YOUNG LLP

New York, New York
July 29, 2005

**Quarterly Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Harold W. McGraw III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The McGraw-Hill Companies, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability
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**Quarterly Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2005

/s/ Harold W. McGraw III

Harold W. McGraw III
Chairman, President and
Chief Executive Officer

**Quarterly Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Robert J. Bahash, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The McGraw-Hill Companies, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to
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**Quarterly Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2005

/s/ Robert J. Bahash

Robert J. Bahash
Executive Vice President
and Chief Financial Officer

**Quarterly Certification Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of The McGraw-Hill Companies, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The quarterly report on Form 10-Q for the quarter ended June 30, 2005 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 29, 2005

/s/ Harold W. McGraw III

Harold W. McGraw III
Chairman, President and
Chief Executive Officer

Dated: July 29, 2005

/s/ Robert J. Bahash

Robert J. Bahash
Executive Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to The McGraw-Hill Companies and will be retained by The McGraw-Hill Companies and furnished to the Securities and Exchange Commission or its staff upon request