

MCGRAW-HILL COMPANIES INC

FORM 10-Q (Quarterly Report)

Filed 5/11/1995 For Period Ending 3/31/1995

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

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

(Mark One)

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

- --- SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1995 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 or 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 **McGraw-Hill, Inc.**

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

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

YES X NO

Number of shares of Common Stock (par value \$1.00 per share) outstanding as of April 28, 1995: 49,835,628.

PART I

Financial Information

The McGraw-Hill Companies, Inc.

Consolidated Statement of Income

Three Months Ended March 31, 1995 and 1994

	1995	1994
	(In thousands, except	
	per-share data)	
Operating revenue	\$568,548	\$559,774
Expenses:		
Operating	281,300	276,571
Selling and general	215,063	209,147
Depreciation and amortization	41,037	40,477
Total expenses	537,400	526,195
Other income - net	5,369	3,223
Income from operations	36,517	36,802
Interest expense - net	12,790	11,348
Income before taxes on income	23,727	25,454
Provision for taxes on income	9,776	10,487
Net income	\$ 13,951	\$ 14,967
	=====	=====
Earnings per common share	\$ 0.28	\$ 0.30
	=====	=====
Average number of common shares outstanding	49,679	49,445

The McGraw-Hill Companies, Inc.

Consolidated Balance Sheet

	March 31, 1995	Dec. 31, 1994	March 31, 1994
	(In thousands)		
ASSETS			
Current assets:			
Cash and equivalents	\$ 7,934	\$ 8,056	\$ 28,744
Accounts receivable (net of allowance for doubtful accounts) (Note 3)	679,406	757,949	621,680
Receivable from broker-dealers and dealer banks (Note 4)	7,217	23,047	17,110
Inventories (Note 3)	239,870	213,253	225,953
Prepaid income taxes	70,195	70,556	92,536
Prepaid and other current assets	71,337	51,226	45,203
	-----	-----	-----
Total current assets	1,075,959	1,124,087	1,031,226
	-----	-----	-----
Prepublication costs (net of accumulated amortization) (Note 3)	276,802	270,506	293,893
Investments and other assets:			
Investment in Rock-McGraw, Inc. - at equity	58,727	57,652	54,157
Prepaid pension expense	97,121	95,110	90,160
Other	144,438	142,502	156,476
	-----	-----	-----
Total investments and other assets	300,286	295,264	300,793
	-----	-----	-----
Property and equipment - at cost	795,473	788,671	745,149
Less - accumulated depreciation	458,455	442,889	409,696
	-----	-----	-----
Net property and equipment	337,018	345,782	335,453
Goodwill and other intangible assets - at cost (net of accumulated amortization)			
	983,085	972,894	1,007,823
	-----	-----	-----
	\$2,973,150	\$3,008,533	\$2,969,188
	=====	=====	=====

The McGraw-Hill Companies, Inc.

Consolidated Balance Sheet

	March 31, 1995	Dec. 31, 1994	March 31, 1994
	(In thousands)		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Notes payable	\$ 204,750	\$ 105,288	\$ 154,243
Accounts payable	163,422	176,314	173,914
Payable to broker-dealers and dealer banks (Note 4)	6,697	21,909	16,338
Accrued liabilities	117,099	177,172	106,542
Income taxes currently payable	50,506	54,300	46,677
Unearned revenue	235,432	239,715	250,339
Other current liabilities	219,920	233,287	216,229
	-----	-----	-----
Total current liabilities	997,826	1,007,985	964,282
	-----	-----	-----
Other liabilities:			
Long-term debt (Note 5)	657,285	657,517	757,890
Deferred income taxes	125,054	129,750	114,853
Accrued postretirement healthcare and other benefits	191,491	191,650	191,477
Other non-current liabilities	109,921	108,579	123,356
	-----	-----	-----
Total other liabilities	1,083,751	1,087,496	1,187,576
	-----	-----	-----
Total liabilities	2,081,577	2,095,481	2,151,858
	-----	-----	-----
Shareholders' equity (Note 6):			
Capital stock	51,474	51,474	51,475
Additional paid-in capital	73,820	69,314	66,732
Retained income	907,139	923,052	820,614
Foreign currency translation adjustments	(55,830)	(45,224)	(26,449)
	-----	-----	-----
	976,603	998,616	912,372
	-----	-----	-----
Less - common stock in treasury-at cost	71,583	76,987	83,320
unearned compensation on			
restricted stock	13,447	8,577	11,722
	-----	-----	-----
Total shareholders' equity	891,573	913,052	817,330
	-----	-----	-----
	\$2,973,150	\$3,008,533	\$2,969,188
	=====	=====	=====

The McGraw-Hill Companies, Inc.

 Consolidated Statement of Cash Flows

 For The Three Months Ended March 31, 1995 and 1994

	1995	1994

	(In thousands)	
Cash flows from operating activities		

Net income	\$ 13,951	\$ 14,967
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	16,557	15,524
Amortization of goodwill and intangibles	9,317	9,706
Amortization of prepublication costs	15,163	15,247
Provision for losses on accounts receivable	14,283	18,174
Other	(576)	(1,205)
Changes in assets and liabilities net of effect of acquisitions and dispositions:		
Decrease in accounts receivable	79,948	69,720
Increase in inventories	(29,455)	(10,111)
Increase in prepaid & other current assets	(19,976)	(83)
Decrease in accounts payable and accrued expenses	(77,019)	(80,423)
Decrease in interest and income taxes payable	(8,717)	(2,289)
Net change in other assets and liabilities	(28,300)	(1,125)

Cash provided by/(used for) operating activities	(14,824)	48,102

Investing activities		

Purchases of property and equipment	(7,540)	(7,089)
Investment in prepublication costs	(24,403)	(24,089)
Acquisition of businesses	(24,264)	-
Disposition of property and equipment	-	2,285
Other	434	2,653

Cash used for investing activities	(55,773)	(26,240)

Financing activities		

Dividends paid to shareholders	(29,864)	(28,603)
Additions to/(repayment of) short-term debt - net	99,639	(16,707)
Exercise of stock options	3,499	4,485
Other	(2,799)	(246)

Cash provided by/(used for) financing activities	70,475	(41,071)

Net change in cash and equivalents	(122)	(19,209)

Cash and equivalents at beginning of period	8,056	47,953

Cash and equivalents at end of period	\$ 7,934	\$ 28,744
	=====	=====

Financial Information (cont'd)

The McGraw-Hill Companies, Inc.

Notes to Financial Statements

1. The financial information in this report has not been audited, but in the opinion of management is based on estimates which include all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly such information. The operating results for the three months ended March 31, 1995 and 1994 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, 1994.

Certain prior year amounts have been reclassified for comparability purposes.

2. Operating profit by segment is total operating revenue less expenses which are deemed to be related to the unit's operating revenue. A summary of operating results by segment for the three months ended March 31, 1995 and 1994 follows:

	1995		1994	
	Revenue	Operating Profit/(Loss)	Revenue	Operating Profit/(Loss)
	(In thousands)			
Educational and Professional Publishing	\$ 171,296	\$ (29,371)	\$ 176,315	\$ (24,933)
Financial Services	199,366	59,301	194,446	58,782
Information and Media Services	197,886	19,443	189,013	14,472
-----	-----	-----	-----	-----
Total operating segments	568,548	49,373	559,774	48,321
General corporate expense	-	(12,856)	-	(11,519)
Interest expense - net	-	(12,790)	-	(11,348)
-----	-----	-----	-----	-----
Total company	\$ 568,548	\$ 23,727*	\$ 559,774	\$ 25,454*
	=====	=====	=====	=====

*Income before taxes on income.

Financial Information (cont'd)

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

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

	March 31, 1995	Dec. 31, 1994	March 31, 1994
	-----	-----	-----
	(In thousands)		
Allowance for doubtful accounts	\$ 79,432	\$ 78,732	\$ 79,057
	=====	=====	=====
Inventories:			
Finished goods	\$ 163,676	\$ 140,168	\$ 168,478
Work-in-process	43,235	47,795	36,571
Paper and other materials	32,959	25,290	20,904
	-----	-----	-----
Total inventories	\$ 239,870	\$ 213,253	\$ 225,953
	=====	=====	=====
Accumulated amortization of prepublication costs	\$ 314,450	\$ 346,172	\$ 252,169
	=====	=====	=====

4. A subsidiary of J.J. Kenny Co. acts as an undisclosed agent in the purchase and sale of municipal securities for broker-dealers and dealer banks and the company had \$340 million of matched purchase and sale commitments at March 31, 1995. Only those transactions not closed at the settlement date are reflected in the balance sheet as receivables and payables.

Financial Information (cont'd)

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

5. A summary of long-term debt follows:

	March 31, 1995	Dec. 31, 1994	March 31, 1994
	-----	-----	-----
		(In thousands)	
9.43% senior notes due 2000	\$ 250,000	\$ 250,000	\$ 250,000
Commercial paper supported by bank revolving credit agreement	400,000	400,000	500,000
Other	7,285	7,517	7,890
	-----	-----	-----
Total long-term debt	\$ 657,285	\$ 657,517	\$ 757,890
	=====	=====	=====

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

	March 31, 1995	Dec. 31, 1994	March 31, 1994
	-----	-----	-----
\$1.20 convertible preference stock at the rate of 3.3 shares for each share of preference stock	4,689	4,996	5,277
Exercise of stock options	3,880,694	4,055,114	4,256,218
	-----	-----	-----
	3,885,383	4,060,110	4,261,495
	=====	=====	=====

Common shares reserved for issuance at March 31 and December 31, 1994 were restated to include 2.3 million shares under the 1993 key Employee Stock Incentive Plan. No stock options under the 1993 Plan were issued prior to 1995.

7. Cash dividends per share declared during the three months ended March 31, 1995 and 1994 were as follows:

	1995	1994
	-----	-----
Common stock	\$.60	\$.58
Preference stock	.30	.30

Financial Information (cont'd)

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

Operating Results - Comparing Three Months Ended March 31, 1995 and 1994

Consolidated Review

Operating revenue for the first quarter grew \$8.8 million, or 1.6%, over the 1994 quarter to \$568.5 million reflecting price and volume increases. The revenue growth was primarily in Broadcasting, Business Week, Financial Information Services and Tower Group International, partially offset by a revenue decline in School Publishing. Net income declined 6.8% to \$14.0 million from the comparable quarter a year ago and earnings per share were 28 cents versus 30 cents a year ago. The first quarter represents the company's smallest quarter due to the seasonality of the company's businesses, primarily the book publishing operations.

Total expenses in 1995 increased \$11.2 million, or 2.1%, reflecting increased operating expenses due primarily to the increase in revenue, higher marketing costs for 1995 school publishing adoption sales later this year and investments at S&P Ratings.

Net interest expense increased \$1.4 million, or 12.7%, reflecting an increase in average commercial paper interest rates from 3.3% in 1994 to 6.1% in 1995. The impact of the higher rates was partially offset by reduced average commercial paper borrowing levels from the prior year.

The provision for taxes as a percentage of income before taxes was 41.2% in both 1994 and 1995.

Segment Review

Educational and Professional Publishing revenue declined \$5.0 million, or 2.8%. The year-to-year decline reflects 1994 first quarter School Publishing reorders from the strong adoption year in 1993 that did not recur in 1995 from 1994's off-adoption year. Excluding School Publishing, the revenues of the company's other publishing operations were even with last year in total, with a decline in medical publishing offset by gains in professional publishing, both domestic and international. The decline in medical publishing is due to last year's publication of "Harrison's Principles of Internal Medicine," which is published every four years. Internationally, the company faces a soft market in Mexico, offset by revenue increases in other Spanish-language markets and gains in Europe and Asia. The segment's operating loss, reflecting typical first quarter seasonal losses in educational publishing, increased 17.8% to \$29.4 million largely due to the revenue decline, increased marketing costs for School Publishing adoptions and publication timing in the Legal Information Group.

Financial Information (cont'd)

Financial Services' revenue increased \$4.9 million, or 2.5%, while operating profit improved \$0.5 million, or 0.9%. The Financial Information Services Group benefited from continued growth in financial information products, particularly MMS International, and stabilized performance at DRI. S&P Ratings matched last year's revenue level reflecting the growth of new ratings services and expanded global operations offsetting an approximate 37% decline in new issuance volume in the U.S. bond market. S&P Ratings' operating profit declined from a year ago reflecting the softness in the corporate bond market and continuing investments in the expansion of the business.

Information and Media Services' revenue increased \$8.9 million, or 4.7%, while operating profit improved \$5.0 million, or 34.3%. Strong performances by Business Week and Broadcasting, the company's two largest ad-based businesses, were the prime contributors to these increases. Business Week's results reflect strong performances in both the North American and international editions. Broadcasting benefited from strong automotive advertising and increased network compensation. The change in network affiliation for the company's Denver broadcast station from CBS to ABC announced last year is scheduled for early July. Publication Services' results approximated last year and the Construction Information Group showed modest improvement. Tower Group International acquired UCB Canada, Ltd. on March 31, 1995.

Financial Condition

The company continues to maintain a strong financial position. Cash used in operating activities in the quarter totaled \$14.8 million compared to cash flow generated from operations last year of \$48.1 million. This year-to-year decline in the cash flow from operations reflects primarily inventory purchases and sampling costs for 1995 school publishing adoptions. Total debt increased \$99.2 million from yearend reflecting the factors noted above, as well as the acquisition of UCB Canada, Ltd. The increased seasonality of the company's businesses caused by the 1993 acquisition of the Macmillan/McGraw-Hill School Publishing Company has impacted the company's borrowing patterns during the year, with the company borrowing during the first half of the fiscal year and generating cash in the second half of the year, primarily from fourth quarter collections from customers in the education markets. This pattern is magnified in years where there is significant state adoption activity, such as 1995. Cash expenditures related to the consolidation of book publishing operations, primarily for severance costs and lease terminations, had a minimal impact on the company's liquidity.

Commercial paper borrowings at March 31, 1995 totaled \$599 million, an increase of \$100 million from December 31, 1994. Commercial paper debt is supported by an \$800 million revolving credit agreement with a group of banks terminating in November 1999, and \$400 million has been classified as long-term. There are no amounts outstanding under this agreement.

Financial Information (cont'd)

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

Accounts receivable before reserves of \$758.8 million decreased \$77.8 million from the end of 1994, due primarily to the seasonal nature of some of the company's businesses, partially offset by the inclusion of receivables for UCB Canada, Ltd. Receivables were \$58.1 million higher than at March 31, 1994 as a result of higher revenues, increased international sales where terms of sale and repayment are traditionally longer and the acquisition of UCB Canada, Ltd.

Inventories increased \$26.6 million to \$239.9 million from the end of 1994 due primarily to inventory purchases for 1995 school publishing adoptions and the seasonal buildup for the annual Sweet's Files. Inventories were \$13.9 million higher than at March 31, 1994 due to the 1995 school publishing adoptions.

Net prepublication costs at March 31 increased \$6.3 million from the end of 1994 to \$276.8 million due to additional spending on new titles and school programs net of first quarter amortization expense. Net prepublication costs were \$17.1 million lower than at March 31, 1994 due to the timing of spending on new programs. Investment in prepublication costs of \$24.4 million in the quarter ended March 31, 1995 approximated the prior year spending of \$24.1 million, although spending levels over the remainder of the year will increase reflecting investment for 1996 and primarily 1997 adoption years for School Publishing.

Purchases of property and equipment of \$7.5 million approximated the level of the prior year; the purchases were primarily for computer equipment.

PART II

Other Information

Item 5. Other Information

Effective as of April 26, 1995 the Registrant's corporate name was changed to "The McGraw-Hill Companies, Inc." from "McGraw-Hill, Inc."

Item 6. Exhibits and Report on Form 8-K

a) Exhibits

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

(27) Financial Data Schedule

SIGNATURES

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

The McGraw-Hill Companies, Inc.

Date: 5/10/95

By Robert J. Bahash

Robert J. Bahash
Executive Vice President
and Chief Financial Officer

Date: 5/10/95

By Thomas J. Kilkenny

Thomas J. Kilkenny
Vice President and Controller

Date: 5/10/95

By Robert N. Landes

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

The McGraw-Hill Companies, Inc.

Computation of Ratio of Earnings to Fixed Charges

Periods Ended March 31, 1995

	Three Months	Twelve Months
	-----	-----
	(In thousands)	
Earnings		
Earnings from continuing operations before income tax expense (Note).....	\$ 22,652	\$ 340,455
Fixed charges.....	21,983	87,588
Capitalized interest.....	(111)	(376)
	-----	-----
Total Earnings.....	\$ 44,524	\$ 427,667
	=====	=====
Fixed Charges (Note)		
Interest expense.....	\$ 14,503	\$ 57,886
Portion of rental payments deemed to be interest.....	7,480	29,702
	-----	-----
Total Fixed Charges.....	\$ 21,983	\$ 87,588
	=====	=====
Ratio of Earnings to Fixed Charges	2.0x	4.9x

(Note) For purposes of computing the ratio of earnings to fixed charges, "earnings from continuing operations before income taxes" excludes undistributed equity in income of less than 50%-owned companies. "Fixed charges" consist of (1) interest on debt and capital leases, and (2) the portion of the company's rental expense deemed representative of the interest factor in rental expense.

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1995
PERIOD END	MAR 31 1995
CASH	7,934
SECURITIES	0
RECEIVABLES	758,838
ALLOWANCES	79,432
INVENTORY	239,870
CURRENT ASSETS	1,075,959
PP&E	795,473
DEPRECIATION	458,455
TOTAL ASSETS	2,973,150
CURRENT LIABILITIES	997,826
BONDS	0
COMMON	51,460
PREFERRED MANDATORY	14
PREFERRED	0
OTHER SE	0
TOTAL LIABILITY AND EQUITY	2,973,150
SALES	568,548
TOTAL REVENUES	568,548
CGS	537,400
TOTAL COSTS	537,400
OTHER EXPENSES	0
LOSS PROVISION	14,283
INTEREST EXPENSE	12,790
INCOME PRETAX	23,727
INCOME TAX	9,776
INCOME CONTINUING	13,951
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	13,951
EPS PRIMARY	.28
EPS DILUTED	.28

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