

# MCGRAW-HILL COMPANIES INC

## FORM DEF 14A (Proxy Statement (definitive))

Filed 3/26/2001 For Period Ending 4/25/2001

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

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

**Filed by the Registrant**

**Filed by a Party other than the Registrant**

Check the appropriate box:

Preliminary Proxy Statement

**CONFIDENTIAL, FOR USE OF THE  
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RULE 14A-6(E)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to (S) 240.14a-11(c) or (S) 240.14a-12

**The McGraw Hill Companies, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

**Payment of Filing Fee (Check the appropriate box):**

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**Notes:**

*Reg. (S) 240.14a-101.*

*SEC 1913 (3-99)*

1221 Avenue of the Americas  
New York, NY 10020

**The McGraw-Hill Companies [LOGO]**

March 26, 2001

Dear Shareholder:

On behalf of the Board of Directors and management, we cordially invite you to the Annual Meeting of Shareholders to be held Wednesday, April 25, 2001, at 11 A.M., at the principal executive offices of the Corporation, 1221 Avenue of the Americas, New York, New York 10020. In the pages that follow you will find the Notice of Meeting and Proxy Statement describing the formal business to be transacted at this Meeting. Please read them carefully.

At the Annual Meeting, there will be a report to shareholders regarding the operations of The McGraw-Hill Companies, Inc. In addition, time will be made available for shareholders to discuss the formal business items as well as to ask other questions about The McGraw-Hill Companies' operations.

It is important that your shares be voted at the Meeting in accordance with your preference whether or not you plan to attend in person. Please sign, date and return the enclosed Proxy Card in the prepaid envelope provided, or you may access the automated telephone voting feature or vote electronically via the Internet as described on your Proxy Card. Your cooperation in promptly voting will save your Corporation additional solicitation costs and is appreciated. If you do attend the meeting and wish to vote in person, you may withdraw your Proxy at that time.

Sincerely,

*/s/ Harold W. McGraw III*

*Harold W. McGraw III  
Chairman of the Board, President and  
Chief Executive Officer*

1221 Avenue of the Americas  
New York, NY 10020

**The McGraw-Hill Companies [LOGO]**

Notice of Annual Meeting of Shareholders To Be Held April 25, 2001

**To the Shareholders of The McGraw-Hill Companies, Inc.:**

The Annual Meeting of Shareholders of The McGraw-Hill Companies, Inc. (the "Corporation") will be held at the principal executive offices of the Corporation, 1221 Avenue of the Americas, New York, New York 10020, Wednesday, April 25, 2001, at 11 A.M., for the purpose of considering and voting upon the following:

1. Election of four directors;
2. Ratification of the appointment of independent auditors for 2001; and
3. Such other business as may properly come before the Meeting or any adjournment thereof.

Information relating to the above matters is set forth in the accompanying Proxy Statement.

In accordance with the By-Laws and resolutions of the Board of Directors, only shareholders of record at the close of business on March 13, 2001 shall be entitled to notice of and to vote at the Meeting.

**By Order of the Board of Directors**

Scott L. Bennett  
Senior Vice President, Associate General  
Counsel and Secretary

New York, New York  
March 26, 2001

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Please sign and return the enclosed Proxy Card in the postage-paid envelope provided, or if you prefer, please follow the instructions on the enclosed Proxy Card for voting by telephone or via the Internet. You may access The McGraw-Hill Companies' Investor Relations Web site at [www.mcgraw-hill.com/investorrelations](http://www.mcgraw-hill.com/investorrelations) for further Internet voting instructions, as well as to view the Proxy Statement and Annual Report.

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**The McGraw-Hill Companies, Inc.**

Annual Meeting of Shareholders  
To Be Held April 25, 2001

**PROXY STATEMENT**

**To the Shareholders of The McGraw-Hill Companies, Inc.:**

This statement is furnished in connection with the solicitation of proxies by the Board of Directors of The McGraw-Hill Companies, Inc. (the "Corporation") for use at the Annual Meeting of Shareholders to be held at 11 A.M. on April 25, 2001 (the "Meeting"), at the principal executive offices of the Corporation, 1221 Avenue of the Americas, New York, New York 10020, and at any adjournment thereof. A Notice of Meeting is attached hereto and a form of proxy is enclosed.

**The Proxy**

The persons named as proxies were selected by the Board of Directors of the Corporation and are officers of the Corporation.

Shareholders who do not expect to attend the Meeting in person are asked to vote in one of the following three manners: (a) by electronic voting via the Internet as described on the enclosed proxy card and as also described on the Corporation's Investor Relations Web site at [www.mcgraw-hill.com/investor-relations](http://www.mcgraw-hill.com/investor-relations); (b) by telephonic voting as described on the enclosed proxy card; or (c) by dating, signing and completing the enclosed proxy card and by returning it without delay in the enclosed envelope, which requires no postage stamp if mailed in the United States. Any shareholder giving a proxy has the power to revoke it at any time before it is voted at the Meeting by filing with the Secretary of the Corporation an instrument revoking it or by filing a duly executed proxy bearing a later date.

When the proxies are properly voted in one of the manners described above, the shares they represent will be voted at the Meeting. If a shareholder participates in the Dividend Reinvestment Plan, any proxy given by such shareholder will also govern the voting of all shares held for the shareholder's account under the Dividend Reinvestment Plan, unless contrary instructions are received.

The cost of soliciting proxies will be borne by the Corporation. The Corporation will request banks and brokers to solicit their customers who have a beneficial interest in the Corporation's shares registered in the names of nominees and will reimburse such banks and brokers for their reasonable out-of-pocket expenses of such solicitations. In addition, officers and full-time employees of the Corporation may solicit proxies by telephone or personal interview. The Corporation has retained Georgeson Shareholder Communications Inc. to assist in the solicitation of proxies. It is estimated the Corporation will pay Georgeson Shareholder Communications Inc. a fee of \$18,000 for these services.

These proxy materials are being mailed to shareholders of the Corporation commencing on March 26, 2001. A copy of the 2000 Annual Report to Shareholders was mailed to shareholders on March 16, 2001.

**Voting Securities**

The outstanding securities of the Corporation on March 13, 2001 were 194,921,793 shares of Common Stock, par value \$1 per share, and 1,328 shares of \$1.20 Convertible Preference Stock, par value \$10 per share. Each share of Common Stock and \$1.20 Convertible Preference Stock is entitled to one vote at the Meeting.

**Voting Procedures**

Under the New York Business Corporation Law (the "BCL") and the Corporation's Restated Certificate of Incorporation, the presence, in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock and \$1.20 Convertible Preference Stock is necessary to constitute a quorum of shareholders to take action at the Meeting. For these purposes, shares which are present, or represented by a proxy, at the Meeting will be counted for quorum purposes regardless of whether the holder of the shares or proxy fails to vote on any particular matter or whether a broker with discretionary authority fails to exercise its discretionary voting authority with respect to any particular matter. Once a quorum of the shareholders is established, under the BCL and the Corporation's Restated Certificate of Incorporation, (A) the directors standing for election as set forth on pages 3 and 4 must be elected by a plurality of the votes cast (Proposal One) and (B) the affirmative vote of the holders of a majority of the votes cast is required to ratify the appointment of the auditors as described on page 17 (Proposal Two). For voting purposes (as opposed to for purposes of establishing a quorum), abstentions and broker non-votes will have no effect in determining whether any item has been approved.

Votes at the Meeting will be tabulated by two inspectors of election appointed by the Board of Directors.

## 1. ELECTION OF FOUR DIRECTORS

Under the Corporation's Restated Certificate of Incorporation, there are three classes of directors which are to be as equal in number as possible. Two directors, Linda Koch Lorimer and Harold W. McGraw III, were elected in 1999 for three-year terms expiring at the 2002 Annual Meeting. In addition, Sir Winfried Bischoff was elected in 2000 for a two-year term expiring at the 2002 Annual Meeting. None of these three incumbent directors is standing for re-election at the Meeting.

Three directors, Vartan Gregorian, James H. Ross and Sidney Taurel, were elected in 2000 for three-year terms expiring at the 2003 Annual Meeting. None of these three incumbent directors is standing for re-election at the Meeting.

Four directors, Pedro Aspe, George B. Harvey, Robert P. McGraw and Lois Dickson Rice, were elected in 1998 for three-year terms expiring at the 2001 Annual Meeting. Mr. Harvey, a director of the Corporation since 1985, will be retiring from the Board after the Meeting pursuant to the Board of Directors' long-standing retirement age policy. Accordingly, Ms. Rice and Messrs. Aspe and Robert P. McGraw are to be elected at the Meeting for three-year terms expiring at the 2004 Annual Meeting. In addition, Edward B. Rust, Jr. was elected a director on January 31, 2001, by action of the Board of Directors taken pursuant to the Corporation's By-Laws, for a term expiring at the 2001 Annual Meeting. Mr. Rust is also to be elected at the Meeting for a three-year term expiring at the 2004 Annual Meeting.

In summary, at the Meeting, Ms. Rice and Messrs. Aspe, Robert P. McGraw and Rust are to be elected for three-year terms expiring at the 2004 Annual Meeting.

Harold W. McGraw, Jr., a director of the Corporation from 1954 to 1988, Chairman of the Board from 1976 to 1988, and Chief Executive Officer of the Corporation from 1975 to 1983, retired from the Board after the 1988 Annual Meeting pursuant to the Board's retirement age policy. However, in recognition of Mr. McGraw's past service and contributions to the Corporation and to assure his continued close association with the Board and the Corporation, the Board of Directors elected Mr. McGraw permanently to the position of Chairman Emeritus.

## The Board of Directors' Recommendation

Unless otherwise specified by the shareholder, the Board of Directors intends the accompanying proxy to be voted FOR the election of the named four nominees as directors.

The Board of Directors does not contemplate that any nominee will be unable or unwilling to serve as a director. However, if that should occur, the individuals named as the proxies reserve the right to substitute another person as may be selected by the Board of Directors when voting at the Meeting.

Following is information about each of the four nominees for director who are being proposed for election at the Meeting and about each of the six incumbent directors.

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### Nominees for Election as Directors for Terms Expiring at the 2004 Annual Meeting

Pedro Aspe, age 51, has been Chairman of the Board of Vector Casa de Bolsa, S.A. de C.V. ("Vector"), an investment banking firm in Mexico providing financial services to corporations, financial institutions and individual investors, since 1996. Vector is a subsidiary of Pulsar International, S.A. de C.V., an industrial and financial company headquartered in Mexico. Dr. Aspe has been since 1995 a professor at the Instituto Tecnológico Autónomo de México, located in Mexico City. Dr. Aspe has held a number of positions with the Mexican government and was most recently the Secretary of Finance and Public Credit of Mexico from 1988 through 1994. Dr. Aspe is a member of the Advisory Board of Stanford University's Institute of International Studies, of the Visiting Committee of the Department of Economics of MIT, of the Center for Politics and Economics at Claremont University, of the Governing Board of Duxx Graduate School of Business Leadership, and of the Executive Council of the Mexican Center of The University of Texas at Austin. Dr. Aspe is also a director of Axa S.A. de C.V. (Mexico) and sits on the Advisory Board of Marvin & Palmer in Wilmington, Delaware. Dr. Aspe has served as a director of the Corporation since 1996 and is a member of the Audit and Financial Policy Committees.

**[PHOTO OF PEDRO ASPE]**

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Robert P. McGraw, age 46, is currently President of Averdale International LLC, an investment and consulting company. He also serves as Chairman and Chief Executive Officer of Dragon River Health Products, LLC. Prior to that, Mr. McGraw was Executive Vice President of the Professional Publishing Group of the Corporation from 1989 to August 1998. He was Executive Vice President of the Healthcare Group from 1987 to 1989, and Group Vice President of that same group from 1985 to 1987. Prior to that he served in several key positions in the Health Professions Division:

as General Manager from 1983 to 1985; as Editorial Director from 1982 to 1983; and as Editor from 1979 to 1982. He joined the Corporation in 1976 as a sales representative for McGraw-Hill Higher Education, formerly known as the College Division. Mr. McGraw has served as a director of the Corporation since 1995 and is a member of the Financial Policy Committee. (a)

**[PHOTO OF ROBERT P. MCGRAW]**

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Lois Dickson Rice, age 68, has been a guest scholar since 1991 in the Economics Study Program at the Brookings Institution, a research and education organization. Prior to that she had been for more than five years Senior Vice President, Government Affairs, and a director of Control Data Corporation, which applies technology to specialized computer, information and management needs. She has held various positions with the College Board, an educational association, and from 1971 through 1981 served as one of its Vice Presidents. Ms. Rice is a director of International Multifoods and Unum/Provident Corporation. Ms. Rice is a Trustee of the Harry Frank Guggenheim Foundation and Reading Is Fundamental. She was a member of President Clinton's Foreign Intelligence Advisory Board and a director of the Public Agenda Foundation. Ms. Rice has served as a director of the Corporation since 1988 and is a member of the Audit and Compensation Committees.

**[PHOTO OF LOIS DICKSON RICE]**

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Edward B. Rust, Jr., age 50, has been since 1987 Chairman of the Board and Chief Executive Officer of State Farm Mutual Automobile Insurance Company. In addition, Mr. Rust is President and Chief Executive Officer of a number of State Farm affiliate companies. These combined State Farm entities constitute the largest insurer of automobiles and homes in the United States. Mr. Rust is a director of Helmerich & Payne, an oil and gas exploration and production company. Mr. Rust is Chairman of the American Enterprise Institute and the Illinois Business Roundtable, and a Trustee for Illinois Wesleyan University. Additionally, he was selected to be a member of President George W. Bush's Transition Advisory Team committee on education. He is also Vice Chairman of the Business Higher Education Forum and co-chairman of the Committee for Economic Development's subcommittee on education studies. Mr. Rust has served as a director of the Corporation since January 2001 and is a member of the Audit and Compensation Committees.

[PHOTO OF Edward B. Rust, Jr.]

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### **Directors Whose Terms Expire at the 2002 Annual Meeting**

Sir Winfried Bischoff (Sir Win), age 59, has been since May 2000 Chairman of Citigroup Europe, which represents the European businesses of Citigroup, Inc., a global financial services firm. He is also a member of Citigroup, Inc.'s management committee. Sir Win was Chairman of Schroders plc, an international investment banking and asset management firm based in Great Britain, from 1995 to 2000. Prior to that, Sir Win was Chairman of J. Henry Schroder Co. (the London investment bank of Schroders plc) from 1983 to 1995 and Group Chief Executive of Schroders plc from 1984 to 1995. He is Deputy Chairman of Cable and Wireless plc where he has been a director since 1991. Sir Win is a director of Eli Lilly and Company, IFIL SpA (Italy) and Land Securities plc. Sir Win has served as a director of the Corporation since 1999 and is a member of the Audit and Financial Policy Committees.

[PHOTO OF WINFRIED BISCHOFF]

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Linda Koch Lorimer, age 49, has been Vice President and Secretary of Yale University since 1995, having returned to Yale as Secretary of the University in 1993. She was President of Randolph-Macon Woman's College from 1987 to 1993 and was Associate Provost of Yale University from 1983 to 1987. She is a director of Sprint Corporation. Ms. Lorimer also serves on the Board of Governors of the Center for Creative Leadership, is Vice Chairman of the Board of the Community Foundation of Greater New Haven and is the former Chairman of the Board of the Association of American Colleges and Universities. Ms. Lorimer has served as a director of the Corporation since 1994 and is a member of the Compensation and Nominating and Corporate Governance Committees.

[PHOTO OF LINDA KOCH LORIMER]

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Harold W. McGraw III, age 52, has been Chairman of the Board of the Corporation since 2000 and President and Chief Executive Officer of the Corporation since 1998. Prior to that, Mr. McGraw had been President and Chief Operating Officer of the Corporation since 1993. He was Executive Vice President, Operations, of the Corporation from 1989 to 1993. Prior to that he was President of the McGraw-Hill Financial Services Company, President of the McGraw-Hill Publications Company, Publisher of McGraw-Hill's Aviation Week & Space Technology magazine and Vice President, Corporate Planning. Before joining the Corporation in 1980, he held several financial positions at the GTE Corporation. He is a member of the Business Roundtable and the Business Council, serves on the Boards of Hartley House (a New York City community settlement house), the National Actors Theatre, the National Academy Foundation, the National Council on Economic Education, the Wharton Graduate Executive Board, and is co-chair of Carnegie Hall's Corporate Fund. Mr. McGraw has served as a director of the Corporation since 1987 and is Chairman of the Executive Committee. (a)

[PHOTO OF HAROLD W. MCGRAW III]

## **Directors Whose Terms Expire at the 2003 Annual Meeting**

Vartan Gregorian, age 66, has been since 1997 the President of Carnegie Corporation of New York, a private philanthropic and grant-making institution. Prior to that he was President of Brown University and a Professor of History at Brown University from 1989 to 1997. He was President and Chief Executive Officer of the New York Public Library from 1981 to 1989. Prior to 1981, Dr. Gregorian taught and held administrative posts at the University of Texas at Austin and at the University of Pennsylvania, where he served as the founding Dean of the Faculty of Arts and Sciences and Provost. Dr. Gregorian is a director of the Institute for Advanced Study, the J. Paul Getty Trust and the Museum of Modern Art (New York). He has served on the boards of many non-profit organizations and foundations. Currently he is President Emeritus of the New York Public Library and Brown University. He was appointed by President George W. Bush to be a member of the Fulbright Commission. He is also a member of the American Philosophical Society and a Fellow of the American Academy of Arts and Sciences. In 1998 President Clinton awarded him the National Humanities Medal. Dr. Gregorian has served as a director of the Corporation since 1990 and is Chairman of the Nominating and Corporate Governance Committee and is a member of the Compensation and Executive Committees.

**[PHOTO OF VARTAN GREGORIAN]**

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James H. Ross, age 62, has been since 1999 Chairman of National Grid plc, a public UK Company with interests in electricity transmission and telecommunications in England, Wales, the United States, Brazil and Argentina. Mr. Ross has also been since 1996 Chairman of The Littlewoods Organisation, a private company in Great Britain operating in the retail, home shopping and leisure businesses. Mr. Ross was Chief Executive and Deputy Chairman of Cable & Wireless plc, an international provider of telecommunications services, between 1992 and 1995. He was a Managing Director of British Petroleum plc, which engages in all phases of the petroleum business, from 1991 to 1992, and Chairman and Chief Executive Officer of BP America Inc., a subsidiary of British Petroleum plc, from 1988 to 1992. Mr. Ross is a director of Schneider Electric and Datacard Inc. He is a trustee of the Cleveland Orchestra. Mr. Ross has served as a director of the Corporation since 1989 and is Chairman of the Financial Policy Committee and is a member of the Executive and Nominating and Corporate Governance Committees.

**[PHOTO OF JAMES H. ROSS]**

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Sidney Taurel, age 52, has been Chairman, President and Chief Executive Officer of Eli Lilly and Company, a pharmaceutical company, since 1999. Mr. Taurel was President and Chief Executive Officer of Eli Lilly and Company from June 1998 through December 1998. Prior to that, Mr. Taurel was President and Chief Operating Officer of Eli Lilly and Company since 1996. He was elected a director of Eli Lilly and Company in 1991. Mr. Taurel joined Eli Lilly and Company in 1971 and has held management positions in the company's operations in Brazil and Europe. He served as President of Eli Lilly International Corporation from 1986 until 1991, as Executive Vice President of the Pharmaceutical Division from 1991 until 1993 and as Executive Vice President of Eli Lilly and Company from 1993 until his appointment in 1996 as President and Chief Operating Officer. Mr. Taurel is a director of IBM. He is also a member of the Board of Directors of the Pharmaceutical Research and Manufacturers of America. Mr. Taurel is a member of the Board of Overseers of the Columbia Business School and a Trustee of the Indianapolis Museum of Art. Mr. Taurel has served as a director of the Corporation since 1996 and is Chairman of the Compensation Committee and is a member of the Executive and Nominating and Corporate Governance Committees.

**[PHOTO OF SIDNEY TAUREL]**

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(a)Harold W. McGraw III and Robert P. McGraw are brothers and the sons of Harold W. McGraw, Jr.

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## **INFORMATION AS TO COMMITTEES, ATTENDANCE AND FEES OF THE BOARD OF DIRECTORS**

The Corporation's Board of Directors has standing Audit, Compensation and Nominating and Corporate Governance Committees.

The Audit Committee is comprised of Ms. Lois Dickson Rice and Messrs. Pedro Aspe, Winfried Bischoff, George B. Harvey and Edward B. Rust, Jr. During 2000, the Audit Committee held five meetings. The functions performed by the Audit Committee include assisting the Board of Directors in monitoring: (a) the integrity of the financial statements of the Corporation; (b) the compliance by the Corporation with legal and regulatory requirements; and (c) the independence and performance of the Corporation's internal and external auditors. The functions performed by the Audit Committee are further described in the Charter of the Audit Committee, which is included as Exhibit A to this Proxy Statement.

The Compensation Committee is comprised of Ms. Lois Dickson Rice and Linda Koch Lorimer and Messrs. Vartan Gregorian, Edward B. Rust, Jr. and Sidney Taurel. During 2000, the Compensation Committee held seven meetings. The functions performed by the Compensation Committee include: (a) establishing and approving the compensation to be paid to members of the Corporation's senior management; (b) administering the Corporation's executive incentive plans; (c) administering the Corporation's stock incentive plans; and (d) authorizing and approving special compensation arrangements for senior management.

The Nominating and Corporate Governance Committee is comprised of Ms. Linda Koch Lorimer and Messrs. Vartan Gregorian, George B. Harvey, James H. Ross and Sidney Taurel. During 2000, the Nominating and Corporate Governance Committee held four meetings. The functions performed by the Nominating and Corporate Governance Committee include: (a) recommending to the Board of Directors the slate of nominees for election as directors at each Annual Meeting or for election by the Board of Directors on an interim basis; (b) recommending to the Board of Directors individuals to fill vacancies on it; (c) evaluating, on a continuing basis, possible candidates to serve on the Board of Directors;

(d) recommending to the Board of Directors appropriate compensation to be paid to the directors; (e) administering the Director Deferred Stock Ownership Plan; (f) determining whether any relationship exists between an outside director and the Corporation that might affect the status of the director as independent; and (g) making recommendations, from time to time, to the Board of Directors as to matters of corporate governance and periodically monitoring the Board's performance. The Nominating and Corporate Governance Committee is willing to consider recommendations of nominees by a shareholder if the shareholder submits the nomination in compliance with the advance notice, informational and other requirements set forth in the Corporation's By-Laws. Shareholders should direct such recommendations of nominees to the Nominating and Corporate Governance Committee, c/o the Secretary of the Corporation at 1221 Avenue of the Americas, New York, New York 10020. The Corporation's By-Laws also contain detailed procedures, including time limitations, which a shareholder must comply with in order to introduce an item of business at a meeting of shareholders.

In addition to the above mentioned three Committees, the Corporation's Board of Directors has an Executive Committee and a Financial Policy Committee.

The Board of Directors of the Corporation held a total of eight meetings during 2000. All directors attended at least 75% of: (1) all meetings of the Board of Directors and (2) all meetings of all Board Committees on which they served. The overall attendance record for all directors as a group during 2000 was 95.9%.

The Corporation provides a competitive director compensation program in order to attract and retain highly qualified individuals with a broad range of experience. In order to closely align the outside directors' compensation with the financial interests of shareholders, approximately 50% (or a greater percentage should a director so elect) of each outside director's total annual compensation is paid in shares of the Corporation's Common Stock pursuant to the Director Deferred Stock Ownership Plan.

For 2000, outside directors of the Corporation received an annual cash retainer of \$28,000, a cash fee of \$1,200 for each Board meeting which they attended, and a cash fee of \$1,000 for each meeting of the Audit, Compensation, Executive, Financial Policy and Nominating and Corporate Governance Committees which they attended.

Additionally, under the Director Deferred Stock Ownership Plan, each outside director received a deferred share credit equal to the average cash compensation paid to all outside directors during the calendar year. For 2000, this credit was \$47,372. These deferred

share credits are payable in shares of the Corporation's Common Stock following a director's termination of Board membership. Further, pursuant to the Director Deferred Stock Ownership Plan, the Corporation has written agreements with Ms. Linda Koch Lorimer and Lois Dickson Rice and Messrs. Pedro Aspe, George B. Harvey and Edward B. Rust, Jr. in which they have elected to receive all or a portion of their annual cash retainer and Board and Committee meeting fees payable in deferred shares of the Corporation's Common Stock in lieu of the cash payments otherwise due and payable to them.

Pursuant to the Director Deferred Compensation Plan, the Corporation currently has written agreements with Ms. Lois Dickson Rice and Mr. Vartan Gregorian, respectively, to defer payment to them of all or a portion of their annual cash retainer and Board and Committee meeting fees which would otherwise be due and payable to them in connection with their service on the Board of Directors. Interest on the deferred cash amount is to be based on the monthly equivalent of a corporate bond index for the preceding year plus 2% (up to a maximum of 150% of the bond index).

Further, pursuant to the Directors Retirement Plan, annual retirement and disability benefits are to be paid to each covered, non-employee director of the Corporation upon retirement at or after age 65 or in the event of disability in an amount equal to 10% of the then annual retainer fee for each year of service on the Board, provided that the director shall have been a Board member for at least five years. This Plan was amended in 1996 to provide that current Board members shall not accrue any additional benefits under the Plan after June 30, 1996 and any future new Board members after such date shall not participate in the Plan.

As an inside director who is an employee of the Corporation, Mr. Harold W. McGraw III does not receive any fees for serving on the Board or for attending meetings of Board Committees.

### **Indemnification**

Each of the directors and one of the executive officers have entered into an indemnification agreement with the Corporation pursuant to which each director and executive officer shall be indemnified against judgments, fines, amounts paid in settlement and reasonable expenses, including attorneys' fees actually and necessarily incurred in any action or proceeding, whether civil or criminal, or any appeal therein, to the fullest extent permitted by the applicable provisions of the New York Business Corporation Law. Such indemnification will be reduced to the extent that a director or executive officer is effectively indemnified by directors' and officers' liability insurance maintained by the Corporation. The Corporation has for many years carried directors' and officers' liability insurance coverage. The Corporation's current insurance coverage was purchased for the three-year period beginning December 31, 1999 and extending through December 31, 2002, for a three year aggregate premium of approximately \$1,613,500. The Corporation has purchased this insurance coverage from National Union Fire Insurance Company of Pittsburgh, PA.; Federal Insurance Company; and Great American Insurance Companies. This coverage, subject to a number of standard exclusions and certain deductibles, indemnifies the directors and officers of the Corporation and its subsidiaries for liabilities or losses incurred in the performance of their duties up to an aggregate sum of \$65,000,000. No sums have been paid under this coverage to the Corporation or any directors or officers nor have any claims for reimbursement been made under this policy.

## BENEFICIAL OWNERSHIP OF THE CORPORATION'S COMMON STOCK (a),(b)

The following table indicates the beneficial ownership of the Corporation's Common Stock as of February 15, 2001 by: (1) each of the directors and nomi- nees; (2) the chief executive officer and each of the other four most highly compensated executive officers; and (3) all directors, nominees and executive officers of the Corporation as a group, based upon information supplied by each of the directors, nominees and officers:

Name of Beneficial Owner	Sole Voting Power and Sole Investment Power	Shared Voting Power and Shared Investment Power	Right to Acquire Shares within 60 Days by Exercise of Options	Total Number of Shares Beneficially Owned	Percent of Common Stock(a)	Director Deferred Stock Ownership Plan(c)
Pedro Aspe.....	7,096			7,096	(d)	8,892
Robert J. Bahash.....	194,527		212,975	407,562	(d)	
Winfried Bischoff.....	2,000			2,000	(d)	1,049
Vartan Gregorian.....	1,968			1,968	(d)	4,561
George B. Harvey.....	4,045			4,045	(d)	8,789
Linda Koch Lorimer.....	2,708			2,708	(d)	6,792
Barbara B. Maddock.....	41,155		87,666	128,821	(d)	
Harold W. McGraw III.....	427,752		551,040	978,792	(d)	
Robert P. McGraw.....	78,442			78,442	(d)	1,909
John D. Negroponte.....	9,776		48,400	58,176	(d)	
Lois Dickson Rice.....	1,250			1,250	(d)	4,984
James H. Ross.....	3,124			3,124	(d)	4,561
Edward B. Rust, Jr. ....	1,000			1,000	(d)	
Sidney Taurel.....	2,000			2,000	(d)	5,120
Kenneth M. Vittor.....	49,713		79,587	129,300	(d)	
All Directors and Execu- tive Officers of the Corporation as a group (a total of 21 persons, including those named above)(e)(f).....	934,088		1,213,091	2,147,179	1.1%	46,657

(a) The number of shares of Common Stock outstanding on February 15, 2001 was 194,909,896. The percent of Common Stock is based on such number of shares and is rounded off to the nearest one percent.

(b) To the Corporation's knowledge, no person is the beneficial owner of more than 5% of the Corporation's Common Stock, other than FMR Corp., having a principal place of business at 82 Devonshire Street, Boston, Massachusetts 02109-3614 ("FMR"). On February 14, 2001, FMR advised the Corporation by furnishing the Corporation with its Schedule 13G filed with the Securities and Exchange Commission that, as of December 31, 2000, it beneficially owned in the aggregate 11,648,701 shares or approximately 5.9% of the out- standing Common Stock of the Corporation. FMR has certified in its Sched- ule 13G filing that the Corporation's Common Stock was acquired in the or- dinary course of business and was not acquired for the purpose of changing or influencing control of the Corporation.

(c) This amount represents the number of shares of the Corporation's Common Stock which have been credited to a bookkeeping account maintained for each non-employee director of the Corporation pursuant to the Director De- ferred Stock Ownership Plan. This Plan is further described on pages 6 and 7.

(d) Less than 1%.

(e) Spouses and children of some members of this group may own other shares in which the mem- bers of this group disclaim any beneficial interest and which are not included in the above table.

(f) Harold W. McGraw, Jr., Chairman Emeritus of the Corporation, is the beneficial owner, as of February 28, 2001, of 4,805,050 shares of Common Stock, of which 68,090 are held in Mr. McGraw's name and 4,736,960 are held in the name of the Harold W. McGraw, Jr. Trust. These shares represent approximately 2.5% of the Corporation's is- sued and outstanding Common Stock. In addition, Anne P. Mc- Graw, the wife of Harold W. Mc- Graw, Jr., is the beneficial owner of 160,000 shares of Com- mon Stock. None of these shares has been included in the above table.

## INFORMATION AS TO EXECUTIVE COMPENSATION

The following table sets forth information concerning the compensation of the Corporation's chief executive officer and each of the other four most highly compensated executive officers (the "Named Officers") for services rendered in all capacities to the Corporation in 1998, 1999 and 2000:

### SUMMARY COMPENSATION TABLE

Name and Principal Position	Annual Compensation				Long-Term Compensation			
	Year	Salary	Bonus	Other Annual Compensation(a)	Awards		Payouts	All Other Compensation
					Restricted Stock Awards(b)	Securities Underlying Options	Long-Term Incentive Payouts(c)	
Harold W. McGraw III Chairman, President and Chief Executive Officer	2000	\$900,000	\$1,400,000	\$32,719	0	125,000	\$1,238,254	\$197,601(f)
	1999	825,000	1,200,000	38,805	0	189,239(d)	1,734,826	148,720
Robert J. Bahash Executive Vice President,	1998	712,000	759,562	42,158	0	134,400	1,620,019	133,418
Chief Financial Officer	2000	\$605,000	\$ 770,000	\$20,789	0	48,000	\$ 780,262	\$127,032(f)
John D. Negroponte Executive Vice President,	1999	575,000	700,000	24,388	0	183,518(d)	1,081,168	104,783
Global Markets	1998	505,000	468,079	26,893	0	57,752(d)	1,051,854	93,228
Kenneth M. Vittor Executive Vice President and General Counsel	2000	\$420,000	\$ 420,000	\$10,097	0	28,000	\$ 365,864	\$ 73,447(f)
	1999	400,000	400,000	6,481	0	26,400	-- (e)	60,853
Barbara B. Maddock Executive Vice President, Organizational Effectiveness	1998	375,000	284,918	3,234	0	--	-- (e)	2,978
	2000	\$390,000	\$ 380,000	\$10,097	0	52,483(d)	\$ 365,864	\$ 68,397(f)
	1999	370,000	350,000	11,570	0	36,486(d)	502,383	56,536
	1998	320,000	244,215	11,847	0	39,330(d)	417,806	51,490
	2000	\$370,000	\$ 380,000	\$10,004	0	41,418(d)	\$ 357,216	\$ 66,497(f)
	1999	350,000	350,000	10,537	0	37,048(d)	408,664	51,156
	1998	292,500	207,583	9,874	0	23,200	342,790	38,441

(a) Represents dividend equivalents paid on outstanding Long-Term Restricted Performance Share and Restricted Stock Awards.

(b) The number and value of Restricted Performance Share holdings at year end was as follows:

	2000	
	Unearned Restricted Performance Shares	Value (at \$58.625)*
H. W. McGraw III.....	34,807	\$2,040,560
R. J. Bahash.....	22,116	\$1,296,551
J. D. Negroponte.....	10,741	\$ 629,691
K. M. Vittor.....	10,741	\$ 629,691
B. B. Maddock....	10,643	\$ 623,946

\* Based on a closing price of the Corporation's Common Stock on December 29, 2000 of \$58.625 as reported on the New York Stock Exchange Composite Transactions Tape.

Dividend equivalent payments equal to the dividend paid on the Corporation's Common Stock were paid in cash on Restricted Performance Shares in 2000.

(c) The 2000 payment amount, representing a 150% payout, is based on a fair market value of \$58.83 for the Corporation's Common Stock on February 15, 2001.

(d) Includes Restoration Stock Options as discussed more fully on page 10.

(e) Mr. Negroponte did not participate in the 1996 and 1997 Long-Term Incentive Awards which matured December 1998 and December

1999, respectively.

(f) For 2000, the dollar value reported in this column includes the following items:

	Above Market Interest on Deferred Compensation	2000 Corporation Contribution to Defined Contribution Plans	Total
	-----	-----	-----
H. W. McGraw III..	--	\$197,601	\$197,601
R. J. Bahash....	\$4,958	\$122,074	\$127,032
J. D. Negroponte....	--	\$ 73,447	\$ 73,447
K. M. Vittor....	--	\$ 68,397	\$ 68,397
B. B. Maddock...	--	\$ 66,497	\$ 66,497

## OPTION GRANTS IN 2000

The following table sets forth all grants of stock options made during 2000 pursuant to the 1993 Employee Stock Incentive Plan to the Named Officers in the Summary Compensation Table:

Individual Grants						Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(a)	
Name	Type	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in 2000	Exercise or Base Price	Expiration Date	5%	10%
H. W. McGraw III.....	Annual	125,000 (b)	3.01%	\$59.2813	01/02/2010	\$ 4,660,200	\$ 11,809,888
R. J. Bahash.....	Annual	48,000 (b)	1.16%	\$59.2813	01/02/2010	\$ 1,789,517	\$ 4,534,997
J. D. Negroponte.....	Annual	28,000 (b)	0.67%	\$59.2813	01/02/2010	\$ 1,043,885	\$ 2,645,415
K.M. Vittor.....	Annual	28,000 (b)	0.67%	\$59.2813	01/02/2010	\$ 1,043,885	\$ 2,645,415
	Restoration	12,304 (c)	0.30%	\$59.4063	01/01/2008	\$ 297,571	\$ 693,452
B. B. Maddock.....	Restoration	12,179 (c)	0.29%	\$59.4063	01/03/2009	\$ 345,454	\$ 827,399
	Annual	28,000 (b)	0.67%	\$59.2813	01/02/2010	\$ 1,043,885	\$ 2,645,415
All Shareholders.....	Restoration	7,390 (c)	0.18%	\$58.8438	01/01/2007	\$ 177,034	\$ 412,556
	Restoration	6,028 (c)	0.15%	\$58.8438	01/01/2006	\$ 120,637	\$ 273,680
All Optionees.....	N/A	N/A	N/A	N/A	N/A	\$6,149,650,873(d)	\$15,584,458,708(d)
Optionees' Gain as % of All Shareholders' Gain.....	N/A	4,153,929	100%	\$49.9616 (e)	(e)	\$ 127,250,482	\$ 321,504,628
	N/A	N/A	N/A	N/A	N/A	2.07%	2.06%

(a) The dollar amounts under these columns are the result of calculations at the 5% and 10% rates required by the Securities and Exchange Commission for the option term and therefore are not intended to and may not accurately forecast possible future appreciation, if any, of the Corporation's Common Stock price.

(b) The annual awards, which were granted pursuant to the 1993 Employee Stock Incentive Plan, were for non-qualified stock options and provide that one-half of the option vests on the first anniversary of the grant, and the remaining one-half vests on the second anniversary of the grant. In the event of a change in control of the Corporation, the option becomes fully vested.

The Compensation Committee approved a new stock option enhancement in 1997 called a Restoration Stock Option ("RSO"). If shares of the Corporation's Common Stock are delivered in payment of the exercise price of a stock option (as opposed to the use of cash or "cashless exercises"), an RSO will be granted equal to the number of shares used to exercise the stock option. The expiration date of these RSO grants (which are made pursuant to the 1993 Employee Stock Incentive Plan) remains the last day the underlying grant is exercisable. Additionally, if shares are withheld to satisfy the tax obligation on the realized gain, the RSO will include shares equal to the number of shares withheld for taxes.

RSO grants are non-qualified, and are first exercisable six months after the date of grant at the market value at the date of grant of the RSO. Only one RSO will be granted for each original stock option granted. In the event of a change in control of the Corporation, all options become fully vested.

(c) Restoration options granted pursuant to provisions described above.

(d) The amount shown represents the hypothetical return to all shareholders of the Corporation's Common Stock assuming that all the shareholders purchased the Corporation's Common Stock at the close of business on January 3, 2000 at a purchase price of \$49.9616, the average price for all optionees, and that all shareholders hold the Common Stock continuously for a ten-year period. The number of outstanding shares of Common Stock on January 3, 2000 was 195,720,974. The hypothetical return presented is not intended as a projection of the future performance of the Corporation's Common Stock, but rather is provided for illustrative purposes only.

(e) Expiration dates range from January 1, 2001 through November 30, 2010. \$49.9616 represents the average exercise price of the grants to all optionees. All grants were made at the fair market value of the Corporation's Common Stock at the time of the grant.

## AGGREGATE OPTION EXERCISES IN 2000 AND 2000 YEAR-END OPTION VALUES

The following table sets forth information with respect to options exercised by each of the Named Officers during 2000 and the number and value of unexercised options as of December 31, 2000:

Name	Shares Acquired On Exercise	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2000		Value of Unexercised In-The-Money Options at December 31, 2000(a)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
H. W. McGraw III.....	17,197	\$ 54,815	433,540	180,000	\$11,236,796	\$385,000
R. J. Bahash.....	0	\$ 0	166,475	70,500	\$ 608,781	\$157,500
J. D. Negroponte.....	8,000	\$159,600	21,200	41,200	\$ 312,150	\$ 92,400
K. M. Vittor.....	31,476	\$517,671	27,904	65,683	\$ 304,339	\$ 92,400
B. B. Maddock.....	22,000	\$803,782	60,466	41,200	\$ 629,555	\$ 92,400

(a) Based on a closing price of the Corporation's Common Stock on December 29, 2000 of \$58.625 as reported on the New York Stock Exchange Composite Transactions Tape.

## LONG-TERM INCENTIVE PLAN AWARDS IN 2000

The following table sets forth information concerning long-term incentive awards granted during 2000 to the Named Officers pursuant to the 1993 Employee Stock Incentive Plan:

Name	Number of Restricted Performance Shares(a)	Performance Period Until Maturity or Payout	Estimated Future Payout Under Non-Stock Price Based Plans		
			Threshold Number of Shares	Target Number of Shares	Maximum Number of Shares
H. W. McGraw III.....	10,121 shares	3 Years	2,024	10,121	15,182
R. J. Bahash.....	6,494 shares	3 Years	1,299	6,494	9,741
J. D. Negroponte.....	3,205 shares	3 Years	641	3,205	4,808
K. M. Vittor.....	3,205 shares	3 Years	641	3,205	4,808
B. B. Maddock.....	3,205 shares	3 Years	641	3,205	4,808

(a) Restricted Performance Share Awards pursuant to the 1993 Employee Stock Incentive Plan with payment in the Corporation's Common Stock based upon the degree of achievement of a three-year cumulative compound growth rate in diluted earnings per share ("the EPS growth goal") maturing on December 31, 2002. The awards do not provide for interim payments (other than the payment of dividend equivalents). The threshold amount will be earned at the achievement of 60% of the EPS growth goal, the target amount will be earned at the achievement of 100% of the EPS growth goal and the maximum award amount will be earned at the achievement of 120% or more of the EPS growth goal. The Awards will be forfeited if the achievement is less than 60% of the EPS growth goal. The Restricted Performance Shares are entitled to dividend equivalent payments and voting rights comparable to the Corporation's Common Stock based upon the target number of shares awarded.

In the event of a change in control of the Corporation, all of the financial goals are deemed to have been satisfied, and the recipient will receive the target amount no later than the normal maturity date of the award.

## SHAREHOLDER RETURN PERFORMANCE GRAPH

Set forth below is a graph comparing the yearly percentage change in the cumulative total shareholder return on the Corporation's Common Stock with the cumulative total return of the S&P 500 Composite Stock Index and the cumulative total return for a group of peer companies for the five-year period commencing on January 1, 1996 and ending on December 31, 2000.

Shareholder Return Performance Graph Five Year Cumulative Total Return a,b,c,d

(Year Ending December 31, 2000)

### [GRAPH]

	1995	1996	1997	1998	1999	2000
	-----	-----	-----	-----	-----	-----
The McGraw-Hill Companies	100	109	179	252	310	300
S&P 500 Composite Stock Index	100	123	164	211	255	232
Peer Group	100	117	179	187	245	215

Assumes \$100 invested on December 31, 1995 in The McGraw-Hill Companies Common Stock, S&P 500 Composite Stock Index and Peer Group.

(a) Total return includes reinvestment of dividends through December 31, 2000.

(b) Peer Group includes the following companies: Dow Jones & Company, Inc., The Dun & Bradstreet Corporation, Gannett Co., Inc., Houghton Mifflin Company, Knight-Ridder Inc., Meredith Corporation, The New York Times Company, Times Mirror Corporation (through December 1999), and Tribune Company.

(c) In November 1996, Dun & Bradstreet Corporation ("D&B") spun-off two subsidiaries. In calculating the total shareholder return for D&B, the shares of the spun-off subsidiaries were deemed to be reinvested in shares of D&B. In June 1998, D&B completed the spin-off of R.H. Donnelley Corporation through a tax-free dividend. The Peer Group results reflect total shareholder returns for D&B, including the reinvestment of a \$6 per share cash equivalent distribution. Effective October 2, 2000, D&B completed the spin-off of Moody's Investor Service business segment. A \$57 cash equivalent distribution in connection with the spin-off of Moody's was reinvested to account for the new capital structure.

(d) Effective June 12, 2000, Tribune Company completed its merger with Times Mirror Corporation ("TMC"). The five year cumulative total return includes TMC as part of the index returns beginning with December 31, 1995 through December 31, 1999. Beginning with 2000, TMC has been eliminated from the index.

## COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

### Introduction

The McGraw-Hill Companies' executive compensation program (the "Program") is administered by the Compensation Committee of the Board of Directors (the "Committee") which is composed of the individuals listed below who are independent non-employee directors of the Corporation. The Committee has sole responsibility for all compensation matters with respect to the Corporation's senior management. The Committee regularly reports to the Board of Directors on its activities and decisions and meets in executive session with all non-employee directors at year-end to review the CEO's performance and compensation.

### Philosophy

The Program has been designed to enable the Corporation to attract, motivate and retain senior management by providing a fully competitive total compensation opportunity based on performance. The Program consists of three key elements: (1) base salaries which reflect competitive marketplace data and evaluated individual performance; (2) annual incentive opportunities which are payable for the achievement of annual financial performance goals established by the Committee; and (3) long-term stock-based incentive opportunities consisting of annual grants of restricted performance shares, which are payable for the achievement of three-year financial performance goals established by the Committee, and annual stock option grants. The stock-based incentive opportunities are intended to align the interests of senior management with those of the Corporation's shareholders. The executive compensation program permits differentiation in total compensation opportunity based on assessments of individual performance, contributions, assignments and future potential. Further, the program is structured so that at higher management levels a larger portion of annual compensation is variable, based on company performance, and a larger portion of total compensation is composed of stock-based compensation.

The Committee's policy with respect to the tax deductibility of executive compensation under Section 162(m) of the Internal Revenue Code is to qualify such compensation for deductibility where practicable. The 1996 Key Executive Short-Term Incentive Compensation Plan and the 1993 Employee Stock Incentive Plan have been approved by the Corporation's shareholders pursuant to the requirements of Section 162(m) of the Internal Revenue Code so that the awards earned under these plans will qualify for tax deduction by the Corporation when paid.

Following is a discussion of each of the elements of the Program and a description of the specific decisions and actions taken by the Committee with regard to 2000 compensation for the CEO.

### Program Competitiveness

Each element of the Program is intended to be fully competitive with comparable elements of competitor companies in the publishing, information and media industry. Base salaries are determined within the framework of position responsibility, individual performance and the external marketplace. Competitive market data are derived annually using a third-party consultant survey of the publishing, information and media industry, which includes reported data from companies in the peer group index of the Shareholder Return Performance Graph (the "Peer Group").

The annual incentive award opportunities are established by the Committee based on recommendations developed by an independent compensation consulting firm selected by the Committee. These recommended incentive opportunities are competitive with median levels of incentive opportunities using available incentive opportunity data for the competitor companies included in the Peer Group and incentive opportunity data from a third-party media industry compensation survey of other publishing, information and media companies.

The long-term incentive grant guidelines provide competitive long-term compensation opportunities in the form of restricted performance share and stock option grants. The grant guidelines for these awards are derived from general industry long-term incentive grant data and are adjusted by an independent compensation consultant to reflect median long-term incentive grant practices of publishing, information and media industry companies including those in the Peer Group.

### Annual Salary and Incentive Compensation

Annual compensation for senior management consists of base salary and the annual incentive awards earned under the 1996 Key Executive Short-Term Incentive Compensation Plan. Base salary increases for senior executives other than the CEO are recommended annually by Mr. McGraw and are reviewed and approved by the Committee.

Target awards established under the 1996 Key Executive Short-Term Incentive Compensation Plan are established as a dollar amount for each executive at the beginning of the year. The maximum payment opportunity is set at 200% of the annual target award. Payment of the annual incentive awards for Mr. McGraw and the other executives named in the Summary Compensation Table is based on the Corporation's performance in relation to minimum, target and maximum diluted Earnings Per Share goals which are approved by the Committee at the beginning of the plan year.

#### Long-Term Incentive Compensation

The long-term incentive compensation program for senior management consists of two types of annual stock awards: restricted performance shares and stock options. Restricted performance share awards are established for each executive and granted annually on or before April 1. The awards vest at the end of a three-year award cycle within a range of 20% to 150% of the shares awarded based on the achievement of minimum, target and maximum cumulative compound diluted Earnings Per Share growth goals which are established by the Committee at the beginning of the award cycle. These restricted performance share awards are subject to forfeiture if the minimum performance goal is not attained, or if a participant's employment is terminated for certain reasons before the shares become vested. During the award cycle, participants receive dividends on and have the right to vote the awarded shares.

The second component of the long-term incentive compensation program consists of stock options which provide participants with the right to purchase shares of the Corporation's Common Stock at its market value on the date of grant. Each stock option grant becomes exercisable in two equal annual installments commencing one year after grant, and each grant has a ten-year maximum term.

#### 2000 CEO Compensation

Mr. McGraw's base salary is reviewed annually by the Committee which considers competitive CEO base salary information from the Peer Group companies, Mr. McGraw's individual performance and contributions since his last review, and the merit increase guidelines in effect for other salaried employees during this period. Effective January 1, 2000, the Committee increased Mr. McGraw's base salary by 9.1% to \$900,000 based on its review and assessment of the factors and criteria described above.

In January 2000, stock-based long-term incentive awards were granted. Mr. McGraw received an award of 10,121 restricted performance shares which will mature on December 31, 2002, subject to the achievement of the Committee-approved diluted Earnings Per Share performance goals established for this award, and he received 125,000 stock option shares. These awards are disclosed in the Long-Term Incentive Plan Awards Table and the Option Grants Table.

In order to calculate the degree of achievement of the Earnings Per Share Goals for the 2000 Short-Term Incentive Compensation Award and the 1998, 1999, and 2000 Long-Term Restricted Performance Share Awards, the Committee determined that the reported 2000 diluted Earnings Per Share, excluding the one-time gain on the sale of Tower Group International, the dilution associated with the Tribune Education acquisition, and the cumulative effect of the change in accounting required by the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, as amended, (Revenue Recognition in Financial Statements), would be used for purposes of determining the degree of achievement of these awards.

In early 2001, the Committee reviewed and approved the 2000 annual incentive award payment for Mr. McGraw under the 1996 Key Executive Short-Term Incentive Compensation Plan. Based on the Corporation's adjusted diluted Earnings Per Share for 2000, as measured against the Earnings Per Share performance goal established by the Committee at the beginning of the year, Mr. McGraw's earned incentive payment was \$1,400,000, representing 200% of his 2000 target opportunity.

In early 2001, the Committee reviewed and approved the degree of achievement and award payout to Mr. McGraw for the 1998 Long-Term Restricted Performance Share Award which covered the years 1998, 1999 and 2000 and matured on December 31, 2000. The cumulative compound Earnings Per Share growth for the three-year award cycle exceeded the maximum 150% payment goal established by the Committee for this Award. As a result, Mr. McGraw received a share payment of 21,048 shares representing 150% of his target award. The dollar value of Mr. McGraw's 1998 Long-Term Restricted Performance Share Award payout is shown in the Long-Term Incentive Plan Payout Column of the Summary Compensation Table.

#### Closing Statement

The Committee believes that the caliber and motivation of the Corporation's key employees and the quality of their leadership make a significant difference in the long-term performance of the Corporation. The Committee further believes that compensation should vary with the Corporation's financial performance so that executives are well rewarded when performance

meets or exceeds standards established by the Committee, and there should be downside risks to compensation when performance does not meet these standards.

In its view, the Committee believes that The McGraw-Hill Companies' executive compensation program is meeting the goals contained in the Program's philosophy.

The foregoing report has been furnished on behalf of the Board of Directors by the members of its Compensation Committee.

Sidney Taurel (Chairman) Vartan Gregorian  
Linda Koch Lorimer  
Lois Dickson Rice

### **AUDIT COMMITTEE REPORT**

The Audit Committee reviews the Corporation's financial reporting process on behalf of the Board of Directors. All of the members of the Committee are independent directors in accordance with the definition of such independence as provided by the listing standards of the New York Stock Exchange. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls. The Board of Directors has adopted a written charter for the Audit Committee, which is included as Exhibit A to this Proxy Statement.

In this context, the Committee has met and held discussions with management and the independent auditors. Management represented to the Committee that the Corporation's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors, which review included a discussion of the quality, and not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The Committee discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61 (Communication With Audit Committees).

In addition, the Committee has reviewed with the independent auditors the auditor's independence from the Corporation and its management. The Audit Committee received from the independent auditors the written disclosures and the letter regarding its independence as required by Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees).

The Committee discussed with the Corporation's internal and independent auditors the overall scope and plans for their respective audits. The Committee met with the internal and independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of the Corporation's internal controls, and the overall quality of the Corporation's financial reporting.

The Committee has also considered whether the provision of services by our independent auditors Ernst & Young LLP not related to the audit of the financial statements referred to above is compatible with maintaining Ernst & Young LLP's independence.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2000, as filed with the Securities and Exchange Commission. The Committee and the Board also have recommended, subject to shareholder approval, the selection of the Corporation's independent auditors for 2001.

George B. Harvey (Chairman) Pedro Aspe  
Winfried F.W. Bischoff  
Lois Dickson Rice

### **DEFINED BENEFIT RETIREMENT PLANS**

The officers named in the Summary Compensation Table are entitled to retirement benefits under two defined benefit plans maintained by the Corporation:

The Employee Retirement Plan ("ERP"), and the Employee Retirement Plan Supplement ("ERP Supplement"). In addition, Messrs. McGraw and Bahash participate in the Senior Executive Supplemental Death, Disability and Retirement Benefits Plan (the "Supplemental Benefits Plan").

The ERP provides participants with retirement benefits based upon career compensation. These benefits are subject to limitation under certain provisions of the Internal Revenue Code. The Corporation makes all of the required contributions to the Plan and participants make no contributions to such Plan. The benefit formula applicable to the Named Officers is 1.0% of each year's earnings, and the vesting schedule of ERP provides that participants are 100% vested after comple-

tion of five years of continuous service with the Corporation. Under the ERP Supplement, participants are provided with retirement benefits that would have been provided under the ERP except for the limitations imposed by the Internal Revenue Code.

Under the Supplemental Benefits Plan, a participant is entitled to receive upon normal retirement at age 65 an annual retirement benefit equal to 55% of the participant's highest rate of annual base salary and highest target opportunity under the Key Executive Short-Term Incentive Compensation Plan during the 36 month period before retirement, reduced by the participant's annual retirement benefits under ERP and ERP Supplement, the annual annuity value of a hypothetical savings account, the participant's annual retirement benefit under pension plans of any previous employers, and the participant's annual Social Security retirement benefit.

The following table sets forth the annual benefits under the ERP, the ERP Supplement, and the Supplemental Benefits Plan (computed as a straight life annuity payment) payable upon retirement at age 65 to each of the Named Officers based upon the Corporation's contributions and the participant's 2000 compensation (salary and 2000 target opportunity under the Key Executive Short-Term Incentive Compensation Plan for purposes of the Supplemental Benefits Plan):

**ANNUAL RETIREMENT BENEFIT FROM CORPORATE CONTRIBUTIONS**

Name	ERP and ERP Supplement	Supplemental Benefits Plan	Total
----	-----	-----	-----
Harold W. McGraw III	\$289,000	\$282,000	\$571,000
Robert J. Bahash	\$170,000	\$194,000	\$364,000
John D. Negroponte	\$ 35,000	\$ 0	\$ 35,000
Kenneth M. Vittor	\$113,000	\$ 0	\$113,000
Barbara B. Maddock	\$ 91,000	\$ 0	\$ 91,000

Pursuant to the Supplemental Benefits Plan, in the event of involuntary termination of employment without cause or resignation of employment by the participant for good reason within two years after a change of control of the Corporation, or resignation by the participant for any reason during the 30 day period following the first anniversary of such change of control, a participant shall receive a lump sum payment that is actuarially equivalent to the monthly retirement benefit the participant would have received ranging from 44% to 55% of final monthly earnings and target opportunity under the Key Executive Short-Term Incentive Compensation Plan, based upon the participant's age at the date of termination. The Supplemental Benefits Plan is administered by the Compensation Committee of the Board of Directors, which Committee approves participants who are recommended by the Corporation's Chief Executive Officer.

**Senior Executive Severance Plan**

The Senior Executive Severance Plan provides that if the employment of a participating senior executive of the Corporation, including the Named Officers, is involuntarily terminated without cause or the executive resigns for good reason, the executive shall receive a minimum severance payment of 12 months base salary and a maximum severance payment of 24 months base salary, the actual amount of severance to be based upon 1.6 multiplied by the number of years of continuous service with the Corporation. In addition, each participant shall continue to participate in the Corporation's retirement, life, medical and other insurance benefit plans and programs during the period the participant receives severance payments, or in lieu thereof, each participant shall receive an additional cash payment equal to 10% of the severance amount. The receipt of payments by participants pursuant to the Senior Executive Severance Plan is in lieu of receiving benefits pursuant to the Corporation's regular separation allowance plan, which plan is applicable to all full-time employees of the Corporation. The Plan was amended to provide that benefits will be payable to participants who voluntarily terminate their employment within a 30 day period one year after a change in control of the Corporation has occurred. The Senior Executive Severance Plan is administered by the Compensation Committee of the Board of Directors, which Committee approves participants who are recommended by the Corporation's Chief Executive Officer.

2. **RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS** During the year ended December 31, 2000, Ernst & Young LLP audited the consolidated financial statements of the Corporation and its subsidiaries.

### **Audit Fees**

During the year ended December 31, 2000, Ernst & Young LLP billed the Corporation an aggregate of \$2.2 million in fees for professional services rendered for the audit of the Corporation's annual financial statements for the year ended December 31, 2000, and for the reviews of the financial statements included in the Corporation's Forms 10-Q filed with the Securities and Exchange Commission for the year ended December 31, 2000.

### **All Other Fees**

During the year ended December 31, 2000, Ernst & Young LLP billed the Corporation an aggregate of \$4.9 million in fees for professional services rendered for services other than those included under the paragraph referred to above under the heading "Audit Fees". Said \$4.9 million included audit-related services of \$1.2 million and non-audit services of \$3.7 million. Audit-related services generally included fees for pension and other special purpose audits, accounting consultations and securities registration statements. Non-audit related services generally included fees for tax compliance and consulting services. Ernst & Young LLP did not bill the Corporation any amounts for Financial Information Systems Design and Implementation Fees.

The Board of Directors, after receiving a favorable recommendation from the Audit Committee, has again selected Ernst & Young LLP to serve as the Corporation's independent auditors for 2001. Although not required to do so, the Board is submitting the selection of this firm for ratification by the Corporation's shareholders to ascertain their views. Ernst & Young LLP has advised the Corporation that it has no direct, nor any material indirect, financial interest in the Corporation or any of its subsidiaries. A representative of Ernst & Young LLP is expected to be present at the Meeting with the opportunity to make a statement if the representative desires to do so, and such representative will be available to respond to appropriate questions.

The following resolution will be offered by the Board of Directors at the Meeting:

**RESOLVED:** That the selection by the Board of Directors of Ernst & Young LLP as independent auditors for this Corporation and its subsidiaries for 2001 be, and hereby is, ratified and approved.

### **The Board of Directors' Recommendation**

Your Board recommends that you vote FOR this resolution. Unless otherwise specified by the shareholder, the Board intends the accompanying proxy to be voted for this resolution.

3. **OTHER MATTERS** The Board of Directors knows of no other matters which may properly be brought before the Meeting. However, if other matters should properly come before the Meeting, it is the intention of those named in the solicited proxy to vote such proxy in accordance with their best judgment.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires the Corporation's directors, executive officers, and persons who own more than 10% of a registered class of the Corporation's equity securities, to file with the Securities and Exchange Commission and the New York Stock Exchange reports on Forms 3, 4 and 5 concerning their ownership of the Common Stock and other equity securities of the Corporation.

Based solely on the Corporation's review of copies of such reports and written representations that no other reports were required, the Corporation believes that all of its directors and executive officers filed all of said reports on a timely basis during 2000 except for Vartan Gregorian, who inadvertently filed one late report on Form 4 disclosing one transaction.

### **Deadlines for Submission of Shareholder Proposals**

There are two different deadlines for the submission of shareholder proposals.

Shareholder proposals which are being submitted for inclusion in the Corporation's proxy statement and form of proxy for the 2002 Annual Meeting of Shareholders must be received by the Corporation at its principal executive offices, 1221 Avenue of the Americas, New York, New York 10020, on or before November 23, 2001. Such proposals when submitted must be in full compliance with applicable laws, including Rule 14a-8 of the Securities Exchange Act of 1934.

Under the Corporation's By-Laws, shareholder proposals which are being submitted other than for inclusion in the Corporation's proxy statement and form of proxy for the 2002 Annual Meeting of Shareholders must be received by the Corporation at its principal executive offices, 1221 Avenue of the Americas, New York, New York 10020, no earlier than December 27, 2001 and no later than January 25, 2002. Such proposals when submitted must be in full compliance with applicable law and the Corporation's By-Laws.

**By Order of the Board of Directors**

Scott L. Bennett  
Senior Vice President, Associate General Counsel and Secretary

New York, New York  
March 26, 2001

**EXHIBIT A**

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**AUDIT COMMITTEE CHARTER**

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## AUDIT COMMITTEE CHARTER

The Audit Committee is appointed by the Board to assist the Board in monitoring (1) the integrity of the financial statements of the Company, (2) the compliance by the Company with legal and regulatory requirements and (3) the independence and performance of the Company's internal and external auditors.

The members of the Audit Committee shall meet the independence and experience requirements of the New York Stock Exchange. The members of the Audit Committee shall be appointed by the Board on the recommendation of the Nominating and Corporate Governance Committee.

The Audit Committee shall have the authority to retain special legal, accounting or other consultants to advise the Committee. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The Audit Committee shall make regular reports to the Board.

The Audit Committee shall:

1. Review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.
2. Review the annual audited financial statements with management, including major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls that could significantly affect the Company's financial statements.
3. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements.
4. Review with management and the independent auditor the Company's quarterly and yearly financial statements prior to the filing of a Form 10-Q or Form 10-K.
5. Meet periodically with management to review the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
6. Review major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditor, internal auditors or management.
7. Recommend to the Board the appointment of the independent auditor, which firm is ultimately accountable to the Audit Committee and the Board.
8. Approve the fees to be paid to the independent auditor.
9. Receive periodic reports from the independent auditor regarding the auditor's independence, discuss such reports with the auditor, and if so determined by the Audit Committee, recommend that the Board take appropriate action to satisfy itself of the independence of the auditor.
10. Evaluate together with the Board the performance of the independent auditor and, if so determined by the Audit Committee, recommend that the Board replace the independent auditor.
11. Review the appointment and replacement of the senior internal auditing executive.
12. Review the significant reports to management prepared by the internal auditing department and management's responses.
13. Meet with the independent auditor prior to the year-end audit to review the scope of year-end work and coordination of efforts between the independent auditors and the internal audit department.
14. Obtain reports, as appropriate, from management, the Company's senior internal auditing executive, and/or the independent auditor that the Company and its subsidiary/foreign affiliated entities are in conformity with applicable legal requirements and the Company's Code of Business Ethics.
15. Discuss with the independent auditor the matters required to be discussed by generally accepted auditing standards relating to the conduct of the audit.

16. Review with the independent auditor any problems or difficulties the auditor may have encountered and any management letter provided by the auditor and the Company's response to that letter. Such review should include:

- (a) Any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information.
- (b) Any changes required in the planned scope of the internal audit.
- (c) The internal audit department responsibilities, budget and staffing.

17. Prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

18. Advise the Board with respect to the Company's policies and procedures regarding compliance with the Company's Code of Business Ethics.

19. Meet at least annually with the Chief Financial Officer, the senior internal auditing executive, and the independent auditor in separate executive sessions.

20. Review, as appropriate, with the Company's General Counsel legal matters that may have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations and the Company's Code of Business Ethics.

[RECYCLE LOGO - Printed on Recycled Paper for a quality environment.]

The McGraw-Hill Companies, Inc.

Proxy/Voting Instruction Card Solicited on Behalf of the Board of Directors

The undersigned appoints Scott L. Bennett and Kenneth M. Vittor, and each of them, proxies with full power of substitution, to vote the shares of stock of The McGraw-Hill Companies, Inc., which the undersigned is entitled to vote, at the Annual Meeting of Shareholders of said Corporation to be held at the principal executive offices of the Corporation, 1221 Avenue of the Americas, New York, N.Y. 10020 on Wednesday, April 25, 2001, at 11 A.M., and any adjournment thereof.

The McGraw-Hill Companies employees. If you are a current or former employee of the Corporation, this card also provides voting instructions for shares held in 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 Savings Incentive Plan of Standard & Poor's, The Employee Retirement Account Plan of Standard & Poor's, and The Employees' Investment Plan of McGraw-Hill Broadcasting Company, Inc. If you are a participant in any of these Plans and have shares of Common Stock of the Corporation allocated to your account under these Plans, The Northern Trust Company, the Trustee of each of these Plans (the "Trustee"), is hereby instructed to vote all the shares of Common Stock of The McGraw-Hill Companies, Inc. which are credited to the undersigned's account as of March 13, 2001, at the Annual Meeting of Shareholders to be held on April 25, 2001, and any adjournment thereof, on the items set forth on the reverse hereof and, in the Trustee's discretion, upon such other business as may properly come before the Meeting. Voting rights will be exercised by the Trustee as directed, provided instructions are received by April 20, 2001.

THE MATTERS TO BE VOTED UPON AND THE INSTRUCTIONS ARE SET FORTH ON THE REVERSE SIDE. PLEASE VOTE, SIGN AND RETURN PROMPTLY.

(continued and to be signed on the reverse side)

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^ FOLD AND DETACH HERE IF VOTING BY MAIL ^

### **ELECTRONIC ACCESS TO FUTURE ANNUAL REPORTS AND PROXY STATEMENTS**

For your convenience, we are now offering shareholders of The McGraw-Hill Companies the option of viewing future Annual Reports and Proxy Statements on the Internet instead of receiving them by mail.

#### **3 Ways to Consent to View Future Materials Online:**

- . By telephone: press 1 when asked during the voting process.
- . By Internet: make this election when prompted during the voting process.
- . By mail: mark the box on the top half of the proxy/voting card (see other side).

#### **How It Works:**

If you give your consent, it means that beginning in 2002 you will only receive a proxy/voting card in the mail. The proxy card will contain the Web site address and other necessary information to view the Proxy Statement and Annual Report online. You will continue to be able to vote your shares in one of three ways: by telephone, Internet, or by mail. Costs normally associated with electronic access, such as usage and telephone charges, will be the responsibility of the shareholder.

To resume mail delivery of the Proxy Statement and Annual Report, you may revoke the election at any time by calling Mellon Investor Services at 1-888-201-5538.

To view this year's materials, go to the Corporation's Investor Relations Web site at [www.mcgraw-hill.com/investor\\_relations](http://www.mcgraw-hill.com/investor_relations)

[LOGO] The McGraw-Hill Companies

1221 Avenue of the Americas New York NY 10020 [www.mcgraw-hill.com](http://www.mcgraw-hill.com)

Please mark your votes as [X] indicated in this example

THIS PROXY/VOTING INSTRUCTION CARD WILL BE VOTED AS DIRECTED BY THE SHAREHOLDER(S). If not otherwise specified, the proxy/voting instruction card will be voted FOR the Election of Directors and FOR Proposal 2. THE BOARD OF DIRECTORS RECOMMENDS YOU VOTE FOR PROPOSALS 1 AND 2:

	FOR ALL NOMINEE(S) except as set forth below	WITHHOLD AUTHORITY FOR ALL NOMINEE(S)
1. Election of Directors Election of the following nominees as directors for three-year terms	[_]	[_]

expiring at the 2004 Annual Meeting:

(01) Pedro Aspe (02) Robert P. McGraw

(03) Lois Dickson Rice (04) Edward B Rust, Jr.

INSTRUCTION: To withhold authority to vote for any individual nominee(s), write that nominee(s)' name below.

	FOR	AGAINST	ABSTAIN
2. Ratification of the appointment of independent auditors for 2001.	[_]	[_]	[_]

And, in their discretion, in the transaction of such other business as may properly come before the Meeting.

[\_] New! Consent to View Future Materials Online I consent to access future Annual Reports and Proxy Statements electronically via the Internet instead of receiving them by mail.

See other side for additional details.

**Signature(s) Date:**

NOTE: Please sign exactly as your name appears on this card and return the card in the enclosed envelope.

**^ FOLD AND DETACH HERE IF VOTING BY MAIL ^**

3 Choices: You can vote by telephone, on the Internet or by mail

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VOTE BY TELEPHONE

Call toll-free 1-800-840-1208 on a touch-tone telephone 24 hours a day, 7 days a week. There is no charge to you for this call. Have your proxy card in hand. You will be asked to enter the 11-digit control number, which is located in the box in the lower right hand corner of this proxy card.

[GRAPHIC]

- . If you choose to vote as the Board of Directors recommends on ALL proposals, press 1 when asked.
- . If you choose to vote on each proposal separately, press 0 when asked, then:

You will hear these instructions for Proposal 1:

- . To vote FOR ALL, press 1.
- . To WITHHOLD ALL, press 9.
- . To WITHHOLD FOR AN INDIVIDUAL NOMINEE, press 0.

You will hear these instructions for Proposal 2:

- . To vote FOR, press 1.
- . To vote AGAINST, press 9.
- . To ABSTAIN, press 0.

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VOTE ON THE INTERNET

Access the Internet address <http://www.proxyvoting.com/mhp>

[GRAPHIC]

This site is available 24 hours a day, 7 days a week. At the Web site, enter your 11-digit control number, which is in the lower right hand corner of this proxy card. The site offers links to online versions of the Proxy Statement and Annual Report.

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VOTE BY MAIL

[GRAPHIC] Mark, sign and date your proxy card and return it promptly in the enclosed postage-paid envelope, or mail to  
Mellon Investor Services  
Proxy Processing  
Church Street Station, PO Box 1677  
New York, NY 10008-1677

Note: If you vote by telephone or on the Internet,  
DO NOT mail back your proxy card.

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**End of Filing**

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