

MCGRAW-HILL COMPANIES INC

FORM 10-K (Annual Report)

Filed 3/30/1994 For Period Ending 12/31/1993

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-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

- --- EXCHANGE ACT OF 1934 (FEE REQUIRED) For the fiscal year ended December 31, 1993

OR

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

- --- EXCHANGE ACT OF 1934 (NO FEE REQUIRED) For the transition period from-----to----- *Commission File Number 1-1023*

McGRAW-HILL, INC.

(Exact name of registrant as specified in its charter)

NEW YORK

13-1026995

(State or other jurisdiction of
incorporation or organization)

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

1221 AVENUE OF THE AMERICAS, NEW YORK, N.Y.

10020

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (212) 512-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
----- Common stock - \$1 par value	----- New York Stock Exchange Pacific Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of voting stock held by nonaffiliates of the registrant as of February 28, 1994, was \$3,412,401,842.

The number of shares of common stock of the registrant outstanding as of February 28, 1994 was 49,485,689 shares.

Part I, Part II and Part IV incorporate information by reference from the Annual Report to Shareholders for the year ended December 31, 1993. Part III incorporates information by reference from the definitive proxy statement mailed to shareholders on March 21, 1994 for the annual meeting of shareholders to be held on April 27, 1994.

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PART I

Item 1. Business

The Registrant, incorporated in December 1925, serves business, professional and educational markets around the world with information products and services. Key markets include finance, business, education, law, construction, medical and health, computers and communications, aerospace and defense. As a multimedia publishing and information company, the Registrant employs a broad range of media, including books, magazines, newsletters, software, on-line data services, CD-ROMs, facsimile and television broadcasting. Most of the Registrant's products and services face substantial competition from a variety of sources.

The Registrant's 15,661 employees are located worldwide. They perform the vital functions of analyzing the nature of changing demands for information and of channeling the resources necessary to fill those demands. By virtue of the numerous copyrights and licensing, trade, and other agreements, which are essential to such a business, the Registrant is able to collect, compile, and disseminate this information. Substantially all book manufacturing and magazine printing is handled through a number of independent contractors. The Registrant's principal raw material is paper, and the Registrant has assured sources of supply, at competitive prices, adequate for its business needs.

Descriptions of the company's principal products, broad services and markets, and significant achievements are hereby incorporated by reference from Exhibit (13), pages 2 and 3 and pages 7 through 22 (textual material) of the Registrant's 1993 Annual Report to Shareholders.

Information as to Industry Segments

The relative contribution of the industry segments of the Registrant and its subsidiaries to operating revenue and operating profit and geographic information for the three years ended December 31, 1993 and the identifiable assets of each segment at the end of each year, are included in Exhibit (13), on page 38 and page 39 in the Registrant's 1993 Annual Report to Shareholders and is hereby incorporated by reference.

Impact of Change In Segments

In 1993, the Registrant realigned its segments to combine the Broadcasting and Information and Publication Services segments and Tower Group International into one segment, Information and Media Services.

The Registrant's segments are: (1) Information and Media Services, which includes Broadcasting, all of the company's publications, construction information products and Tower Group International; (2) Educational and Professional Publishing, which includes College, professional and legal publishing and now also includes the Macmillan/McGraw-Hill School Publishing Company. The Registrant acquired the remaining 50% of the Macmillan/McGraw-Hill School Publishing Company from its partner in October 1993 and (3) Financial Services, which includes the Standard & Poor's Ratings Group and all of the Registrant's Financial Information Services.

A summary of the company's revenue and operating profit (unaudited) for the realigned segments by quarter for the years 1993 and 1992 follows:

1993					

Revenue	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
-----	-----	-----	-----	-----	-----
Information and Media Services	\$184,191	\$201,119	\$190,165	\$255,601	\$ 831,076
Educational and Professional Publishing	109,935	118,609	190,949	247,951	667,444
Financial Services	172,821	171,179	173,855	179,078	696,933
	=====	=====	=====	=====	=====
	\$466,947	\$490,907	\$554,969	\$682,630	\$2,195,453
	=====	=====	=====	=====	=====
Operating Profit/(Loss)					

Information and Media Services	\$ 16,105	\$ 28,646	\$ 15,627	\$ 41,966	\$ 102,344
Educational and Professional Publishing	(1,644)	1,278	39,539	10,201	49,374
Financial Services	51,731	50,763	48,267	50,104	200,865
	-----	-----	-----	-----	-----
	\$ 66,192	\$ 80,687	\$103,433	\$102,271	\$ 352,583
	=====	=====	=====	=====	=====
1992					

Revenue	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
-----	-----	-----	-----	-----	-----
Information and Media Services	\$190,036	\$212,793	\$196,496	\$266,248	\$ 865,573
Educational and Professional Publishing	109,736	120,974	182,654	153,999	567,363
Financial Services	155,036	150,508	153,574	158,437	617,555
	-----	-----	-----	-----	-----
	\$454,808	\$484,275	\$532,724	\$578,684	\$2,050,491
	=====	=====	=====	=====	=====
Operating Profit/(Loss)					

Information and Media Services	\$ 17,251	\$ 34,604	\$ 15,123	\$ 46,220	\$ 113,198
Educational and Professional Publishing	(1,513)	3,449	36,182	24,628	62,746
Financial Services	42,634	40,308	40,295	45,157	168,394
	-----	-----	-----	-----	-----
	\$ 58,372	\$ 78,361	\$ 91,600	\$116,005	\$ 344,338
	=====	=====	=====	=====	=====

Item 2. Properties

The Registrant leases office facilities at 394 locations, 322 are in the United States. In addition, the Registrant owns real property at 25 locations; 22 are in the United States. The principal facilities of the Registrant are as follows:

Domestic -----	Owned or Leased -----	Square Feet (thousands) -----	Business Unit -----
New York, NY	leased	1,639	See explanation below
Hightstown, NJ	owned		See explanation below
Office and Data Ctr.		490	
Book Dist. Ctr.		412	
New York, NY	leased	606	Financial Services
Delran, NJ	leased	106	Datapro
Colorado Springs, CO	owned		Shepard's/McGraw-Hill
Office		181	
Manufacturing Plant		63	
Denver, CO	owned	88	Broadcasting
Indianapolis, IN	leased	58	Broadcasting
Englewood, CO	owned		
Rocky Mt. Data Ctr.		14	Corporate Data Center
Office		119	Financial Services
Lexington, MA	owned	53	Corporate Data Center
	leased	122	Data Resources
Blue Ridge Summit, PA	owned		TAB Books
Office		67	
Book Dist. Ctr.		114	
Peterborough, NH	owned	51	Byte
Chicago, IL	leased	68	Various operating units

Domestic -----	Owned or Leased	Square Feet (thousands)	Business Unit -----
Washington, DC	leased	73	Various operating units
Kent, WA Warehouse/Dist. Ctr Office	leased	79 6	C.J. Tower
Monterey, CA	owned	207	CTB
Blacklick (Gahanna), OH Book Dist. Ctr. Office	owned	519 57	School and Glencoe
Westerville, OH	owned	59	Glencoe
New York, NY	leased	132	School
Columbus, OH	leased	76	School and Glencoe
Dublin, OH Warehouse	leased	112	SRA, School and Glencoe
Dallas, TX Assembly Plant Office	leased	148 6	School
Desoto, TX Book Dist. Ctr.	leased	382	School
Foreign -----			
Whitby, Canada Office Book Dist. Ctr.	owned	80 80	McGraw-Hill Ryerson Ltd.
Maidenhead, England	leased	85	McGraw-Hill International (U.K.) Ltd.

The Registrant's major lease covers space in its headquarters building in New York City. The building is owned by Rock-McGraw, Inc., a corporation in which the Registrant and Rockefeller Group, Inc. are the sole shareholders. The Registrant occupies approximately 950,000 square feet of the rentable space under a 30-year lease which includes renewal options for two additional 15- year periods. In addition, the Registrant subleases for its own account approximately 693,000 square feet of space for periods up to 25 years.

The largest complex owned by the Registrant is located in Highstown, NJ where a book distribution center and offices for accounting operations, data processing services, order fulfillment and other service departments are housed. The Registrant plans to consolidate its domestic book distribution operations by centralizing the distribution operations in Blue Ridge Summit, PA and Hightstown, NJ to Columbus and Blacklick, OH.

Item 3. Legal Proceedings

While the Registrant and its subsidiaries are defendants in numerous legal proceedings in the United States and abroad, neither the Registrant nor its subsidiaries are a party to, nor are any of their properties subject to, any known material pending legal proceedings which Registrant believes will result in a material adverse effect on Registrant's financial statements or business operations.

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

No matters were submitted to a vote of Registrant's security holders during the last quarter of the period covered by this Report.

Executive Officers of Registrant

Name ----	Age ---	Position -----
Joseph L. Dionne	60	Chairman and Chief Executive Officer
Harold McGraw III	45	President and Chief Operating Officer
Robert J. Bahash	48	Executive Vice President and Chief Financial Officer
Michael K. Hehir	46	Executive Vice President, New Ventures
Robert N. Landes	63	Executive Vice President, Secretary and General Counsel
Thomas J. Sullivan	58	Executive Vice President, Administration
Frank J. Kaufman	49	Senior Vice President, Taxes
Barbara A. Munder	48	Senior Vice President and Executive Assistant to the Chairman
Frank D. Penglase	53	Senior Vice President, Treasury Operations
Donald S. Rubin	59	Senior Vice President, Investor Relations
Thomas J. Kilkenny	35	Vice President and Controller

All of the above executive officers of the Registrant have been full-time employees of the Registrant for more than five years except for Thomas J. Kilkenny.

Mr. Kilkenny, prior to his becoming an officer of the Registrant on December 1, 1993, was a director of the Registrant's Corporate Audit Department since October 1, 1991. Previously he was with Ernst & Young from 1980 through 1991.

PART II

Item 5. Market for the Registrant's Common Stock and Related

Stockholder Matters

The approximate number of holders of the Company's common stock as of February 28, 1994 was 5,724.

	1993	1992
	-----	-----
Dividends per share of common stock:		
\$.57 per quarter in 1993		
\$.56 per quarter in 1992	\$2.28	\$2.24

Information concerning other matters is incorporated herein by reference from Exhibit (13), from page 46 of the 1993 Annual Report to Shareholders.

Item 6. Selected Financial Data

Incorporated herein by reference from Exhibit (13), from the 1993 Annual Report to Shareholders, page 30 and page 31.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Incorporated herein by reference from Exhibit (13), from the 1993 Annual Report to Shareholders, pages 24 to 29 and page 32.

Item 8. Consolidated Financial Statements and Supplementary Data

Incorporated herein by reference from Exhibit (13), from the 1993 Annual Report to Shareholders, pages 33 to 44 and page 46.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

PART III

Item 10. Directors and Executive Officers of the Registrant

Information concerning directors is incorporated herein by reference from the Registrant's definitive proxy statement dated March 21, 1994 for the annual meeting of shareholders to be held on April 27, 1994.

Item 11. Executive Compensation

Incorporated herein by reference from the Registrant's definitive proxy statement dated March 21, 1994 for the annual meeting of shareholders to be held on April 27, 1994.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Incorporated herein by reference from the Registrant's definitive proxy statement dated March 21, 1994 for the annual meeting of shareholders to be held April 27, 1994.

Item 13. Certain Relationships and Related Transactions

Incorporated herein by reference from the Registrant's definitive proxy statement dated March 21, 1994 for the annual meeting of shareholders to be held April 27, 1994.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) 1. Financial Statements.

2. Financial Statement Schedules.

McGraw-Hill, Inc.

Index to Financial Statements And Financial Statement Schedules

	Reference
	Form 10-K ----- Annual Report to Share- holders (page)
Data incorporated by reference from	
Annual Report to Shareholders:	
Report of Independent Auditors.....	45
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All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

The financial statements listed in the above index which are included in the Annual Report to Shareholders for the year ended December 31, 1993 are hereby incorporated by reference in Exhibit (13). With the exception of the pages listed in the above index, the 1993 Annual Report to Shareholders is not to be deemed filed as part of Item 14 (a)(1).

(a) (3) Exhibits.

- (3) Articles of Incorporation of Registrant, incorporated by reference from Registrant's Form SE filed March 29, 1989 in connection with Registrant's Form 10-K for the year ended December 31, 1988.
- (3) By-laws of Registrant.
- (4) Indenture dated as of June 15, 1990 between the Registrant, as issuer, and the Bank of New York, as trustee, incorporated by reference from Registrant's Form SE filed August 3, 1990 in connection with Registrant's Form 10-Q for the quarter ended June 30, 1990.
- (4) Instrument defining the rights of security holders, certificate setting forth the terms of the Registrant's 9.43% Notes due 2000, incorporated by reference from Registrant's Form SE filed August 3, 1990 in connection with Registrant's Form 10-Q for the quarter ended June 30, 1990.
- (4) Instrument defining the rights of security holders, certificate setting forth the terms of the Registrant's Medium-Term Notes, Series A, incorporated by reference from Registrant's Form SE filed November 15, 1990 in connection with Registrant's Form 10-Q for the quarter ended September 30, 1990.
- (10) Rights Agreement dated as of October 25, 1989 between Registrant and Manufacturers Hanover Trust Company, incorporated by reference from Registrant's Form SE dated October 26, 1989 in connection with Registrant's Form 8-A.
- *(10) Restricted Stock Award Agreement dated December 4, 1987 incorporated by reference from Registrant's Form SE filed March 30, 1988 in connection with Registrant's Form 10-K for the year ended December 31, 1987.
- (10) Indemnification Agreements between Registrant and each of its directors and certain of its executive officers relating to said directors' and executive officers' services to the Registrant, incorporated by reference from Registrant's Form SE filed March 27, 1987 in connection with Registrant's Form 10-K for the year ended December 31, 1986.
- *(10) Registrant's 1983 Stock Option Plan for Officers and Key Employees, incorporated by reference from Registrant's Form SE filed March 29, 1990 in connection with Registrant's Form 10-K for the year ended December 31, 1989.

- *(10) Registrant's 1987 Key Employee Stock Incentive Plan.
- *(10) Registrant's 1993 Key Employee Stock Incentive Plan.
- *(10) Registrant's 1990 Key Executive Short-Term Incentive Compensation Plan, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.
- *(10) Registrant's Key Executive Short-Term Incentive Deferred Compensation Plan.
- *(10) Registrant's Executive Deferred Compensation Plan, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.
- *(10) Registrant's Senior Executive Severance Plan, incorporated by reference from Registrant's Form SE filed March 29, 1989 in connection with Registrant's Form 10-K for the year ended December 31, 1988.
- (10) Credit Agreement dated as of November 12, 1991 among the Registrant, the Banks' signatory thereto, and Bankers Trust Company, as Agent incorporated by reference from Registrant's Form SE filed November 18, 1991 in connection with Registrant's Form 8-K dated November 19, 1991.
- (10) First Amendment to Credit Agreement dated as of November 8, 1993 among the Registrant, the Banks' signatory thereto, and Bankers Trust Company, as Agent, incorporated by reference from Registrant's Form 8-K dated November 15, 1993.
- (10) Line of Credit dated as of November 12, 1991 among the Registrant, the Banks' signatory thereto and Bankers Trust Company, As agent, incorporated by reference from Registrant's Form SE filed November 18, 1991 in connection with Registrant's Form 8-K dated November 19, 1991.
- (10) First Amendment to Line of Credit dated as of November 10, 1992 among the Registrant, the Banks' signatory thereto, and Bankers Trust Company as Agent, incorporated by reference from Registrant's Form 8-K dated November 16, 1992.
- (10) Second Amendment to Line of Credit dated November 8, 1993 among the Registrant, the Banks' signatory thereto, and Bankers Trust Company, as Agent, incorporated by reference from Registrant's Form 8-K dated November 15, 1993.
- (10) Partnership Interest Purchase Agreement, dated as of October 4, 1993, with respect to the Macmillan/McGraw-Hill School Publishing Company, incorporated by reference from Registrant's Form 8-K dated October 18, 1993.
- (10) Trademark Purchase and Sale Agreement (Macmillan), dated as of October 4, 1993, incorporated by reference from Registrant's Form 8-K dated October 18, 1993.
- (10) Trademark Purchase and Sale Agreement (Merrill), dated as of October 4, 1993, incorporated by reference from Registrant's Form 8-K dated October 18, 1993.

- *(10) Registrant's Employee Retirement Account Plan Supplement, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.
- *(10) Registrant's Employee Retirement Plan Supplement, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.
- *(10) Registrant's Savings Incentive Plan Supplement, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.
- *(10) Registrant's Senior Executive Supplemental Death, Disability & Retirement Benefits Plan, incorporated by reference from Registrant's Form SE filed March 26, 1992 in connection with Registrant's Form 10-K for the year ended December 31, 1991.
- *(10) Registrant's 1993 Stock Payment Plan for Directors, incorporated by reference from Registrant's Proxy Statement dated March 21, 1993.
- *(10) Registrant's Director Retirement Plan, incorporated by reference from Registrant's Form SE filed March 29, 1990 in connection with Registrant's Form 10-K for the year ended December 31, 1989.
- *(10) Registrant's Director Deferred Compensation Plan.
- (12) Computation of ratio of earnings to fixed charges.
- (12) Pro forma Computation of ratio of earnings to fixed charges.
- (13) Registrant's 1993 Annual Report to Shareholders. Such Report, except for those portions thereof which are expressly incorporated by reference in this Form 10-K, is furnished for the information of the Commission and is not deemed "filed" as part of this Form 10-K.
- (21) Subsidiaries of the Registrant.
- (23) Consent of Ernst & Young, Independent Auditors.

*These exhibits relate to management contracts or compensatory plan arrangements.

(b) Reports on Form 8-K.

A report on Form 8-K was filed on November 15, 1993. Item 5 and Item 7 (Exhibit 10) were reported in said report on Form 8-K.

A report on Form 8-K was filed on October 18, 1993. Item 2 and Item 7 were reported in said report on Form 8-K. The audited financial statements of the Macmillan/McGraw-Hill School Publishing Company for the three year period ended December 31, 1992 were incorporated by reference in said report on Form 8-K.

A report on Form 8-K/A No. 1 was filed on October 27, 1993. Item 7 was reported in said report on Form 8-K/A. The unaudited interim balance sheet of the Macmillan/McGraw-Hill School Publishing Company as of September 30, 1993 and the related unaudited statements of income and cash flows for the nine month period ended September 30, 1993 were incorporated by reference in said report on Form 8-K/A. The pro forma statements of income reflecting the acquisition by the Registrant of the additional 50% of the Macmillan/McGraw-Hill School Publishing Company were filed in said report on Form 8-K/A.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

McGraw-Hill, Inc.

Registrant

By: /s/ ROBERT N. LANDES

Robert N. Landes
Executive Vice President, Secretary and General Counsel
March 30, 1994

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 30, 1994 on behalf of Registrant by the following persons who signed in the capacities as set forth below under their respective names. Registrant's board of directors is comprised of fifteen members and the signatures set forth below of individual board members, constitute at least a majority of such board.

/s/ JOSEPH L. DIONNE

Joseph L. Dionne
Chairman and Chief Executive Officer
Director

/s/ HAROLD McGRAW III

Harold McGraw III
President and Chief Operating Officer
Director

/s/ ROBERT J. BAHASH

Robert J. Bahash
Executive Vice President and
Chief Financial Officer

/s/ THOMAS J. KILKENNY

Thomas J. Kilkenny
Vice President and Controller

/s/ VARTAN GREGORIAN

Vartan Gregorian
Director

/s/ JOHN T. HARTLEY

John T. Hartley
Director

/s/ GEORGE B. HARVEY

George B. Harvey
Director

/s/ RICHARD H. JENRETTE

Richard H. Jenrette
Director

/s/ DON JOHNSTON

Don Johnston
Director

/s/ PETER O. LAWSON-JOHNSTON

Peter O. Lawson-Johnston
Director

/s/ LINDA KOCH LORIMER

Linda Koch Lorimer
Director

/s/ DAVID L. LUKE III

David L. Luke III
Director

/s/ JOHN L. McGRAW

John L. McGraw
Director

/s/ LOIS D. RICE

Lois D. Rice
Director

/s/ PAUL J. RIZZO

Paul J. Rizzo
Director

/s/ JAMES H. ROSS

James H. Ross
Director

/s/ ALVA O. WAY

Alva O. Way
Director

Exhibit Index

- (3) Articles of Incorporation of Registrant, incorporated by reference from Registrant's Form SE filed March 29, 1989 in connection with Registrant's Form 10-K for the year ended December 31, 1988.
- (3) By-laws of Registrant.
- (4) Indenture dated as of June 15, 1990 between the Registrant, as issuer, and the Bank of New York, as trustee, incorporated by reference from Registrant's Form SE filed August 3, 1990 in connection with Registrant's Form 10-Q for the quarter ended June 30, 1990.
- (4) Instrument defining the rights of security holders, certificate setting forth the terms of the Registrant's 9.43% Notes due 2000, incorporated by reference from Registrant's Form SE filed August 3, 1990 in connection with Registrant's Form 10-Q for the quarter ended June 30, 1990.
- (4) Instrument defining the rights of security holders, certificate setting forth the terms of the Registrant's Medium-Term Notes, Series A, incorporated by reference from Registrant's Form SE filed November 15, 1990 in connection with Registrant's Form 10-Q for the quarter ended September 30, 1990.
- (10) Rights Agreement dated as of October 25, 1989 between Registrant and Manufacturers Hanover Trust Company, incorporated by reference from Registrant's Form SE dated October 26, 1989 in connection with Registrant's Form 8-A.
- *(10) Restricted Stock Award Agreement dated December 4, 1987 incorporated by reference from Registrant's Form SE filed March 30, 1988 in connection with Registrant's Form 10-K for the year ended December 31, 1987.
- (10) Indemnification Agreements between Registrant and each of its directors and certain of its executive officers relating to said directors' and executive officers' services to the Registrant, incorporated by reference from Registrant's Form SE filed March 27, 1987 in connection with Registrant's Form 10-K for the year ended December 31, 1986.
- *(10) Registrant's 1983 Stock Option Plan for Officers and Key Employees, incorporated by reference from Registrant's Form SE filed March 29, 1990 in connection with Registrant's Form 10-K for the year ended December 31, 1989.

- *(10) Registrant's 1987 Key Employee Stock Incentive Plan.
- *(10) Registrant's 1993 Key Employee Stock Incentive Plan.
- *(10) Registrant's 1990 Key Executive Short-Term Incentive Compensation Plan, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.
- *(10) Registrant's Key Executive Short-Term Incentive Deferred Compensation Plan.
- *(10) Registrant's Executive Deferred Compensation Plan, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.
- *(10) Registrant's Senior Executive Severance Plan, incorporated by reference from Registrant's Form SE filed March 29, 1989 in connection with Registrant's Form 10-K for the year ended December 31, 1988.
- (10) Credit Agreement dated as of November 12, 1991 among the Registrant, the Banks' signatory thereto, and Bankers Trust Company, as Agent incorporated by reference from Registrant's Form SE filed November 18, 1991 in connection with Registrant's Form 8-K dated November 19, 1991.
- (10) First Amendment to Credit Agreement dated as of November 8, 1993 among the Registrant, the Banks' signatory thereto, and Bankers Trust Company, as Agent, incorporated by reference from Registrant's Form 8-K dated November 15, 1993.
- (10) Line of Credit dated as of November 12, 1991 among the Registrant, the Banks' signatory thereto and Bankers Trust Company, As agent, incorporated by reference from Registrant's Form SE filed November 18, 1991 in connection with Registrant's Form 8-K dated November 19, 1991.
- (10) First Amendment to Line of Credit dated as of November 10, 1992 among the Registrant, the Banks' signatory thereto, and Bankers Trust Company as Agent, incorporated by reference from Registrant's Form 8-K dated November 16, 1992.
- (10) Second Amendment to Line of Credit dated November 8, 1993 among the Registrant, the Banks' signatory thereto, and Bankers Trust Company, as Agent, incorporated by reference from Registrant's Form 8-K dated November 15, 1993.
- (10) Partnership Interest Purchase Agreement, dated as of October 4, 1993, with respect to the Macmillan/McGraw-Hill School Publishing Company, incorporated by reference from Registrant's Form 8-K dated October 18, 1993.
- (10) Trademark Purchase and Sale Agreement (Macmillan), dated as of October 4, 1993, incorporated by reference from Registrant's Form 8-K dated October 18, 1993.
- (10) Trademark Purchase and Sale Agreement (Merrill), dated as of October 4, 1993, incorporated by reference from Registrant's Form 8-K dated October 18, 1993.

- *(10) Registrant's Employee Retirement Account Plan Supplement, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.
- *(10) Registrant's Employee Retirement Plan Supplement, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.
- *(10) Registrant's Savings Incentive Plan Supplement, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.
- *(10) Registrant's Senior Executive Supplemental Death, Disability & Retirement Benefits Plan, incorporated by reference from Registrant's Form SE filed March 26, 1992 in connection with Registrant's Form 10-K for the year ended December 31, 1991.
- *(10) Registrant's 1993 Stock Payment Plan for Directors, incorporated by reference from Registrant's Proxy Statement dated March 21, 1993.
- *(10) Registrant's Director Retirement Plan, incorporated by reference from Registrant's Form SE filed March 29, 1990 in connection with Registrant's Form 10-K for the year ended December 31, 1989.
- *(10) Registrant's Director Deferred Compensation Plan.
- (12) Computation of ratio of earnings to fixed charges.
- (12) Pro forma Computation of ratio of earnings to fixed charges.
- (13) Registrant's 1993 Annual Report to Shareholders. Such Report, except for those portions thereof which are expressly incorporated by reference in this Form 10-K, is furnished for the information of the Commission and is not deemed "filed" as part of this Form 10-K.
- (21) Subsidiaries of the Registrant.
- (23) Consent of Ernst & Young, Independent Auditors.

*These exhibits relate to management contracts or compensatory plan arrangements.

(b) Reports on Form 8-K.

A report on Form 8-K was filed on November 15, 1993. Item 5 and Item 7 (Exhibit 10) were reported in said report on Form 8-K.

A report on Form 8-K was filed on October 18, 1993. Item 2 and Item 7 were reported in said report on Form 8-K. The audited financial statements of the Macmillan/McGraw-Hill School Publishing Company for the three year period ended December 31, 1992 were incorporated by reference in said report on Form 8-K.

McGRAW HILL, INC.

BY-LAWS

(As amended July 28, 1993)

ARTICLE I

STOCKHOLDERS

1. A meeting of the stockholders shall be held annually, wheresoever designated by the Board of Directors on the last Wednesday in April of each year or on such other date as a resolution of the Board of Directors may designate, for the purpose of electing directors, hearing the reports of officers and directors, and for the transaction of such other business required or authorized to be transacted by the stockholders. Any previously scheduled annual or special meeting of stockholders may be postponed by resolution of the Board of Directors, upon public notice given prior to the date scheduled for such meeting.
2. Unless waived in writing by all stockholders, notice of the time, place and object of such meeting shall be given by mailing, at least ten days previous to such meeting, postage prepaid, a copy of such notice, addressed to each stockholder at his address as the same appears on the books of the Company.
3. Special meetings of stockholders for whatsoever purpose shall be held at the principal office of the Company or at such other place as may be designated by a

resolution of the Board of Directors and may only be called pursuant to a resolution approved by a majority of the Board of Directors.

4. Notice of each special meeting, except where otherwise expressly provided by statute, and unless waived in writing by every stockholder entitled to vote, stating the time, place and in general terms the purpose or purposes thereof, shall be mailed not less than thirty nor more than fifty days prior to the meeting to each stockholder at his address as the same appears on the books of the Company.

5. At a meeting of stockholders the holders of a majority of the shares entitled to vote, being present in person or represented by proxy, shall be a quorum for all purposes, except where otherwise provided by statute or by the certificate of incorporation.

6. If at any meeting a quorum shall fail to attend in person or by proxy, a majority in interest of stockholders entitled to vote present or represented by proxy at such meeting may adjourn the meeting from time to time without further notice until a quorum shall attend and thereupon any business may be transacted which might have been transacted at the meeting as originally called had the same been then held. The Chairman of a meeting of stockholders may adjourn such meeting from time to time, whether or not there is a quorum of stockholders at such meeting.

7. The Chairman of the Board, and in his absence the President, and in his absence a Chairman appointed by the Board of Directors, shall call meetings of the stockholders to order and shall act as Chairman thereof.
8. The Secretary of the Company shall act as Secretary at all meetings of the stockholders and in his absence the Chairman of the meeting may appoint any person to act as Secretary.
9. At each meeting of stockholders every stockholder entitled to vote may vote in person or by proxy, and shall have one vote for each share of stock registered in his name. The Board of Directors may fix a day not more than fifty days prior to the day of holding any meeting of the stockholders as the day as of which stockholders entitled to notice of and to vote at such meeting shall be determined, and all persons who shall be holders of record of voting stock at such time and no other shall be entitled to notice of and to vote at such meeting.
10. At all elections of directors the polls shall be opened and closed, the proxies shall be received and taken in charge and all ballots shall be received and counted by two inspectors who shall be appointed by the Board. If any inspector shall fail to attend or refuse to act, the vacancy may be filled at the meeting by the

Chairman of the meeting. No candidate for election as director shall be appointed an inspector.

11. The inspectors shall, before entering upon the discharge of their duties, be sworn to faithfully execute the duties of inspector at such meeting with strict impartiality and according to the best of their ability.

ARTICLE I-A

NOMINATION OF DIRECTORS AND PRESENTATION OF BUSINESS AT STOCKHOLDER MEETINGS

1. Nominations of persons for election to the Board of Directors of the Company and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (i) pursuant to the Company's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Company who was a stockholder of record at the time of giving of notice provided for in this Article I-A, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Article I-A.

2. For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of Section 1 of this Article I-A, the stockholder must have given timely notice thereof in writing to the Secretary of the

Company. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Company not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; (iii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (a)

the name and address of such stockholder, as they appear on the Company's books, and of such beneficial owner and (b) the class and number of shares of the Company which are owned beneficially and of record by such stockholder and such beneficial owner.

Notwithstanding anything in the second sentence of this

Section 2 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Company is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Company at least 70 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Company not later than the close of business on the 10th day following the day on which such public announcement is first made by the Company.

3. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Company's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Company's notice of meeting (A) by or at the direction of

the Board of Directors or (B) provided that the Board of Directors has determined that directors shall be elected at such special meeting, by any stockholder of the Company who is a stockholder of record at the time of giving of notice provided for in this Article I-A, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Article I-A. In the event the Company calls a special meeting of stockholders for the purpose of electing one or more directors to the Board, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Company's notice of meeting, if the stockholder's notice required by Section 2 of this Article I-A shall be delivered to the Secretary at the principal executive offices of the Company not earlier than the 90th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

4. Only such persons who are nominated in accordance with the procedures set forth in this Article I-A shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Article I-A. The Chairman of the meeting of stockholders shall have the power and duty to determine whether a nomination or any business proposed to be brought before the

meeting was made in accordance with the procedures set forth in this Article I-A and, if any proposed nomination or business is not in compliance with this Article I-A, to declare that such defective nominations or proposal shall be disregarded.

5. For purposes of this Article I-A, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Company with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

6. Notwithstanding the foregoing provisions of this Article I-A, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Article I-A. Nothing in this Article I-A shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Company's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

ARTICLE II

BOARD OF DIRECTORS

1. The business and affairs of the corporation shall be managed under the direction of the Board of Directors. Unless and until changed as provided in this Section 1 of this Article II, the number of directors constituting the Board of Directors shall be fourteen (14). The Board of Directors shall have power from time to time and at any time, by vote of a majority of the total number of directors which the corporation would have if there were no vacancies on the Board, to increase or reduce the number of directors constituting the Board of Directors to such number (subject to any limits contained in the certificate of incorporation) as the Board of Directors shall determine, but in no event to less than twelve (12) or more than twenty-five (25). Subject to the express terms and conditions of the certificate of incorporation and these By-Laws, the directors shall have the usual and customary powers and duties of directors of a corporation; also any and all powers given and permitted by law; and also power to exercise any and all powers of the corporation, and to do any and all acts without any prior action taken or consent given by the stockholders, unless required by law, or the certificate of incorporation, or by these By-Laws; the directors may exercise all powers, and do all acts and things which are not, by statute or by the certificate of incorporation or these By-Laws, expressly directed or required to be exercised or done by the stockholders.

2. Without prejudice to the general powers conferred by the last preceding section, and the other powers conferred by the certificate of incorporation and by these By-Laws, it is hereby expressly declared that the Board of Directors shall have the following powers, that is to say:

FIRST: From time to time to make and change rules and regulations, not inconsistent with these By-Laws, for the management of the Company's business and affairs.

SECOND: To purchase or otherwise acquire for the Company and property, rights or privileges which the Company is authorized to acquire, at such price and on such terms and conditions, and for such consideration, as they shall, from time to time, see fit.

THIRD: At their discretion to pay for any property or rights acquired by the Company, either wholly or partly, in money or in stocks, bonds, debentures or other securities of the Company.

FOURTH: To appoint and at their discretion remove or suspend such subordinate officers, agents or servants, permanently or temporarily, as they may, from time to time, think fit, and to determine their duties, and fix, and, from time to time, change their salaries or emoluments, and to require security in such instance and in such amounts as they think fit.

FIFTH: To confer by resolution upon any elected or appointed officer of the Company the power to choose, remove or suspend subordinate officers, agents or servants.

SIXTH: To appoint any person or persons to accept and hold in trust for the Company any property belonging to the Company, or in which it is interested, or for any other purpose, and to execute and do all such duties and things as may be requisite in relation to any such trust.

SEVENTH: To determine who shall be authorized on the Company's behalf, to sign bills, notes, receipts, acceptances, endorsements, checks, releases, contracts and documents.

EIGHTH: From time to time to provide for the management of the affairs of the Company, at home or abroad, in such manner as they see fit, and in particular, from time to time, to delegate any of the powers of the Board of Directors in the course of the current business of the Company, to any special or standing committee or to any officer or agent, and to appoint any persons to be the agents of the Company, with such powers (including the power to sub-delegate), and upon such terms, as may be thought fit.

NINTH: To appoint an Executive Committee of three or more directors and such other persons as may be added thereto by specific resolution of the Board, who may meet at stated times, or on notice to all by any of their own number; who shall generally perform such duties and exercise such powers as may be directed or delegated by the Board of Directors from time to time. The Board may delegate to such Committee authority to exercise the powers of the Board while the Board is not in session, except as otherwise provided by law. The Executive Committee shall keep regular minutes of its proceedings and report the same to the Board when required.

3. Each director shall serve for the term for which he shall be elected and until his successor shall be chosen and shall accept his election, but any director may resign at any time.
4. The directors may hold their meetings and may have an office and keep the books of the Company at such place or places as the Board from time to time may determine.
5. A regular meeting of the Board of Directors shall be held each year, either immediately following adjournment of the Annual Meeting of Stockholders or at such other time as may be fixed by the Chairman of the Board or the President but on a

date no later than 60 days following the adjournment of the Annual Meeting of Stockholders, for the purpose of electing officers, members of the Executive Committee, members of the other committees of the Board, and to organize the Board for the ensuing year. Regular meetings of the Board of Directors shall also be held monthly at such time and place as may be fixed by the Chairman of the Board, or the President. Notice shall be given to each director of the date of each regular meeting by the Secretary in the same manner as provided in Article II, Section 7, of these By-Laws for notice of special meetings of directors.

6. Special meetings of the Board shall be held whenever called by the Chairman, or by the President, or by the Secretary upon receiving the written request of a majority of the directors of the Board then in office. If so specified in the notice thereof, any and all business may be transacted by a special meeting.

7. The Secretary shall give notice to each director of each special meeting by mailing the same, at least two days before the meeting, or by telegraphing or telephoning not later than the day before the meeting. If every director shall be present at any meeting any business may be transacted without previous notice.

8. A majority of the entire Board of Directors shall constitute a quorum for the transaction of business, except where otherwise provided by statute or by the

certificate of incorporation or by these By-Laws, and a majority of those present at the time and place of any regular or special meeting may adjourn the same from time to time without notice.

9. Any one or more members of the Board may participate in a meeting of the Board by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

ARTICLE III

COMMITTEES

1. The Board may appoint such committees, as it may deem advisable. Committees so appointed shall have such powers and duties as may be specified in the resolution of appointment.

2. Each committee shall keep regular minutes of its proceedings and report the same to the Board when required.

3. Any one or more members of any such committee may participate in a meeting of such committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear

each other at the same time. Participation by such means shall constitute presence in person at a meeting.

4. Any action required or permitted to be taken at any meeting of any committee may be taken without a meeting, if all members of the committee consent in writing to the adoption of a resolution authorizing the action and if the resolution and the written consent thereto are filed with the proceedings of the committee.

ARTICLE IV

OFFICERS

1. The elective officers of the Corporation other than directors shall be a Chairman of the Board of Directors, a President, one or more Vice-Presidents, a Secretary and a Treasurer. Any two of the aforesaid offices may be filled by the same person. For purposes of these By-Laws the office of Vice-President also may include one or more Executive Vice-Presidents and one or more Senior Vice-Presidents. The term of office of each of said officers shall continue until the next annual election of directors and the selection of his successor by the Board of Directors. Any officer may, at any time, with or without cause, be suspended or removed from office by the affirmative vote of a majority of the entire Board at a meeting thereof. The Chairman of the Board and the President shall be chosen from among the directors.

2. The Chairman of the Board when present shall preside at all meetings of the Board of Directors and at all meetings of the stockholders. He shall perform all duties incident to the office of the Chairman of the Board. The Chairman also shall be the Chief Executive Officer of the Corporation and shall be responsible for the general and active supervision and direction of the business, policies and activities of the Corporation, subject to the control of the Board of Directors. He may execute on behalf of the Corporation all authorized deeds, bonds, mortgages, contracts, documents and papers and may affix thereto the corporate seal when required. He shall have power to sign debentures and certificates of stock of the Corporation.

3. The President shall be the Chief Operating Officer of the Corporation and shall have general responsibility for directing, administering and coordinating the operational phases of the Corporation's business, subject to the control of the Chairman and Chief Executive Officer. He shall have such duties as the Board may from time to time determine or as may be prescribed by these By-Laws. He shall be responsible for seeing that the orders and resolutions of the Board are carried into effect. He may execute on behalf of the Corporation all authorized deeds, bonds, mortgages, contracts, documents and papers and may affix thereto the corporate seal when required. He shall have power to sign debentures and certificates of stock of the Corporation.

If the office of the Chairman of the Board shall be vacant, or if the person holding that office shall be absent, the President shall preside at meetings of stockholders and of the Board of Directors.

4. In the absence or inability to act of both the Chairman and the President, the Board may designate any senior corporate officer to perform the duties of temporary Chairman which shall include presiding at meetings of stockholders and of the Board of Directors.

5. The Board may elect or appoint one or more Vice-Presidents. Each Vice-President shall have such powers and shall perform such duties as may be assigned to him by the Board or by the President. In case of the absence or disability of the President the duties of that office shall be performed by whomever the Board shall determine by resolution.

6. The Secretary shall be sworn to the faithful discharge of his duties; he shall attend all meetings of the directors and stockholders, and shall record all the proceedings of such meetings in a book to be kept for that purpose, and shall perform like duties for standing committees when required. He shall have charge of the giving of notice of meetings of stockholders and directors, and perform all the duties assigned to him by the Board of Directors, or usual for the Secretary of a Corporation

to perform. He, or the Treasurer shall, with the Chairman or President sign all debentures and stock certificates of the Company.

7. The Treasurer shall keep or cause to be kept full and true books of account and records of all receipts and disbursements, property, assets and liabilities of the Corporation, in books belonging to the Company, and shall deposit all moneys, securities, and valuables of the Corporation in the name of and to the credit of the Corporation, in such depositories as shall be designated by the Board of Directors. He shall disburse funds of the Company as ordered by the Board, taking proper vouchers therefor and shall render to the President and the Board of Directors, at regular meetings or whenever required, an account of all financial transactions of the Company. He shall also have power to sign debentures and certificates of stock of the Company, checks, notes, bills of exchange or other negotiable instruments for and in the name of the Company. He shall perform all other duties incident to the position of Treasurer, subject to the control of the Board.

8. The Board of Directors shall have power to appoint one or more Assistant Treasurers, Assistant Secretaries, Controller or Assistant Controllers who shall have such powers and perform such duties as may be designated by the Board.

9. The amount of salaries, wages, or other compensation to be paid to the officers, employees and agents of the Company shall be determined from time to time by the Board or by an Executive Officer or Committee to whom this work shall be delegated. No officer shall be incapacitated to receive a regular salary or fixed compensation by reason of being a director of the Corporation.

ARTICLE IV-A

1. Bank Accounts, Deposits, Checks, Drafts and Orders Issued in the Company's Name. Any two of the following officers: the Chairman, President, any Vice-President, and the Treasurer, Secretary or Controller may from time to time (1) open and keep in the name and on behalf of the Company, with such banks, trust companies or other depositories as they may designate, general and special bank accounts for the funds of the Company, and (2) terminate any such bank accounts. Any such action by two of the officers as specified above shall be made by an instrument in writing signed by such two officers and filed with the Secretary. A copy of such instrument, certified by the Secretary or an Assistant Secretary, shall be evidence to all concerned that the designations or terminations therein contained are duly authorized on behalf of the Company at the time of the certification. All funds and securities of the Company shall be deposited in such banks, trust companies or other depositories as are designated by the Board of Directors or

by the aforesaid officers in the manner hereinabove provided, and for the purpose of such deposits, the Chairman, President, any Vice-President, the Secretary, the Controller, the Treasurer or an Assistant Treasurer, and each of them, or any other person or persons authorized by the Board of Directors, may endorse, assign and deliver checks, notes, drafts, and other orders for the payment of money which are payable to the Company.

All checks, drafts, or orders for the payment of money, drawn in the name of the Company, may be signed by the Chairman, President, any Vice-President, the Secretary, the Treasurer or any Assistant Treasurer, or by any other officer or any employee of the Company who shall from time to time be designated to sign checks, drafts, or orders on all accounts or on any specific account of the Company by an "instrument of designation" signed by any two of the following officers: The Chairman, President, any Vice-President, and the Treasurer, and filed with the Secretary. The Secretary or any Assistant Secretary shall make certified copies of such instruments of designation and such certified copies shall be evidence to all concerned of the authority of the persons designated therein at the time of the certification. An instrument of designation may provide for (1) the facsimile signature of any person authorized to sign by such instrument or by this Section, or (2) the revocation of authority of any person (other than an officer named in this Section) to sign checks, drafts or orders drawn in the name of the Company.

ARTICLE IV-B

INDEMNIFICATION

1. Any person made or threatened to be made a party to any action or proceeding, whether civil or criminal, by reason of the fact that such person or such person's testator or intestate is or was a director, officer or employee of the Corporation or serves or served any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise in any capacity at the request of the Corporation shall be indemnified by the Corporation, and the Corporation may advance such person's related expenses, to the full extent permitted by law. For purposes of this section, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees, so that any person who is or was a director, officer or employee of such constituent corporation, or is or was serving at the request of such constituent corporation any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise in any capacity at the request of the Corporation, shall stand in the same position under the provisions of this section with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

ARTICLE V

CAPITAL STOCK

1. The instruments of debentures, certificate of shares of the preferred, preference and common capital stock of the Company shall be in such form as shall be approved by the Board of Directors. The certificates shall be signed by the Chairman of the Board or the President and also by the Secretary or the Treasurer. The seal of the Corporation shall be affixed to all certificates. The signatures of the officers upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Corporation itself or its employee.
2. All certificates shall be consecutively numbered, and the names of the owners, the number of shares and the date of issue, shall be entered in the Company's books.
3. The Company or its duly authorized stock transfer agent shall keep a book to be known as the stock book, containing the names, alphabetically arranged, of all persons who are stockholders of the Corporation, showing their places of residence, the number of shares of preferred, preference and common stock held by each respectively, and the time when each became the owner thereof, also entries showing from and to whom such shares shall be transferred, and the number and

denomination of all revenue stamps used to evidence the payment of the stock transfer tax as required by the laws of the State of New York, which books shall be open daily, during usual business hours, for inspection by any person who shall have been a stockholder of record in such Corporation for a least six months immediately preceding his demand; or by any person holding or thereunto in writing authorized by the holders of at least five per centum of any class of its outstanding shares, upon at least five days written demand. Persons so entitled to inspect stock books may make extracts therefrom.

4. Shares shall be transferred only on the books of the Corporation by the holder thereof in person or by his attorney upon the surrender and cancellation of certificates for a like number of shares, and upon tender of stock transfer stamps or the equivalent in money sufficient to satisfy all legal requirements.

5. The Board may make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates of stock of the Company.

6. Certificates for shares of stock or for debentures in the Corporation may be issued in lieu of certificates alleged to have been lost, stolen, destroyed, mutilated, or abandoned, upon the receipt of (1) such evidence of loss, theft, destruction or

mutilation and a bond of indemnity in such amount, upon such terms and with such surety, if any, as the Board of Directors may require in each specific case, or (2) a request by an appropriate governmental agency or representative for the reissuance of a stock certificate claimed to be abandoned or escheated in accordance with the abandoned property or similar law of the state, or (3) in accordance with general resolutions.

ARTICLE VI

SEAL

1. The Board shall provide a suitable seal, containing the name of the Corporation, the year of its creation, and the words "Corporate Seal, N.Y." or other appropriate words, which seal shall be in charge of the Secretary, to be used as directed by the Board.

ARTICLE VII

FISCAL YEAR

1. The fiscal year of the Corporation shall begin the first business day in January.

ARTICLE VIII

NOTICE AND WAIVER OF NOTICE

1. Any notice required to be given by these By-Laws may be given by mailing the same addressed to the person entitled thereto at his address as shown on the Company's books, and such notice shall be deemed to be given at the time of such mailing.
2. Any stockholder, director or officer may waive any notice required to be given by these By-Laws.

ARTICLE IX

AMENDMENTS

1. Subject to the terms and conditions of the certificate of incorporation, the Board of Directors shall have power to make, amend, and repeal the By-Laws of the corporation, by a vote of the majority of all the directors present at any regular or special meeting of the Board, provided a quorum is in attendance and provided further that notice of intention to make, amend or repeal the By-Laws in whole or in part at such meeting shall have been previously given to each member of the Board.

McGRAW-HILL, INC.

1987 Key Employee Stock Incentive Plan

1987 Key Employee Stock Incentive Plan

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1987 Key Employee Stock Incentive Plan

SECTION 1. PURPOSE; DEFINITIONS.

The purpose of this McGraw-Hill, Inc. 1987 Key Employee Stock Incentive Plan (the "Plan") is to enable McGraw-Hill, Inc. (the "Company") to offer key employees of the Company long term performance-based stock incentives and/or other equity interests in the Company, thereby attracting, retaining and rewarding such key employees, and strengthening the mutuality of interests between key employees and the Company's shareholders.

For purposes of the Plan, the following terms shall be defined as set forth below:

- a. "Board" means the Board of Directors of McGraw-Hill, Inc.
- b. "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.
- c. "Committee" means the Management Compensation Committee of the Board. If at any time no Committee shall be in office, then the functions of the Committee specified in the Plan shall be exercised by the Board or by a committee of Board members consisting of Disinterested Persons.
- d. "Company" means McGraw-Hill, Inc., a corporation organized under the laws of the State of New York, or any successor corporation, and includes all domestic and foreign corporations, partnerships and other legal entities in which at least 40% of the voting securities or ownership interests are owned directly or indirectly by McGraw-Hill, Inc.
- e. "Deferred Stock" means an award made pursuant to Section 8 below of the right to receive Stock at the end of a specified deferral period.
- f. "Disability" means disability as determined under procedures established by the Committee for purposes of this Plan.
- g. "Disinterested Person" shall have the meaning set forth in Rule 16b-3(d)(3) as promulgated by the Securities and Exchange Commission under the Securities Exchange Act of

1934, or any successor definition adopted by the Commission.

h. "Early Retirement" means retirement, with the approval of the Committee for purposes of one or more award(s) hereunder, from active employment with the Company prior to age 65, provided that the Committee may establish rules and procedures pursuant to which the Committee's approval shall be deemed to have been given.

i. "Fair Market Value" for purposes of this Plan, unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, shall mean, as of any given date, the mean between the highest and lowest prices at which the Stock is actually traded on such date as reflected in the New York Stock Exchange Composite Transactions, or, if there is no sale of the Stock on such date, the mean between the bid and asked prices on such Exchange at the close of the market on such date or, if there is no bid and asked activity on such date, such value as may be determined by the Committee in good faith.

j. "Incentive Stock Option" means any Stock Option intended to be and designated as an "Incentive Stock Option" within the meaning of Section 422A of the Code.

k. "Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

l. "Normal Retirement" means retirement from active employment with the Company on or after age 65.

m. "Other Stock-Based Award" means an award under Section 9 below that is valued in whole or in part by reference to, or is otherwise based on, Stock.

n. "Plan" means this McGraw-Hill, Inc. 1987 Key Employee Stock Incentive Plan, as hereinafter amended from time to time.

o. "Restricted Stock" means an award of shares of Stock that is subject to restrictions under Section 7 below.

p. "Retirement" means Normal or Early Retirement.

q. "Stock" means the Common Stock, \$1.00 par value per share, of the Company.

r. "Stock Appreciation Right" means the right pursuant to an award granted under Section 6 below to surrender to the Company all (or a portion) of a Stock Option in exchange for an amount equal to the difference between (i) the Fair Market Value, as of the date such Stock Option (or such portion thereof) is surrendered, of the shares of Stock covered by such Stock Option (or such portion thereof), and (ii) the aggregate exercise price of such Stock Option (or such portion thereof).

s. "Stock Option" or "Option" means any option to purchase shares of Stock (including Restricted Stock and Deferred Stock, if the Committee so determines) granted pursuant to Section 5 below.

t. "Cause" shall mean the employee's serious, willful misconduct in but not limited to, conviction for a felony or perpetration of a common law fraud).

In addition, the terms "Change in Control" and "Change in Control Price" shall have meanings set forth, respectively, in Sections 10(b) and (c) below.

Section 2. ADMINISTRATION.

The Plan shall be administered by the Committee.

The Committee shall have full authority to grant, pursuant to the terms of the Plan, to officers and other key employees eligible under Section 4: (i) Stock Options, (ii) Stock Appreciation Rights, (iii) Restricted Stock, (iv) Deferred Stock, and/or (v) Other Stock-Based Awards.

In particular, the Committee shall have the authority:

- (i) to select the officers and other key employees of the Company to whom Stock Options, Stock Appreciation Rights, Restricted Stock, Deferred Stock and/or Other Stock-Based Awards may from time to time be granted hereunder;
- (ii) to determine whether and to what extent Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock, Deferred Stock and/or Other Stock-Based Awards, or any combination thereof, are to be granted hereunder to one or more eligible employees;
- (iii) to determine the number of shares to be covered by each such award granted hereunder;
- (iv) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder (including, but not limited to, the share price, any restriction or limitation, or any vesting acceleration or forfeiture waiver regarding any Stock Option or other award and/or the shares of Stock relating thereto, based on such factors as the Committee shall determine, in its sole discretion);
- (v) to determine whether, to what extent and under what circumstances grants of Options and/or other awards under this Plan are to operate on a tandem basis and/or in conjunction with or apart from other cash awards made by the Company outside of this Plan;
- (vi) to determine whether and under what circumstances a Stock Option may be settled in cash, Deferred Stock, and/or Restricted Stock under Section 5(k); and
- (vii) to determine whether, to what extent and under what circumstances Stock and other amounts payable with respect to an award under this Plan shall be deferred either automatically or at the election of the participant.

Subject to Section 11 hereof, the Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable; to interpret the terms and provisions of the Plan and any award issued under the Plan (and any agreements relating thereto); and to otherwise supervise the administration of the Plan.

Subject to Section 11 hereof, all decisions made by the Committee pursuant to the provisions of the Plan shall be made in the Committee's sole discretion and shall be final and binding on all persons, including the Company and Plan participants.

SECTION 3. STOCK SUBJECT TO PLAN.

The total number of shares of Stock reserved and available for distribution under the Plan shall be 2,300,000 shares. Such shares may consist, in whole or in part, of authorized and unissued shares or treasury shares.

Subject to Section 6(b)(iv) below, if any shares of Stock that have been optioned cease to be subject to a Stock Option, or if any such shares of Stock that are subject to any Restricted Stock or Deferred Stock award or Other Stock-Based Award granted hereunder are forfeited or any such award otherwise terminates without a payment being made to the participant in the form of Stock, such shares shall again be available for distribution in connection with future grants and awards under the Plan.

In the event of any merger, reorganization, consolidation, recapitalization, dividend (other than a dividend or its equivalent which is credited to a Plan participant or a regular cash dividend), Stock split, or other change in corporate structure affecting the Stock, such substitution or adjustment shall be made in the aggregate number of shares reserved for issuance under the Plan, in the number and option price of shares subject to outstanding Options granted under the Plan, and in the number of shares subject to other outstanding awards (including but not limited to awards of Restricted Stock, Deferred Stock and Other Stock-Based Awards) granted under the Plan as may be determined to be appropriate by the Committee, in its sole discretion, provided that the number of shares subject to any award shall always be a whole number. Such adjusted option price shall also be used to determine the amount payable by the Company upon the exercise of any Stock Appreciation Right associated with any Stock Option.

No optionee will be granted Stock Options or Stock Appreciation Rights under both the Plan and the Company's 1993 Key Employee Stock Incentive plan to receive more than 230,000 shares of Stock in the aggregate over the term of the Plan and the term of the 1993 Key Employee Stock Incentive Plan. With respect to the Plan, however, the aforesaid limitation shall apply only to Options or Rights not heretofore issued and therefore still available for issuance. The foregoing limitation set forth in this paragraph is intended to satisfy certain requirements applicable to Stock Options and Stock Appreciation Rights to qualify as performance-based compensation within the meaning of Section 162(k) of the Code. In the event that Code regulations are issued which eliminate the requirement for such limitation to qualify Stock Options and Stock Appreciation Rights as performance-based compensation, then this paragraph of Section 3 shall no longer be operative.

SECTION 4. ELIGIBILITY.

Officers and other key employees of the Company (but excluding members of the Committee and any person who serves only as a director) who are responsible for or contribute to the management, growth and/or profitability of the business of the Company are eligible to be granted options and awards under the Plan. Eligibility under the Plan shall be determined by the Committee.

SECTION 5. STOCK OPTIONS.

Stock Options may be granted alone or in addition to other awards granted under the Plan. Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be of two types: (i) Incentive Stock Options and (ii) Non-Qualified Stock Options.

The Committee shall have the authority to grant to any optionee Incentive Stock Options, Non-Qualified Stock Options, or both types of Stock Options (in each case with or without Stock Appreciation Rights). To the extent that any Stock Option does not qualify as an Incentive Stock Option, it shall constitute a separate Non-Qualified Stock Option.

Anything in the Plan to the contrary notwithstanding, no term of this Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify the Plan under Section 422A of the Code, or, without the consent of the optionee(s) affected, to disqualify any Incentive Stock Option under such Section 422A.

Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(a) **OPTION PRICE.** The option price per share of Stock purchasable under a Stock Option shall be determined by the Committee at the time of grant but shall be not less than 100% of the Fair Market Value of the Stock at grant.

(b) **OPTION TERM.** The term of each Stock Option shall be fixed by the Committee, but no Incentive Stock Option shall be exercisable more than ten years after the date the Option is granted, and no Non-Qualified Stock Option shall be exercisable more than ten years and one day after the date the Option is granted.

(c) **EXERCISABILITY.** Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at or after grant provided, however, that, except as provided in Sections 5(f) and (g) and Section 10, unless otherwise determined by the Committee at or after grant, no Stock Option shall be exercisable prior to the first anniversary date of the granting of the Option. If the Committee provides, in its discretion, that any Stock Option is exercisable only in installments, the Committee may waive such installment exercise provisions at any time at or after grant in whole or in part,

based on such factors as the Committee shall determine, in its sole discretion.

(d) **METHOD OF EXERCISE.** Subject to whatever installment exercise and waiting period provisions apply under Section 5(c), Stock Options may be exercised in whole or in part at any time during the option period, by giving written notice of exercise to the Company specifying the number of shares to be purchased.

Such notice shall be accompanied by payment in full of the purchase price in such form as the Committee may accept. If and to the extent determined by the Committee in its sole discretion at or after grant, payment in full or in part may also be made in the form of unrestricted Stock duly owned by the optionee (and for which the optionee has good title free and clear of any liens and encumbrances) based, in each case, on the Fair Market Value of the Stock on the last trading date preceding payment, as determined by the Committee.

No shares of Stock shall be issued until payment, as provided herein, therefore has been made. An optionee shall generally have the rights to dividends or other rights of a shareholder with respect to shares subject to the Option when the optionee has given written notice of exercise, has paid for such shares as provided herein, and, if requested, has given the representation described in Section 13(a).

(e) **NON-TRANSFERABILITY OF OPTIONS.** No Stock Option shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution, and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee.

(f) **TERMINATION BY DEATH.** Subject to Section 5(j), if an optionee's employment by the Company terminates by reason of death, any Stock Option held by such optionee, unless otherwise determined by the Committee at grant, shall be fully vested and may thereafter be exercised by the legal representative of the estate or by the legatee of the optionee under the will of the optionee, for a period of one year (or such other period as the Committee may specify at grant) from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter.

(g) **TERMINATION BY REASON OF DISABILITY.** Subject to Section 5(j), if an optionee's employment by the Company terminates by reason of Disability, any Stock Option held by such optionee, unless otherwise determined by the Committee at grant, shall be fully vested and may thereafter be exercised by the optionee for a period of three years (or such other period as the Committee may specify at grant) from the date of such termination of employment or until the expiration of the stated term of such Stock Option, whichever period is the shorter; provided, however, that, if the optionee dies

within such three-year period (or such other period as the Committee shall specify at grant), any unexercised Stock Option held by such optionee shall thereafter be exercisable to the extent to which it was exercisable at the time of death for a period of twelve months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter. In the event of termination of employment by reason of Disability, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422A of the Code, such Stock Option will thereafter be treated as a Non-Qualified Stock Option.

(h) **TERMINATION BY REASON OF RETIREMENT.** Subject to Section 5(j), if an optionee's employment by the Company terminates by reason of Normal Retirement, any Stock Option held by such optionee, unless otherwise determined by the Committee at grant, shall be fully vested and may thereafter be exercised by the optionee for a period of three years (or such other period as the Committee may specify at grant) from the date of such termination of employment or the expiration of the stated term of such Stock Option, whichever period is the shorter; provided, however, that, if the optionee dies within such three-year period, any unexercised Stock Option held by such optionee shall thereafter be exercisable, to the extent to which it was exercisable at the time of death, for a period of twelve months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter. Unless the Committee otherwise determines at the time of grant, if an optionee's employment with the Company terminates by reason of Early Retirement, any Stock Option held by such optionee may thereafter be exercised by the optionee to the extent it was exercisable at the date of retirement for a period of thirty-six (36) months (or such other period as the Committee may specify at grant) from the date of such termination of employment or the expiration of the stated term of such Stock Option, whichever period is shorter; provided, however, if the optionee dies within such thirty-six (36) month period, any unexercised Stock Option held by such optionee shall thereafter be exercisable, to the extent to which it was exercisable at the time of death, for a period of twelve months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is shorter. If and only if the Committee so approves at the time of Early Retirement, if an optionee's employment with the Company terminates by reason of Early Retirement, any Stock Option held by the optionee shall be fully vested and may thereafter be exercised by the optionee as provided above in connection with termination of employment by reason of Normal Retirement. In the event of termination of employment by reason of Retirement, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422A of the Code, the option will thereafter be treated as a Non-Qualified Stock Option.

(i) OTHER TERMINATION. Unless otherwise determined by the Committee at the time of grant, if an optionee's employment terminates for any reason other than Death, Disability, Retirement or for Cause, any Stock Option held by such optionee, unless otherwise determined by the Committee at grant, may thereafter be exercised by the optionee to the extent it was exercisable at the date of termination for a period of six months (or such other period as the Committee may specify at grant) from the date of such termination of employment or until the expiration of the stated term of such Stock Option, whichever period is the shorter; provided, however, if the optionee dies within such six-month period (or such other period as the Committee shall specify at grant), any unexercised Stock Option held by such optionee shall thereafter be exercisable to the extent that it was exercisable at the date of termination for a period of twelve months from the time of such death, or until the expiration of the stated term of such Stock Option, whichever period is the shorter. If an optionee's employment with the Company is involuntarily terminated by the Company for Cause, the Stock Option shall thereupon terminate and shall not be exercisable thereafter.

(j) INCENTIVE STOCK OPTION LIMITATIONS. To the extent required for "incentive stock option" status under Section 422A(b)(7) of the Code, this Plan shall be deemed to provide that the aggregate Fair Market Value (determined as of the time of grant) of the Stock with respect to which Incentive Stock Options granted after 1986 are exercisable for the first time by the optionee during any calendar year under the Plan and/or any other stock option plan of the Company or any subsidiary or parent corporation (within the meaning of Section 425 of the Code) after 1986 shall not exceed \$100,000. If

Section 422A is hereafter amended to delete the requirement now in Section 422A(b)(7) that the plan text expressly provide for the \$100,000 limitation set forth in Section 422A(b)(7), then this first paragraph of Section 5(j) shall no longer be operative.

To the extent (if any) permitted under

Section 422A of the Code, or the applicable regulations thereunder or any applicable Internal Revenue Service pronouncement, if (i) a participant's employment with the Company is terminated by reason of death, Disability or Retirement and (ii) the portion of any Incentive Stock Option that is otherwise exercisable during the post-termination period specified under Section 5(f),

(g) or (h), applied without regard to the \$100,000 limitation currently contained in Section 422A(b)(7) of the Code, is greater than the portion of such option that is immediately exercisable as an "incentive stock option" during such post-termination period under Section 422A, such excess shall be treated as a Non-Qualified Stock Option. If the exercise of an Incentive Stock Option is accelerated by reason of a Change In Control, any portion of such option that is not exercisable as an Incentive Stock Option by reason of the \$100,000 limitation contained in Section 422A(b)(7) of the Code shall be treated as a Non-Qualified Stock Option.

(k) BUYOUT AND SETTLEMENT PROVISIONS. The Committee may at any time offer to buy out an option previously granted, based on such terms and conditions as the Committee shall establish and communicate to the optionee at the time that such offer is made.

In addition, if the option agreement so provides at grant or is amended after grant and prior to exercise to so provide (with the optionee's consent), the Committee may require that all or part of the shares to be issued with respect to the spread value of an exercised Option take the form of Deferred or Restricted Stock, which shall be valued on the date of exercise on the basis of the Fair Market Value of such Deferred or Restricted Stock determined without regard to the deferral limitations and/or forfeiture restrictions involved.

SECTION 6. STOCK APPRECIATION RIGHTS.

(a) GRANT AND EXERCISE. Stock Appreciation Rights may be granted in conjunction with all or part of any Stock Option granted under the Plan. In the case of a Non-Qualified Stock Option, such rights may be granted either at or after the time of the grant of such Stock Option. In the case of an Incentive Stock Option, such rights may be granted only at the time of the grant of such Stock Option.

A Stock Appreciation Right or applicable portion thereof granted with respect to a given Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Option, except that, unless otherwise determined by the Committee, in its sole discretion, at the time of grant, a Stock Appreciation Right granted with respect to less than the full number of shares covered by a related Stock Option shall not be reduced until the number of shares covered by an exercise or termination of the related Stock Option exceeds the number of shares not covered by the Stock Appreciation Right.

A Stock Appreciation Right may be exercised by an optionee, in accordance with Section 6(b), by surrendering the applicable portion of the related Stock Option. Upon such exercise and surrender, the optionee shall be entitled to receive an amount determined in the manner prescribed in Section 6(b). Stock Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent the related Stock Appreciation Rights have been exercised.

(b) TERMS AND CONDITIONS. Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

(i) Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 5 and this Section 6 of the Plan; provided, however, that any Stock Appreciation Right granted subsequent to the grant of the related Stock Option shall not be exercisable during the first six months of its term, except that this special limitation shall not apply in the event of death or Disability of the optionee prior to the expiration of the six-month period.

(ii) Upon the exercise of a Stock Appreciation Right, an optionee shall be entitled to receive up to, but not more than, an amount in cash and/or shares of Stock equal in value to the excess of the Fair Market Value of one share of Stock over the option price per share specified in the related Stock Option multiplied by the number of shares in respect of which the Stock Appreciation Right shall have been exercised, with the Committee having the right to determine the form of payment, subject however to Section 6(b)(v) below.

(iii) Stock Appreciation Rights shall be transferable only when and to the extent that the underlying Stock Option would be transferable under Section 5(e) of the Plan.

(iv) Upon the exercise of a Stock Appreciation Right, the Stock Option or part thereof to which such Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Section 3 of the Plan on the number of shares of Stock to be issued under the Plan, but only to the extent of the number of shares issued under the Stock Appreciation Right at the time of exercise based on the value of the Stock Appreciation Right at such time.

(v) In its sole discretion, the Committee may grant "Limited Stock Appreciation Rights" i.e., Stock Appreciation Rights that become exercisable only in the event of a Change in Control, subject to such terms and conditions as the Committee may specify at grant. Said Limited Stock Appreciation Rights shall be settled solely in cash.

SECTION 7. RESTRICTED STOCK.

(a) **ADMINISTRATION.** Shares of Restricted Stock may be issued either alone or in addition to other awards granted under the Plan. The Committee shall determine the eligible persons to whom, and the time or times at which, grants of Restricted Stock will be made, the number of shares to be awarded, the price (if any) to be paid by the recipient (subject to Section 7(b)), the time or times within which such awards may be subject to forfeiture, the vesting schedule and rights to acceleration thereof, and all other terms and conditions of the awards.

The Committee may condition the grant of Restricted Stock upon the attainment of specified performance goals or such other factors as the Committee may determine, in its sole discretion.

The provisions of Restricted Stock awards need not be the same with respect to each recipient, and such awards to individual recipients need not be the same in subsequent years.

(b) **AWARDS AND CERTIFICATES.** The prospective recipient of a Restricted Stock award shall not have any rights with respect to such award, unless and until such recipient has executed an agreement evidencing the award and has delivered a fully executed copy thereof to the Company, and has otherwise complied with the applicable terms and conditions of such award. Further, such award shall be subject to the following conditions:

(i) The purchase price for shares of Restricted Stock shall be equal to or less than their par value and may be zero.

(ii) Awards of Restricted Stock must be accepted within a period of 60 days (or such shorter period as the Committee may specify at grant) after the award date, by executing a Restricted Stock Award Agreement and by paying whatever price (if any) is required under Section 7(b)(i).

(iii) Each participant receiving a Restricted Stock award shall be issued a stock certificate in respect of such shares of Restricted Stock. Such certificate shall be registered in the name of such participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such award, substantially in the following form:

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the McGraw-Hill, Inc. 1987 Key Employee Stock Incentive Plan and an Agreement entered into between the registered owner and McGraw-Hill, Inc. dated -----. Copies of such Plan and Agreement are on file in the offices of McGraw-Hill, Inc., 1221 Avenue of the Americas, New York, NY 10020."

(iv) The Committee shall require that the stock certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed, and that, as a condition of any Restricted Stock award, the participant shall have delivered a duly signed stock power, endorsed in blank, relating to the Stock covered by such award.

(c) RESTRICTIONS AND CONDITIONS. The shares of Restricted Stock awarded pursuant to this Section 7 shall be subject to the following restrictions and conditions:

(i) Subject to the provisions of this Plan and the award agreement, during a period set by the Committee commencing with the date of such award (the "Restriction Period"), the participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock awarded under the Plan. Within these limits, the Committee, in its sole discretion, may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part, based on service, performance and/or such other factors or criteria as the Committee may determine, in its sole discretion.

(ii) Except as provided in this paragraph (ii) and Section 7(c)(i), the participant shall have, with respect to the shares of Restricted Stock, all of the rights of a shareholder of the Company, including the right to vote the shares, and the right to receive any dividends. The Committee, in its sole discretion, as determined at the time of award, may permit or require the payment of dividends to be deferred and, if the Committee so permits or determines, reinvested, subject to Section 13(e), in additional Restricted Stock to the extent shares are available under Section 3, or otherwise reinvested.

(iii) Subject to the applicable provisions of the award agreement and this Section 7, upon termination of a participant's employment with the Company for any reason during the Restriction Period, all shares still subject to restriction will vest or be forfeited in accordance with the terms and conditions established by the Committee at or after grant.

(iv) In the event of hardship or other special circumstances of a participant whose employment with the Company is involuntarily terminated (other than for Cause), the Committee may, in its sole discretion, waive in whole or in part any or all remaining restrictions with respect to such participant's shares of Restricted Stock based on such factors as the Committee may deem appropriate.

(v) If and when the Restriction Period expires without a prior forfeiture of the Restricted Stock subject to such Restriction Period, the certificates for such shares shall be delivered to the participant. All legends shall be removed from said certificates at the time of delivery to the participant.

SECTION 8. DEFERRED STOCK.

(a) **ADMINISTRATION.** Deferred Stock may be awarded either alone or in addition to other awards granted under the Plan. The Committee shall determine the eligible persons to whom and the time or times at which Deferred Stock shall be awarded, the number of shares of Deferred Stock to be awarded to any person, the duration of the period (the "Deferral Period") during which, and the conditions under which, receipt of the Stock will be deferred, and the other terms and conditions of the award in addition to those set forth in Section 8(b).

The Committee may condition the grant of Deferred Stock upon the attainment of specified performance goals or such other factors or criteria as the Committee shall determine, in its sole discretion.

The provisions of Deferred Stock awards need not be the same with respect to each recipient.

(b) **TERMS AND CONDITIONS.** The shares of Deferred Stock awarded pursuant to this Section 8 shall be subject to the following terms and conditions:

(i) Subject to the provisions of this Plan and the award agreement referred to in Section 8(b)(vii) below, Deferred Stock awards may not be sold, assigned, transferred, pledged or otherwise encumbered during the Deferral Period. At the expiration of the Deferral Period (or the Elective Deferral Period referred to in Section 8(b)(vi), where applicable), share certificates shall be delivered to the participant, or his legal representative, in a number equal to the shares covered by the Deferred Stock award.

(ii) Unless otherwise determined by the Committee at the time of award, amounts equal to any dividends declared during the Deferral Period with respect to the number of shares covered by a Deferred Stock award will be paid to the participant currently, or deferred and deemed to be reinvested in additional Deferred Stock, or otherwise reinvested, all as determined at the time of the award by the Committee, in its sole discretion.

(iii) Subject to the provisions of the award agreement and this Section 8, upon termination of a participant's employment with the Company for any reason during the Deferral Period for a given award, the Deferred Stock in question will vest or be forfeited in accordance with the terms and conditions established by the Committee at or after grant.

(iv) Based on service, performance and/or such other factors or criteria as the Committee may determine, the Committee may, at or after grant, accelerate the vesting of all or any part of any Deferred Stock award and/or waive the deferral limitations for all or any part of such award.

(v) In the event of hardship or other special circumstances of a participant whose employment with the Company is involuntarily terminated (other than for Cause), the Committee may, in its sole discretion, based on such factors as the Committee may deem appropriate, waive in whole or in part any or all of the remaining deferral limitations imposed hereunder with respect to any or all of the participant's Deferred Stock, based on such factors as the Committee deems appropriate.

(vi) A participant may elect to further defer receipt of an award (or an installment of an award) for a specified period or until a specified event (the "Elective Deferral Period"), subject in each case to the Committee's approval and to such terms as are determined by the Committee, all in its sole discretion. Subject to any exceptions adopted by the Committee, such election must generally be made at least one full calendar year prior to completion of the Deferral Period for such Deferred Stock award (or such installment).

(vii) Each award shall be confirmed by, and subject to the terms of, a Deferred Stock agreement executed by the Company and the participant.

SECTION 9. OTHER STOCK-BASED AWARDS.

(a) ADMINISTRATION. Other awards of Stock and other awards that are valued in whole or in part by reference to, or are otherwise based on, Stock ("Other Stock-Based Awards"), including, without limitation, performance shares, and shares valued by reference to subsidiary performance, may be granted either alone or in addition to or in tandem with Stock Options, Stock Appreciation Rights, Restricted Stock or Deferred Stock.

Subject to the provisions of the Plan, the Committee shall have authority to determine the persons to whom and the time or times at which such awards shall be made, the number of shares of Stock to be awarded pursuant to such awards, and all other conditions of the awards. The Committee may also provide for the grant of Stock under such awards upon the completion of a specified performance period.

The provisions of Other Stock-Based Awards need not be the same with respect to each recipient.

(b) Terms and Conditions. Other Stock-Based Awards made pursuant to this Section 9 shall be subject to the following terms and conditions:

(i) Subject to the provisions of this Plan and the award agreement referred to in Section 9(b)(v) below, shares subject to awards made under this Section 9 may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which the shares are issued, or, if later, the date on which any applicable restriction, performance or deferral period lapses.

(ii) Unless otherwise determined by the Committee at the time of award, subject to the provisions of this Plan and the award agreement, the recipient of an award under this Section 9 shall be entitled to receive, currently or on a deferred basis, dividends or dividend equivalents with respect to the number of shares covered by the award, as determined at the time of the award by the Committee, in its sole discretion, and the Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional Stock or otherwise reinvested.

(iii) Any award under this Section 9 and any Stock covered by any such award shall vest or be forfeited to the extent so provided in the award agreement, as determined by the Committee, in its sole discretion.

(iv) In the event of the participant's Retirement, Disability or death, or in cases of special circumstances, the Committee may, in its sole discretion, waive in whole or in part any or all of the limitations imposed hereunder (if any) with respect to any or all of an award under this Section 9.

(v) Each award under this Section 9 shall be confirmed by, and subject to the terms of, an agreement or other instrument by the Company and by the participant.

(vi) Stock issued on a bonus basis under this Section 9 may be issued for no cash consideration; Stock purchased pursuant to a purchase right awarded under this Section 9 shall be priced at at least 50% of the Fair Market Value of the Stock on the date of grant.

SECTION 10. CHANGE IN CONTROL PROVISIONS.

(a) **IMPACT OF EVENT.** In the event of a "Change in Control" as defined in Section 10(b), the following acceleration and valuation provisions shall apply:

(i) Any Stock Appreciation Rights (including, without limitation, any Limited Stock Appreciation Rights) outstanding for at least 6 months and any Stock Options awarded under the Plan not previously exercisable and vested shall become fully exercisable and vested.

(ii) The restrictions and deferral limitations applicable to any Restricted Stock, Deferred Stock and Other Stock Based Awards, in each case to the extent not already vested under the Plan, shall lapse and such shares and awards shall be deemed fully vested.

(iii) All outstanding Stock Options, Stock Appreciation Rights, Restricted Stock, Deferred Stock and Other Stock Based Awards, shall be cashed out on the basis of the "Change in Control Price" as defined in Section 10(c) as of the date such Change in Control is determined to have occurred.

(b) **DEFINITION OF "CHANGE IN CONTROL".** For purposes of this Plan, the term "Change in Control" shall mean any of the following events:

(i) The acquisition (other than from the Company) by any person, entity or "group", within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act"), (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then outstanding shares of common stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors; or

(ii) Individuals who, as of the date hereof, constitute the Board (as of the date hereof the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a

majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the stockholders of the Company of a reorganization, merger, or consolidation, in each case, with respect to which persons who were the stockholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own, directly or indirectly, more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities, or a liquidation or dissolution of the Company or of the sales of all or substantially all of the assets of the Company.

(c) CHANGE IN CONTROL PRICE. For purposes of this Section 10, "Change in Control Price" means the highest price per share paid in any transaction reported on the New York Stock Exchange Composite Index, or paid or offered in any bona fide transaction related to a Change in Control of the Company at any time during the preceding sixty-day period as determined by the Committee except that, in the case of Incentive Stock Options and Stock Appreciation Rights relating to Incentive Stock Options, such price shall be based only on transactions reported for the date on which the optionee exercises such Stock Appreciation Rights (or, where applicable, the date on which a cashout occurs under Section 10(a)(iii)).

SECTION 11. AMENDMENTS AND TERMINATION.

The Board may amend, alter, or discontinue the Plan, but no amendment, alteration, or discontinuation shall be made which would impair the rights of an optionee or participant under a Stock Option, Stock Appreciation Right, Limited Stock Appreciation Right, Restricted or Deferred Stock award or Other Stock-Based Award theretofore granted, without the optionee's or participant's consent, or which, without the approval of the Company's shareholders, would:

- (a) except as expressly provided in this Plan, increase the total number of shares reserved for the purpose of the Plan;
- (b) decrease the option price of any Stock Option to less than 100% of the Fair Market Value on the date of grant; or
- (c) change the employees or class of employees eligible to participate in the Plan; or
- (d) extend the maximum option period under Section 5(b) of the Plan.

The Committee may amend the terms of any Stock Option or other award theretofore granted, prospectively or retroactively, but, subject to Section 3 above, no such amendment or other action by the Committee shall impair the rights of any holder without the holder's consent. The Committee may also substitute new Stock Options for previously granted Stock Options having higher option exercise prices.

Subject to the above provisions, the Board shall have broad authority to amend the Plan to take into account changes in applicable securities and tax laws and accounting rules, as well as other developments.

SECTION 12. UNFUNDED STATUS OF PLAN.

The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a participant or optionee by the Company, nothing contained herein shall give any such participant or optionee any rights that are greater than those of a general creditor of the Company.

SECTION 13. GENERAL PROVISIONS.

(a) The Committee may require each person purchasing shares pursuant to a Stock Option or other award under the Plan to represent to and agree with the Company in writing that the optionee or participant is acquiring the shares without a view to distribution thereof. The certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

All certificates for shares of Stock delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed, any applicable Federal or state securities law, and any applicable corporate law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(b) Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

(c) The adoption of the Plan shall not confer upon any employee of the Company any right to continued employment with the Company as the case may be, nor shall it interfere in any way with the right of the Company to terminate the employment of any of its employees at any time.

(d) No later than the date as of which an amount first becomes includible in the gross income of the participant for Federal income tax purposes with respect to any option or other award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of, any Federal, state, or local taxes of any kind required by law to be withheld or paid with respect to such amount. Unless otherwise determined by the Committee, tax withholding or payment obligations may be settled with Stock, including Stock that is part of the award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(e) The actual or deemed reinvestment of dividends or dividend equivalents in additional Restricted Stock (or in Deferred Stock or other types of Plan awards) at the time of any dividend payment shall only be permissible if sufficient shares of Stock are available under Section 3 for such reinvestment (taking into

account then outstanding Stock Options and other Plan awards).

(f) The Plan and all awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of New York.

(g) Any award payment under this Plan shall not be deemed compensation for purposes of computing benefits under any retirement plan of the Company and shall not affect any benefits under any other benefit plan now or subsequently in effect under which the availability or amount of benefits is related to the level of compensation.

SECTION 14. EFFECTIVE DATE OF PLAN.

The Plan shall be effective as of December 2, 1987, subject to the approval of the Plan by the holders of a majority of the shares of the Company's Stock at the next annual shareholders' meeting in 1988. Any grants made under the Plan prior to such approval shall be effective when made (unless otherwise specified by the Committee at the time of grant), but shall be conditioned on, and subject to, such approval of the Plan by shareholders.

SECTION 15. TERM OF PLAN.

No Stock Option, Stock Appreciation Right, Restricted Stock, Deferred Stock or Other Stock-Based Award shall be granted pursuant to the Plan on or after the tenth anniversary of the date of shareholder approval, but awards granted prior to such tenth anniversary may extend beyond that date.

Board Approval: December 2, 1987

As Amended: September 28, 1988

December 7, 1988

December 1, 1993

McGRAW-HILL, INC.
1993 Key Employee Stock Incentive Plan

McGRAW-HILL, INC.

1993 Key Employee Stock Incentive Plan

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McGRAW-HILL, INC.

1993 Key Employee Stock Incentive Plan

SECTION 1. PURPOSE; DEFINITIONS.

The purpose of this McGraw-Hill, Inc. 1993 Key Employee Stock Incentive Plan (the "Plan") is to enable McGraw-Hill, Inc. ("McGraw-Hill") to offer key employees of the Company (as defined below) long term performance-based stock incentives and/or other equity interests in the Company, thereby attracting, retaining and rewarding such key employees, and

strengthening the mutuality of interests between key employees and the Company's shareholders.

For purposes of the Plan, the following terms shall be defined as

set forth below:

- a. "Board" means the Board of Directors of McGraw-Hill, Inc.
- b. "Cause" shall mean the employee's willful misconduct in respect of the employee's obligations to the Company or other acts of willful misconduct by the employee occurring during the course of the employee's employment (including, but not limited to, conviction for a felony or perpetration of a common law fraud).
- c. "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.
- d. "Commission" means the Securities and Exchange Commission or any successor thereto.
- e. "Committee" means the Management Compensation Committee of the Board. If at any time no Committee shall be in office, then the functions of the Committee specified in the Plan shall be exercised by the Board or by a committee of Board members consisting of Disinterested Persons.
- f. "Company" means McGraw-Hill, Inc., a corporation organized under the laws of the State of New York, or any successor corporation, and includes all domestic and foreign corporations, partnerships and other legal entities in which at least 40% of the voting securities or ownership interests are owned directly or indirectly by McGraw-Hill, Inc.

- g. "Disability" means disability as determined under procedures established by the Committee for purposes of this Plan.
- h. "Disinterested Person" shall have the meaning set forth in Rule 16b-3.
- i. "Early Retirement" means retirement, with the approval of the Committee for purposes of one or more award(s) hereunder, from active employment with the Company prior to age 65, provided that the Committee may establish rules and procedures pursuant to which the Committee's approval shall be deemed to have been given.
- j. "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.
- k. "Executive Officer" means a person granted an award under this Plan who is subject to Section 16 of the Exchange Act.
- l. "Fair Market Value" for purposes of this Plan, unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, shall mean, as of any given date, the mean between the highest and lowest prices at which the Stock is actually traded on such date as reflected in the New York Stock Exchange Composite Transactions, or, if there is no sale of the Stock on such date, the mean between the bid and asked prices on such Exchange at the close of the market on such date or, if there is no bid and asked activity on such date, such value as may be determined by the Committee in good faith.
- m. "Incentive Stock Option" means any Stock Option intended to be and designated as an "Incentive Stock Option" within the meaning of Section 422 of the Code.
- n. "Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.
- o. "Normal Retirement" means retirement from active employment with the Company on or after age 65.
- p. "Other Stock-Based Award" means an award under Section 8 below that is payable in cash or stock and is valued in whole or in part by reference to, or is otherwise based on, Stock.
- q. "Plan" means this McGraw-Hill, Inc. 1993 Key Employee Stock Incentive Plan, as hereinafter amended from time to time, including any rules, guidelines or interpretations of the Plan adopted by the Committee.

r. "Restricted Stock" means an award of shares of Stock that is subject to restrictions under Section 7 below.

s. "Retirement" means Normal or Early Retirement.

t. "Rule 16b-3" means Rule 16b-3 under the Exchange Act as in effect from time to time.

u. "Stock" means the Common Stock, \$1.00 par value per share, of McGraw-Hill.

v. "Stock Appreciation Right" means the right pursuant to an award granted under Section 6 below to surrender to the Company all (or a portion) of a Stock Option in exchange for an amount equal to the difference between (i) the Fair Market Value, as of the date such Stock Option (or such portion thereof) is surrendered, of the shares of Stock covered by such Stock Option (or such portion thereof), and (ii) the aggregate exercise price of such Stock Option (or such portion thereof).

w. "Stock Option" or "Option" means any option to purchase shares of Stock granted pursuant to Section 5 below.

In addition, the terms "Change in Control" and "Change in Control Price" shall have meanings set forth, respectively, in Sections 9(b) and (c) below.

SECTION 2. ADMINISTRATION.

The Plan shall be administered by the Committee.

The Committee shall have full authority to grant, pursuant to the terms of the Plan, to officers and other key employees eligible under Section 4: (i) Stock Options, (ii) Stock Appreciation Rights, (iii) Restricted Stock and/or (iv) Other Stock-Based Awards.

In particular, the Committee shall have the authority:

- (i) to select the officers and other key employees of the Company to whom Stock Options, Stock Appreciation Rights, Restricted Stock and/or Other Stock-Based Awards may from time to time be granted hereunder;
- (ii) to determine whether and to what extent Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock and/or Other Stock-Based Awards or any combination thereof, are to be granted hereunder to one or more eligible employees;
- (iii) to determine the number of shares to be covered by each such award granted hereunder;
- (iv) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder (including, but not limited to, the share price, any restriction or limitation, or any vesting acceleration or forfeiture waiver regarding any Stock Option or other award and/or the shares of Stock relating thereto, based on such factors as the Committee shall determine, in its sole discretion);
- (v) to determine whether, to what extent and under what circumstances grants of Options and/or other awards under this Plan are to operate on a tandem basis and/or in conjunction with or apart from other cash awards made by the Company outside of this Plan; and
- (vi) to determine whether, to what extent and under what circumstances a Stock Option may be settled in cash under Section 5(k).

Subject to Section 10 hereof, the Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable; to interpret the terms and provisions of the Plan and any award issued under the Plan (and any agreements relating thereto); and to otherwise supervise the administration of the Plan.

Subject to Section 10 hereof, all decisions made by the Committee pursuant to the provisions of the Plan shall be made in the Committee's sole discretion and shall be final and binding on all persons, including the Company and Plan participants.

SECTION 3. STOCK SUBJECT TO PLAN.

The total number of shares of Stock reserved and available for distribution under the Plan shall be 2,300,000 shares. Such shares may consist, in whole or in part, of authorized and unissued shares or treasury shares.

The aggregate number of shares of Stock awarded or granted by the Company under this Plan for Restricted Stock and Other Stock-Based Awards shall not exceed 49% of the shares of Stock available for awards or grants of Stock by the Company under the Plan. There shall be no comparable limitation, however, on the aggregate number of shares of Stock awarded or granted by the Company under this Plan for Stock Options or Stock Appreciation Rights.

If any shares of Stock that are subject to any Restricted Stock or Other Stock-Based Award granted hereunder are forfeited or any such award otherwise terminates without a payment being made to the participant in the form of Stock, such shares shall again be available for distribution in connection with future grants and awards under the Plan. If any shares of Stock that have been optioned cease to be subject to a Stock Option, such shares shall again be available for distribution in connection with future grants and awards under the Plan.

In the event of any merger, reorganization, consolidation, recapitalization, dividend (other than a dividend or its equivalent which is credited to a Plan participant or a regular cash dividend), Stock split, or other change in corporate structure affecting the Stock, such substitution or adjustment shall be made in the aggregate number of shares reserved for issuance under the Plan, in the number and option price of shares subject to outstanding Options granted under the Plan, and in the number of shares subject to other outstanding awards (including but not limited to awards of Restricted Stock and Other Stock-Based Awards) granted under the Plan, as may be determined to be appropriate by the Committee, in its sole discretion, provided that the number of shares subject to any award shall always be a whole number. Such adjusted option price shall also be used to determine the amount payable by the Company upon the exercise of any Stock Appreciation Right associated with any Stock Option.

No optionee will be granted Stock Options or Stock Appreciation Rights under both the Plan and the Company's 1987 Key Employee Stock Incentive Plan to receive more than 230,000 shares of Stock in the aggregate over the term of the Plan and the term of the 1987 Key Employee Stock Incentive Plan. With respect to the 1987 Key Employee Stock Incentive Plan, however, the aforesaid limitation shall only apply to Options or Rights not heretofore issued and therefore still available for issuance. The foregoing

limitation set forth in this paragraph is intended to satisfy certain requirements applicable to Stock Options and Stock Appreciation Rights to qualify as performance- based compensation within the meaning of Section 162(k) of the Code. In the event that Code regulations are issued which eliminate the requirement for such limitation to qualify Stock Options and Stock Appreciation Rights as performance-based compensation, then this paragraph of Section 3 shall no longer be operative.

SECTION 4. ELIGIBILITY.

Officers and other key employees of the Company (but excluding members of the Committee and any person who serves only as a director of the Board) who are responsible for or contribute to the management, growth and/or profitability of the business of the Company are eligible to be granted Options and/or other awards under the Plan. Eligibility under the Plan shall be determined solely by the Committee.

SECTION 5. STOCK OPTIONS.

Stock Options may be granted alone or in addition to other awards granted under the Plan. Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be of two types; (i) Incentive Stock Options and (ii) Non-Qualified Stock Options.

The Committee shall have the authority to grant to any optionee Incentive Stock Options, Non-Qualified Stock Options or both types of Stock Options (in each case with or without Stock Appreciation Rights). To the extent that any Stock Option does not qualify as an Incentive Stock Option, it shall constitute a separate Non-Qualified Stock Option.

Anything in the Plan to the contrary notwithstanding, no term of this Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of the optionee(s) affected, to disqualify any Incentive Stock Option under such Section 422.

Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(a) **OPTION PRICE.** The option price per share of Stock purchasable under a Stock Option shall be determined by the Committee at the time of grant but shall be not less than 100% of the Fair Market Value of the Stock at grant.

(b) **OPTION TERM.** The term of each Stock Option shall be fixed by the Committee, but no Incentive Stock Option shall be exercisable more than ten years after the date the Option is granted, and no Non-Qualified Stock Option shall be exercisable more than ten years and one day after the date the Option is granted.

(c) **EXERCISABILITY.** Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at or after grant provided, however, that, except as provided in Sections 5(f), (g) and (h) and Section 9, unless otherwise determined by the Committee at or after grant, no Stock Option shall be exercisable prior to the first anniversary date of the granting of the Option. If the Committee provides, in its discretion, that any Stock Option is exercisable only in installments, the Committee may waive such installment exercise provisions at any time at or after grant in whole or in part, based on such factors as the Committee shall determine, in its sole discretion.

(d) **METHOD OF EXERCISE.** Subject to whatever installment exercise and waiting period provisions apply under Section 5(c), Stock Options may be exercised in whole or in part at any time during the option period, by giving written notice of exercise to the Company specifying the number of shares to be purchased.

Such notice shall be accompanied by payment in full of the purchase price in such form as the Committee may accept. If and to the extent determined by the Committee in its sole discretion at or after grant, payment in full or in part may also be made in the form of unrestricted Stock duly owned by the optionee (and for which the optionee has good title free and clear of any liens and encumbrances) based, in each such case, on the Fair Market Value of the Stock on the last trading date preceding payment, as determined by the Committee.

No shares of Stock shall be issued until payment, as provided herein, therefore has been made. An optionee shall generally have the rights to dividends or other rights of a shareholder with respect to shares subject to the Option when the optionee has given written notice of exercise, has paid for such shares as provided herein, and, if requested, has given the representation described in Section 12(a).

(e) **NON-TRANSFERABILITY OF OPTIONS.** No Stock Option shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution, and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee.

(f) **TERMINATION BY DEATH.** Subject to Section 5(j), if an optionee's employment by the Company terminates by reason of death, any Stock Option held by such optionee, unless otherwise determined by the Committee at or after grant, shall be fully vested and may thereafter be exercised by the legal representative of the estate or by the legatee of the optionee under the will of the optionee, for a period of one year (or such other period as the Committee may specify at or after grant) from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter.

(g) TERMINATION BY REASON OF DISABILITY. Subject to Section

5(j), if an optionee's employment by the Company terminates by reason of Disability, any Stock Option held by such optionee, unless otherwise determined by the Committee at or after grant, shall be fully vested and may thereafter be exercised by the optionee for a period of three years (or such other period as the Committee may specify at or after grant) from the date of such termination of employment or until the expiration of the stated term of such Stock Option, whichever period is the shorter; provided, however, that, if the optionee dies within such three-year period (or such other period as the Committee shall specify at or after grant), any unexercised Stock Option held by such optionee shall thereafter be exercisable to the extent to which it was exercisable at the time of death for a period of twelve months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter. In the event of termination of employment by reason of Disability, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Non-Qualified Stock Option.

(h) TERMINATION BY REASON OF RETIREMENT. Subject to Section

5(j), if an optionee's employment by the Company terminates by reason of Normal Retirement, any Stock Option held by such optionee, unless otherwise determined by the Committee at or after grant, shall be fully vested and may thereafter be exercised by the optionee for a period of three years (or such other period as the Committee may specify at or after grant) from the date of such termination of employment or the expiration of the stated term of such Stock Option, whichever period is the shorter; provided, however, that, if the optionee dies within such three-year period, any unexercised Stock Option held by such optionee shall thereafter be exercisable, to the extent to which it was exercisable at the time of death, for a period of twelve months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter. Unless the Committee otherwise determines at or after the time of grant, if an optionee's employment with the Company terminates by reason of Early Retirement, any Stock Option held by such optionee may thereafter be exercised by the optionee to the extent it was exercisable at the date of retirement for a period of thirty-six (36) months (or such other period as the Committee may specify at or after grant) from the date of such termination of employment or the expiration of the stated term of such Stock Option, whichever period is shorter; provided, however, if the optionee dies within such thirty-six (36) month period, any unexercised Stock Option held by such optionee shall thereafter

be exercisable, to the extent to which it was exercisable at the time of death, for a period of twelve months from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is shorter. If and only if the Committee so approves at the time of Early Retirement, if an optionee's employment with the Company terminates by reason of Early Retirement, any Stock Option held by the optionee shall be fully vested and may thereafter be exercised by the optionee as provided above in connection with termination of employment by reason of Normal Retirement. In the event of termination of employment by reason of Retirement, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, the option will thereafter be treated as a Non-Qualified Stock Option.

(i) OTHER TERMINATION. Unless otherwise determined by the Committee at or after the time of grant, if an optionee's employment terminates for any reason other than Death, Disability, Retirement or for Cause, any Stock Option held by such optionee, unless otherwise determined by the Committee at or after grant, may thereafter be exercised by the optionee to the extent it was exercisable at the date of termination for a period of six months (or such other period as the Committee may specify at or after grant) from the date of such termination of employment or until the expiration of the stated term of such Stock Option, whichever period is the shorter; provided, however, if the optionee dies within such six-month period (or such other period as the Committee shall specify at or after grant), any unexercised Stock Option held by such optionee shall thereafter be exercisable to the extent that it was exercisable at the date of termination for a period of twelve months from the time of such death, or until the expiration of the stated term of such Stock Option, whichever period is the shorter. In the event of termination of employment, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option will thereafter be treated as a Non-Qualified Stock Option. If an optionee's employment with the Company is involuntarily terminated by the Company for Cause, the Stock Option shall thereupon terminate and shall not be exercisable thereafter.

(j) INCENTIVE STOCK OPTION LIMITATIONS. To the extent required for "incentive stock option" status under Section 422(d) of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the Stock with respect to which Incentive Stock Options granted after 1986 are exercisable for the first time by the optionee during any calendar year under the Plan and/or any other stock option plan of the Company or any subsidiary or parent corporation (within the meaning of Section 424 of the Code) shall not exceed \$100,000. If Section 422 is hereafter amended to delete the requirement now in Section 422(d) with respect to the \$100,000 limitation, then this first paragraph of Section 5(j) shall no longer be operative. If Section 422 is hereafter amended to adjust the amount of the \$100,000 limitation, then the first sentence of Section 5(j) shall be automatically adjusted to reflect the new amount.

To the extent (i) a participant's employment with the Company is terminated by reason of death, Disability or Retirement and (ii) the portion of any Incentive Stock Option that is otherwise first exercisable in any calendar year during the post-termination period specified under Section 5 (f), (g) or (h), applied without regard to the \$100,000 limitation contained in Section 422(d) of the Code, is greater than the portion of such option that is immediately exercisable as an "incentive stock option" in any calendar year during such post-termination period under Section 422, such excess shall be treated as a Non-Qualified Stock Option. If the exercise of an Incentive Stock Option is accelerated by reason of a Change In Control, any portion of such option that is not exercisable as an Incentive Stock Option by reason of the \$100,000 limitation contained in Section 422(d) of the Code shall be treated as a Non-Qualified Stock Option.

(k) Buyout and Settlement Provisions. The Committee may at any time offer to buy out an option previously granted, based on such terms and conditions as the Committee shall establish and communicate to the optionee at the time that such offer is made.

SECTION 6. STOCK APPRECIATION RIGHTS.

(a) GRANT AND EXERCISE. Stock Appreciation Rights may be granted in conjunction with all or part of any Stock Option granted under the Plan. In the case of a Non-Qualified Stock Option, such rights may be granted either at or after the time of the grant of such Stock Option. In the case of an Incentive Stock Option, such rights may be granted only at the time of the grant of such Stock Option.

A Stock Appreciation Right or applicable portion thereof granted with respect to a given Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Option, except that, unless otherwise determined by the Committee, in its sole discretion, at the time of grant, a Stock Appreciation Right granted with respect to less than the full number of shares covered by a related Stock Option shall not be reduced until the number of shares covered by an exercise or termination of the related Stock Option exceeds the number of shares not covered by the Stock Appreciation Right.

A Stock Appreciation Right may be exercised by an optionee, in accordance with Section 6(b), by surrendering the applicable portion of the related Stock Option. Upon such exercise and surrender, the optionee shall be entitled to receive an amount determined in the manner prescribed in Section

6(b). Stock Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent the related Stock Appreciation Rights have been exercised.

(b) TERMS AND CONDITIONS. Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

(i) Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 5 and this Section 6 of the Plan; provided, however, that any Stock Appreciation Right granted subsequent to the grant of the related Stock Option shall not be exercisable during the first six months of its term, except that this special limitation shall not apply in the event of death or Disability of the optionee prior to the expiration of the six-month period.

(ii) Upon the exercise of a Stock Appreciation Right, an optionee shall be entitled to receive up to, but not more than, an amount in cash and/or shares of Stock equal in value to the excess of the Fair Market Value of one share of Stock over the option

price per share specified in the related Stock Option multiplied by the number of shares in respect of which the Stock Appreciation Right shall have been exercised, with the Committee having the right to determine the form of payment, subject however to Section 6(b)(v) below.

(iii) Stock Appreciation Rights shall be transferable only when and to the extent that the underlying Stock Option would be transferable under Section 5(e) of the Plan.

(iv) Upon the exercise of a Stock Appreciation Right, the Stock Option or part thereof to which such Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Section 3 of the Plan on the number of shares of Stock to be issued under the Plan, but only to the extent of the number of shares issued under the Stock Appreciation Right at the time of exercise based on the value of the Stock Appreciation Right at such time.

(v) In its sole discretion, the Committee may grant "Limited Stock Appreciation Rights" i.e., Stock Appreciation Rights that become exercisable only in the event of a Change in Control, subject to such terms and conditions as the Committee may specify at grant. Said Limited Stock Appreciation Rights shall be settled solely in cash.

SECTION 7. RESTRICTED STOCK.

(a) **ADMINISTRATION.** Shares of Restricted Stock may be issued either alone or in addition to other awards granted under the Plan. The Committee shall determine the eligible persons to whom, and the time or times at which, grants of Restricted Stock will be made, the number of shares to be awarded, the price (if any) to be paid by the recipient (subject to Section 7(b)), the time or times within which such awards may be subject to forfeiture, the vesting schedule and rights to acceleration thereof, and all other terms and conditions of the awards.

The Committee may condition the grant of Restricted Stock upon the attainment of specified performance goals or such other factors as the Committee may determine, in its sole discretion.

The provisions of Restricted Stock awards need not be the same with respect to each recipient, and such awards to individual recipients need not be the same in subsequent years.

(b) **AWARDS AND CERTIFICATES.** The prospective recipient of a Restricted Stock award shall not have any rights with respect to such award, unless and until such recipient has executed an agreement evidencing the award and has delivered a fully executed copy thereof to the Company, and has otherwise complied with the applicable terms and conditions of such award. Further, such award shall be subject to the following conditions:

(i) The purchase price for shares of Restricted Stock shall be equal to or less than their par value and may be zero.

(ii) Awards of Restricted Stock must be accepted within a period of 60 days (or such shorter period as the Committee may specify at grant) after the award date, by executing a Restricted Stock Award Agreement and by paying whatever price (if any) is required under Section 7(b)(i).

(iii) Each participant receiving a Restricted Stock award shall be issued a stock certificate in respect of such shares of Restricted Stock. Such certificate shall be registered in the name of such participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such award, substantially in the following form:

"The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the McGraw-Hill, Inc. 1993 Key Employee Stock Incentive Plan and an Agreement entered into between the registered owner and McGraw-Hill, Inc. dated ----- . Copies of such Plan and Agreement are on file in the offices of McGraw-Hill, Inc., 1221 Avenue of the Americas, New York, NY 10020."

(iv) The Committee shall require that the stock certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed, and that, as a condition of any Restricted Stock award, the participant shall have delivered a duly signed stock power, endorsed in blank, relating to the Stock covered by such award.

(c) RESTRICTIONS AND CONDITIONS. The shares of Restricted Stock awarded pursuant to this Section 7 shall be subject to the following restrictions and conditions:

(i) Subject to the provisions of this Plan and the award agreement, during a period set by the Committee commencing with the date of such award (the "Restriction Period"), the participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock awarded under the Plan. Within these limits, the Committee, in its sole discretion, may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part, based on service, performance and/or such other factors or criteria as the Committee may determine, in its sole discretion.

(ii) Except as provided in Section 7(c)(i), the participant shall have, with respect to the shares of Restricted Stock, the right to vote the shares, and the right to receive any dividend or dividend equivalent payments in cash with respect to such shares.

(iii) Subject to the applicable provisions of the award agreement and this Section 7, upon termination of a participant's employment with the Company for any reason during the Restriction Period, all shares still subject to restriction will vest or be forfeited in accordance with the terms and conditions established by the Committee at or after grant.

(iv) In the event of hardship or other special circumstances of a participant whose employment with the Company is involuntarily terminated (other than for Cause), the Committee may, in its sole discretion, waive in whole or in part any or all remaining restrictions with respect to such participant's shares of Restricted Stock based on such factors as the Committee may deem appropriate.

(v) If and when the Restriction Period expires without a prior forfeiture of the Restricted Stock subject to such Restriction Period, the certificates for such shares shall be delivered to the participant. Subject to Section 12(a), all legends shall be removed from said certificates at the time of delivery to the participant.

SECTION 8. OTHER STOCK-BASED AWARDS.

(a) **ADMINISTRATION.** Other awards of Stock and other awards that are payable in cash or Stock and are valued in whole or in part by reference to, or are otherwise based in whole or in part on, Stock ("Other Stock-Based Awards"), including, without limitation, cash or Stock settled performance shares, cash or Stock settled stock appreciation rights and shares valued by reference to subsidiary performance, may be granted either alone or in addition to or in tandem with Stock Options, Stock Appreciation Rights, or Restricted Stock.

Subject to the provisions of the Plan, the Committee shall have authority to determine the persons to whom and the time or times at which such awards shall be made, the number of shares of Stock to be awarded pursuant to such awards, the cash payment to be made pursuant to any such award, and all other conditions of the awards. The Committee may also provide for the grant of Stock under such awards upon the completion of a specified performance period.

The provisions of Other Stock-Based Awards need not be the same with respect to each recipient.

(b) **TERMS AND CONDITIONS.** Other Stock-Based Awards made pursuant to this Section 8 shall be subject to the following terms and conditions:

(i) Subject to the provisions of this Plan and the award agreement referred to in Section 8(b)(v) below, the participant's rights with respect to the award, including the shares subject to awards made under this Section 8, may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which the shares are issued, if later, the date on which any applicable restriction, performance or deferral period lapses.

(ii) Unless otherwise determined by the Committee at the time of award, subject to the provisions of this Plan and the award agreement, the recipient of an award under this Section 8 shall be entitled to receive, currently or on a deferred basis, dividends or dividend equivalents with respect to the number of shares or deemed number of shares covered by the award, as determined at or after the time of the award by the Committee, in its sole discretion.

(iii) Any award under this Section 8, any cash payment covered by any such award and any Stock covered by any such award shall vest or be forfeited to the extent so provided in the award agreement, as determined by the Committee, in its sole discretion.

(iv) In the event of the participant's Retirement, Disability or death, or in cases of special circumstances, the Committee may, in its sole discretion, waive in whole or in part any or all of the limitations imposed hereunder (if any) with respect to any or all of an award under this Section 8.

(v) Each award under this Section 8 shall be confirmed by, and subject to the terms of, an agreement or other instrument by the Company and by the participant.

(vi) Stock issued on a bonus basis under this Section 8 may be issued for no cash consideration.

SECTION 9. CHANGE IN CONTROL PROVISIONS

(a) **IMPACT OF EVENT.** In the event of a "Change in Control" as defined in Section 9(b), the following acceleration and valuation provisions shall apply:

(i) Any Stock Appreciation Rights (including, without limitation, any Limited Stock Appreciation Rights) outstanding for at least 6 months and any Stock Options awarded under the Plan not previously exercisable and vested shall become fully exercisable and vested.

(ii) The restrictions and deferral limitations applicable to any Restricted Stock and Other Stock Based Awards, in each case to the extent not already vested under the Plan, shall lapse and such shares and awards shall be deemed fully vested.

(iii) All outstanding Stock Options, Stock Appreciation

Rights, Restricted Stock and Other Stock Based Awards, shall be cashed out on the basis of the "Change in Control Price" as defined in Section 9(c) as of the date such Change in Control is determined to have occurred.

(b) **DEFINITION OF "CHANGE IN CONTROL"**. For purposes of this Plan, the term "Change in Control" shall mean any of the following events:

(i) The acquisition (other than from the Company) by any person, entity or "group", within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act"), (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then outstanding shares of common stock or the combined voting power of McGraw-Hill's then outstanding voting securities entitled to vote generally in the election of directors; or

(ii) Individuals who, as of the date hereof, constitute the Board (as of the date hereof the "Incumbent Board") cease for any reason to

constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by McGraw-Hill's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of McGraw-Hill, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the stockholders of McGraw-Hill of a reorganization, merger, or consolidation, in each case, with respect to which persons who were the stockholders of McGraw-Hill immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own, directly or indirectly, more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities, or a liquidation or dissolution of McGraw-Hill or of the sale of all or substantially all of the assets of McGraw-Hill.

(c) CHANGE IN CONTROL PRICE. For purposes of this Section 9, "Change in Control Price" means the highest price per share paid in any transaction reported on the New York Stock Exchange Composite Index, or paid or offered in any bona fide transaction related to a Change in Control of McGraw-Hill at any time during the preceding sixty-day period as determined by the Committee except that, in the case of Incentive Stock Options and Stock Appreciation Rights relating to Incentive Stock Options, such price shall be based only on transactions reported for the date on which the optionee exercises such Incentive Stock Options or Stock Appreciation Rights (or, where applicable, the date on which a cashout occurs under Section 9(a)(iii)).

SECTION 10. AMENDMENTS AND TERMINATION.

The Board may amend, alter, or discontinue the Plan, but no amendment, alteration, or discontinuation shall be made which would impair the rights of an optionee or participant under a Stock Option, Stock Appreciation Right, Limited Stock Appreciation Right, Restricted Stock award or Other Stock-Based Award theretofore granted, without the optionee's or participant's consent, or which, without the approval of the Company's shareholders, would require shareholder approval under Rule 16b-3.

The Committee may amend the terms of any Stock Option or other award theretofore granted, prospectively or retroactively, but, subject to Section 3 above, no such amendment or other action by the Committee shall impair the rights of any holder without the holder's consent.

Subject to the above provisions, the Board shall have broad authority to amend the Plan to take into account changes in applicable securities and tax laws and accounting rules, as well as other developments.

SECTION 11. UNFUNDED STATUS OF PLAN.

The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a participant or optionee by the Company, nothing contained herein shall give any such participant or optionee any rights that are greater than those of a general creditor of the Company.

SECTION 12. GENERAL PROVISIONS.

(a) The Committee may require each person purchasing shares pursuant to a Stock Option or other award under the Plan to represent to and agree with the Company in writing that the optionee or participant is acquiring the shares without a view to distribution thereof. The certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

All certificates for shares of Stock delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Commission, any stock exchange upon which the Stock is then listed, any applicable Federal or state securities law, and any applicable corporate law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(b) Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

(c) The adoption of the Plan shall not confer upon any employee of the Company any right to continued employment with the Company as the case may be, nor shall it interfere in any way with the right of the Company to terminate the employment of any of its employees at any time.

(d) No later than the date as of which an amount first becomes includible in the gross income of the participant for income tax purposes with respect to any Option or other award under the Plan (including dividends or dividend equivalents on any non-vested Restricted Stock Award or Other Stock-Based Award), the participant shall pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of, any Federal, FICA, state, or local taxes of any kind required by law to be withheld or paid with respect to such amount. Unless otherwise determined by the Committee, tax withholding or payment obligations may be settled with Stock, including Stock that is part of the award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(e) The Plan and all awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of New York.

(f) Any award payment under this Plan shall not be deemed compensation for purposes of computing benefits under any retirement plan of the Company and shall not affect any benefits under any other benefit plan now or subsequently in effect under which the availability or amount of benefits is related to the level of compensation.

(g) With respect to Executive Officers, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of this Plan or any action under this Plan fails to so comply, such provision or action shall, without further action by any person, be deemed to be automatically amended to the extent necessary to effect compliance with rule 16b-3 and, if such provision or action cannot be amended to effect such compliance, such provision or action shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee. Each award to an Executive Officer under this Plan shall be deemed issued subject to the foregoing qualification.

SECTION 13. EFFECTIVE DATE OF PLAN.

The Plan shall be effective as of February 24, 1993 subject to the approval of the Plan by the holders of a majority of the shares of the Company's Stock and \$1.20 Convertible Preference Stock, \$10 par value, voting together as a single class and not as separate classes, at the 1993 annual shareholders' meeting scheduled to be held as of April 28, 1993.

SECTION 14. TERM OF PLAN.

No Stock Option, Stock Appreciation Right, Restricted Stock or Other Stock-Based Award shall be granted pursuant to the Plan on or after the tenth anniversary of the date of shareholder approval, but awards granted prior to such tenth anniversary may extend beyond that date.

February 24, 1993

As amended: December 1, 1993

McGRAW-HILL, INC.

KEY EXECUTIVE SHORT-TERM INCENTIVE

DEFERRED COMPENSATION PLAN

ARTICLE I

PURPOSE

The purpose of the McGraw-Hill, Inc. Key Executive Short-Term Incentive Deferred Compensation Plan (hereinafter referred to as the "Plan") is to provide funds for retirement or other expenses for executive employees (and their beneficiaries) of McGraw-Hill, Inc. and its subsidiaries. It is intended that the Plan will aid in retaining and attracting employees by providing such employees with a means to defer receipt of short-term incentive compensation to a future date.

ARTICLE II

DEFINITIONS

For the purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise:

Section 2.01 BENEFICIARY. "Beneficiary" means the person, persons or entity designated by the Participant to receive any benefits payable under the Plan. Any Participant Beneficiary designation shall be made in a written instrument filed with the Company and shall become effective only when received, accepted and acknowledged in writing by the Company.

Section 2.02 BOARD. "Board" means the Board of Directors of McGraw-Hill, Inc.

Section 2.03 CHANGE OF CONTROL. For purposes of this Plan, the term "Change of Control" shall mean any of the following:

(i) The acquisition (other than from the Company) by any person, entity or "group", within the meaning of Section 13(d) (3) or 14(d) (2) of the Securities Exchange Act of 1934 (the "Exchange Act"), (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then outstanding shares of common stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors; or

(ii) During any period of two consecutive years, individuals who at the beginning of such period constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director during such period whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act)

shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the stockholders of the Company of a reorganization, merger, or consolidation, in each case, with respect to which persons who were the stockholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own, directly or indirectly, more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities, or a liquidation or dissolution of the Company or of the sale of all or substantially all of the assets of the Company.

Section 2.04 COMMITTEE. "Committee" means the Management Compensation Committee of the Board.

Section 2.05 COMPANY. "Company" means McGraw-Hill, Inc., its successors, any subsidiary or affiliated organizations authorized by the Board of Directors of McGraw-Hill, Inc. or the Committee to participate in the Plan and any organization into which or with which the Company may merge or consolidate or to which all or substantially all of its assets may be transferred.

Section 2.06 DEFERRED ACCOUNT. "Deferred Account" means the account maintained on the books of account of the Company for each Participant pursuant to Article VI. Separate Deferred Accounts shall be maintained for each Participant. More than one Deferred Account may be maintained for each Participant as necessary to reflect (a) various interest credits and/or (b) separate year deferral elections. A Participant's Deferred Account shall be utilized solely as a device for the measurement and determination of the amounts to be paid to the Participant pursuant to this Plan. A Participant's Deferred Account shall not constitute or be treated as a trust fund of any kind.

Section 2.07 DETERMINATION DATE. "Determination Date" means the date on which the amount of a Participant's Deferred Account is determined as provided in Article VI hereof. The last day of each calendar month shall be a Determination Date.

Section 2.08 DISABILITY. "Disability" or "Disabled Participant" means eligibility for disability benefits under the terms of the Company's Long-Term Disability Plan in effect at the time the Participant becomes disabled.

Section 2.09 INCENTIVE COMPENSATION. "Incentive Compensation" means any short-term incentive compensation cash award payable by the Company to a Participant in a Plan Year pursuant to the provisions of the McGraw-Hill, Inc. 1990 Key Executive Short-Term Incentive Compensation Plan.

Section 2.10 PARTICIPANT. "Participant" means any individual who is designated by the Committee to participate in this Plan and who elects to participate by filing a Participation Agreement as provided in Article IV.

Section 2.11 PARTICIPATION AGREEMENT. "Participation Agreement" means the agreement filed by a Participant prior to the beginning of the first period for which the Participant's Incentive Compensation is to be deferred pursuant to the Plan and the Participation Agreement. Notwithstanding the foregoing sentence, the Participation Agreement for the first Plan Year of the Plan may be filed no later than August 31, 1990. A new Participation Agreement shall be filed by the Participant for each separate Incentive Compensation deferral election.

Section 2.12 PLAN ADMINISTRATOR. "Plan Administrator" means the Executive Vice President, Administration of McGraw-Hill, Inc. or his designee.

Section 2.13 PLAN YEAR. "Plan Year" means a twelve month period commencing January 1 and ending the following December 31. The first Plan Year shall commence on January 1, 1990.

Section 2.14 RETIREMENT DATE. "Retirement Date" means the date on which the Participant actually terminates employment due to retirement on or after the first day of the month coincident with or next following a Participant's attainment of age fifty-five (55).

ARTICLE III

ADMINISTRATION

Section 3.01 PLAN ADMINISTRATOR; COMMITTEE; DUTIES.

This Plan shall be administered by the Plan Administrator. Decisions of the Plan Administrator shall be reviewable by the Committee. The Committee shall also have the authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and decide or resolve any and all questions, including interpretations of this Plan, as may arise in connection with the Plan.

Section 3.02 BINDING EFFECT OF DECISIONS. The decision or action of the Committee in respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Plan, unless a written appeal is received by the Committee within sixty days of the disputed action. The appeal will be reviewed by the Committee and the decision of the Committee shall be final, conclusive and binding on the Participant and all persons claiming by, through or under the Participant.

ARTICLE IV

PARTICIPATION

Section 4.01 PARTICIPATION. Participation in the Plan shall be limited to executives selected by the Committee who elect to participate in the Plan by filing a Participation Agreement with the Company. Except as provided below, a Participation Agreement must be filed prior to December 15th immediately preceding the Plan Year in which the Participant's participation under the Agreement will commence, and the election to participate shall be effective on the first day following receipt by the Company of a properly completed and executed Participation Agreement. The Participation Agreement for the first Plan Year of the Plan must be filed no later than August 31, 1990.

Section 4.02 DEFERRAL AMOUNT. A Participant may elect in any Participation Agreement to defer all or a portion of his Incentive Compensation.

Section 4.02 (a) With respect to Incentive Compensation deferrals, the deferral selected in each Participation Agreement shall apply only to the Participant's Incentive Compensation paid for the Plan Year for which the respective Participation Agreement is applicable.

Section 4.02 (b) From time to time, the Committee may increase or decrease the period for which the deferrals are effective by giving reasonable written notice to the affected Participants. Such changes shall be effective for all Participation Agreements filed thereafter.

Section 4.02 (c) A Participant's election to defer his Incentive Compensation shall be irrevocable upon the filing of the respective Participation Agreement; provided, however, that the deferral under any Participation Agreement may be terminated or amended as provided in paragraphs 9.01 and 9.02.

Section 4.02 (d) With respect to Incentive Compensation deferrals, to the extent the Participant participates in the Company's qualified Employee Retirement Plan (ERP), Employee Retirement Account Plan (ERAP), and Savings Incentive Plan (SIP), such deferrals will be credited with Company contributions under non-qualified accounts for the ERP, ERAP and SIP Plans.

Section 4.03 ADDITIONAL PARTICIPATION AGREEMENT. A Participant may enter into additional Participation Agreements if authorized to do so by the Committee by filing a Participation Agreement with the Company prior to

December 15th of any calendar year, stating the amount that the Participant elects to have deferred for the next Plan Year. Such additional agreements shall be effective as to Incentive Compensation paid in the Plan Year beginning after the last day of the Plan Year in which the respective agreement is filed with the Company.

ARTICLE V

DEFERRED INCENTIVE COMPENSATION

Section 5.01 ELECTIVE DEFERRED INCENTIVE COMPENSATION. The amount of Incentive Compensation that a Participant elects to defer in the Participation Agreement executed by the Participant, with respect to each Plan Year of participation in the Plan, shall be credited by the Company to the Participant's Deferred Account. To the extent that the Company is required to withhold any taxes or other amounts from the employee's deferred wages pursuant to any state, Federal or local law, such amounts shall be taken out of the portion of the Participant's Incentive Compensation which is not deferred under this Plan, or the Participant's base salary.

Section 5.02 VESTING OF DEFERRED ACCOUNT. A Participant shall be 100% vested in his/her Deferred Account at all times.

ARTICLE VI

DEFERRED ACCOUNT

Section 6.01 DETERMINATION OF ACCOUNT. Each Participant's Deferred Account, as of each Determination Date, shall consist of the balance of the Participant's Deferred Account as of the immediately preceding Determination Date. The Deferred Account of each Participant shall be reduced by the amount of all distributions, if any, made from such Deferred Account since the preceding Determination Date.

Section 6.02 INTEREST CREDIT. As of each Determination Date, the Participant's Deferred Account shall be increased by the amount of interest earned since the preceding Determination Date. Interest shall be credited at a rate determined to be in effect for each Plan Year, as determined by the Committee based on the interest rate payable on the Company's long-term debt securities. Notwithstanding the foregoing, if a Participant's Deferred Account is paid in installments, interest shall be credited, (i) for retired Participants, at the rate determined to be in effect during the Plan Year in which the Participant retires, and (ii) for all other installment payments, at the rate determined to be in effect during the Plan Year in which such payments commence.

Section 6.03 STATEMENT OF ACCOUNTS. The Company shall submit to each Participant, by July 1 following the close of each Plan Year, a statement in such form as the Company deems desirable, setting forth the balance to the credit of such Participant in his Deferred Account as of the last day of the preceding Plan Year.

ARTICLE VII

BENEFITS

Section 7.01 TIME OF PAYMENT. A Participant may elect in any Participation Agreement whether payment of the balance to the credit of his Deferred Account shall be paid or commence to be paid (i) on a date specified by the Participant, or (ii) upon the earlier of the Participant's (A) Retirement Date or (B) termination of employment other than death, disability, or retirement. In either case, the Participant shall be entitled to the balance to the credit of his Deferred Account determined under Section 6.01, which shall be payable under Section 7.04 as of the Determination Date coincident with or immediately following such date or event. No change in a Participant's election shall be valid unless it is made in a Participation Agreement which is filed with the Committee prior to the Plan Year preceding the Plan Year in which payment of the Participant's Deferred Account would otherwise have been made or commenced.

Section 7.02 DEATH. If a Participant dies after the commencement of payments of his Deferred Account, or if a Participant while employed dies prior to any payments of his Deferred Account, his Beneficiary shall receive a lump-sum payment equal to his Deferred Account as of the Determination Date coincident with or immediately following such death.

Section 7.03 DISABILITY. In the event of Disability prior to retirement or termination of employment, the Disabled Participant, unless he otherwise elects under this paragraph, shall have payment of his Deferred Account made or commenced in accordance with the Participation Agreement filed by the Participant. Before payments commence or are made under the preceding sentence, a Disabled Participant may elect, subject to Committee approval upon good cause shown, to have payments (i) made as soon as practicable in a lump sum, or (ii) commence as soon as practicable in equal annual installments over a period not in excess of 15 years.

Section 7.04 FORM OF PAYMENT. Upon the happening of the date or event described in Sections 7.01 or 7.03, the Company shall pay to the Participant the balance to the credit of his Deferred Account in a lump sum or in equal annual installments as elected in the Participation Agreement filed by the Participant. If a Participant elects to receive payments in installments, payment of the Deferred Account shall be in an amount which amortizes the Deferred Account balance in equal annual payments of principal and interest

over a period not to exceed 15 years. For purposes of determining the amount of the annual payment, the assumed rate of interest shall be the rate under the terms of Section 6.02. No change in a Participant's election shall be valid unless it is made in a Participation Agreement which is filed with the Committee prior to the Plan Year preceding the Plan Year in which payment of the Participant's Deferred Account would otherwise have been made or commenced.

Section 7.05 LUMP-SUM PAYMENT. Notwithstanding Section 7.04, in its sole discretion the Committee may direct that the Company make a lump-sum payment of the balance credited to a Participant's Deferred Account.

Section 7.06 WITHHOLDING OF TAXES. To the extent required by the law in effect at the time payments are made, the Company shall withhold from payments made hereunder any taxes required to be withheld from an employee's wages for the Federal or any state or local government.

Section 7.07 COMMENCEMENT OF PAYMENTS. Commencement of payments under this Plan shall be made following the earlier of (i) the date specified in the Participation Agreement filed by the Participant or (ii) receipt of notice by the Plan Administrator of the event which entitles a Participant (or a Beneficiary) to payments under this Plan. All payments shall be made as of the first day of the month.

Section 7.08 PAYMENTS IN CONNECTION WITH CHANGE OF CONTROL. Notwithstanding anything contained in the Plan to the contrary, in the event of a Change of Control of the Corporation the company shall immediately pay to each Participant in a lump sum the then remaining balance in his/her Deferred Account.

The terms of sections 9.01 and 9.02 shall not be applicable following a Change of Control of the Corporation.

The reasonable legal fees incurred by any Participant to enforce his/her valid rights hereunder shall be paid for by the Company to the Participant in addition to sums otherwise due hereunder, whether or not the Participant is successful in enforcing his/her rights or whether or not the matter is settled.

ARTICLE VIII

BENEFICIARY DESIGNATION

Section 8.01 **BENEFICIARY DESIGNATION**. Each Participant shall have the right, at any time, to designate any person, persons or entity as his Beneficiary or Beneficiaries (both principal as well as contingent) to whom payment under this Plan shall be paid in the event of his death prior to complete distribution to the Participant of the benefits due him under the Plan.

Section 8.02 **AMENDMENTS**. Any Beneficiary designation may be changed by a Participant by the written filing of such change on a form prescribed by the Company. The filing of a new Beneficiary designation form will cancel all Beneficiary designations previously filed.

Section 8.03 **NO BENEFICIARY DESIGNATION**. If a Participant fails to designate a Beneficiary as provided above, or if all designated Beneficiaries predecease the Participant, then any amounts to be paid to the Participant's Beneficiary shall be paid to the Participant's estate.

Section 8.04 **EFFECT OF PAYMENT**. The payment to the deemed Beneficiary shall completely discharge the Company's obligations under this Plan with respect to the Participant.

ARTICLE IX

AMENDMENT AND TERMINATION OF PLAN

Section 9.01 AMENDMENT. The Board or the Committee may at any time amend the Plan in whole or in part, provided, however, that no amendment shall be effective to decrease or restrict any Deferred Account at the time of such amendment.

Section 9.02 COMPANY'S RIGHT TO TERMINATE. The Board or the Committee may at any time terminate the Plan with respect to new elections to defer if, in its judgment, the continuance of the Plan, the tax, accounting, or other effects thereof, or potential payments thereunder would not be in the best interests of the Company. The Board or the Committee may also terminate the Plan in its entirety at any time, and upon any such termination, the Company shall immediately pay to each Participant in a lump sum the then remaining balance in his Deferred Account.

ARTICLE X

MISCELLANEOUS

Section 10.01 UNSECURED GENERAL CREDITOR. Participants and their Beneficiaries shall have no legal or equitable rights, interest or claims in any property or assets of the Company. Any and all of the Company's assets shall be, and remain, the general, unpledged, unrestricted assets of the Company. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Company to pay money in the future.

Section 10.02 NONASSIGNABILITY. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

Section 10.03 NOT A CONTRACT OF EMPLOYMENT. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between the Company and the Participant, and the Participant (or his Beneficiary) shall have no rights against the Company except as may otherwise be specifically provided herein. Moreover, nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of the Company or to interfere with the right of the Company to discipline or discharge him at any time.

Section 10.04 PROTECTIVE PROVISIONS. A Participant will cooperate with the Company by furnishing any and all information requested by the Company, in order to facilitate the payment of benefits hereunder, and by taking such physical examinations as the Company may deem necessary and taking such other action as may be requested by the Company.

As amended: October 27, 1993

McGRAW-HILL, INC.

DIRECTOR DEFERRED COMPENSATION PLAN

ARTICLE I

PURPOSE

The purpose of the McGraw-Hill, Inc. Director Deferred Compensation Plan (hereinafter referred to as the "Plan") is to provide funds for retirement or death for Directors (and their beneficiaries) of McGraw-Hill, Inc. It is intended that the Plan will aid in retaining and attracting Directors by providing a means to supplement their standard of living at retirement.

ARTICLE II

DEFINITIONS

For the purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise:

Section 2.01 BENEFICIARY. "Beneficiary" means the person, persons or entity designated by the Participant to receive any benefits payable under the Plan. Any Participant Beneficiary designation shall be made in a written instrument filed with the Company and shall become effective only when received, accepted and acknowledged in writing by the Company.

Section 2.02 BOARD. "Board" means the Board of Directors of McGraw-Hill, Inc.

Section 2.03 BOARD MEETING FEES. "Board Meeting Fees" means the compensation paid to members of the Board for attendance at meetings of the Board and Committees thereof.

Section 2.04 CHANGE OF CONTROL. For purposes of this Plan, the term "Change of Control" shall mean any of the following events:

(i) The acquisition (other than from the Company) by any person, entity or "group", within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act"), (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then outstanding shares of common stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors; or

(ii) Individuals who, as of the date hereof, constitute the Board (as of the date hereof the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual

or threatened election contest relating to the election of the Directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the stockholders of the Company of a reorganization, merger, or consolidation, in each case, with respect to which persons who were the stockholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own, directly or indirectly, more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities, or a liquidation or dissolution of the Company or of the sale of all or substantially all of the assets of the Company.

Section 2.05 COMMITTEE. "Committee" means the Management Compensation Committee of the Board.

Section 2.06 COMPANY. "Company" means McGraw- Hill, Inc., its successors, and any organization into which or with which the Company may merge or consolidate or to which all or substantially all of its assets may be transferred.

Section 2.07 DEFERRAL BENEFIT. "Deferral Benefit" means the benefit as calculated in Article VII payable to a Participant commencing at his death, disability, on April 1 immediately following the Director attaining age 70, or, if permitted by the Committee, some other date as specified in the Participant's Deferral Election Agreement.

Section 2.08 DEFERRAL ELECTION AGREEMENT. "Deferral Election Agreement" means a deferral agreement, on such form as may be prescribed by the Committee, signed by the Participant and an officer of the Company.

Section 2.09 DEFERRED BENEFIT ACCOUNT. "Deferred Benefit Account" means the accounts maintained on the books of account of the Company for each Participant pursuant to Article VI. Separate Deferred Benefit Accounts shall be maintained for each Participant. More than one Deferred Benefit Account may be maintained for each Participant. A Participant's Deferred Benefit Accounts shall be utilized solely as a device for the measurement and determination of the amounts to be paid to the Participant pursuant to this Plan. A Participant's Deferred Benefit Account shall not constitute or be treated as a trust fund of any kind.

Section 2.10 DETERMINATION DATE. "Determination Date" means the date on which the amount of a Participant's Deferred Benefit Account is determined as provided in Article VI hereof. The last day of each calendar month shall be a Determination Date.

Section 2.11 DIRECTOR COMPENSATION. "Director Compensation" means Retainer and Board Meeting Fees paid by the Company to its members of the Board of Directors.

Section 2.12 DISABILITY. "Disability" or "Disabled Participant" means that a physician selected by the Company has concluded that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long- continued and indefinite duration.

Section 2.13(a) MOODY'S BOND INDEX. "Moody's Bond Index" means the average annual composite yield on Moody's Seasoned Corporate Bond Yield Index for the preceding five years as determined from Moody's Bond Record published by Moody's Investors Services, Inc. (or any successor thereto), or, if such yield is no longer published, a substantially similar average selected by the Committee. For example:

YEAR ----	ANNUAL AVERAGE -----	1985 MOODY'S BOND INDEX -----
1984	13.49%	
1983	12.78%	
1982	14.94%	
1981	15.06%	
1980	12.75%	

	69.02%	/ 5 = 13.80%

Section 2.13(b) AVERAGE ANNUAL MOODY'S RATE. "Average Annual Moody's Rate" means the average annual composite yield on Moody's Seasoned Corporate Bond Yield Index for the preceding year as determined from Moody's Bond Record published by Moody's Investors Services, Inc. (or any successor thereto), or, if such yield is no longer published, a substantially similar average selected by the Committee.

Section 2.14 PARTICIPANT. "Participant" means any Director who elects to participate in this Plan by filing a Deferral Election Agreement as provided in Article IV.

Section 2.15 PLAN ADMINISTRATOR. "Plan Administrator" means the Senior Vice President, Human Resources for McGraw-Hill, Inc.

Section 2.16 PLAN YEAR. "Plan Year" means a twelve month period commencing January 1 and ending the following December 31.

Section 2.17 PROJECTED RETIREMENT DATE. "Projected Retirement Date" means April 1 immediately following the Participant attaining age 70, or, if permitted by the Committee, some other date as specified in the Participant's Deferral Election Agreement.

Section 2.18 RETAINER. "Retainer" means the cash portion of the amount paid to members of the Board as compensation for their services in that capacity. Retainer shall not include the cash payment payable to members of the Board in respect of dividends paid by the Company pursuant to subparagraph 6(b) of the 1993 McGraw-Hill Stock Payment Plan for Directors.

ARTICLE III

ADMINISTRATION

Section 3.01 PLAN ADMINISTRATOR; COMMITTEE; DUTIES: This Plan shall be administered by the Plan Administrator. Decisions of the Plan Administrator shall be reviewable by the Committee. The Committee shall also have the authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan.

Section 3.02 BINDING EFFECT OF DECISIONS. The decision or action of the Committee in respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Plan, unless a written appeal is received by the Committee within sixty days of the disputed action. The appeal will be reviewed by the Committee and the decision of the Committee shall be final, conclusive and binding on the Participant and all persons claiming by, through or under the Participant.

ARTICLE IV

PARTICIPATION

Section 4.01 **PARTICIPATION**. Participation in the Plan shall be limited to Directors who elect to participate in the Plan by filing a Deferral Election Agreement with the Company.

Section 4.02 **DEFERRAL**. A Director may elect in any Deferral Election Agreement to defer all or a portion of his Retainer Fees. He may also elect to defer all or a portion of his Board Meeting Fees.

Section 4.03 **WHEN MADE AND WHEN EFFECTIVE**. A Deferral Election Agreement shall (except as provided below in the case of a new Director) become effective on the first day of the next Plan Year. A Deferral Election Agreement shall remain effective for such next Plan Year and for each subsequent Plan Year, unless such Deferral Election Agreement is revoked in writing prior to the commencement of a subsequent Plan Year, in which case the Deferral Election Agreement shall cease to be effective on the first day of the Plan Year following such revocation. An individual who is not a Director may enter into a Deferral Election Agreement before he/she becomes a Director, or within 30 days after becoming a Director, which Agreement shall be effective with respect to fees earned after the date of such election.

ARTICLE V

DEFERRED DIRECTOR COMPENSATION

Section 5.01 ELECTIVE DEFERRED DIRECTOR COMPENSATION. The amount of Compensation that a Director elects to defer in his Deferral Election Agreement shall be credited by the Company to the Participant's Deferred Benefit Account at such times as the compensation would have been paid had it not been deferred. To the extent that the Company is required to withhold any taxes or other amounts from the Director's deferred compensation pursuant to any state, federal or local law, such amounts shall be taken out of the portion of the Director's Compensation which is not deferred under this Plan.

ARTICLE VI

DEFERRED BENEFIT ACCOUNT

Section 6.01 DETERMINATION OF ACCOUNT. Each Participant's Deferred Benefit Account, as of each Determination Date, shall have a beginning balance equal to the Participant's Deferred Benefit Account as of the immediately preceding Determination Date. The Deferred Benefit Account of each Participant shall then be increased by any deferred Director Compensation or reduced by the amount of all distributions, if any, made from such Deferred Benefit Account since the preceding Determination Date.

Section 6.02(a) For Director Compensation deferred in 1986, as of each Determination Date, the Participant's Deferred Benefit Account shall be increased by the amount of interest earned since the preceding Determination Date. The Deferred Benefit Account shall be maintained and increased by the monthly equivalent of Moody's Bond Index plus 6% (up to a maximum of 150% of Moody's Bond Index) until the Participant's Projected Retirement Date. Subsequent to the Participant's Projected Retirement Date, however, Moody's Bond Index shall no longer be determined annually and shall be deemed to be the Moody's Bond Index rate in effect during the year of the Participant's Projected Retirement Date. In the event that a Participant's service with the Board ceases prior to his/her Projected Retirement Date, other than for Death or Disability, the Moody's Bond Index rate shall no longer be determined annually and shall be determined to be the Moody's Bond Index rate in effect during the Plan Year in which such cessation of services occurs.

Section 6.02(b) For Director Compensation deferred in excess of the amount deferred by a Participant in 1986 or for Director Compensation deferred by a Participant who began deferring subsequent to 1986, as of each Determination Date, the Participant's Deferred Benefit Account shall be increased by the amount of the interest earned since the preceding Determination Date. The Deferred Benefit Account shall be maintained and increased by the monthly equivalent of the Average Annual Moody's Rate plus 2% (up to a maximum of 150% of the Average Annual Moody's Rate) until the Participant's Projected Retirement Date. Subsequent to the Participant's Projected Retirement Date, however, the Average Annual Moody's Rate shall no longer be determined annually and shall be deemed to be the Average Annual Moody's Rate in effect during the year of the Participant's Projected Retirement Date. In the event that a Participant's service with the Board ceases prior to his/her Projected Retirement Date, other than for Death or Disability, the Average Annual Moody's rate shall no longer be determined annually and shall be determined to be the Average Annual Moody's rate in effect during the Plan Year in which such cessation of services occurs.

Section 6.03(a) ALTERNATE RATE. For Director Compensation deferred in 1986, the interest credit rates in Section 6.02(a) may be amended to the rate of Moody's Bond Index as of the Determination Date in the Company's sole discretion if marginal corporate tax rates are reduced or if any tax leveraged investment vehicle being utilized is no longer appropriate. In the event of a Change of Control, the interest credit rate cannot be changed to the Alternate Rate.

Section 6.03(b) ALTERNATE RATE. For Director Compensation deferred in excess of the amount deferred by a Participant in 1986, the interest credit rates in Section 6.02(b) may be amended to the rate of the Average Annual Moody's Rate as of the Determination Date in the Company's sole discretion if marginal corporate tax rates are reduced or if any tax leveraged investment vehicle being utilized is no longer appropriate. In the event of a Change of Control, the interest credit rate cannot be changed to the Alternate Rate.

Section 6.04 STATEMENT OF ACCOUNTS. The Company shall submit to each Participant, within 120 days after the close of each Plan Year, a statement in such form as the Company deems desirable, setting forth the balance to the credit of such Participant in his Deferred Benefit Account as of the last day of the preceding Plan Year.

ARTICLE VII

BENEFITS

Section 7.01 RETIREMENT BENEFIT. Subject to Section 7.07, a Participant shall be entitled to a Deferral Benefit equal to the amount of his Deferred Benefit Account determined under Section 6.01 and payable under Section 7.04 as of the Determination Date coincidental with or immediately following his Projected Retirement Date.

Section 7.02 DEATH. If a Participant dies after the commencement of payments of his Deferral Benefit, or if a Participant dies prior to any payments of a Deferral Benefit, his Beneficiary shall receive a lump sum payment equal to his Deferred Benefit Account as of the Determination Date coincidental with or immediately following such death.

Section 7.03 DISABILITY. In the event of Disability prior to his Projected Retirement Date, the disabled Participant, unless he otherwise elects under this paragraph, shall have his payment of his Deferred Benefit Account made or commenced in accordance with the Participation Agreement filed by the Participant. Before payments commence or are made under the preceding sentence, a Disabled Participant may elect, subject to Committee approval upon good cause shown, to have payments (i) made as soon as practicable in a lump sum, or (ii) commence as soon as practicable in equal installments over a period not in excess of 15 years.

Section 7.04 FORM OF BENEFIT PAYMENT. Upon the happening of the date or event described in Sections 7.01 or 7.03, the Company shall pay to the Participant the balance to the credit of his/her Deferred Benefit Account in a lump sum or in equal annual installments as elected in the Deferral Election Agreement filed by the Participant. If a Participant elects to receive payments in installments, payment of the Deferred Benefit Account shall be in an amount which amortizes the Deferred Benefit Account balance in equal annual payments of principal and interest over a period not to exceed 15 years. For purposes of determining the amount of the annual payment, the assumed rate of interest shall be the post-retirement rate under the terms of Section 6.02. No change in a Participant's election shall be valid unless it is made in a Deferral Election Agreement which is filed with the Committee prior to the Plan Year preceding the Plan Year in which payment of the Participant's Deferred Benefit Account would otherwise have been made or commenced.

Section 7.05 LUMP SUM PAYMENT. Notwithstanding Section 7.04, in its sole discretion the Committee may make a lump sum payment at the time payments would otherwise commence under the Plan.

Section 7.06 WITHHOLDING; PAYROLL TAXES. To the extent required by the law in effect at the time payments are made, the Company shall withhold from payments made hereunder any taxes required to be withheld for the federal or any state or local government.

Section 7.07 COMMENCEMENT OF PAYMENTS. Commencement of payments under this Plan shall begin within 60 days following receipt of notice by the Plan Administrator of an event which entitles a Participant (or a Beneficiary) to payments under this Plan, or at such earlier date as may be determined by the Committee. The Company may, in its sole discretion, commence payments under this Plan within 60 days following a Participant's cessation of services as a member of the Board prior to his Projected Retirement Date for reasons other than death or Disability. All payments shall be made as of the first day of the month.

Section 7.08 PAYMENTS IN CONNECTION WITH CHANGE OF CONTROL. Notwithstanding anything contained in this Plan to the contrary, in the event of a Change of Control of the Corporation the Committee shall immediately pay to each Participant in a lump sum the then remaining balance in his/her Deferred Benefit Account.

The terms of Sections 9.01 and 9.02 hereof shall not be applicable following a Change of Control of the Corporation.

The reasonable legal fees incurred by any Participant to enforce his/her valid rights hereunder shall be paid for by the Company to the Participant in addition to sums otherwise due hereunder, whether or not the Participant is successful in enforcing his/her rights or whether or not the matter is settled.

ARTICLE VIII

BENEFICIARY DESIGNATION

Section 8.01 **BENEFICIARY DESIGNATION.** Each Participant shall have the right, at any time, to designate any person or persons as his Beneficiary or Beneficiaries (both principal as well as contingent) to whom payment under this Plan shall be paid in the event of his death prior to complete distribution to Participant of the benefits due him under the Plan.

Section 8.02 **AMENDMENTS.** Any Beneficiary designation may be changed by a Participant by the written filing of such change on a form prescribed by the Company. The filing of a new Beneficiary designation form will cancel all Beneficiary designations previously filed.

Section 8.03 **NO BENEFICIARY DESIGNATION.** If a Participant fails to designate a Beneficiary as provided above, or if all designated Beneficiaries predecease the Participant, then any amounts to be paid to the Member's Beneficiary shall be paid to the Member's estate.

Section 8.04 **EFFECT OF PAYMENT.** The payment to the deemed Beneficiary shall completely discharge Company's obligations under this Plan.

ARTICLE IX

AMENDMENT AND TERMINATION OF PLAN

Section 9.01 AMENDMENT. The Board or the Committee may at any time amend the Plan in whole or in part; provided, however, that no amendment shall be effective to decrease or restrict any Deferred Benefit Account at the time of such amendment.

Section 9.02 COMPANY'S RIGHT TO TERMINATE. The Board or the Committee may at any time terminate the Plan with respect to Director Compensation payable in the future, if, in its judgment, the continuance of the Plan, the tax, accounting, or other effects thereof, or potential payments thereunder would not be in the best interests of the Company. The Board or the Committee may also terminate the Plan in its entirety at any time, and upon any such termination, the Company shall immediately pay to each Participant in a lump sum the then remaining balance in his/her Deferred Benefit Account.

ARTICLE X

MISCELLANEOUS

Section 10.01 UNSECURED GENERAL CREDITOR. Participants and their Beneficiaries shall have no legal or equitable rights, interest or claims in any property or assets of the Company, nor shall they be Beneficiaries of, or have any rights, claims or interests in any life insurance policies, annuity contracts or the proceeds therefrom owned or which may be acquired by the Company ("Policies"). Such Policies or other assets of the Company shall not be held under any trust for the benefit of Participants or their Beneficiaries or held in any way as collateral security for the fulfilling of the obligations of the Company under this Plan. Any and all of the Company's assets and Policies shall be, and remain, the general, unpledged, unrestricted assets of Company. Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Company to pay money in the future.

Section 10.02 NONASSIGNABILITY. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

Section 10.03 PROTECTIVE PROVISIONS. A Participant will cooperate with the Company by furnishing any and all information requested by the Company, in order to facilitate the payment of benefits hereunder, and by taking such physical examinations as the Company may deem necessary and taking such other action as may be requested by the Company.

As amended: February 26, 1986
December 3, 1986
January 28, 1987
September 30, 1987
September 28, 1988
January 31, 1990
September 26, 1990
February 24, 1993
October 27, 1993

Exhibit (12)
McGRAW-HILL, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Years Ended December 31				
	1993	1992	1991	1990	1989

	(In thousands of dollars)				
Earnings					
Earnings from continuing operations before income tax expense, cumulative effect on prior years of changes in accounting in 1992, and unusual charges in 1993 and 1989(a)(b)(c)	\$293,243	\$264,877	\$255,608	\$299,715	\$304,046
Fixed charges	75,930	81,724	89,050	97,555	61,849
Capitalized interest	(536)	(836)	(507)	(842)	(594)

Total Earnings	\$368,637	\$345,765	\$344,151	\$396,428	\$365,301
	=====				
Earnings from continuing operations before income tax expense and cumulative effect on prior years of changes in accounting in 1992 (b)(c)	\$ 63,443	\$264,877	\$255,608	\$299,715	\$ 84,046
Fixed charges	75,930	81,724	89,050	97,555	61,849
Capitalized interest	(536)	(836)	(507)	(842)	(594)

Total Earnings	\$138,837	\$345,765	\$344,151	\$396,428	\$145,301
	=====				
Fixed Charges(b)					
Interest expense	\$ 46,998	\$ 49,935	\$ 59,350	\$ 68,651	\$ 36,718
Portion of rental payments deemed to be interest	28,932	31,789	29,700	28,904	25,131

Total Fixed Charges	\$ 75,930	\$ 81,724	\$ 89,050	\$ 97,555	\$ 61,849
	=====				
Ratio of Earnings to Fixed Charges:					
Before unusual charges and cumulative adjustment	4.9x	4.2x	3.9x	4.1x	5.9x
After unusual charges but before cumulative adjustment	1.8x	4.2x	3.9x	4.1x	2.3x

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

Unusual charges in 1989 total \$220 million before taxes. They include the write-down of goodwill and other intangible assets of certain acquired units of \$82 million, a provision for the shutdown of certain units and the write-down of other non-performing units and assets of \$63 million and a reserve of \$75 million for severance payments associated with staff reductions and for other items.

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

(c) The cumulative adjustment in 1992 reflects the adoption of FAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", \$183.5 million pretax, and FAS 112, "Employers' Accounting for Postemployment Benefits", \$25.3 million pretax.

(Exhibit 12)

McGraw-Hill, Inc.

Pro Forma Computation of Ratio of Earnings to Fixed Charges Years Ended December 31, 1993 and 1992

	Year Ended 12/31/93	Year Ended 12/31/92
	-----	-----
	(In thousand of dollars)	
Pro Forma Earnings		
Earnings from continuing operations before income tax expense (Note).....	\$313,249	\$277,198
Fixed charges.....	94,251	103,413
Capitalized interest.....	(767)	(836)
	-----	-----
Total Earnings.....	\$406,733	\$379,775
	=====	=====
 Fixed Charges (Note)		
Interest expense.....	\$ 62,502	\$ 68,501
Portion of rental payments deemed to be interest.....	31,749	34,912
	-----	-----
Total Fixed Charges.....	\$ 94,251	\$103,413
	=====	=====
 Pro Forma Ratio of Earnings to Fixed Charges	4.3x	3.7x

Note: For purposes of computing the ratio of earnings to fixed charges, "earnings from continuing operations before income tax expense" 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.

This pro forma computation of ratio of earnings to fixed charges gives effect to the acquisition of the additional 50% interest in the Macmillan/McGraw-Hill School Publishing Company as if it had occurred as of January 1, 1992. The Computation excludes the unusual charges recorded by McGraw-Hill related to the acquisition of the additional 50% interest in Macmillan/McGraw-Hill. The underlying pro forma financial statements for the years ended 1993 and 1992 are based on certain estimates and assumptions and were prepared utilizing the historical financial statements of McGraw-Hill, Inc. and the Macmillan/McGraw-Hill School Publishing Company contained in McGraw-Hill's 1993 and 1992 Forms 10-K and its Form 10-Q for the quarterly period ended September 30, 1993. Pro forma statements of income do not purport to represent what the company's results of operations would actually have been had the acquisition in fact occurred at the beginning of the periods indicated or to project the Company's results of operations for any future date or period.

Exhibit 13 Index

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MCGRAW HILL AT A GLANCE

=====	Group and Key Markets	1993 Highlights	Factors Affecting Future Growth
EDUCATIONAL AND PROFESSIONAL PUBLISHING			
Operating Revenue and Operating Profit by Segment (Dollars in millions)	COLLEGE GROUP Two- and four-year colleges and universities.	Lower enrollments slackened demand in business and accounting courses; Primis texts were sold on 800 college campuses.	Flat enrollments until 1995, then a rise to 16.7 million students in 2004; used books, text prices, academic custom publishing.
-----	LEGAL INFORMATION GROUP Legal professionals.	Case citation database grew to 260 million; increased electronic delivery in state-specific formats.	Need for technology-based productivity tools and information in legal specialties.
1993 OPERATING REVENUE	MCGRAW-HILL SCHOOL PUBLISHING COMPANY Elementary, secondary, vocational, post-secondary, testing and professional training fields.	McGraw-Hill acquired other half of Macmillan/McGraw-Hill School Publishing Company joint venture to become America's largest school publisher.	Next strong adoption schedule in 1995; trend toward multi-media educational publishing; steady improvement in el-hi enrollments over next few years.
-----	PROFESSIONAL PUBLISHING GROUP Professionals in engineering, science, medicine, healthcare, computer technology; business and government; students and educators overseas; consumers in home-study courses.	Difficult economic conditions prevailed around the world in 1993, but Ibero-America and the developing countries of the Asia-Pacific region performed well.	Demand for electronically delivered products; focus on content areas with highest global potential--medicine, engineering, science, computing and business.
-----	FINANCIAL SERVICES		
1993 OPERATING PROFIT	FINANCIAL INFORMATION SERVICES GROUP Investors, corporations, government agencies, financial institutions, brokerages, mutual funds, unit investment trusts; commodity, securities and foreign exchange traders; libraries.	Group formed in 1993 to capitalize on core competencies in related units to create broader product offerings on a global basis, more operational efficiencies and new marketing opportunities.	Rising use of technology for information collection, enhancement and distribution directly and through non-exclusive relationships; more new products for institutional investors; globalization of financial markets.
-----	STANDARD & POOR'S RATINGS GROUP Global capital markets.	Continued growth of major debt markets; expanded global network; developed new rating services and recurring revenue streams to counter transaction-based market fluctuations.	Impact of interest rates on new-debt issuance.
-----	INFORMATION AND MEDIA SERVICES		
-----	BROADCASTING GROUP Network-affiliated stations in Denver, Indianapolis, San Diego and Bakersfield.	Maintained news leadership in Indianapolis, San Diego and Bakersfield markets; continued growth in Denver.	CBS Olympics broadcasting and improvement in political advertising in 1994.
-----	BUSINESS WEEK GROUP Business professionals and advertisers worldwide.	Finished 1993 as America's 6th-largest magazine in revenue, according to Publishers Information Bureau.	Effect of corporate profits on ad expenditures; globalization of business markets.
-----	CONSTRUCTION INFORMATION GROUP Architects, engineers, contractors; real estate owners, developers and investors; building-products manufacturers.	Introduced DataLine(2), an expanded and upgraded version of first electronic service on U.S. construction projects; launched SweetSource, building products information on CD-ROM.	F.W. Dodge projects 9% increase in construction contract value in 1994; Group's key market--income properties--should improve modestly.
-----	PUBLICATION SERVICES GROUP Professionals and corporations around the world in aviation; computers and communications; healthcare; and science and technology markets.	Launched successful new products in key market segments--computer networking, electric power and natural gas; and in consumer health information.	Effect of worldwide economy on demand for information on plastics, chemicals, energy; timing of upturn in defense and aviation; progress of national healthcare reform; new technologies in computer and communications market.
-----	TOWER GROUP INTERNATIONAL Major North American importers and exporters.	Upgraded proprietary shipment management software; expanded regional operations.	Transition of logistics marketplace from transaction-based to information-driven; strong trade growth projected for the rest of the decade.

EXPANDING GLOBALLY. Enhancing capabilities. Inventing the future. Focusing on customers. These are McGraw-Hill's strategies for growth, and you'll find them at work in every part of the company.

Our employees are finding opportunities to expand our businesses globally. They are providing information in innovative ways by using the latest advances in technology. Our employees are literally inventing the company's future by developing products and services that fulfill customer needs.

To be where our customers are, to know their information needs, to create and then deliver the best products and services possible in the forms they want:

Those strategies have been our heritage and are the source of our new growth.

EXPANDING GLOBALLY

McGraw-Hill's best growth prospects are increasingly in countries outside the U.S., where the information needs of professionals in business, government, industry and education are growing rapidly. By penetrating local markets with products that are new or in a variety of languages, McGraw-Hill has helped its customers participate more fully in the global economy.

Standard & Poor's is a large contributor to McGraw-Hill's global growth. Having opened offices in Toronto and Mexico City in 1993, S&P Ratings now performs both domestic and cross-border debt-rating activities for clients in 10 world capital markets. These clients--taking advantage of S&P's reputation for analytical expertise and impartiality, long-term relationships with key market participants and exceptional analytical staff--have come to recognize the value of an S&P

rating.

McGraw-Hill's electronic products in currency, treasury, commodity and securities markets have also won many overseas customers. U.S. brokerages have long benefited from S&P MarketScope's real-time financial information service, for example. Recognizing a need for similar coverage of Western Europe's securities markets, S&P launched MarketScope Europe in 1993 to provide investment professionals there with comprehensive coverage of events that affect share prices on stock exchanges throughout Europe.

Creating products in local languages is another avenue to global growth. MMS International is known for its reliable analysis of worldwide debt and currency markets. It developed its first local-language serv-

ice--real-time analysis of the yen currency market in Japanese--in 1992, and added a currency market service in Chinese in 1993.

Throughout North America, where massive amounts of securities are traded daily at a breakneck pace, the financial community, literally, goes by the numbers--Standard & Poor's CUSIP numbers. The Committee on Uniform Security Identification Procedures--CUSIP for short--is a standardized system for identifying every stock, bond and publicly traded issue in the United States, Canada, and, beginning this year, Mexico.

CUSIP's North American directory listed 500,000 issues when it was launched in the late 1960s. Today, CUSIP products list 3.5 million issues, while CUSIP's international directory lists another 200,000 issues outside of North America. Both the North American and international directories are available in many media, including CD-ROM.

McGraw-Hill is the world's largest publisher of Spanish-language college textbooks and supplements, and a major provider of Spanish elementary and high-school texts. In 1993, McGraw-Hill published, for the first time, college and professional books in Mandarin and Thai. Such versatility helps McGraw-Hill maintain one of the most sophisticated infrastructures in publishing, with materials appearing in three dozen languages and operations in 60 cities throughout 18 countries.

Of

McGraw-Hill's three dozen magazines, many either carry International in their title or are published in a foreign language. The largest, Business Week, has worldwide English-language circulation of more than one million--some 115,000 in its Business Week International edition. Worldwide, 200 editors and reporters produce editions in English and three local languages. Nine of its 24 editorial bureaus are outside the U.S. McGraw-Hill's second-largest publication, BYTE, has a fourth of its 510,000 circulation outside the U.S.

McGraw-Hill's reputation and experience in information publishing make it at home everywhere in the world. And its ability to meet a variety of information needs makes a world of difference to every customer.

When medical interns and residents are on the ward alone, and a health question arises, they often turn to "Harrison's Principles of Internal Medicine," the "middle of the night" book. Published in nine languages, it has defined the teaching of medical diagnosis and treatment for more than 50 years, selling 1.5 million copies. Harrison's has spawned several product extensions: a companion handbook, which is an outline summary of the parent text available in six languages; a self-assessment and review book keyed to the parent text; and a CD-ROM version, which will be launched in 1994 and combine the text with an interactive pharmaceutical-drug database.

ENHANCING CAPABILITIES

At McGraw-Hill, improving products is foremost. The company continually looks for ways to use technology so customers get information faster or in more detail; for ways to customize information to meet a specific need; and for opportunities to use information already collected. By enhancing the value of products, McGraw-Hill more successfully meets the information needs of its customers.

Shepard's, for example, has compiled more than 260 million citations that trace the history of court decisions at the state and federal levels. Traditionally, citations were published exclusively in books. Today, they are in an electronic database, which is accessed to develop Shepard's print products and those created for fax, online and CD-ROM delivery--the ways customers increasingly prefer. In 1993, Shepard's added a new capability:

collecting U.S. Federal Court of Appeals and Supreme Court decisions electronically, further speeding the publishing and distribution process.

For years, Datapro's many separate information services on computer systems and communications were available only in loose-leaf format. Each service equals about 1,000 pages and fills one or more heavy binders. Today, virtually all the services are published on CD-ROMS--with versions for both U.S. and international subscribers. The Datapro Computer Systems Analyst CD-ROM, for example, comprises 11 services, and the Communications Analyst CD-ROM includes 12 services. Each CD-ROM provides succinct analysis, user survey ratings, product comparisons and test results supplied by McGraw-Hill's National Software Testing Laboratory.

S&P services also flow directly to subscribers who, more and more, need real-time information that comes in one convenient product. By integrating several databases, S&P created S&P Research Reports, which allow customers to find out virtually everything S&P says about a particular company. Through S&P Reports On-Demand, every investor with a fax and touch-tone phone now can have easy access to the same information McGraw-Hill sells Wall Street

traders and analysts, including Stock Reports, Industry Reports and Price Charts.

Since the 1920s, the movers and shakers in the commodities business have turned to Platt's, the Commodities Division of Standard & Poor's, for comprehensive news and pricing information. Twenty-four hours a day, seven days a week, Platt's gathers and disseminates data on petroleum, petrochemicals, tankers, natural gas and metals. Satellite distribution of Platt's Global Alert began in 1984. In 1993, Platt's introduced the first satellite-delivered information service for the petrochemical industry, expanded editorial coverage of the growing metals industry in China and opened a full-time news bureau in Moscow. In 1994, bureaus will open in Hong Kong and South America.

Students, academics and professionals today require customized information and McGraw-Hill has products to meet their needs. Primis, McGraw-Hill's electronic custom publishing system, individualizes textbooks for the education market. Professors select information from the Primis database, tailor it for classroom use, add their own materials and then receive copies within days.

Marketers of upscale products and services can reach the readers of Business Week who live in the country's highest-income ZIP codes by advertising in Business Week's Elite demographic edition. It's just one of nearly two dozen demographic, geographic or local-language editions available to advertisers.

McGraw-Hill TV stations are also continually improving what they do best, which includes creating top-rated local news programs. Two of the company's stations--WRTV in Indianapolis and KGTV in San Diego--prepare news for their own stations and other outlets in their markets, including local news inserts for the CNN Headline News channel. Both also produce fax news services for business subscribers.

McGraw-Hill not only puts a premium on information but also on its ability to enhance information and ensure timely delivery of quality products. That's a major reason customers value their relationship with McGraw-Hill.

INVENTING THE FUTURE

The eyes of Texas were upon the McGraw-Hill School Publishing Company and four of its biggest competitors during 1993. Educators were adopting textbooks for their statewide school reading program. The publishing companies were after a share of the \$140 million Texas had allocated for reading in grades one through eight. McGraw-Hill, armed with one of the most progressive reading programs ever published, claimed about 30% of the state's program. McGraw-Hill fared best in the state's largest school systems--coming out on top in Dallas, Austin, Fort Worth and San Antonio.

McGraw-Hill has always excelled in creating information products to satisfy customer needs--ideally positioning it to invent the future. Today, editorial expertise, strategic partnerships and quality information supply shape and energy to McGraw-Hill's product-development process.

McGraw-Hill owns some of the world's most valuable data collections, including those for construction projects, legal citations, power producers, educational materials, securities, credit ratings and municipal bonds. By digitizing data for electronic access and distribution, McGraw-Hill leverages this content for online services or CD-ROMS. This process has created many innovative McGraw-Hill products, such as Compustat PC Plus, Primis, Dodge DataLine, SweetSource and Shepard's Online and CD-ROMS.

Helping customers sift the Dodge database to find specific construction

projects instantly has helped Dodge attract many new customers. A new version of Dodge's online service, DataLine2, was unveiled in 1993 to expand search capabilities and enable clients to customize data in new ways. It is the fastest-growing sales and marketing service in the construction industry.

Partnerships, both within and outside McGraw-Hill, also contribute to new products. Company-wide teams of employees develop new product ideas and distribution channels. And employees from different business units regularly propose and launch new products that take advantage of the strengths of each. In 1993, the first joint effort between Professional Publishing and S&P Equity Services extended

distribution of the S&P Stock and Bond Guide for the first time to shelves of America's bookstores. Professional Publishing also produces book versions of Business Week's best-selling issues, including "The Quality Imperative" from 1991 and an annual mutual fund survey.

McGraw-Hill spurs product development through alliances with partners in key businesses. In 1993, McGraw-Hill became the largest stockholder in Liberty Brokerage, the country's second-largest interdealer broker for U.S. Treasury securities; the move positions McGraw-Hill as a leading provider of fixed-income securities prices and information to the government

securities brokerage business.

Some of the best new products germinate from already existing ones. The S&P 500, for example, has long been the benchmark of investment performance. In recent years, S&P developed the S&P MidCap 400 and the S&P/Barra indexes for growth and value. In 1993, S&P introduced an instrument that allows investors to own a security representing a share of the S&P 500--called S&P Depositary Receipts, known as SPDRS or Spiders. More than 51 million Spiders were traded in 1993. McGraw-Hill licenses S&P intellectual property to financial institutions and collects a fee on each trade involving instruments based on its indexes.

Developing new products and getting them quickly to market is a McGraw-Hill tradition, and an important way the company invents its future.

Derived from S&P's invaluable databases and generated on demand by fax or mail, S&P Research Reports are available to investors on more than 4,800 public companies. Each report delivers comprehensive and accurate investment research, financial data and company news that is as current as the last market close. Analysts' consensus buy/sell/hold recommendations and S&P earnings estimates are also part of every report. More than 300,000 reports were sold in 1993; the top three requests were IBM, Merck and Boeing.

FOCUSING ON CUSTOMERS

The customer is the common denominator of McGraw-Hill's strategies for success as a worldwide information publisher.

A key to the growth of S&P Ratings has been its ability to translate new financial instruments into new ratings business, which has helped both issuers and investors around the world. Today, S&P provides ratings on money market funds, bond funds, project finance, derivative-products companies, the claims-paying ability of worldwide insurance companies and even private services like Corporate Assessments and Private Placement Ratings.

Customer focus was behind Tower Group International's joint service agreement with J.B. Hunt, one of the largest trucking companies in the U.S. The partnership helps North American companies expedite the movement of inventory across borders. Tower has also continued expanding its geo-

graphic coverage and increased its logistics and information-management services to capitalize on opportunities like those presented by the North American Free Trade Agreement.

Customers--both internal and external--are at the center of a special program in the Construction Information Group designed to set its products and people apart from the competition's. Group employees are crafting a vision statement and business strategies based on the Group's core competencies--those unique skills and resources that create lasting value for customers.

Any way you say it, read it, or write it, McGraw-Hill is the number-one publisher of foreign-language college textbooks in North America. In this \$55 million market, McGraw-Hill is the market share leader for Spanish, Italian and German-language programs. Other texts provide instruction in French, Japanese and Portuguese, and the College Division is at work on a new book for teaching the Russian language. But the foreign-language publishing program does not rely on books alone. Audio cassettes, videotapes, software, and videodiscs are used to supplement texts, and a CD-ROM product is now being developed for Spanish-language education. In addition, McGraw-Hill's foreign-language unit produced "Destinos," the first multimedia course for Spanish to be integrated with a public television series. In the summer of 1994, filming begins on a new television series--part of a McGraw-Hill program to teach English as a Second Language to people of all ages.

Listening to customers to guide product-development decisions, McGraw-Hill's College Division created Overture, a low-

cost, low-priced imprint that produced a best-selling new title for 1993, Brinkley's "The Unfinished Nation: A Concise History of the American Peoples;" J.J. Kenny, in association with joint-venture partner Liberty Brokerage, began an evaluation service for a wide range of taxable securities. That market is expected to rival the one for tax-exempt securities evaluations, in which Kenny is already a leader.

Using technology to enhance the understanding and delivery of information is important to McGraw-Hill as well as its customers. That's why Glencoe has become a leader in interactive education technology. Among Glencoe top products: the Foundations for Success learning system that teaches basic skills to adults at a pace comfortable for them; and a multimedia science program that energizes students, and has increased interest in the subject in schools where it is used.

Leveraging information from its healthcare publications, Postgraduate Medicine and The Physician and Sportsmedicine, McGraw-Hill has developed successful new products that are marketed to healthcare professionals for their own reference or for the education of their patients. Among them are Patient Notes, information on many common medical problems available from doctors' offices in pads (and in five languages) or generated from software; and the McGraw-Hill Health Letter and Healthkick 4 Kids newsletter.

The future of information management is made up of many elements: a dedication to quality information and analysis, a diverse and well-trained work force; a commitment to finding the best ways to deliver information; and a detailed knowledge of customers. McGraw-Hill employees are working together to achieve what is best for their customers, wherever they are located. And that, ultimately, is best for McGraw-Hill.

FINANCIAL REVIEW AND ANALYSIS

OPERATING RESULTS

CONSOLIDATED REVIEW

(in millions)	1993	1992	1991
Operating Revenue	\$2,195.5	\$2,050.5	\$1,943.0
% Increase	7.1	5.5	0.2
Operating Profit	\$ 352.6	\$ 344.3	\$ 312.2
% Increase/(Decrease)	2.4	10.3	(14.5)
% Operating Margin	16	17	16
Share of Profit of Macmillan/ McGraw-Hill Joint Venture	\$ 28.4(a)	\$ 11.3	\$ 27.5
Income before Taxes	\$ 66.3(b)	\$ 267.3	\$ 258.3
Income before Cumulative Adjustment	\$ 11.4	\$ 153.2	\$ 148.0
Cumulative Effect on Prior Years of Changes in Accounting	--	\$ (124.6)	--
Net Income	\$ 11.4(b)	\$ 28.6	\$ 148.0

(a) Represents McGraw-Hill's 50% share of profits through September 30, 1993. Macmillan/McGraw-Hill School Publishing Company is consolidated in McGraw-Hill's fourth quarter results reflecting McGraw-Hill's 100% ownership.

(b) 1993 income before taxes and net income include unusual charges of \$229.8 million (\$160.8 million net of tax benefits) related to McGraw-Hill's acquisition of its partner's 50% interest in the Macmillan/McGraw-Hill School Publishing Company.

REVENUE AND EARNINGS

Operating revenue in 1993 grew to \$2,195.5 million, an increase of 7.1%. 1993 net income after unusual charges was \$11.4 million, or 23 cents per share. Income before unusual charges of \$229.8 million (\$160.8 million after taxes or \$3.27 per share) and before the cumulative effect of 1992 accounting changes for postretirement and postemployment benefits increased 12.5% to \$172.2 million, or \$3.50 per share. In 1992, operating revenue increased 5.5% while income before the cumulative adjustment of \$153.2 million, or \$3.13 per share, increased 3.5% over 1991. In 1991, net income was \$148.0 million and earnings per share were \$3.03.

McGraw-Hill completed the purchase of the 50% interest in the Macmillan/McGraw-Hill School Publishing Company owned by Macmillan for \$337.5 million on October 4, 1993. The company now owns 100% of Macmillan/McGraw-Hill and it is consolidated in McGraw-Hill's operations from the date of acquisition. In connection with the purchase, the company recorded unusual charges of \$229.8 million (\$160.8 million net of tax benefits). The charges consist of \$199.8 million to adjust the company's original investment to values established in this transaction and have been allocated primarily to goodwill and other intangibles. In addition, the company recorded a provision of \$30 million relating to the consolidation of certain functions and systems of Macmillan/McGraw-Hill and the company's book publishing operations. This consolidation should be completed by mid-1995 and is expected to generate annual savings of more than \$10 million.

McGraw-Hill's 50% share of the Macmillan/McGraw-Hill School Publishing Company's profits for 1993 includes only the first three quarters prior to full ownership. The 1993 share increased to \$28.4 million from \$11.3 million in 1992. The increase reflects the improved 1993 adoption cycle and the exclusion of the 1993 fourth quarter loss which is included in McGraw-Hill's consolidated results. The inclusion of Macmillan/McGraw-Hill in McGraw-Hill's consolidated results for the fourth quarter increased 1993 revenues for the company by \$90.7 million or 4.4%. Due to the seasonal nature of Macmillan/McGraw-Hill's business, fourth quarter income was negatively impacted by an incremental 8 cents per share due to the 100% ownership. Macmillan/McGraw-Hill is consolidated within McGraw-Hill's results as the School Publishing market focus group in the Educational and Professional Publishing segment.

The company's 1992 earnings were impacted by the adoption of Statement of Financial Accounting Standards (SFAS) No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, which covers primarily healthcare and life insurance benefits, and SFAS No. 112, Employers' Accounting for Postemployment Benefits. The company recorded a charge for the cumulative effect on prior years of these changes of \$124.6 million (net of tax benefits of \$84.2 million) or \$2.55 per share. The cumulative adjustment reduced 1992 net income to \$28.6 million or 58 cents per share. The company also adopted SFAS No. 109, Accounting for Income Taxes, in 1992 but its implementation did not have a significant impact on 1992 earnings except as it relates to the recognition of tax benefits on the accounting changes.

Income as a percent of revenue before 1993 unusual charges and the 1992 cumulative adjustment was 7.8% in 1993, slightly above the 1992 ratio of 7.5%. Return on average shareholders' equity declined to 1.3% due to the impact of the unusual charges.

Operating revenue increased \$145 million in 1993, \$90.7 million of which was due to the inclusion of School Publishing for the fourth quarter. The remaining increase was due to new products and services and price increases. Operating profit for the three segments increased 2.4% in 1993, with Financial Services posting a gain of 19.3%. Information and Media Services posted a decline of 9.6% and Educational and Professional Publishing declined 21.2%. Excluding the fourth quarter loss for School Publishing, operating profit for Educational and Professional Publishing was flat compared to 1992. Financial Services' performance reflects another record year by Standard & Poor's Ratings Group due to the strong new issue market, expansion abroad and the introduction of new products and services. The Financial

Information Services Group also contributed solid gains. In the Educational and Professional Publishing segment, continued growth in Spanish language international markets and gains at Shepard's produced revenue growth of 1.6%. Continued softness in our College business reduced profits for the segment. Revenue and profit declines in Information and Media Services reflect soft advertising markets in the first half that began to rebound later in the year and continued weakness in the construction information markets.

In 1992, operating profits for the three segments after increased expense for postretirement benefits increased 10.3%, as Financial Services and Educational and Professional Publishing posted double-digit gains. The increase in total operating revenue of \$107.5 million came primarily from price increases and new products and services. Financial Services' performance was especially noteworthy, as low interest rates spurred major refinancing and new debt issue volume propelling S&P Ratings Group to a then record performance. In the Educational and Professional Publishing segment, strong performances by the international, medical and professional book operations produced a significant increase in profit. Information and Media Services' revenue increased \$10.9 million and operating profits declined \$7 million. Weakness in magazine advertising and in information services for the construction and computer industries could not be offset by record levels of political advertising in Broadcasting. McGraw-Hill's 50% share of Macmillan/McGraw-Hill School Publishing profit fell to \$11.3 million, a drop of \$16.2 million due to the joint venture's revenue decline of 5.3% and significant one-time costs.

EXPENSES

Operating expenses in 1993 increased \$89.5 million or 8.6% reflecting the inclusion of School Publishing fourth quarter expenses. Excluding School Publishing, the company's operating expenses increased 3.8% reflecting volume increases in some market focus groups and modest inflationary increases in key expense categories, such as compensation and fringe benefits expenses. In total, prices for printing, binding, paper and distribution declined slightly in 1993. Weakness in the printing and paper marketplace and successful negotiations with suppliers brought price levels down 0.7% below the level of prices paid in 1992. Total distribution prices rose only 1% in 1993 because of flat postal rates and the favorable impact of the new second class barcoding discounts. Selling and general expenses increased \$46.8 million or 6.4%, including the fourth quarter impact of School Publishing. Excluding School Publishing, selling and general expenses declined 1.3% reflecting cost controls in various categories. A significant portion of both operating and selling and general expenses is compensation, which increased 4.7% to \$605 million excluding the impact of School Publishing. The effect of merit increases and salary range changes on 1993 compensation cost was about 4.4%. The ratio of operating, selling and general expenses to total revenue in 1993 was 86.7% compared to 86.1% in 1992. In 1994, combined printing, binding, paper and distribution prices are expected to decrease approximately 1%. This is due primarily to successful negotiations with printing and paper suppliers, aided in part by the increased leverage gained through the acquisition of the Macmillan/McGraw-Hill School Publishing Company and expected flat postal rates. Compensation costs are expected to be up about 4.3% as a result of merit increases.

Effective in 1993, the company changed its healthcare plan for future retirees which contributed to a reduction in 1993 expense of \$4.4 million after tax or 9 cents per share.

The change in accounting for the cost of postretirement healthcare and life insurance benefits increased 1992 expense by \$12.7 million before taxes and reduced income before the cumulative adjustment by \$7.3 million after tax or 15 cents per share. The accounting change for postemployment benefits did not have a significant impact on 1992 expense.

INTEREST EXPENSE

Net interest expense in 1993 was \$36.3 million compared to \$37.6 million in 1992, a decrease of \$1.3 million, because of a decline in interest rates on commercial paper borrowings, partially offset by increased fourth quarter borrowings due to the acquisition of the additional 50% of the Macmillan/McGraw-Hill School Publishing Company. In 1992, net interest expense decreased \$9.4 million because of the decline in interest rates on commercial paper borrowings and lower borrowing levels.

Interest expense in 1994 will increase reflecting the full year impact of the borrowings for the Macmillan/McGraw-Hill acquisition.

PROVISION FOR INCOME TAXES

The provision for taxes as a percent of income before taxes was 41.8% in 1993 excluding the impact of unusual charges and related tax benefits of \$69 million. The 1993 rate was impacted by a reduction in the state effective tax rate due to a restructuring of subsidiaries, partially offset by the increase in the federal tax rate. The rate was 42.7% in 1992.

SEGMENT REVIEW

The company realigned its segments in 1993 to include Broadcasting and Tower Group International in the renamed Information and Media Services segment. Tower Group International was formerly included in the Financial Services segment. Management believes these segments better reflect the company's present operations and business strategies. Broadcasting and Tower Group International are now aligned with the company's advertising and information based busi-

nesses, respectively. Prior years have been restated to reflect the change.

INFORMATION AND MEDIA SERVICES

(in millions)	1993	1992	1991
-----	-----	-----	-----
Operating Revenue	\$831.1	\$865.6	\$854.7
% Increase/(Decrease)	(4.0)	1.3	(4.8)
-----	-----	-----	-----
Operating Profit	\$102.3	\$113.2	\$120.2
% (Decrease)	(9.6)	(5.8)	(29.6)
-----	-----	-----	-----
% Operating Margin	12	13	14
=====	=====	=====	=====

The Information and Media Services segment is comprised of five market focus groups: Construction Information, Business Week, Publication Services (including Computers and Communications Information, Aviation Week, Healthcare Publications and Science and Technology), Broadcasting and Tower Group International.

The Information and Media Services segment's revenues decreased 4% in 1993 and operating profit dropped \$10.9 million or 9.6% to \$102.3 million. In 1992, revenue increased 1.3% and operating profits declined 5.8% to \$113.2 million.

The Construction Information Group accounts for 30% of 1993 segment revenue. The Group's revenue and profits declined further due to the continuing depressed construction market impacting Dodge, Sweet's and the construction magazines. Sweet's was negatively impacted by declines in advertising by building product manufacturers. Overall construction contract award data was up 5% over 1992; however, the non-residential sectors, more relevant to this business, were down 2%. While traditional product sales suffered, the Group continues to launch electronic-based products, which are progressing well. In 1994, there are cautious expectations for improvement dependent on both the economic turnaround and the benefits of our investments in improving the Group's customer focused strategy. The contract value of total non-residential building is expected to increase in 1994, and other key areas related to the business (transportation, environmental and utilities construction) are also expected to improve. In 1992, the Group's revenue and profit declined, reflecting the lagging impact on Dodge and Sweet's of the depressed construction market of previous years.

The Business Week Group's revenue represents 23% of 1993 segment revenue. The Group's revenue and profit declined due to a decrease of 2.4% in advertising pages as measured by the Publishers Information Bureau (PIB). This overall figure, while down, is somewhat misleading since PIB pages were down 12.5% in the first half of 1993 but rebounded in the second half with pages up 7.1%. There were significant declines in advertising pages placed in international editions. Advertising prospects for 1994 remain dependent upon the continued strength of domestic corporate profits and an end to economic recession in Europe and Japan. In 1992, the Group recorded higher revenue and profits despite a 4% drop in advertising pages due to strong circulation performance, cost controls and improved revenue per page.

The Publication Services Group accounts for 28% of 1993 segment revenue. Revenues declined 6% mainly due to shrinking markets and recessionary pressures. Profits increased significantly, reflecting very effective cost containment and downsizing. This lower cost structure, combined with fourth quarter cyclical improvement in the business environment, produced strong profit performance.

Revenue for the Computers and Communications Information Group was below 1992 primarily due to fewer advertising pages for the year at BYTE and a lower subscriber base at Datapro. This year-to-year revenue decline was partially offset by increased revenues at LAN Times and Open Computing. In 1993, the Group's profit rose sharply due to effective cost management. In addition, the Group continued its shift to electronic product delivery primarily via Datapro's CD-ROM product offerings. In 1994, the Group anticipates some improvement in its markets as systems integrators, distributors and value added resellers are expected to be strong performers. In 1992, revenue declined moderately and profits dropped substantially reflecting reduced advertising pages for most of the Group's magazines and a declining subscriber base at Datapro.

The Aviation Week Group ended a difficult year with significant growth in profits despite a small decline in revenue. Aviation Week's display advertising pages rose slightly in 1993 thereby helping to offset declines in circulation revenues, which reflect the continuing slide in industry employment. The growth in profits reflects major restructuring efforts resulting in reduced costs. The market continues to be soft in the United States and around the world, with little change envisioned in 1994. The projections are: United States sales in civil aircraft will be down, military sales also will be off, while the space industry will be essentially flat. The United States industry employment is projected to decline 5% in 1994 following a 13% decline in 1993. In 1992, Aviation Week Group revenue and operating profit dropped significantly. Advertising pages declined as all market sectors continued to be negatively impacted by the overall economic conditions, downsizing of defense, upheaval in the airline industry, and slow growth in space technology.

The Healthcare Publications' revenues and profits declined in 1993 due to severe regulatory and promotional pressures in the pharmaceutical industry and a dearth of new drug introductions. The Group introduced products for the patient/consumer, which partially offset declines in the traditional advertising-supported physician publications, Postgraduate Medicine and The Physician and Sportsmedicine. Healthcare reform creates uncertainties for 1994. In 1992, the Group turned in a record performance driven by advertising associated with the fast pace of new drug introductions.

Revenues and profits for the Science and Technology Group were down in 1993 versus 1992 due to the sluggish global economy. During 1993, the Group continued to redesign its buyers' guides and convert to electronic databases. Innovative sales and marketing programs were developed to strengthen the position of all magazines in the Group. A wide range of new products were launched to serve the energy marketplace including a Power Russian edition and five new newsletters. In 1994, the Plastics Group should benefit from the largest United States trade show which is held every three years. In 1992, the Group reported a modest increase in revenue and a slight drop in profits.

Broadcasting accounts for 12% of 1993 segment revenue. The Broadcasting Group operates four television stations: VHF stations in Denver, Indianapolis and San Diego and a UHF station in Bakersfield, California. Revenue and operating profit were adversely impacted in 1993 by the lack of political advertising. The continuing recession in Southern California also had a negative effect on sales in San Diego and Bakersfield. Revenue growth in Denver, as a result of improved audience share, fueled a substantial increase in profit at that station. In 1994, an economic upturn and political spending should benefit this Group. In 1992, revenues and operating profits increased due to record levels of political advertising and improved audience share in Denver, partially offset by poorer performance in San Diego due to the impact on the local economy of cutbacks in the defense industry.

Tower Group International represents 7% of 1993 segment revenue. The Group's strong revenue growth continued in 1993 due to the full year effect of the acquisition of Geo. S. Bush & Co. in 1992 and the acquisition of Union Brokerage Company in 1993. Solid transaction growth was due to strong market conditions for imports, while exports were hampered by recessions in Europe and Japan. Profits declined due to competitive pressures which produced price reductions. In 1994, growth is anticipated in international trade as global companies turn to foreign markets to source goods and seek new buyers for their products. Import growth is expected to outpace export growth. Third party logistics services and logistical information services are emerging revenue sources. Tower showed strong revenue growth in 1992 with slower profit growth due to competitive pricing pressures and higher processing costs.

EDUCATIONAL AND PROFESSIONAL PUBLISHING

(in millions)	1993 (a)	1992	1991
-----	-----	-----	-----
Operating Revenue	\$667.5	\$567.4	\$532.5
% Increase/(Decrease)	17.6	6.6	(0.4)
-----	-----	-----	-----
Operating Profit	\$ 49.4	\$ 62.7	\$ 48.9
% Increase/(Decrease)	(21.2)	28.2	(30.3)
-----	-----	-----	-----
% Operating Margin	7	11	9
	=====	=====	=====

(a) Includes School Publishing revenues of \$90.7 million and operating loss of \$13.8 million for the fourth quarter.

The Educational and Professional Publishing segment consists of four market focus groups: Professional Publishing (including International Publishing, Continuing Education Center, Professional Book and Medical Publishing), College, Legal Information and School Publishing (Macmillan/McGraw-Hill School Publishing Company). School Publishing is only included in the segment results for the fourth quarter of 1993, the period that McGraw-Hill owned 100%.

The Educational and Professional Publishing segment revenue increased 17.6% in 1993. The increase in revenue is 1.6% without the impact of School Publishing. Operating profit declined 21.2% due to the impact of School Publishing's fourth quarter loss, a traditional loss quarter for school publishers. Operating profits increased 0.7% excluding the impact of School Publishing. In 1992, revenues increased 6.6% and operating profits increased 28.2% led by strong performances by the international, medical and professional book operations.

The Professional Publishing Group accounts for 51% of 1993 segment revenues, 59% excluding the fourth quarter revenues for School Publishing. The Professional Publishing Group revenues remained flat with last year, despite the adverse impact of recession, economic sluggishness and currency devaluation in several major markets. The International Publishing unit performed well keeping pace with last year's record setting revenues and profits. Asia and the Ibero-America sectors turned in strong performances due to the economic growth of those regions and our aggressive pursuit of those growth opportunities. The Medical Publishing unit's revenues and profits remained flat due to the economic climate. The Continuing Education Center increased revenue in spite of the low level of consumer confidence. However, profits declined due to increased costs in obtaining new customers. The Professional Book unit's products in business, computing and engineering performed well, but overall revenue declined due to the nonrecurring benefit gained by the publication of "The Encyclopedia of Science & Technology," 7th Edition a year earlier. Operating profits for the Professional Book Group showed double-digit growth as efficiencies were gained in all facets of the operations. In 1994, market conditions should improve slightly overall as the world's economic situation improves. In 1992, Professional Publishing achieved 8% revenue growth and profits more than doubled, led by the Ibero-America unit of International, strong profit growth in Medical Publishing and the strong contribution of "The Encyclopedia of Science & Technology," 7th Edition.

The College Group accounts for approximately 21% of 1993 segment revenues, 24% excluding the fourth quarter revenues for School Publishing. For 1993, College revenues were flat reflecting a weaker than expected frontlist performance. Stronger revenues from Primis and Custom Publishing partially offset softer than anticipated Accounting and Business frontlist sales. Operating profits were lower primarily as a result

of higher prepublication costs. In 1994, revenue is expected to decline due to a smaller frontlist. Expense reduction actions should partially offset the lower revenue. In 1992, College revenues increased modestly but operating profits were lower primarily as a result of increased postretirement expenses.

The Legal Group (Shepard's) accounts for approximately 14% of 1993 segment revenues, 17% excluding the fourth quarter revenues for School Publishing. Shepard's revenue grew significantly in 1993 as a direct result of the publication of five new major citator revisions, continued strong performance by new citator CD-ROM products, and the release of the Group's first primary law publication, "California Civil Practice Statutes and Rules." Profits grew at a rate less than revenue because Shepard's incurred certain one-time costs due to the growth in the topical publishing business. Shepard's projects an increase in overall legal information spending in the range of 2-3% in 1994. In 1992, the Group's revenue also grew significantly due to citator revisions, new editions of highly successful legal treatises, and strong sales from its new "Express Citations" product line. Profits in 1992 were flat due to planned expenditures in sales, marketing and editorial resources, plus the investment in a new integrated business system and Citation database.

School Publishing is included in the segment results for the fourth quarter only, reflecting McGraw-Hill's acquisition of the additional 50% interest in early October. School Publishing accounts for 14% of 1993 segment revenues. Revenues for the quarter increased 11.8% from the prior year while the operating loss improved significantly reflecting reduced goodwill amortization, primarily due to the 1993 unusual charges, and operating costs partially offset by increased prepublication cost amortization.

FINANCIAL SERVICES

(in millions)	1993	1992	1991
-----	-----	-----	-----
Operating Revenue	\$696.9	\$617.5	\$555.8
% Increase	12.8	11.1	9.9
-----	-----	-----	-----
Operating Profit	\$200.9	\$168.4	\$143.1
% Increase	19.3	17.7	15.4
-----	-----	-----	-----
% Operating Margin	29	27	26
=====	=====	=====	=====

The Financial Services segment consists of two market focus groups: Standard & Poor's Ratings Group and Financial Information Services Group, which comprises S&P Information, J.J. Kenny, and DRI/McGraw-Hill.

Financial Services revenue increased 12.8% and operating profit rose 19.3% to \$200.9 million in 1993. In 1992, the segment's revenue grew 11.1% and operating profit rose 17.7%.

The S&P Ratings Group experienced record revenue and earnings as a result of record new issues and refinancing activity in both Corporate and Municipal bond markets. Continued worldwide expansion and implementation of new initiatives also contributed to 1993's performance. Publishing Services, a smaller but growing unit of the Group, had excellent revenue and profit growth due to new electronic products. The forecasted decline in new issue and bond volumes from 1993 levels will influence 1994 financial performance. S&P Ratings also posted strong growth in 1992 due largely to increased new issue volume in the U.S. as a result of low interest rates.

The Financial Information Services Group was formed in 1993 through the integration of the S&P Information Group, J.J. Kenny and DRI/McGraw-Hill. The Group achieved revenue growth but profits declined due to a poor performance at DRI. Initial public offerings and the continued decline in interest rates fueled the equity markets, producing revenues from trading activities and information products sold to financial institutions. Low interest rates, coupled with the federal government's deficit reduction program, added strength to the municipal markets, improving trading and other revenue at J.J. Kenny. The new administration and slower than anticipated economic growth had a negative impact on DRI/McGraw-Hill, which had disappointing financial results as revenue from consulting decreased significantly from last year. New product development, growth in international markets and the continued demand for accurate and timely information products and services should benefit the Financial Information Services Group in 1994. The Group had good revenue and profit growth in 1992, reflecting positive market conditions, lower interest rates and new index products.

MACMILLAN/MCGRAW-HILL SCHOOL PUBLISHING COMPANY

(in millions)	1993(a)	1992	1991
-----	-----	-----	-----
Operating Revenue	\$526.7	\$504.9	\$533.2
Operating Profit	\$ 68.4	\$ 36.9	\$ 69.0
% Operating Margin	13	7	13
-----	-----	-----	-----
Net Profit before Partners' Income Taxes	\$ 54.2	\$ 19.1	\$ 51.5
-----	-----	-----	-----
McGraw-Hill's Share of Profit	\$ 28.4	\$ 11.3	\$ 27.5
	=====	=====	=====

(a) 1993 results reflected above are for the nine months ended September 30, 1993, the period McGraw-Hill owned 50%. Fourth quarter results are included in the Educational and Professional Publishing segment.

On October 4, 1993, the company purchased the 50% interest in the Macmillan/McGraw-Hill School Publishing Company owned by Macmillan, Inc., a subsidiary of Maxwell Communication, Inc., for \$337.5 million in cash. The company and Macmillan had each owned 50% of Macmillan/McGraw-Hill through wholly-owned subsidiaries. Macmillan/McGraw-Hill operated as a joint venture partnership which was formed in 1989 to combine the company's and Macmillan's elementary, secondary and vocational education and test publishing businesses.

McGraw-Hill's 50% share of the Macmillan/McGraw-Hill School Publishing Company's profits for 1993 includes only the first three quarters prior to full ownership. The 1993 share increased to \$28.4 million from \$11.3 million in 1992. The increase reflects the improved 1993 adoption cycle and the exclusion of the 1993 fourth quarter loss which is included in McGraw-Hill's consolidated results.

Macmillan/McGraw-Hill is comprised of four divisions: School, publisher of textbooks and instructional materials for elementary (grades K-8) schools; Glencoe, secondary school (grades 7-12) publisher; California Testing Bureau (CTB), producer of publications and provider of scoring for standardized achievement tests, customized testing and specialized educational software products; and Science Research Associates (SRA), developer of supplementary elementary and secondary instructional materials.

For the full year 1993, Macmillan/McGraw-Hill revenue grew 22.3% to \$617.4 million. Operating profit increased 48.0% to \$54.6 million. The revenue growth resulted from the successful introduction of several new elementary and high school programs and a favorable state adoption year. The new elementary reading program exceeded expectations in Texas, the largest state adoption in 1993. Operating profit in 1993 also improved due to the absence of charges recorded in 1992 for consolidation of certain facilities and operations. In 1994, revenue is expected to decline due to an unfavorable adoption cycle. Operating profit is expected to be maintained at the 1993 level as a result of cost reduction measures, including the impact of the unusual charges. The adoption cycle will be favorable in 1995 and remains positive through 1997.

In 1992, McGraw-Hill's share of the joint venture's profit was \$11.3 million, a drop of \$16.2 million from 1991. The joint venture's total revenue was \$504.9 million, a decline of 5.3% from the preceding year, as a result of unfavorable elementary adoptions in major states, reduced funding and budgetary constraints. Profit was also impacted by one-time charges for relocating the venture's headquarters, centralizing accounting and administrative functions, consolidating certain warehousing facilities and merging customer service operations. Consequently, operating profit dropped \$32.1 million or 46.5%.

FINANCIAL CONDITION

(in millions)	1993	1992
-----	-----	-----
Working Capital	\$ 62.9	\$ (19.6) (a)
Total Debt	\$928.7	\$ 483.0
Accounts Receivable (before reserves)	\$791.4	\$ 669.5
% Increase	18	2
Inventories	\$215.2	\$ 98.6 (a)
% Increase/(Decrease)	118	(8)
Purchases of Property and Equipment	\$ 49.8	\$ 55.9
% Increase/(Decrease)	(11)	9
	=====	=====

(a) Amounts restated to reflect reclassification of prepublication costs of \$89.9 million from inventory to a separate non-current category to conform with current industry practice.

The December 31, 1993 balance sheet includes the assets and liabilities of the Macmillan/McGraw-Hill School Publishing Company, reflecting McGraw-Hill's 100% ownership. As a result, total assets increased from \$2.5 billion at the end of 1992 to \$3.1 billion at the end of 1993.

The company continues to maintain a strong financial position. Cash flow from operations increased \$162 million to \$466 million in 1993, which was sufficient to cover dividends and outlays for the purchase of property and equipment, and reduce commercial paper borrowings, excluding borrowings for the acquisition of Macmillan/McGraw-Hill. A significant amount of the increase in 1993 operating cash flow relates to collections of the Macmillan/McGraw-Hill accounts receivables that were acquired in the acquisition.

Working capital at the end of 1993 of \$62.9 million was \$82.5 million above the restated level at the end of 1992 reflecting the consolidation of Macmillan/McGraw-Hill.

In 1993, total debt increased \$445.7 million, including \$337.5 million for the purchase of Macmillan's interest in Macmillan/McGraw-Hill and \$334.4 million of debt assumed with the acquisition. Shortly after the acquisition, McGraw-Hill prepaid \$120 million of Macmillan/McGraw-Hill notes payable and replaced that debt with commercial paper borrowings. In 1992, total debt decreased \$85.2 million, primarily due to a reduction in commercial paper borrowings of \$77.6 million.

Continued on page 32

TEN-YEAR FINANCIAL REVIEW

(in thousands, except per-share items)	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
OPERATING RESULTS BY SEGMENT AND INCOME STATISTICS										
OPERATING REVENUE (Note a)										
Information and Media Services	\$831,076	\$865,573	\$854,754	\$898,273	\$872,983	\$836,734	\$801,352	\$741,891	\$714,080	\$707,935
Educational and Professional Publishing	667,444	567,363	532,438	534,724	483,666	437,590	408,252	327,903	318,853	302,191
Financial Services	696,933	617,555	555,820	505,641	432,314	399,242	390,131	357,998	327,422	266,296
Total operating revenue	2,195,453	2,050,491	1,943,012	1,938,638	1,788,963	1,673,566	1,599,735	1,427,792	1,360,355	1,276,422
OPERATING PROFIT (Notes a and d)										
Information and Media Services	102,344	113,198	120,242	170,788	192,254	175,384	176,564	166,679	158,219	173,498
Educational and Professional Publishing	49,374	62,746	48,928	70,196	44,107	48,185	30,464	37,109	34,328	33,010
Financial Services	200,865	168,394	143,056	123,999	85,081	81,765	81,557	81,558	72,088	54,965
TOTAL OPERATING PROFIT	352,583	344,338	312,226	364,983	321,442	305,334	288,585	285,346	264,635	261,473
Share of profit of Macmillan/McGraw-Hill School Publishing Company (Notes b and d)	28,376	11,280	27,483	21,601	13,688	2,349	11,585	30,037	29,461	28,162
Unusual charges (Notes c and d)	(229,800)	--	--	--	(220,000)	(149,564)	--	--	--	--
Gain on sale of interest in Nikkei/McGraw-Hill (Note e)	--	--	--	--	--	221,783	--	--	--	--
General corporate (expense)/income (Notes d and f)	(48,538)	(50,774)	(34,415)	(28,370)	6,546	5,005	3,418	(23,519)	(17,609)	(18,720)
Interest (expense)/income--net	(36,342)	(37,557)	(46,987)	(55,627)	(35,038)	(5,290)	(4,506)	3,915	7,840	10,669
INCOME BEFORE TAXES ON INCOME	66,279	267,287	258,307	302,587	86,638	379,617	299,082	295,779	284,327	281,584
Provision for taxes on income	54,838	114,132	110,297	130,112	46,847	194,112	134,288	141,770	136,923	137,413
INCOME BEFORE CUMULATIVE ADJUSTMENT	11,441	153,155	148,010	172,475	39,791	185,505	164,794	154,009	147,404	144,171
Cumulative effect on prior years of changes in accounting (Note g)	--	(124,587)	--	--	8,000	--	--	--	--	--
NET INCOME	\$11,441	\$28,568	\$148,010	\$172,475	\$47,791	\$185,505	\$164,794	\$154,009	\$147,404	\$144,171
EARNINGS PER SHARE										
Income before cumulative adjustment	\$0.23	\$3.13	\$3.03	\$3.53	\$0.82	\$3.83	\$3.27	\$3.04	\$2.92	\$2.86
Cumulative adjustment (Note g)	--	(2.55)	--	--	0.16	--	--	--	--	--
Net income	\$0.23	\$0.58	\$3.03	\$3.53	\$0.98	\$3.83	\$3.27	\$3.04	\$2.92	\$2.86
Shares used to calculate earnings per share	49,189	48,889	48,821	48,819	48,725	48,475	50,410	50,651	50,541	50,410
Dividends per share of common stock	\$2.28	\$2.24	\$2.20	\$2.16	\$2.00	\$1.84	\$1.68	\$1.52	\$1.40	\$1.24
OPERATING STATISTICS										
Return on average shareholders' equity (Note h)	1.3%	17.2%	15.2%	18.8%	5.3%	21.2%	19.5%	18.8%	20.0%	21.9%
Income before taxes as a percent of revenue	3.0	13.0	13.3	15.6	4.8	22.7	18.7	20.7	20.9	22.1
Income before cumulative adjustment as a percent of revenue	0.5	7.5	7.6	8.9	2.7	11.1	10.3	10.8	10.8	11.3
BALANCE SHEET STATISTICS										
Working capital (Note i)	\$62,887	\$(19,596)	\$29,543	\$44,193	\$22,743	\$(72,023)	\$(66,214)	\$65,641	\$163,236	\$125,472
Inventories (Note i)	215,228	98,613	107,658	114,660	104,391	95,549	74,782	73,826	71,944	70,669
Purchases of property and equipment	49,808	55,922	51,223	95,834	58,016	41,176	50,777	42,081	48,538	47,202
Total assets	3,084,163	2,508,140	2,515,544	2,534,708	2,208,249	1,729,562	1,619,935	1,446,588	1,257,735	1,160,538
Total debt	928,710	482,991	568,159	622,372	503,434	148,434	186,476	56,403	5,932	4,484
Shareholders' equity	823,008	908,760	998,975	954,260	880,154	922,803	825,265	861,418	776,674	697,931
NUMBER OF EMPLOYEES	15,661	13,393	13,539	13,868	13,741	13,891	13,879	13,257	13,027	13,338

(a) In 1993, the company realigned its segments by combining the Broadcasting segment and Tower Group International operations with the Information and Publication Services businesses into one segment, Information and Media Services. Revenue and operating profit by segment for prior years have been restated to reflect the change.

(b) Reflects McGraw-Hill's share of profit of Macmillan/McGraw-Hill School Publishing Company through September 30, 1993.

(c) 1993 amount reflects unusual charges in connection with the acquisition of the additional 50% interest in Macmillan/McGraw-Hill.

(d) 1989 and 1988 amounts exclude unusual charges of \$220 million and \$149.6 million, respectively, as follows:

	1989	1988
Information and Media Services	\$ 15,554	\$ 29,009
Educational and Professional Publishing	33,140	20,534

Financial Services	94,899	67,155
	-----	-----
Total operating segments	143,593	116,698
Macmillan/McGraw-Hill joint venture units	--	7,866
Corporate expense	76,407	25,000
	-----	-----
Total company	\$220,000	\$149,564
	=====	=====

(e) In May 1988, the company sold its 49% interest in Nikkei/McGraw-Hill, Inc., a magazine publishing operation in Japan, for \$283.1 million. The gain on sale was \$221.8 million (\$109.8 million after taxes).

(f) General corporate income for 1989 includes gains on dispositions of businesses totaling \$48.8 million, 1988 includes gains on dispositions of \$26.5 million and 1987 includes gains from the settlement of a portion of the company's pension obligation of \$20.1 million.

(g) The cumulative adjustment in 1992 reflects the adoption of the provisions of Statement of Financial Accounting Standards (SFAS) No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, and SFAS No. 112, Employers' Accounting for Postemployment Benefits. See Notes 14 and

15. In 1989, the company recognized the cumulative effect of a change in accounting for income taxes under SFAS 96.

(h) Return on average shareholders' equity for 1992 is based on income before cumulative adjustment and average shareholders' equity after reflecting the cumulative adjustment in the beginning balance.

(i) Amounts restated for 1984-1992 to reflect reclassification of prepublication costs from inventory to a non-current asset.

McGraw-Hill, Inc.'s commercial paper borrowings at December 31, 1993 were \$667.7 million. This debt is supported by a \$500 million revolving credit agreement with a group of banks terminating in November 1997, and \$500 million has been classified as long-term. The company has four other revolving credit agreements that terminate in 1994 totaling \$350 million.

The company has \$250 million of 9.43% senior notes due in the year 2000. 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 company is considering the issuance of additional debt under this registration in 1994 to replace a portion of its commercial paper borrowings with longer term securities.

Accounts receivable (before reserves) increased \$121.9 million as a result of the inclusion of Macmillan/McGraw-Hill receivables totalling \$117 million. The year-to-year rise in revenue was offset by successful collection efforts. Excluding the impact of School Publishing, number of days sales outstanding as represented by accounts receivable, a key indicator of collection efficiency, was 72 days at year-end which is a one day improvement compared to last year. During the course of the year, days sales outstanding averaged a 3-day improvement over 1992. This demonstrates that receivables continue to be managed effectively despite difficult economic conditions. Collection efforts in the fourth quarter on School Publishing receivables from the peak selling season have been very successful.

Finished goods and work-in-process inventories increased \$116.6 million, primarily due to the inclusion of \$119.1 million for Macmillan/McGraw-Hill. A decline of 3.2% for McGraw-Hill excluding School Publishing reflects effective inventory controls at College and Professional Publishing, partially offset by growth in inventory volumes in Mexico, a key growth market.

Purchases of property and equipment totaled \$49.8 million in 1993, \$55.9 million in 1992 and \$51.2 million in 1991. In 1993, there were significant expenditures for computer equipment to upgrade the information processing capabilities of a number of market focus groups. In 1992, there were significant expenditures for computer equipment and for the purchase of a building outside Denver. Purchases of property and equipment in 1994 are expected to increase reflecting the full year impact of School Publishing as well as purchases related to the integration of School Publishing with McGraw-Hill's publishing operations.

In 1994, the company expects that cash flow from operations will be sufficient to cover dividends and capital expenditures and reduce debt further. The quarterly common stock dividend was increased by one cent in the first quarter of 1994 to 58 cents per share.

CONSOLIDATED STATEMENT OF INCOME

Years ended December 31 (in thousands, except per-share items)	1993	1992	1991
OPERATING REVENUE	\$2,195,453	\$2,050,491	\$1,943,012
EXPENSES:			
Operating	1,128,581	1,039,071	978,424
Selling and general	774,160	727,314	695,014
TOTAL EXPENSES	1,902,741	1,766,385	1,673,438
Share of profit of Macmillan/McGraw-Hill School Publishing Company (Note 4)	28,376	11,280	27,483
Unusual charges related to acquisition of additional 50% of Macmillan/McGraw-Hill School Publishing Company (Note 4)	(229,800)	--	--
Other income--net	11,333	9,458	8,237
INCOME FROM OPERATIONS	102,621	304,844	305,294
Interest expense--net	(36,342)	(37,557)	(46,987)
INCOME BEFORE TAXES ON INCOME	66,279	267,287	258,307
Provision for taxes on income (Note 5)	54,838	114,132	110,297
INCOME BEFORE CUMULATIVE ADJUSTMENT	11,441	153,155	148,010
Cumulative effect on prior years of changes in accounting for postretirement and postemployment benefits (Notes 14 and 15)	--	(124,587)	--
NET INCOME	\$ 11,441	\$ 28,568	\$ 148,010
EARNINGS PER COMMON SHARE (Note 6)			
Income before cumulative adjustment	\$.23	\$ 3.13	\$ 3.03
Cumulative adjustment	--	(2.55)	--
Net income	\$.23	\$.58	\$ 3.03
Average number of common shares outstanding during year	49,189	48,889	48,821

See accompanying notes.

CONSOLIDATED BALANCE SHEET

December 31 (in thousands)	1993	1992
-----	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and equivalents (Note 7)	\$ 47,953	\$ 13,228
Accounts receivable (net of allowance for doubtful accounts: 1993--\$79,461; 1992--\$80,768)	711,919	588,743
Receivable from broker-dealers and dealer banks (Note 1)	19,136	28,825
Inventories:		
Finished goods	166,584	67,479
Work-in-process	29,259	11,743
Paper and other materials	19,385	19,391
	-----	-----
Total inventories	215,228	98,613
Prepaid income taxes	92,912	42,622
Prepaid and other current assets	44,634	49,077
	-----	-----
Total current assets	1,131,782	821,108
	-----	-----
PREPUBLICATION COSTS (net of accumulated amortization: 1993--\$282,052; 1992--\$157,890) (Note 1)	285,445	89,911
INVESTMENTS AND OTHER ASSETS		
Investment in Macmillan/McGraw-Hill School Publishing Company--at equity (Note 4)	--	511,155
Investment in Rock-McGraw, Inc.--at equity (Note 8)	53,077	50,757
Prepaid pension expense	87,655	77,742
Other	159,861	119,198
	-----	-----
Total investments and other assets	300,593	758,852
	-----	-----
PROPERTY AND EQUIPMENT--AT COST		
Land	13,544	10,501
Buildings and leasehold improvements	286,605	240,341
Equipment and furniture	453,303	418,733
	-----	-----
Total property and equipment	753,452	669,575
Less--accumulated depreciation	408,126	384,925
	-----	-----
Net property and equipment	345,326	284,650
	-----	-----
GOODWILL AND OTHER INTANGIBLE ASSETS--AT COST		
(net of accumulated amortization and write-downs: 1993--\$308,548; 1992--\$213,004) (Notes 1, 2 and 4)	1,021,017	553,619
	-----	-----
	\$3,084,163	\$2,508,140
	=====	=====

See accompanying notes.

December 31 (in thousands)	1993	1992
-----	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable (Note 9)	\$ 170,780	\$ 124,206
Accounts payable	178,466	130,951
Payable to broker-dealers and dealer banks (Note 1)	18,695	25,787
Accrued royalties	57,508	37,514
Accrued compensation and contributions to retirement plans	124,648	91,568
Income taxes currently payable	42,783	38,548
Unearned revenue	248,036	220,652
Other current liabilities	227,979	171,478
	-----	-----
Total current liabilities	1,068,895	840,704
	-----	-----
OTHER LIABILITIES		
Long-term debt (Note 9)	757,567	358,705
Deferred income taxes	119,548	109,703
Accrued postretirement healthcare and other benefits	190,985	186,263
Other non-current liabilities	124,160	104,005
	-----	-----
Total other liabilities	1,192,260	758,676
	-----	-----
Total liabilities	2,261,155	1,599,380
	-----	-----
COMMITMENTS AND CONTINGENCIES (Notes 8 and 10)		
	-----	-----
SHAREHOLDERS' EQUITY (Notes 11 and 12)		
\$1.20 preference stock	16	16
Common stock	51,459	51,459
Additional paid-in capital	63,512	59,404
Retained income	834,250	934,642
Foreign currency translation adjustments	(28,577)	(21,751)
	-----	-----
	920,660	1,023,770
Less--common stock in treasury--at cost	87,687	99,448
unearned compensation on restricted stock	9,965	15,562
	-----	-----
Total shareholders' equity	823,008	908,760
	-----	-----
	\$3,084,163	\$2,508,140
	=====	=====

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31 (in thousands) -----	1993 -----	1992 -----	1991 -----
CASH FLOW FROM OPERATING ACTIVITIES			
Net income	\$ 11,441	\$ 28,568	\$ 148,010
Adjustments to reconcile net income to cash provided by operating activities:			
Unusual charges related to acquisition of additional 50% of Macmillan/McGraw-Hill School Publishing Company (Note 4)	229,800	--	--
Cumulative effect of changes in accounting (Notes 14 and 15)	--	124,587	--
Depreciation	54,941	51,325	48,884
Amortization of goodwill and intangibles	27,939	22,994	23,235
Amortization of prepublication costs	56,739	44,900	37,681
Provision for losses on accounts receivable	60,401	64,067	61,972
Undistributed share of profit of Macmillan/McGraw-Hill joint venture (Note 4)	(26,318)	(2,030)	(3,483)
Undistributed earnings of other affiliates	(3,072)	(2,515)	(2,332)
Other	4,306	6,557	7,227
Change in assets and liabilities net of effect of acquisitions and dispositions:			
Decrease/(increase) in accounts receivable	79,403	(66,313)	(70,448)
Decrease in inventories	11,258	1,139	8,478
Decrease/(increase) in prepaid and other current assets	6,909	1,627	(1,126)
Increase/(decrease) in accounts payable and accrued expenses	7,822	20,642	(213)
Increase in unearned revenue	17,376	20,906	12,159
(Decrease)/increase in other current liabilities	(15,636)	12,816	(3,187)
Increase/(decrease) in interest and income taxes currently payable	4,746	(2,565)	604
(Decrease)/increase in prepaid/deferred income taxes	(39,141)	32,857	54,046
Net change in other assets and liabilities	(23,358)	(55,991)	(62,754)
	-----	-----	-----
Cash provided by operating activities	465,556	303,571	258,753
INVESTING ACTIVITIES			
Purchase of property and equipment	(49,808)	(55,922)	(51,223)
Investment in prepublication costs	(74,489)	(52,485)	(50,130)
Acquisition of businesses and equity interests (Notes 2 and 4)	(323,913)	(17,242)	(14,854)
Disposition of businesses	--	6,547	5,300
Disposition of property and equipment	492	920	11,079
Other	--	3,432	3,161
	-----	-----	-----
Cash used for investing activities	(447,718)	(114,750)	(96,667)
FINANCING ACTIVITIES			
Dividends paid to shareholders	(111,833)	(109,386)	(107,272)
Debt for acquisition of Macmillan/McGraw-Hill	337,500	--	--
Repayment of commercial paper and other short-term debt--net	(105,611)	(81,669)	(59,184)
(Repayment of)/additions to long-term debt--net	(120,390)	(2,434)	197
Exercise of stock options	19,047	4,718	2,526
Other	(558)	(1,591)	(2,129)
	-----	-----	-----
Cash provided by/(used for) financing activities	18,155	(190,362)	(165,862)
EFFECT OF EXCHANGE RATE CHANGES ON CASH			
	(1,268)	(1,860)	(206)
	-----	-----	-----
Net change in cash and equivalents	34,725	(3,401)	(3,982)
Cash and equivalents at beginning of year	13,228	16,629	20,611
	-----	-----	-----
CASH AND EQUIVALENTS AT END OF YEAR	\$ 47,953	\$ 13,228	\$ 16,629
	=====	=====	=====

See accompanying notes.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Years ended December 31, 1993, 1992 and 1991 (in thousands, except shares)	\$1.20 preference \$10 par	Common \$1 par	Additional paid-in capital	Retained income	Foreign currency translation adjustments	Less--common stock in treasury-- Shares	Less--at cost Amount	Less-- unearned compensation on restricted stock	Total
BALANCE AT JANUARY 1, 1991	\$ 17	\$51,454	\$58,338	\$ 974,722	\$ (5,977)	2,526,633	\$107,937	\$16,357	\$954,260
Net income	--	--	--	148,010	--	--	--	--	148,010
Dividends	--	--	--	(107,272)	--	--	--	--	(107,272)
Exercise of stock options	--	--	10	--	--	(57,477)	(2,516)	--	2,526
Issuance of restricted stock	--	--	894	--	--	(102,660)	(4,489)	5,383	--
Restricted stock expense and forfeitures	--	--	(363)	--	--	27,744	1,212	(3,688)	2,113
Foreign currency translation adjustments--net	--	--	--	--	144	--	--	--	144
Other	--	1	25	--	--	15,375	832	--	(806)
BALANCE AT DECEMBER 31, 1991	17	51,455	58,904	1,015,460	(5,833)	2,409,615	102,976	18,052	998,975
Net income	--	--	--	28,568	--	--	--	--	28,568
Dividends	--	--	--	(109,386)	--	--	--	--	(109,386)
Exercise of stock options	--	--	213	--	--	(102,732)	(4,505)	--	4,718
Issuance of restricted stock	--	--	1,297	--	--	(95,295)	(4,169)	5,466	--
Restricted stock expense and forfeitures	--	--	(1,242)	--	--	95,803	4,189	(7,956)	2,525
Foreign currency translation adjustments--net	--	--	--	--	(15,918)	--	--	--	(15,918)
Other	(1)	4	232	--	--	17,593	957	--	(722)
BALANCE AT DECEMBER 31, 1992	16	51,459	59,404	934,642	(21,751)	2,324,984	99,448	15,562	908,760
Net income	--	--	--	11,441	--	--	--	--	11,441
Dividends	--	--	--	(111,833)	--	--	--	--	(111,833)
Exercise of stock options	--	--	4,348	--	--	(342,205)	(14,699)	--	19,047
Issuance of restricted stock	--	--	1,702	--	--	(98,209)	(4,298)	6,000	--
Restricted stock expense and forfeitures	--	--	(2,004)	--	--	150,265	6,570	(11,597)	3,023
Foreign currency translation adjustments--net	--	--	--	--	(6,826)	--	--	--	(6,826)
Other	--	--	62	--	--	10,622	666	--	(604)
BALANCE AT DECEMBER 31, 1993	\$ 16	\$51,459	\$63,512	\$ 834,250	\$ (28,577)	2,045,457	\$ 87,687	\$ 9,965	\$823,008

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of all subsidiaries and the company's share of earnings or losses of joint ventures and affiliated companies under the equity method of accounting. All significant intercompany accounts and transactions have been eliminated.

INVENTORIES. Inventories are stated at the lower of cost (principally first-in, first-out) or market.

PREPUBLICATION COSTS. Prepublication costs, principally outside preparation and plate costs, are amortized from the year of copyright over their estimated useful lives using either the sum-of-the-years-digits or the straight-line method. Prepublication costs of \$89.9 million, included in inventory in 1992, have been reclassified to a separate non-current category to conform with current industry practice.

GOODWILL AND OTHER INTANGIBLE ASSETS. Goodwill and other intangible assets which arose from acquisitions either consummated or initiated prior to November 1, 1970 are not amortized unless there has been a reduction in the value of the related assets. Goodwill and other intangible assets arising subsequent to November 1, 1970 of \$1.2 billion at December 31, 1993, and \$593 million at December 31, 1992, are being amortized over periods of up to 40 years.

RECEIVABLE FROM/PAYABLE TO BROKER-DEALERS AND DEALER BANKS. 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 matched purchase and sale commitments of \$424.4 million at December 31, 1993, and \$460.1 million at December 31, 1992. Only those transactions not closed at the settlement date are reflected in the balance sheet as receivables and payables.

FOREIGN CURRENCY TRANSLATION. Assets and liabilities are translated using current exchange rates, except certain accounts of units whose functional currency is the U.S. dollar, and translation adjustments are accumulated in a separate component of shareholders' equity. Inventory and property and equipment accounts of units whose functional currency is the U.S. dollar are translated using historical exchange rates and translation adjustments are charged and credited to income.

REVENUE. Tuition revenue from home-study courses is recorded when the contract is accepted. At the same time, provisions for cancellation and uncollectible accounts, and estimated costs to service the contracts, are recorded.

Units whose revenues are principally from subscription income and service contracts record revenue as earned. Units whose revenues are principally from advertising generally record subscription income as received. Costs related to subscriptions generally are expensed as incurred.

DEPRECIATION. The costs of property and equipment are depreciated using the straight-line method based upon the following estimated useful lives:

Buildings and leasehold improvements--15 to 40 years Equipment and furniture--3 to 20 years

ACCOUNTING CHANGES. In 1992, the company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, SFAS No. 112, Employers' Accounting for Postemployment Benefits, and SFAS No. 109, Accounting for Income Taxes, as of January 1, 1992 (see Notes 14, 15 and 5, respectively).

RECLASSIFICATION. Certain prior year amounts have been reclassified for comparability purposes.

2. ACQUISITIONS

In 1993, the company acquired a 26.89% interest in Liberty Brokerage, Inc. and made six other small acquisitions, which were all accounted for as purchases, at a total cost of \$23.1 million in cash. See Note 4 for a discussion of the Macmillan/McGraw-Hill School Publishing Company acquisition.

In 1992, the company made four small acquisitions at a total cost of \$10.6 million in cash and made earnout payments totaling \$6.1 million based upon the achievement of earnings goals by businesses acquired in prior years.

In 1991, the company made four small acquisitions at a total cost of \$14.9 million in cash and a note for \$3.5 million.

The effect of these acquisitions on the results of operations for the years presented was not material.

3. SEGMENT REPORTING AND GEOGRAPHIC INFORMATION

A description of each of the company's three segments and their products, services and markets served is included on the inside back cover of this Annual Report. In 1993, the company realigned its segments to combine the Broadcasting and Information and Publication Services segments and Tower Group International into one segment, Information and Media Services. Tower Group International was formerly included in the Financial Services segment. Prior year results have been restated to reflect the change.

Management believes these segments better reflect its present operations and business strategies. Broadcasting and Tower Group International are now aligned with the company's advertising and information based businesses, respectively.

Operating profit by segment and geographic area is total operating revenue less expenses which are deemed to be related to the unit's operating revenue. Identifiable assets by segment and geographic area are those assets that are used in the operation of that unit. Corporate assets consist principally

of cash and equivalents, investment in Rock-McGraw, Inc., prepaid pension expense and income taxes and leasehold improvements relating to subleased areas.

Foreign revenue and profits are from book publishing and financial and information services operations in 22 countries. Transfers of books between geographic areas are recorded at cost plus a mark-up and intercompany revenue and profits are eliminated.

A summary of information about the company's operations by segment and geographic area follows:

SEGMENT REPORTING (in thousands)	Operating revenue	Operating profit	Assets at December 31	Depreciation expense	Purchases of property and equipment

1993					
Information and Media Services	\$ 831,076	\$ 102,344	\$ 591,034	\$20,569	\$15,360
Educational and Professional Publishing	667,444	49,374	1,619,932	12,681	12,995
Financial Services	696,933	200,865	542,774	20,302	21,321

Total operating segments	2,195,453	352,583	2,753,740	53,552	49,676
Macmillan/McGraw-Hill joint venture	--	28,376	--	--	--
Unusual charges related to acquisition of additional 50% of Macmillan/McGraw-Hill School Publishing Company	--	(229,800)	--	--	--
Corporate	--	(48,538)	330,423	1,389	132
Interest expense--net	--	(36,342)	--	--	--

Total company	\$2,195,453	\$ 66,279*	\$3,084,163	\$54,941	\$49,808

1992					
Information and Media Services	\$ 865,573	\$ 113,198	\$ 634,876	\$20,940	\$14,474
Educational and Professional Publishing	567,363	62,746	628,316	9,620	10,173
Financial Services	617,555	168,394	508,919	19,367	31,125

Total operating segments	2,050,491	344,338	1,772,111	49,927	55,772
Macmillan/McGraw-Hill joint venture	--	11,280	511,155	--	--
Corporate	--	(50,774)	224,874	1,398	150
Interest expense--net	--	(37,557)	--	--	--

Total company	\$2,050,491	\$ 267,287*	\$2,508,140	\$51,325	\$55,922

1991					
Information and Media Services	\$ 854,754	\$ 120,242	\$ 661,225	\$21,220	\$18,889
Educational and Professional Publishing	532,438	48,928	654,830	10,806	17,809
Financial Services	555,820	143,056	482,438	15,884	14,525

Total operating segments	1,943,012	312,226	1,798,493	47,910	51,223
Macmillan/McGraw-Hill joint venture	--	27,483	509,498	--	--
Corporate	--	(34,415)	207,553	974	--
Interest expense--net	--	(46,987)	--	--	--

Total company	\$1,943,012	\$ 258,307*	\$2,515,544	\$48,884	\$51,223

1993					
United States	\$1,886,425	\$ 316,830	\$2,769,691		
Foreign	309,028	35,753	314,472		

1992					
United States	\$1,737,442	\$ 309,649	\$2,239,095		
Foreign	313,049	34,689	269,045		

1991					
United States	\$1,662,092	\$ 283,133	\$2,228,009		
Foreign	280,920	29,093	287,535		
=====					

* Income before taxes on income.

4. MACMILLAN/MCGRAW-HILL SCHOOL PUBLISHING COMPANY

On October 4, 1993, the company purchased the 50% interest in the Macmillan/McGraw-Hill School Publishing Company owned by Macmillan, a subsidiary of Maxwell Communication, Inc., for \$337.5 million in cash. Macmillan/McGraw-Hill had been formed as a joint venture in 1989 to combine the company's and Macmillan's elementary, secondary, vocational education and test publishing businesses. The company now owns 100% of Macmillan/McGraw-Hill and it is consolidated in McGraw-Hill's operations from the date of acquisition of the additional 50% interest. Prior to the acquisition of the additional 50% interest, the company accounted for its 50% interest under the equity method. The acquisition has been accounted for as a purchase and, accordingly, the purchase price has been allocated to 50% of Macmillan/McGraw-Hill's assets and liabilities based on their estimated fair values at September 30. The excess of the purchase price over the estimated fair value of the net tangible assets acquired has been recorded as identifiable intangibles (\$148.6 million) and goodwill (\$94.4 million), which will be amortized over 20 to 35 years and 23 to 38 years, respectively.

In conjunction with the acquisition, the company recorded in the third quarter a non-recurring charge of \$199.8 million (\$143.2 million net of tax benefits or \$2.91 per share) primar-

ily to adjust the company's original investment to values established in this transaction. This charge has been allocated primarily to goodwill and intangibles. In addition, the company recorded a provision of \$30 million (\$17.6 million net of tax benefits or \$.36 per share) relating to the consolidation of certain functions and systems of Macmillan/McGraw-Hill and the company's book publishing operations.

The following unaudited pro forma summary presents the consolidated results of operations of the company for 1993 and 1992, as if the acquisition of the additional 50% of Macmillan/McGraw-Hill had occurred at the beginning of 1992, after giving effect to certain adjustments, including amortization of goodwill and other intangibles, increased interest expense from debt issued to fund the acquisition and related income tax effects. The summary excludes the total non-recurring charge of \$160.8 million after taxes, but includes its effect on amortization. The 1992 net income and earnings per share are before the cumulative adjustment for accounting changes.

Years ended December 31 (in millions, except per-share data)	1993	1992
Operating revenue	\$2,722.2	\$2,555.4
Net income	184.0	160.5
Earnings per common share	3.74	3.28

These pro forma results are not necessarily indicative of those that would have occurred had the acquisition taken place at the beginning of 1992.

A summarized income statement for the Macmillan/McGraw-Hill School Publishing Company for the nine months ended September 30, 1993 and for each of the years ended December 31, 1992 and 1991 and a summarized balance sheet at December 31, 1992 follows:

(in millions)	(UNAUDITED)		
	9 MONTHS ENDED SEPTEMBER 30, 1993	12 months ended December 31, 1992	1991
OPERATING REVENUE	\$ 526.7	\$ 504.9	\$ 533.2
EXPENSES:			
Operating	230.9	212.8	201.3
Selling and general	197.4	215.2	220.8
Amortization of goodwill and intangibles	30.0	40.0	42.1
TOTAL EXPENSES	458.3	468.0	464.2
OPERATING PROFIT	68.4	36.9	69.0
Interest expense	(14.2)	(17.8)	(17.5)
NET PROFIT BEFORE PARTNERS' INCOME TAXES	\$ 54.2	\$ 19.1	\$ 51.5
ASSETS			
Current assets		\$ 256.7	
Other assets, principally goodwill and other intangibles		1,184.8	
TOTAL ASSETS		\$1,441.5	
LIABILITIES			
Current liabilities		\$ 235.2	
Long-term debt		120.0	
TOTAL LIABILITIES		355.2	
PARTNERS' EQUITY		1,086.3	
TOTAL LIABILITIES AND PARTNERS' EQUITY		\$1,441.5	

The 1992 results include \$12.3 million of restructuring charges to centralize its accounting and fulfillment activities and move its SRA school and corporate offices.

During 1993, 1992 and 1991, the company received earnings distributions from the joint venture of \$2.1 million, \$9.3 million, and \$24 million, respectively.

5. TAXES ON INCOME

The company changed its accounting for income taxes in 1992 to comply with the requirements of Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. This change did not have a significant effect on 1992 earnings except as it relates to the recognition of tax benefits on postretirement and postemployment obligations.

Income before taxes on income resulted from domestic operations (including foreign branches) and foreign subsidiaries' operations as follows:

(in millions)	1993	1992	1991
-----	-----	-----	-----
Domestic operations	\$38.7	\$240.3	\$243.1
Foreign operations	27.6	27.0	15.2
	-----	-----	-----
Total income before taxes	\$66.3	\$267.3	\$258.3
	=====	=====	=====

A reconciliation of income tax expense before cumulative adjustment computed at the U.S. federal statutory tax rate of 35% (34% for 1992 and 1991) to the provision for taxes follows:

(in millions)	1993	1992	1991
-----	-----	-----	-----
Income tax expense at statutory rate	\$ 23.2	\$ 90.9	\$ 87.8
Unusual charges	22.2	--	--
Goodwill amortization	8.7	9.8	10.2
Effect of state and local income taxes	7.0	22.6	18.7
Other--net	(6.3)	(9.2)	(6.4)
	-----	-----	-----
Provision for taxes	\$ 54.8	\$ 114.1	\$110.3
	=====	=====	=====

The principal temporary differences between the accounting for income and expenses for financial reporting and income tax purposes as of December 31 follow:

(in millions)	1993	1992
-----	-----	-----
Fixed assets and intangible assets	\$ 115.4	\$ 39.3
Prepaid pension and other expenses	54.8	48.3
Unearned revenue	31.3	29.2
Reserves and accruals	(105.3)	(64.5)
Postretirement and postemployment benefits	(94.5)	(89.6)
Joint venture related items	--	84.4
Other--net	24.9	20.0
	-----	-----
Deferred tax liability--net	\$ 26.6	\$ 67.1
	=====	=====

The provision for taxes on income consists of the following:

(in millions)	1993	1992	1991
-----	-----	-----	-----
Federal:			
Current	\$ 62.8	\$ 43.3	\$ 39.1
Deferred	(25.8)	27.5	37.3
	-----	-----	-----
Total federal	37.0	70.8	76.4
	-----	-----	-----
Foreign:			
Current	5.4	9.8	5.5
Deferred	1.6	(.7)	--
	-----	-----	-----
Total foreign	7.0	9.1	5.5
	-----	-----	-----
State and Local:			
Current	22.6	28.6	19.5
Deferred	(11.8)	5.6	8.9
	-----	-----	-----
Total state and local	10.8	34.2	28.4
	-----	-----	-----
Total provision for taxes	\$ 54.8	\$114.1	\$110.3
	=====	=====	=====

The company has not recorded deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. Undistributed earnings amounted to approximately \$55 million at December 31, 1993, excluding amounts which, if remitted, generally would not result in any additional U.S. income taxes because of available foreign tax credits. If the earnings of such foreign subsidiaries were not indefinitely reinvested, a deferred tax liability of approximately \$15 million would have been required.

6. EARNINGS PER COMMON SHARE

Earnings per common share and common share equivalents are based on the average number of such shares outstanding during the year. Common share equivalents consist of \$1.20 preference stock, stock options and restricted performance incentive shares. The number of shares issuable upon exercise of stock options has been reduced by the number of common shares assumed to have been purchased with the proceeds from the exercise of the options. The number of restricted performance shares issued has been reduced by the number of shares assumed to have been repurchased using unearned compensation as exercise proceeds.

7. STATEMENT OF CASH FLOWS

Highly liquid investments with maturities of three months or less at the time of purchase are considered to be cash equivalents.

A summary of the supplemental cash flows information follows:

(in thousands)	1993	1992	1991
-----	-----	-----	-----
Interest and income taxes paid:			
Interest	\$ 33,767	\$ 38,352	\$ 48,974
	-----	-----	-----
Income taxes (net of refunds)	78,448	78,235	56,263
	-----	-----	-----
Non-cash investing and financing activities:			
Liabilities assumed in conjunction with acquisition of businesses:			
Fair value of assets acquired	835,569*	31,034	31,967
Cash paid (net of cash acquired)	323,913	16,742	14,854
	-----	-----	-----
Liabilities assumed	\$511,656	\$ 14,292	\$ 17,113
	=====	=====	=====

* Net of McGraw-Hill's investment in Macmillan/McGraw-Hill School Publishing Company.

8. INVESTMENT IN ROCK-MCGRAW, INC.

Rock-McGraw owns the company's headquarters building in New York City. It is owned 45% by the company and 55% by Rockefeller Group, Inc.

The company currently occupies a significant portion of the rentable space. The lease is for 30 years ending in the year 2002 and includes renewal options for two additional 15-year periods. The company is paying Rock-McGraw gross annual rentals of \$16.0 million (including various escalation payments) for the occupied space. In addition, the company is committed for annual rentals of \$18.8 million for space which

it has sublet. Over the lease term, the company is recovering a portion of the rentals through its share of earnings of Rock-McGraw.

A summary of significant financial information for Rock-McGraw follows:

(in millions)	1993	1992	1991
-----	-----	-----	-----
Revenue	\$ 52.4	\$ 47.7	\$ 51.1
Net income	5.3	4.7	6.5
Depreciation expense (straight-line)	5.2	4.0	3.6
Total assets	178.5	170.9	164.4
Mortgage payable	34.8	38.5	42.2
Total liabilities	\$ 60.7	\$ 58.3	\$ 56.5
	=====	=====	=====

The building is financed by an 8 1/8%, 25-year mortgage repayable in quarterly installments of \$.9 million plus interest with the balance of \$18.3 million due at maturity in 1998.

9. DEBT

At December 31, 1993, the company had short-term borrowings of \$670.8 million, of which \$667.7 million represented domestic commercial paper borrowings at an average interest rate of 3.3% maturing at various dates during 1994. The commercial paper borrowings are supported by the revolving credit agreements described below, and \$500 million has been classified as long-term.

The company has several revolving credit agreements with a group of banks. One is for \$500 million terminating on November 6, 1997, and the others are for \$350 million terminating during 1994. Interest rates on amounts borrowed vary depending upon the source and are based on any one of the Eurodollar, Certificate of Deposit or prime rates, at the company's option. These credit agreements contain various warranties and covenants that must be complied with on a continuing basis. These agreements require a commitment fee on the unused portion of the credit line. At December 31, 1993, there were no borrowings under these agreements.

On June 27, 1990, the company issued \$250 million of 9.43% senior notes due September 1, 2000. The notes are unsecured and unsubordinated obligations of the company and are not redeemable by the company prior to the maturity date.

At December 31, 1992, the company had short-term borrowings of \$224.2 million, of which \$218.5 million represented domestic commercial paper borrowings at an average interest rate of 3.4% maturing at various dates during 1993.

The commercial paper borrowings were supported by revolving credit agreements and \$100 million of the commercial paper borrowings was classified as long-term.

A summary of long-term debt at December 31 follows:

(in thousands)	1993	1992
9.43% senior notes due 2000	\$250,000	\$250,000
Commercial paper supported by bank revolving credit agreement	500,000	100,000
Other	7,930	8,785
	-----	-----
	757,930	358,785
Less: portion included in other current liabilities	363	80
	-----	-----
Total long-term debt	\$757,567	\$358,705
	=====	=====

The carrying amount of the company's commercial paper borrowings approximates fair value. The fair value of the company's 9.43% senior notes and other long-term debt at December 31, 1993 and 1992 totaling \$257.9 million and \$258.8 million, respectively, based on current borrowing rates for debt with similar terms and maturities is estimated to be \$308 million and \$295 million, respectively.

10. RENTAL EXPENSE AND LEASE OBLIGATIONS

Rental expense for property and equipment under all operating lease agreements was as follows:

(in millions)	1993	1992	1991
Gross rental expense	\$100.3	\$109.0	\$107.0
Less: sublease revenue	22.0	23.0	28.3
	-----	-----	-----
Net rental expense	\$ 78.3	\$ 86.0	\$ 78.7
	=====	=====	=====

The company is committed under lease arrangements covering property, computer systems and office equipment. Certain of the lease arrangements, including the lease for the company's headquarters building, contain escalation clauses covering increased costs for real estate taxes and operating services.

Minimum rental commitments under existing noncancellable leases with a remaining term of more than one year, including the company's headquarters building referred to in Note 8, are shown in the following table. The annual rental commitments for real estate through the year 2002 have been reduced by approximately \$19 million of revenue from existing noncancellable subleases.

(in millions)	
1994	\$ 64.5
1995	54.9
1996	47.8
1997	40.9
1998	35.7
1999 and beyond	157.3

Total	\$401.1
	=====

11. CAPITAL STOCK

One hundred and fifty million shares of common stock, par value \$1 per share, are authorized: 51,458,836 are issued. The \$1.20 convertible preference stock, \$10 par value, authorized 891,256 shares, outstanding 1,599 shares, may be converted into common stock at the option of the shareholder at the rate of one share of preference stock for 3.3 shares of common stock.

The number of common shares issuable for the exercise of stock options was 2,054,087 at December 31, 1993, 2,312,503 at December 31, 1992 and 2,512,230 at December 31, 1991. At December 31, 1993, 20,000 common shares were reserved for issuance under the 1993 Directors' Stock Payment Plan.

Two million shares of preferred stock, par value \$1 per share are authorized; none have been issued. 600,000 shares have been reserved for issuance under a Preferred Share Purchase Rights Plan adopted by the company's Board of Directors on October 25, 1989. Under the Plan, one right for each share of common stock outstanding was granted to shareholders of record on November 6, 1989. Each right entitles shareholders

to buy a 1/100th interest in a share of a series of preferred stock at an exercise price of \$275 per right. The rights will not be exercisable or transferable until a party either acquires beneficial ownership of 20% or more of the company's common shares or announces a tender offer for 20% or more of the common shares. In the event the company is a party to a merger, reverse merger or other business combination, each right will entitle its holder to purchase, at the exercise price of the right, a number of shares of common stock of the surviving company having a market value of two times the exercise price of the right. The Plan also gives the Board of Directors the option to exchange one share of common stock of the company for each right (not owned by the acquirer) after an acquirer holds 20% but less than 50% of the outstanding shares of common stock. The rights are redeemable at one cent per right until a party acquires 20% or more of the company's common shares and expire November 6, 1999.

12. STOCK PLAN AWARDS

Under the 1983 Stock Option Plan, options for 1,200,000 shares of common stock may be granted at not less than fair market value at the date of grant. Both incentive stock options and non-qualified stock options may be granted. Options are generally exercisable in two equal installments after each 12 months of employment and expire within ten years. Stock appreciation rights may also be granted to any employee granted stock options. Upon the exercise of stock appreciation rights, the employee surrenders the unexercised related option and receives a cash payment equal to the excess of the fair market value at the time of exercise over the price of the related option.

Under the 1987 Key Employee Stock Incentive Plan, awards of 2,300,000 shares of common stock may be granted. The shares may be granted as incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock awards, deferred stock, or other stock-based awards.

Under the 1993 Key Employee Stock Incentive Plan, which was approved by the shareholders in April 1993, awards of 2,300,000 shares of common stock may be granted. The

shares may be granted as incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock awards, or other stock-based awards.

Under the 1993 Directors' Stock Payment Plan, which was approved by the shareholders in April 1993, 20,000 shares of common stock may be granted. These shares were reserved for issuance at December 31, 1993. The Plan requires that 20% of eligible Directors' annual retainer be paid in common stock beginning in 1994. Recipients of stock under this Plan are not required to provide consideration to the company other than rendering service and have the right to vote the shares and the right to receive dividends. The term of the Plan is 10 years.

Restricted stock performance awards have been granted under the 1987 Plan. These restricted stock awards will vest only if the company achieves certain financial goals over three-year performance periods. Other restricted stock awards have total vesting periods of up to seven years with vesting beginning on the first or third anniversary of the awards. Recipients of restricted stock awards are not required to provide consideration to the company other than rendering service and have the right to vote the shares and the right to receive dividends.

The changes in the number of common shares issuable under outstanding options, the number of shares reserved for issuance and the price range of options for 1993 were as follows:

	1987 Plan	1983 Plan
	-----	-----
Outstanding at beginning of year	945,371	464,282
Options granted	273,100	148,900
Less:		
Options exercised	219,147	123,058
Options cancelled and expired	51,543	37,980
	-----	-----
Outstanding at end of year	947,781	452,144
	-----	-----
Exercisable at end of year	520,525	302,338
	-----	-----
Shares of common stock reserved for issuance at beginning of year	1,676,203	636,300
	-----	-----
Shares of common stock reserved for issuance at end of year	1,601,943	452,144
	-----	-----
Price range of options outstanding at end of year	\$52.44 to \$64.19	\$37.00 to \$67.38
	-----	-----
Price range of options exercised during year	\$52.44 to \$64.00	\$37.00 to \$67.38
	=====	=====

A total of 98,209 restricted shares were issued in 1993 under the 1987 Plan at an average market value of \$61.11 per share. In 1992, a total of 95,295 restricted shares were issued at an average market value of \$57.37 per share. The awards are recorded at the market value of the shares at the time the shares are awarded. Initially, the total market value of the shares is treated as unearned compensation and is charged to expense over the respective vesting periods. For performance incentive shares, adjustments are also made to expense for changes in market value and achievement of financial goals. Unearned compensation charged to expense was \$3.0 million for 1993, \$3.0 million for 1992 and \$2.1 million for 1991. Restricted shares outstanding at the end of the year were 271,120 shares for 1993, 357,219 shares for 1992, and 397,637 shares for 1991.

13. RETIREMENT PLANS

The company and its subsidiaries have a number of defined benefit pension plans and defined contribution plans covering substantially all employees. The company's primary pension plan is a noncontributory plan under which benefits are based on employee career employment compensation. The company also has a voluntary deferred compensation plan under which the company matches employee contributions up to certain levels of compensation and an Employee Retirement Account Plan under which the company contributes a percentage of eligible employees' compensation to the employees' accounts.

For purposes of determining annual pension cost, prior service costs and the net asset at January 1, 1986 are being amortized straight-line over the average remaining service period of employees expected to receive benefits. The assumed return on plan assets of 9 1/2% is based on a calculated market-related value of assets, which recognizes changes in market value over five years.

A summary of pension cost for the company's domestic defined benefit plans follows:

(in millions)	1993	1992	1991
	-----	-----	-----
Service cost	\$ 11.5	\$ 10.6	\$ 9.8
Interest cost	25.0	21.7	20.6
Return on assets:			
Actual (gain)/loss	(45.9)	(24.7)	(105.1)
Deferred	5.9	(12.1)	71.8

Recognized	(40.0)	(36.8)	(33.3)
Amortization of net asset at 1/1/86	(6.1)	(6.1)	(6.2)
Amortization of prior service cost	1.1	--	--
Net negative pension cost	\$ (8.5)	\$ (10.6)	\$ (9.1)
Assumed rates--January 1:			
Discount rate (interest cost)	7 3/4%	7 3/4%	8 1/2%
Compensation increase factor	6	6	6
Return on assets	9 1/2	9 1/2	9 1/2
	=====	=====	=====

The company also has an unfunded supplemental benefits plan to provide senior management with supplemental retirement, disability and death benefits. Supplemental retirement benefits are based on final monthly earnings. Pension cost was \$2.2 million for 1993, \$1.9 million for 1992, and \$1.9 million for 1991. The accumulated benefit obligation as of December 31, 1993 was \$14.4 million including vested benefits of \$13.3 million and the projected benefit obligation was \$16.8 million.

Total retirement plans cost was \$25.7 million for 1993, \$19.6 million for 1992 and \$19.2 million for 1991.

The funded status of the domestic defined benefit plans as of December 31 follows:

(in millions)	1993	1992
-----	-----	-----
Actuarial present value of pension benefits:		
Vested benefits	\$ (322.1)	\$ (293.5)
Non-vested benefits	(14.6)	(12.7)
-----	-----	-----
Accumulated benefit obligation	(336.7)	(306.2)
Additional amount related to projected compensation increases	(22.9)	(20.6)
-----	-----	-----
Projected benefit obligation	(359.6)	(326.8)
Plan assets at market value--primarily listed stocks and U.S. government obligations	485.7	459.3
-----	-----	-----
Excess of assets over projected benefit obligation	126.1	132.5
Unrecognized net asset at 1/1/86	(16.7)	(23.0)
Unrecognized prior service cost	8.3	11.2
Unrecognized net gain	(40.6)	(52.4)
-----	-----	-----
Prepaid pension cost at December 31	\$ 77.1	\$ 68.3
-----	-----	-----
Assumed rates--December 31:		
Discount rate	7 1/4%	7 3/4%
Compensation increase factor	6	6
	=====	=====

The company has several foreign pension plans which do not determine the accumulated benefits or net assets available for benefits as disclosed above. The amounts involved are not material and are therefore not included.

14. POSTRETIREMENT HEALTHCARE AND OTHER BENEFITS

The company and its domestic subsidiaries provide certain medical, dental and life insurance benefits for retired employees and eligible dependents. The medical and dental plans are contributory while the life insurance plan is noncontributory. The company currently does not fund any of these plans.

Effective January 1, 1992, the company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions and elected to immediately recognize the transition obligation. The company recorded a charge of \$109.5 million, net of income taxes of \$74 million, or \$2.24 per share, as the cumulative effect of a change in accounting as of the date of adoption. The change increased 1992 postretirement benefits cost by \$7.3 million, net of income taxes of \$5.4 million, or \$.15 per share. SFAS No. 106 requires that the cost of these benefits, which are primarily for healthcare, be recognized during the employees' service period with the company. The company's previous practice was to recognize the expense for these benefits as claims or premiums were paid.

Postretirement benefits cost was \$12.6 million in 1993, \$20.2 million in 1992 and \$6.2 million in 1991. A summary of the components of the cost in 1993 and 1992 follows:

(in millions)	1993	1992
-----	-----	-----
Service cost	\$ 2.4	\$ 5.5
Interest cost	12.8	14.7
Prior service cost	(2.6)	--
-----	-----	-----
Postretirement benefits cost	\$12.6	\$20.2
	=====	=====

A summary of the components of the unfunded postretirement benefit obligation as of December 31 follows:

(in millions)	1993	1992
-----	-----	-----
Retirees	\$ (111.2)	\$ (123.5)
Fully eligible plan participants	(13.4)	(26.1)
Other active plan participants	(19.1)	(42.5)
-----	-----	-----
Total accumulated postretirement benefit obligation	(143.7)	(192.1)
Unrecognized net gain	(30.1)	(4.2)
Unrecognized prior service cost	(27.2)	--
-----	-----	-----
Accrued postretirement benefit obligation	\$ (201.0)	\$ (196.3)
	=====	=====

The assumed weighted average healthcare cost trend rate ranges from 12.2% in 1994 decreasing ratably to 5.5% in 2002 and remains at that level thereafter. Increasing the assumed healthcare cost trend rate by one percentage point in each future year would increase the accumulated postretirement benefit obligation at December 31, 1993 by \$11.4 million and 1993 benefit expense by \$1.2 million. The weighted average discount rate used to measure expense was 8% in 1993 and 1992; the rate used to measure the accumulated postretirement benefit obligation was 7.5% in 1993 and 8% in 1992.

Effective in 1993, the company changed its healthcare plan for future retirees which contributed to a reduction in 1993 expense of \$4.4 million after tax or \$.09 per share. These changes reduced the accumulated postretirement benefit obligation by approximately \$30 million, which is being amortized over the remaining eligibility period of the active plan participants.

15. POSTEMPLOYMENT BENEFITS

Effective January 1, 1992, the company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 112, Employers' Accounting for Postemployment Benefits, and accrued certain separation benefits and disability-related liabilities. The company recorded a charge of \$15.1 million, net of income taxes of \$10.2 million, or \$.31 per share as the cumulative effect of a change in accounting as of the date of adoption. The adoption of SFAS No. 112 did not have a significant effect on 1993 or 1992 expense.

REPORT OF MANAGEMENT

TO THE SHAREHOLDERS OF McGRAW-HILL, INC.

The financial statements in this report were prepared by the management of McGraw-Hill, Inc., which is responsible for their integrity and objectivity.

These statements, prepared in conformity with generally accepted accounting principles, and including amounts based on management's best estimates and judgments, present fairly McGraw-Hill's financial condition and the results of the company's operations. Other financial information given in this report is consistent with these statements.

McGraw-Hill's management maintains a system of internal accounting controls designed to provide reasonable assurance that the financial records accurately reflect the company's operations and that the company's assets are protected against loss. Consistent with the concept of reasonable assurance, the company recognizes that the relative costs of these controls should not exceed the expected benefits in maintaining these controls. It further assures the quality of the financial records in several ways: a program of internal audits, the careful selection and training of management personnel, maintaining an organizational structure that provides an appropriate division of financial responsibilities, and communicating financial and other relevant policies throughout the corporation. The financial statements in this report have been audited by Ernst & Young, independent auditors, in accordance with generally accepted auditing standards. The independent auditors were retained to express an opinion on the financial statements, which appears in the next column.

McGraw-Hill's Board of Directors, through its Audit Committee, composed entirely of outside directors, is responsible for reviewing and monitoring the company's financial reporting and accounting practices. The Audit Committee meets periodically with management, the company's internal auditors and the independent auditors to ensure that each group is carrying out its respective responsibilities. In addition, the independent auditors have full and free access to the Audit Committee and meet with it with no representatives from management present.

*/s/ JOSEPH L. DIONNE
Joseph L. Dionne
Chairman and Chief Executive Officer*

*/s/ ROBERT J. BAHASH
Robert J. Bahash
Executive Vice President and Chief Financial Officer*

REPORT OF INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF McGRAW-HILL, INC.

We have audited the accompanying consolidated balance sheets of McGraw-Hill, Inc. as of December 31, 1993 and 1992, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The 1992 and 1991 financial statements of the Macmillan/McGraw-Hill School Publishing Company (in which the company had a 50% interest in 1992 and 1991) were audited by other auditors whose report has been furnished to us; insofar as our opinion on the consolidated financial statements for those years relates to the data included for the Macmillan/McGraw-Hill School Publishing Company, it is based solely on their report.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors (for the periods referred to above), the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of McGraw-Hill, Inc. at December 31, 1993 and 1992, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As described in Note 1 to the consolidated financial statements, in 1992 the company changed its method of accounting for income taxes, postretirement benefits other than pensions and postemployment benefits.

/s/ ERNST & YOUNG

ERNST & YOUNG

*New York, New York
February 2, 1994*

SUPPLEMENTAL FINANCIAL INFORMATION

QUARTERLY FINANCIAL INFORMATION (UNAUDITED) (in thousands, except per-share items)	First quarter	Second quarter	Third quarter	Fourth quarter	Total year
1993					
Operating revenue	\$466,947	\$490,907	\$554,969	\$682,630	\$2,195,453
Income/(loss) before taxes (Note a)	26,614	71,748	(108,804)	76,721	66,279
Net income/(loss) (Note a)	15,250	43,177	(91,868)	44,882	11,441
Earnings per share	0.31	0.88	(1.87)	0.91	0.23
1992					
Operating revenue	\$454,808	\$484,275	\$532,724	\$578,684	\$2,050,491
Income before taxes	21,579	64,214	103,497	77,997	267,287
Income before cumulative adjustment	12,365	36,794	59,304	44,692	153,155
Cumulative effect of changes in accounting (Note b)	(124,587)	--	--	--	(124,587)
Net income/(loss)	(112,222)	36,794	59,304	44,692	28,568
Earning per share:					
Income before cumulative adjustment	.25	.75	1.22	.91	3.13
Cumulative adjustment	(2.55)	--	--	--	(2.55)
Net income/(loss)	(2.30)	.75	1.22	.91	.58
1991					
Operating revenue	\$428,451	\$456,923	\$489,520	\$568,118	\$1,943,012
Income before taxes	22,196	60,861	96,089	79,161	258,307
Net income	12,718	34,874	55,059	45,359	148,010
Earnings per share	.26	.71	1.13	.93	3.03

(a) The third quarter of 1993 includes unusual charges related to the acquisition of the additional 50% of Macmillan/McGraw-Hill School Publishing Company of \$229.8 million (\$160.8 million after taxes, or \$3.27 per share). See Note 4.

(b) The first quarter 1992 cumulative adjustment is comprised of after-tax charges for changes in accounting for postretirement benefits of \$109.5 million or \$2.24 per share and postemployment benefits of \$15.1 million or \$.31 per share. See Notes 14 and 15.

HIGH AND LOW SALES PRICES OF MCGRAW-HILL COMMON STOCK ON THE NEW YORK STOCK EXCHANGE*

	1993	1992	1991
First quarter	\$63 7/8-56 1/2	\$63 3/8-56 1/2	\$59 3/4-49 3/4
Second quarter	64 3/8-55 1/4	66 1/2-57 1/2	64 3/4-58
Third quarter	69 7/8-58 3/8	59 3/8-53	61 3/4-50 3/4
Fourth quarter	75 1/4-65 3/4	63 1/4-57 1/2	58 1/4-50 1/8
Year	75 1/4-55 1/4	66 1/2-53	64 3/4-49 3/4

* The New York Stock Exchange is the principal market on which the company's shares are traded.

Exhibit (21)
McGRAW-HILL, INC.

Subsidiaries of Registrant

Listed below are all subsidiaries of Registrant, except certain inactive subsidiaries and certain other McGraw-Hill subsidiaries which are not included in the listing because considered in the aggregate they do not constitute a significant subsidiary as of the end of the year covered by this Report.

	State or Jurisdiction of Incorporation -----	Percentage of Voting Securities Owned -----
McGraw-Hill, Inc.	New York	Registrant
CM Research, Inc.	New York	100
Capitol Radio Engineering Institute, Inc.	Delaware	100
*National Radio Institute	Delaware	100
Columbia Acquisition Corporation	Delaware	100
*Columbia Administration Software Publishing Corporation	British Columbia	100
*Columbia Computing Services, Ltd.	Canada	100
*Columbia Computing Services, Inc.	Delaware	100
Computer and Communications Information Group, Inc.	New Jersey	100
DRI Europe, Inc.	Delaware	100
Editorial McGraw-Hill/Interamericana del Caribe, Inc.	New York	100
International Advertising/ McGraw-Hill, Inc.	Delaware	100
J.J. Kenny Company, Inc.	New York	100
*J.J. Kenny Drake, Inc.	New York	100
*Kenny Information Systems, Inc.	New York	100
*Kenny Services, Inc.	New York	100
Liberty Brokerage Investment Corp.	Delaware	26.89
Macmillan/McGraw-Hill Joint Venture Holding Corporation	Delaware	100
*CRWTH Computer Courseware, Inc.	California	100
*Computer Systems Research, Inc.	Connecticut	100
McGraw-Hill Broadcasting Company, Inc.	New York	100
McGraw-Hill Capital, Inc.	New York	100
*International Valuation Services, Inc.	Delaware	40
McGraw-Hill Financial Publications, Inc.	Delaware	100
McGraw-Hill International Enterprises, Inc.	New York	100
McGraw-Hill News Bureaus, Inc.	New York	100
McGraw-Hill Publications Overseas Corporation	New York	100
MMS International	Nevada	100
Money Market Directories, Inc.	New York	100
Rock-McGraw, Inc.	New York	45
Shepard's/McGraw-Hill, Inc.	Delaware	100

	State or Jurisdiction of Incorporation	Percentage of Voting Securities Owned
	-----	-----
S&P ComStock, Inc.	New York	100
Standard & Poor's International Ratings, Ltd.	New York	100
Standard & Poor's Ltd.	Delaware	100
Standard & Poor's Securities, Inc.	Delaware	100
Tower Group International, Inc.	New York	100
Calificadora de Valores, S.A. de C.V.	Mexico	100
Editora McGraw-Hill de Portugal, Ltda.	Portugal	100
Editorial Interamericana, S.A.	Colombia	100
Editoriales Pedagogicas Associadas, S.A.	Guatemala	100
McGraw-Hill Book Company Australia Pty. Limited	Australia	100
*McGraw-Hill Book Company New Zealand, Pty. Limited	New Zealand	100
*Standard & Poor's (Australia) Pty. Ltd.	Australia	100
McGraw-Hill Book Company (GmbH)	Germany	100
McGraw-Hill Book Kabushiki Kaisha	Japan	100
McGraw-Hill Data Services - Ireland, Ltd.	Ireland	100
McGraw-Hill Holdings (U.K.) Limited	Great Britain	100
*Insurance Solvency International, Limited	Great Britain	100
*McGraw-Hill International (U.K.) Limited	Great Britain	100
McGraw-Hill Information Systems Company of Canada Limited	Ontario, Canada	100
McGraw-Hill/Interamericana de Chile Limitada	Chile	100
McGraw-Hill/Interamericana de Espana, S.A.	Spain	100
*Iberating, S.A.	Spain	25
McGraw-Hill/Interamericana de Mexico, S.A. de C.V.	Mexico	100
*Ediciones Pedagogicas, S.A. de C.V.	Mexico	100
McGraw-Hill/Interamericana de Venezuela S.A.	Venezuela	100
McGraw-Hill/Interamericana, S.A.	Panama	100
*Editora McGraw-Hill de Espana S.A.	Panama	100
McGraw-Hill Libri Italia	Italy	100
McGraw-Hill Ryerson Limited	Ontario, Canada	70
Medical China Publishing Limited	Hong Kong	25
MHFSCO, Ltd.	United States Virgin Islands	100
Nueva Editorial Interamericana, S.A. de C.V.	Mexico	100
Nordisk Rating AB	Sweden	100
Science Research Associates, Pty., Ltd.	Australia	100

	State or Jurisdiction of Incorporation -----	Percentage of Voting Securities Owned -----
Science Research Associates, Limited	United Kingdom	100
Standard & Poor's - ADEF	France	50
Standard & Poor's International, S.A.	Belgium	100
Tata McGraw-Hill Publishing Company Private Limited	India	40
382281 Ontario Ltd.	Ontario, Canada	100

*Subsidiary of a subsidiary.

Exhibit (23)

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report on Form 10-K of McGraw-Hill, Inc. of our report dated February 2, 1994, included in the 1993 Annual Report to Shareholders of McGraw-Hill, Inc.

Our audits also included the consolidated financial statement schedules of McGraw-Hill, Inc. listed in Item 14 (a). These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the consolidated financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 33-33667) pertaining to the Debt Securities of McGraw-Hill, Inc. and in the Registration Statements on Form S-8 pertaining to the 1983 Stock Option Plan for Officers and Key Employees (No. 2-84058), the 1987 Key Employee Stock Incentive Plan (No. 33-22344), the 1993 Key Employee Stock Incentive Plan (No. 33-49743), the 1993 Stock Payment Plan for Directors (No. 33-49741), and The Savings Incentive Plan of McGraw-Hill, Inc. and Its Subsidiaries, The Employee Retirement Account Plan of McGraw-Hill, Inc. and Its Subsidiaries, The Savings Incentive Plan of Standard & Poor's Corporation and Its Participating Subsidiaries, The Employee Retirement Account Plan of Standard & Poor's Corporation and Its Participating Subsidiaries, Employees' Investment Plan of McGraw-Hill Broadcasting Company, Inc. and Its Subsidiaries (No. 33-50856) and in the related prospectuses of our report dated February 2, 1994 with respect to the consolidated financial statements incorporated therein by reference, and our report included above with respect to the consolidated financial statement schedules included in this Annual Report (Form 10-K) of McGraw-Hill, Inc.

*/s/ ERNST & YOUNG
ERNST & YOUNG*

*New York, New York
March 29, 1994*

McGRAW-HILL, INC.

SCHEDULE VIII - RESERVE FOR DOUBTFUL ACCOUNTS

Years ended December 31, 1993, 1992 and 1991
(Thousands of dollars)

Year	Balance at beginning of year	Additions charged to income	Deductions	Other	Balance at end of year
1993	\$80,768	\$60,401	(A) \$65,534	\$3,826 (B)	\$79,461
1992	74,157	64,067	57,516	60 (C)	80,768
1991	64,328	61,972	52,209	66 (D)	74,157

(A) Accounts written off, less recoveries.

Reserves acquired in connection with the purchase of:

(B) Macmillan/McGraw-Hill School Publishing Co.

(C) Geo. S. Bush & Co., Inc.

(D) W.N. Proctor Co., Inc. and Castelazo & Associates.

McGRAW-HILL, INC.

SCHEDULE IX - SHORT-TERM BORROWINGS
Years ended December 31, 1993, 1992 and 1991
(Thousands of dollars)

Year	Category of aggregate short-term borrowing	Balance at end of period	Weighted average interest rate	Maximum amount outstanding during the period	(A) Average amount outstanding during the period	(B) Weighted average interest rate during the period
1993	Commercial Paper	\$167,700	3.3%	\$406,000	\$121,767	3.3%
	Foreign Currency Bank Loans	3,080	5.1	3,777	3,256	6.1
		----- \$170,780 =====				
1992	Commercial Paper (c)	\$120,460	3.4%	\$146,000	\$ 99,300	4.2%
	Foreign Currency Bank Loans	3,746	7.7	8,447	5,807	9.5
		----- \$124,206 =====				
1991	Commercial Paper	\$121,100	5.0%	\$138,600	\$ 90,700	6.3%
	Foreign Currency Bank Loans	5,818	9.9	16,200	10,800	10.5
		----- \$126,918 =====				

(A) The average amount outstanding during the period was computed by dividing the sum of the average monthly outstanding principal amounts by 12.

(B) The weighted average interest rate during the period was computed by dividing actual interest expense by average short-term debt outstanding.

(C) Includes \$1,960 of Domestic Bank Loans.

**SCHEDULE X - SUPPLEMENTARY
INCOME STATEMENT INFORMATION**

Years ended December 31, 1993, 1992 and 1991
(Thousands of dollars)

Item	1993	1992	1991
----- Royalties	\$68,695 =====	\$64,950 =====	\$60,395 =====
Advertising	\$51,488 =====	\$48,828 =====	\$49,952 =====

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