

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

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from _____ to _____

Commission File Number: 1-1023

The McGraw-Hill Companies, Inc.

(Exact name of registrant as specified in its charter)

New York

13-1026995

(State or other jurisdiction of incorporation or organization)

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

1221 Avenue of the Americas, New York, New York

10020

(Address of principal executive offices)

(Zip Code)

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

Not Applicable

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

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

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

On July 16, 2012 there were 280.2 million shares of common stock (par value \$1.00 per share) outstanding.

The McGraw-Hill Companies, Inc.

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Report of Independent Registered Public Accounting Firm

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

We have reviewed the consolidated balance sheet of The McGraw-Hill Companies, Inc., as of June 30, 2012, and the related consolidated statements of income and comprehensive income, for the three-month and six-month periods ended June 30, 2012 and 2011, and the related consolidated statements of cash flows for the six-month periods ended June 30, 2012 and 2011. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The McGraw-Hill Companies, Inc. as of December 31, 2011, and the related consolidated statements of income, equity, and cash flows for the year then ended, not presented herein, and in our report dated February 7, 2012, we expressed an unqualified opinion on those consolidated financial statements.

/s/ ERNST & YOUNG LLP

New York, New York
July 26, 2012

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

The McGraw-Hill Companies, Inc.

Consolidated Statements of Income

(Unaudited)

(in millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenue:				
Product	\$ 462	\$ 523	\$ 756	\$ 821
Service	1,085	1,034	2,122	1,997
Total revenue	1,547	1,557	2,878	2,818
Expenses:				
Operating-related expenses:				
Product	213	239	376	411
Service	361	354	728	685
Total operating-related expenses	574	593	1,104	1,096
Selling and general expenses	568	580	1,110	1,083
Depreciation	23	25	46	50
Amortization of intangibles	17	14	32	29
Total expenses	1,182	1,212	2,292	2,258
Other income	—	(13)	—	(13)
Operating income	365	358	586	573
Interest expense, net	20	20	41	39
Income from continuing operations before taxes on income	345	338	545	534
Provision for taxes on income	125	122	198	194
Income from continuing operations	220	216	347	340
Loss from discontinued operations, net of tax	—	—	—	(1)
Net income	220	216	347	339
Less: net income attributable to noncontrolling interests	(4)	(5)	(8)	(8)
Net income attributable to The McGraw-Hill Companies, Inc.	\$ 216	\$ 211	\$ 339	\$ 331
Amounts attributable to The McGraw-Hill Companies, Inc. common shareholders:				
Income from continuing operations	\$ 216	\$ 211	\$ 339	\$ 332
Loss from discontinued operations, net of tax	—	—	—	(1)
Net income	\$ 216	\$ 211	\$ 339	\$ 331
Earnings per share attributable to The McGraw-Hill Companies, Inc. common shareholders:				
Basic	\$ 0.77	\$ 0.70	\$ 1.22	\$ 1.09
Diluted	\$ 0.76	\$ 0.68	\$ 1.19	\$ 1.07
Average number of common shares outstanding:				
Basic	279.7	303.6	278.9	304.4
Diluted	285.3	309.2	284.5	309.4
Dividend declared per common share	\$ 0.255	\$ 0.25	\$ 0.51	\$ 0.50

See accompanying notes to the unaudited consolidated financial statements.

The McGraw-Hill Companies, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$ 220	\$ 216	\$ 347	\$ 339
Other comprehensive income:				
Foreign currency translation adjustment, net of tax benefit of \$5 million and \$6 million for the three and six months ended June 30, 2012 and \$4 million and \$7 million for the three and six months ended June 30, 2011	(37)	5	(19)	34
Pension and other post-retirement benefit plans, net of taxes of \$7 million and \$10 million for the three and six months ended June 30, 2012, respectively, and \$3 million and \$6 million for the three and six months ended June 30, 2011, respectively	13	10	18	14
Unrealized loss on investments and forward exchange contracts, net of tax benefit of \$1 million for the three and six months ended June 30, 2012 and \$2 million and \$4 million for the three and six months ended June 30, 2011, respectively	(2)	(2)	(1)	(6)
Comprehensive income	194	229	345	381
Less: comprehensive income (loss) attributable to noncontrolling interests	2	(5)	(5)	(10)
Comprehensive income attributable to The McGraw-Hill Companies, Inc.	<u>\$ 196</u>	<u>\$ 224</u>	<u>\$ 340</u>	<u>\$ 371</u>

See accompanying notes to the unaudited consolidated financial statements.

The McGraw-Hill Companies, Inc.

Consolidated Balance Sheets

(in millions)

	June 30, 2012	December 31, 2011	June 30, 2011
	(Unaudited)		(Unaudited)
ASSETS			
Current assets:			
Cash and equivalents	\$ 836	\$ 944	\$ 1,300
Short-term investments	3	29	25
Accounts receivable, net	1,102	1,045	1,002
Inventories	296	263	340
Deferred income taxes	259	260	281
Prepaid and other current assets	144	138	255
Total current assets	2,640	2,679	3,203
Prepublication costs, net	342	325	351
Property and equipment, net	482	500	501
Goodwill	2,296	2,048	1,985
Other intangible assets, net	1,267	608	620
Other non-current assets	283	267	284
Total assets	\$ 7,310	\$ 6,427	\$ 6,944
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	\$ 232	\$ 347	\$ 336
Accrued royalties	50	119	48
Accrued compensation and contributions to retirement plans	385	510	380
Short-term debt	400	400	—
Income taxes currently payable	111	29	82
Unearned revenue	1,323	1,303	1,244
Other current liabilities	378	422	433
Total current liabilities	2,879	3,130	2,523
Long-term debt	799	798	1,198
Pension and other post-retirement benefits	494	513	436
Other non-current liabilities	616	402	451
Total liabilities	4,788	4,843	4,608
Commitments and contingencies (Note 14)	—	—	—
Redeemable noncontrolling interest (Note 10)	792	—	—
Equity:			
Common stock	412	412	412
Additional paid-in capital	442	94	134
Retained income	7,292	7,667	7,233
Accumulated other comprehensive loss	(424)	(425)	(327)
Less: common stock in treasury	(6,059)	(6,240)	(5,197)
Total equity — controlling interests	1,663	1,508	2,255
Total equity — noncontrolling interests	67	76	81
Total equity	1,730	1,584	2,336
Total liabilities and equity	\$ 7,310	\$ 6,427	\$ 6,944

See accompanying notes to the unaudited consolidated financial statements.

The McGraw-Hill Companies, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(in millions)

	Six Months Ended	
	June 30,	
	2012	2011
Operating Activities:		
Net income	\$ 347	\$ 339
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation (including amortization of technology projects)	60	64
Amortization of intangibles	32	30
Amortization of prepublication costs	63	76
Provision for losses on accounts receivable	4	4
Deferred income taxes	4	—
Stock-based compensation	47	41
Other	15	17
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(20)	3
Inventories	(33)	(63)
Prepaid and other current assets	(16)	(16)
Accounts payable and accrued expenses	(351)	(269)
Unearned revenue	(2)	16
Other current liabilities	(44)	(13)
Net change in prepaid/accrued income taxes	96	100
Net change in other assets and liabilities	(47)	9
Cash provided by operating activities	<u>155</u>	<u>338</u>
Investing Activities:		
Investment in prepublication costs	(79)	(60)
Capital expenditures	(42)	(45)
Acquisitions, net of cash acquired	(149)	(126)
Proceeds from dispositions of property and equipment	1	20
Changes in short-term investments	26	(3)
Cash used for investing activities	<u>(243)</u>	<u>(214)</u>
Financing Activities:		
Dividends paid to shareholders	(145)	(152)
Dividends paid to noncontrolling interests	(11)	(9)
Repurchase of treasury shares	—	(300)
Exercise of stock options	134	80
Excess tax benefits from share-based payments	7	2
Cash used for financing activities	<u>(15)</u>	<u>(379)</u>
Effect of exchange rate changes on cash	(5)	29
Net change in cash and equivalents	(108)	(226)
Cash and equivalents at beginning of period	944	1,526
Cash and equivalents at end of period	<u>\$ 836</u>	<u>\$ 1,300</u>

See accompanying notes to the unaudited consolidated financial statements.

The McGraw-Hill Companies, Inc.

Notes to the Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying unaudited financial statements of The McGraw-Hill Companies, Inc. (together with its consolidated subsidiaries, "McGraw-Hill," the "Company," "we," "us" or "our") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Therefore, the financial statements included herein should be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2011 (our "Annual Report").

In the opinion of management all normal recurring adjustments considered necessary for a fair statement of the results of the interim periods have been included. The operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the full year, partially due to the seasonal nature of some of our businesses. As a result, we have included the consolidated balance sheet as of June 30, 2011 for comparative purposes. Certain prior-year amounts have been reclassified to conform to the current presentation.

We have reported our Broadcasting Group, previously included in our Commodities & Commercial ("C&C") segment, as a discontinued operation. We completed the sale on December 30, 2011 and, accordingly, the results of operations of the Broadcasting Group for all prior periods presented have been reclassified to reflect the business as a discontinued operation and the assets and liabilities of the business have been removed from the consolidated balance sheet as of December 31, 2011 and reclassified as held for sale as of June 30, 2011. See Note 3 for further discussion.

Our critical accounting estimates are disclosed in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report. On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts and sales returns, inventories, prepublication costs, accounting for the impairment of long-lived assets (including other intangible assets), goodwill and indefinite-lived intangible assets, retirement plans and post-retirement healthcare and other benefits, stock-based compensation, income taxes and contingencies. Since the date of our Annual Report, there have been no material changes to our critical accounting policies and estimates.

2. Growth and Value Plan

On September 12, 2011, we announced that our Board of Directors have unanimously approved a comprehensive Growth and Value Plan that includes separation into two public companies: McGraw-Hill Financial, focused on content and analytics for the financial markets, and McGraw-Hill Education, Inc. focused on education services and digital learning. The separation will be accomplished through a series of transactions in which the assets, liabilities and operations of the current McGraw-Hill Education segment ("MHE") of McGraw-Hill on a global basis will be transferred to McGraw-Hill Education, Inc. or entities that are, or will become prior to the separation, subsidiaries of McGraw-Hill Education, Inc. Each shareholder of McGraw-Hill will receive one share of McGraw-Hill Education, Inc. common stock for every three shares of McGraw-Hill common stock held on the record date for the share distribution. Current holders of McGraw-Hill stock will also retain their shares of McGraw-Hill.

We received a favorable tax ruling from the Internal Revenue Service on April 23, 2012, which provides that the separation of McGraw-Hill Education, Inc. will be tax free to the Company and its shareholders. In addition, we filed the initial McGraw-Hill Education, Inc. Form 10 registration statement with the U.S. Securities and Exchange Commission on July 11, 2012. We expect to complete the separation by the end of 2012 through a spin-off of the education business to the Company's shareholders, subject to various conditions and regulatory approvals, including final Board approval. While we are pursuing a separation as described above we are also actively evaluating other options to deliver shareholder value, including a potential sale of MHE.

For the three and six months ended June 30, 2012, we recorded \$42 million and \$75 million, respectively, of Growth and Value Plan related costs. These are costs necessary to enable separation, reduce our cost structure, accelerate growth and increase shareholder value. Specifically, these costs relate to professional fees, transaction costs for our S&P/Dow Jones Indices, LLC joint venture, severance charges, and for the six months, a charge related to a reduction in our lease commitments, and are included in selling and general expenses in the consolidated statements of income. Total costs incurred to date related to the Growth and Value Plan are \$85 million.

3. Acquisitions and Divestitures

Acquisitions

Acquisition of Coalition Development Ltd.

On July 4, 2012, CRISIL, our majority owned Indian credit rating agency, completed the acquisition of Coalition Development Ltd. (“Coalition”), a privately-held U.K. analytics company, and its subsidiaries. Coalition provides high-end analytics to leading global investment banks and other financial services firms. Coalition will be integrated into CRISIL's Global Research & Analytics business within our Standard & Poor's Ratings segment. Including the pro forma impact on earnings, the acquisition of Coalition was not material to our consolidated financial statements.

Acquisition of Dow Jones Index Business

On June 29, 2012 (the "Acquisition Date"), we closed our transaction with CME Group, Inc. (“CME Group”) and CME Group Index Services LLC (“CGIS”), a joint venture between CME Group and Dow Jones & Company, Inc., to form a new company, S&P/Dow Jones Indices, LLC (“S&P/DJ Indices”). We own 73% and CME Group and CGIS collectively own 27% of S&P/DJ Indices. In exchange for their 27% minority interest, CME Group and CGIS contributed their Dow Jones Index (“DJI”) business; in exchange for our 73% and controlling interest, we contributed our Standard & Poor's Index (“S&P Index”) business. The DJI business focuses on the development of financial benchmarks used by licensees to create exchange-traded funds, option contracts and futures contracts traded on exchanges as well as used as a metric to evaluate economic performance. The combination of these businesses creates the world's largest provider of financial market indices; we expect to increase revenue through international and asset-class expansion, new product development, enhanced market data offerings and increased cross-selling opportunities. The proforma impact on revenue and earnings from our joint venture with the DJI business was not material to our consolidated results for the three and six months ended June 30, 2012.

The terms of the operating agreement of S&P/DJ Indices contain redemption features whereby interests held by minority partners are redeemable. See Note 10 for further discussion.

Acquisition-Related Expenses

During the three and six months ended June 30, 2012, the Company incurred \$15 million of acquisition-related costs related to the formation of S&P/DJ Indices. These expenses are included in selling and general expenses in our unaudited consolidated statements of income.

Preliminary Allocation of Purchase Price

Because we consolidate S&P/DJ Indices, we have applied acquisition accounting to the S&P/DJ Indices contributed businesses and their results of operations will be included in our consolidated results of operations subsequent to the Acquisition Date.

The fair value of the DJI business acquired of \$792 million was estimated by applying a market approach and an income approach. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. The fair value estimates of the proportionate shares of the contributed businesses are based on, but not limited to, future expected cash flows, appropriate discount rates ranging from 10% to 11%, long term growth rates of 2.5 to 3.5%, assumed financial multiples of companies deemed to be similar to the DJI, and market rate assumptions for contractual obligations. S&P Index continues to be recorded at its historical or carry-over basis.

At the Acquisition Date, our non-controlling interest has been recorded at the fair value of DJI we acquired plus the proportionate interest of the S&P Index business at our carry-over basis. As of June 30, 2012, we recorded a redeemable noncontrolling interest in our consolidated financial statements (see Note 10 for further discussion) at the preliminary fair value of 27% of S&P/DJ Indices or \$792 million due to the redemption provisions described above, representing CME Group's and CGIS' interest in S&P/DJ Indices.

The estimated values are not yet final and are subject to change, and the changes could be significant. We will finalize the amounts recognized as soon as possible as we obtain the information necessary to complete our analysis.

The tables below present the consideration transferred and the preliminary allocation of purchase price to the assets and liabilities

of the DJI business acquired as a result of the transaction.

Consideration Transferred

(in millions)

Fair value of 27% of S&P Index exchanged	\$	571
Fair value of noncontrolling interest associated with DJI		221
Total	\$	<u>792</u>

Preliminary Purchase Price Allocation

(in millions)

Current assets	\$	82
Intangible assets:		
Other intangibles		633
Goodwill		96
Property and equipment		4
Current liabilities		(23)
Total net assets	\$	<u>792</u>

The intangible assets, excluding goodwill, will be amortized over their anticipated useful lives, which will be determined when we finalize our purchase price allocation.

Income Taxes

We are responsible for the tax matters for S&P/DJ Indices, including the filing of returns and the administration of any proceedings with taxing authorities. For U.S. federal income tax purposes, S&P/DJ Indices is treated as a partnership. The income of S&P/DJ Indices will flow through and be subject to tax at the partners' level. However S&P/DJ Indices is expected to incur current and deferred income taxes in a limited number of states and localities and its foreign subsidiaries are expected to incur immaterial current and deferred foreign income taxes.

We recognized \$216 million of non-current deferred tax liabilities in connection with CME Group and CGIS acquiring an indirect noncontrolling interest in the S&P Index business in exchange for our acquisition of a portion of our interest in the DJI business. Because we maintained control of the S&P Index business, the excess of fair value received over historical carrying value and the related tax impact were recorded in additional paid-in capital.

Goodwill and Identifiable Intangibles

Goodwill consists primarily of intangible assets that do not qualify for separate recognition, including assembled workforce, noncontractual relationships and agreements. Because our allocation of purchase price and estimated values of identifiable assets and liabilities are not yet final, the amount of total goodwill and identifiable intangibles are not yet final and subject to change. The goodwill is not expected to be deductible for tax purposes.

Acquisition of Credit Market Analysis Limited

On June 29, 2012 we acquired Credit Market Analysis Limited ("CMA") from the CME Group. CMA provides independent data in the over-the-counter markets. CMA's data and technology will enhance our capability to provide clear, reliable pricing and related over-the-counter information. CMA will be integrated into our S&P Capital IQ / S&P Indices segment. Including the pro forma impact on earnings, the acquisition of CMA was not material to our consolidated financial statements.

Acquisition of QuantHouse

On April 3, 2012 we completed the acquisition of QuantHouse, an independent global provider of end-to-end systematic low-latency market data solutions. QuantHouse will be integrated into our S&P Capital IQ / S&P Indices segment. The acquisition allows us to offer unique real-time monitors, derived data sets and analytics as well as the ability to package and resell this data as part of a core solution. Including the pro forma impact on earnings, the acquisition of QuantHouse was not material to our

consolidated financial statements.

Acquisition of R² Technologies

On February 8, 2012, we completed the acquisition of R² Technologies (“R²”). R² provides advanced risk and scenario-based analytics to traders, portfolio and risk managers for pricing, hedging and capital management across asset classes. R² will be integrated into our S&P Capital IQ / S&P Indices segment. Including the pro forma impact on earnings, the acquisition of R² was not material to our consolidated financial statements.

Divestitures

We did not complete any dispositions during the six months ended June 30, 2012 .

During the three months and six months ended June 30, 2011 , we recorded a pretax gain of \$13 million within other income in the consolidated statements of income, which related to the sale of our interest in LinkedIn Corporation in their initial public offering. This investment was held at our C&C segment.

On December 30, 2011, we completed the sale of the Broadcasting Group with The E.W. Scripps Company. This sale followed our previously announced plan to pursue the divestiture of our Broadcasting Group, which was part of our C&C segment. As a result, the results of operations of the Broadcasting Group for all prior periods presented have been reclassified to reflect the business as a discontinued operation, and the assets and liabilities of the business have been removed from the consolidated balance sheet as of December 31, 2011 and reclassified as held for sale as of June 30, 2011 .

The key components of loss from discontinued operations consist of the following for the three and six months ended June 30, 2011 :

(in millions)	Three Months	Six Months
Revenue	\$ 23	\$ 44
Costs and expenses	22	44
Loss before taxes on income	1	—
Provision for taxes on income	(1)	(1)
Loss from discontinued operations, net of tax	<u>\$ —</u>	<u>\$ (1)</u>

The components of assets and liabilities classified as discontinued operations and included in prepaid and other current assets and other current liabilities in the consolidated balance sheet consist of the following as of:

(in millions)	June 30, 2011
Accounts receivable, net	\$ 19
Property and equipment, net	25
Other intangible assets, net	46
Other current assets	8
Assets held for sale	<u>\$ 98</u>
Accounts payable and accrued expenses	\$ 7
Other current liabilities	5
Liabilities held for sale	<u>\$ 12</u>

4. Supplementary Balance Sheet Data

(in millions)	June 30, 2012	December 31, 2011	June 30, 2011
Accounts receivable — allowance for doubtful accounts	\$ 52	\$ 55	\$ 70
Accounts receivable — allowance for sales returns	120	187	146
Prepublication costs — accumulated amortization	1,120	1,066	955
Property and equipment — accumulated depreciation	1,006	1,066	1,056

5. Fair Value Measurements

In accordance with authoritative guidance for fair value measurements, certain assets and liabilities are required to be recorded at fair value and classified within a fair value hierarchy based on inputs used when measuring fair value. We have investments in equity securities classified as available-for-sale and an immaterial amount of forward exchange contracts that are adjusted to fair value on a recurring basis. The fair values of our investments in available-for-sale securities were determined using quoted market prices from daily exchange traded markets and are classified within Level 1 of the valuation hierarchy. The fair values of our available-for-sale securities are \$11 million, \$14 million and \$12 million as of June 30, 2012, December 31, 2011 and June 30, 2011, respectively, and are included in other non-current assets in the consolidated balance sheets.

Other financial instruments, including cash and equivalents and short-term investments, are recorded at cost, which approximates fair value because of the short-term maturity and highly liquid nature of these instruments. The fair value of our total borrowings for each period presented is \$1.3 billion and was estimated based on quoted market prices.

6. Income Taxes

For the three and six months ended June 30, 2012 and 2011, the effective tax rate for continuing operations was 36.3%. Including discontinued operations, the effective tax rate was 36.4% for the three and six months ended June 30, 2011.

At the end of each interim period, we estimate the annual effective tax rate and apply that rate to our ordinary quarterly earnings. The tax expense or benefit related to significant, unusual or extraordinary items that will be separately reported or reported net of their related tax effect, and are individually computed, are recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates or tax status is recognized in the interim period in which the change occurs.

As of June 30, 2012, December 31, 2011 and June 30, 2011, the total amount of federal, state and local, and foreign unrecognized tax benefits was \$66 million, \$57 million and \$62 million, respectively, exclusive of interest and penalties. We recognize accrued interest and penalties related to unrecognized tax benefits in interest expense and operating expense, respectively. In addition to the unrecognized tax benefits, as of June 30, 2012, December 31, 2011 and June 30, 2011, we had \$15 million, \$13 million and \$15 million, respectively, of accrued interest and penalties associated with uncertain tax positions.

7. Debt

(in millions)	June 30, 2012	December 31, 2011	June 30, 2011
5.375% Senior Notes, due 2012 ¹	\$ 400	\$ 400	\$ 400
5.9% Senior Notes, due 2017 ²	399	399	399
6.55% Senior Notes, due 2037 ³	399	399	399
Notes payable	1	—	—
Total debt	1,199	1,198	1,198
Less: short-term debt including current maturities	400	400	—
Long-term debt	\$ 799	\$ 798	\$ 1,198

¹ Interest payments are due on February 15 and August 15, and, as of June 30, 2012, the unamortized debt discount is less than \$0.1 million. These senior notes will mature on November 15, 2012.

² Interest payments are due on April 15 and October 15, and, as of June 30, 2012, the unamortized debt discount is \$0.5 million.

³ Interest payments are due on May 15 and November 15, and, as of June 30, 2012, the unamortized debt discount is \$1.3 million.



Currently, we have the ability to borrow \$1.2 billion in additional funds through our commercial paper program, which is supported by our \$1.2 billion three-year credit agreement (our “credit facility”) that will terminate on July 30, 2013. We pay a commitment fee of 15 to 35 basis points for our credit facility, depending on our credit rating, whether or not amounts have been borrowed and currently pay a commitment fee of 20 basis points. The interest rate on borrowings under our credit facility is, at our option, calculated using rates that are primarily based on either the prevailing London Inter-Bank Offer Rate, the prime rate determined by the administrative agent or the Federal funds rate. For certain borrowings under this credit facility there is also a spread based on our credit rating added to the applicable rate. As of June 30, 2012, we have not utilized our credit facility for additional funds.

Our credit facility contains certain covenants. The only financial covenant requires that our indebtedness to cash flow ratio, as defined in our credit facility, is not greater than 4 to 1, and this covenant has never been exceeded.

8. Employee Benefits

We have a number of defined benefit pension plans and defined contribution plans covering substantially all employees. Our primary pension plan is a noncontributory plan under which benefits are based on employee career employment compensation. In December 2011, our Board of Directors approved a plan amendment that froze our U.S. Employee Retirement Plan (“U.S. ERP”) effective on April 1, 2012. Our U.S. ERP is a defined benefit plan. Under the amendment, no new employees will be permitted to enter the U.S. ERP and no additional benefits for current participants for future services will be accrued. This amendment decreased our pension benefit liabilities by \$129 million as of December 31, 2011, and resulted in an after-tax decrease in accumulated other comprehensive loss of \$82 million. We also recorded an immaterial amount of pension plan curtailment expense in 2011 as a result of the plan amendment.

We also have unfunded non-U.S. benefit plans and supplemental benefit plans. The supplemental benefit plans provide senior management with supplemental retirement, disability and death benefits. Certain supplemental retirement benefits are based on final monthly earnings. In addition, we sponsor voluntary 401(k) plans under which we may match employee contributions up to certain levels of compensation as well as profit-sharing plans under which we contribute a percentage of eligible employees’ compensation to the employees’ accounts.

We also 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. We currently do not prefund any of these plans.

The components of net periodic benefit cost for our retirement plans and post-retirement plans for the periods ended June 30 are as follows:

(in millions)	Three Months Ended		Six Months Ended	
	2012	2011	2012	2011
Retirement Plans				
Service cost	\$ (1)	\$ 16	\$ 18	\$ 34
Interest cost	23	25	46	50
Expected return on plan assets	(31)	(32)	(62)	(64)
Amortization of actuarial loss	8	8	16	15
Net periodic benefit cost	<u>\$ (1)</u>	<u>\$ 17</u>	<u>\$ 18</u>	<u>\$ 35</u>
Post-Retirement Plans				
Service cost	\$ —	\$ 1	\$ 1	\$ 1
Interest cost	2	1	3	3
Amortization of prior service credit	(1)	—	(1)	—
Net periodic benefit cost	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 3</u>	<u>\$ 4</u>

For the three and six months ended June 30, 2012, our United Kingdom retirement plan accounted for \$1 million and \$2 million, respectively, of the net periodic benefit cost attributable to the funded plans. For the six months ended June 30, 2011, our United Kingdom retirement plan accounted for \$2 million of the net periodic benefit cost attributable to the funded plans.

As discussed in our Annual Report, we changed certain discount rate assumptions on our retirement and post-retirement plans and our expected return on assets assumption for our retirement plans, which became effective on January 1, 2012. The effect of the

assumption changes on retirement and post-retirement expense for the three and six months ended June 30, 2012 did not have a material impact to our financial position, results of operations or cash flows.

In the first six months of 2012, we contributed \$29 million to our retirement plans and expect to make additional required contributions of approximately \$15 million to our retirement plans during the remainder of the year. We may elect to make additional non-required contributions depending on investment performance and the pension plan status in the second half of 2012.

9. Stock-Based Compensation

We issue stock-based incentive awards to our eligible employees and Directors under two employee stock ownership plans (the 1993 and 2002 Employee Stock Incentive Plans) and a Director Deferred Stock Ownership Plan. No further awards may be granted under the 1993 Employees Stock Incentive Plan, although awards granted under this plan remain outstanding in accordance with their terms. The remaining outstanding options under the 1993 Employees Stock Incentive Plan will have fully met their maximum term in the first quarter of 2013. The 2002 Employee Stock Incentive Plan permits the granting of nonqualified stock options, stock appreciation rights, performance stock, restricted stock and other stock-based awards.

Stock-based compensation for the periods ended June 30 is as follows:

(in millions)	Three Months Ended		Six Months Ended	
	2012	2011	2012	2011
Stock option expense	\$ 2	\$ 6	\$ 8	\$ 12
Restricted stock and unit awards expense	25	17	39	29
Total stock-based compensation expense	<u>\$ 27</u>	<u>\$ 23</u>	<u>\$ 47</u>	<u>\$ 41</u>

As of June 30, 2012, December 31, 2011 and June 30, 2011, we issued 0.7 million, 4.4 million and 2.6 million common shares, respectively, upon exercise of certain stock options outstanding.

Historically, we have granted equity awards to our employees at the beginning of the second quarter, however, given the timing of our Growth and Value Plan initiatives we have decided to defer granting these awards until the third quarter of 2012. The vesting period of these awards will be reduced to have a similar vesting date as if the awards were granted at the beginning of the second quarter.

10. Equity

Stock Repurchases

In 2011, the Board of Directors approved a new stock repurchase program authorizing the purchase of up to 50.0 million shares (the “2011 Repurchase Program”), which was approximately 17% of the total shares of our outstanding common stock at that time. Share repurchases for the periods ended June 30 were as follows:

(in millions, except average price)	Three Months Ended		Six Months Ended	
	2012	2011	2012	2011
Total number of shares purchased — 2011 Repurchase Program ¹	0.1	—	0.9	—
Total number of shares purchased — 2007 Repurchase Program	—	4.4	—	7.7
Average price paid per share	\$ —	\$ 40.10	\$ —	\$ 38.96
Total cash utilized	\$ —	\$ 177	\$ —	\$ 300

¹ Represents shares received at the conclusion of the uncollared Accelerated Share Repurchase Agreement described in more detail below.

Our purchased shares may be used for general corporate purposes, including the issuance of shares for stock compensation plans and to offset the dilutive effect of the exercise of employee stock options. As of June 30, 2012, 22.7 million shares remained available under the 2011 Repurchase Program. The 2011 Repurchase Program has no expiration date and purchases under this

program may be made from time to time on the open market and in private transactions, depending on market conditions. As of December 31, 2011, there were no remaining shares available under the 2007 stock repurchase program.

Accelerated Share Repurchase Program

On December 7, 2011 we entered into two separate Accelerated Share Repurchase Agreements (“ASR Agreements”) with a financial institution to initiate share repurchases, aggregating \$500 million .

- The first ASR Agreement was structured as an uncollared ASR Agreement for the repurchase of \$250 million of shares at a per share price equal to the volume weighted average price (“VWAP”) of our common stock between December 7, 2011 and February 22, 2012.
- The second ASR Agreement was structured as a capped ASR Agreement for the repurchase of \$250 million of shares at a per share price that was capped based on 110% of the VWAP of our common stock during the period from December 7, 2011 through December 21, 2011. This capped price set the minimum number of shares that will be repurchased.

Uncollared ASR Agreement

We paid \$250 million on December 12, 2011 and received an initial delivery of approximately 5 million shares from the financial institution subject to a 20% , or \$50 million , holdback. At the conclusion of the uncollared ASR Agreement, which occurred on February 22, 2012, we received 0.8 million additional shares bringing the total shares repurchased under the uncollared ASR Agreement to approximately 6 million shares.

Capped ASR Agreement

We paid \$250 million and received approximately 5 million shares representing the minimum number of common shares to be repurchased based on a calculation using a specific capped price per share. At the conclusion of the capped ASR Agreement, which occurred on April 23, 2012, we received 0.1 million additional shares bringing the total shares repurchased under the capped ASR Agreement to approximately 5 million shares.

The ASR Agreements were accounted for as two transactions; a stock purchase transaction and a forward stock purchase contract. The initial delivery of shares resulted in an immediate reduction of our outstanding shares used to determine our weighted average common shares outstanding for purposes of calculating basic and diluted net earnings per share. The forward stock purchase contract is classified as an equity instrument. As of June 30, 2012 and December 31, 2011, the excess amount paid on a per share basis for the minimum shares purchased under the capped ASR Agreement was recorded as a reduction to additional paid-in capital in our consolidated balance sheets. We have evaluated the Capped ASR Agreement for its potential dilution and as a result, these additional shares were not included in our weighted average diluted earnings per share calculation because their effect would be antidilutive.

Redeemable Noncontrolling Interests

The agreement with the minority partners of our S&P/DJ Indices partnership discussed in Note 3 contains redemption features whereby interests held by minority partners are redeemable either (i) at the option of the holder or (ii) upon the occurrence of an event that is not solely within our control. Specifically, under the terms of the operating agreement of S&P/DJ Indices, after December 31, 2017, CME Group and CGIS will have the right at any time to sell, and we are obligated to buy, at least 20% of their share in S&P/DJ Indices. In addition, in the event there is a change of control of the Company, for the 15 days following a change in control, CME Group and CGIS will have the right to put their interest to us at the then fair value of CME Group's and CGIS' minority interest.

If interests were to be redeemed under this agreement, we would generally be required to purchase the interest at fair value on the date of redemption. This interest is presented on the unaudited consolidated balance sheet outside of equity under the caption “Redeemable noncontrolling interest” with an initial value based on fair value for the portion attributable to the net assets we acquired, and based on our historical cost for the portion attributable to our S&P Index business. Redeemable noncontrolling interest will be adjusted each reporting period at its estimated redemption value, but not less than its initial fair value. Any adjustments to the redemption value will impact retained income.

Noncontrolling interests that do not contain such redemption features are presented in equity.

11. Earnings Per Share

Basic earnings per common share (“EPS”) is computed by dividing net income attributable to the common shareholders of the Company by the weighted-average number of common shares outstanding. Diluted EPS is computed in the same manner as basic EPS, except the number of shares is increased to include additional common shares that would have been outstanding if potential common shares with a dilutive effect had been issued. Potential common shares consist primarily of stock options, restricted stock and restricted stock units calculated using the treasury stock method. The calculation for basic and diluted EPS for the periods ended June 30 is as follows:

(in millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	2012	2011	2012	2011
Amounts attributable to The McGraw-Hill Companies, Inc. common shareholders:				
Income from continuing operations	\$ 216	\$ 211	\$ 339	\$ 332
Loss from discontinued operations, net of tax	—	—	—	(1)
Net income attributable to the Company	\$ 216	\$ 211	\$ 339	\$ 331
Basic weighted-average number of common shares outstanding	279.7	303.6	278.9	304.4
Effect of stock options and other dilutive securities	5.6	5.6	5.6	5.0
Diluted weighted-average number of common shares outstanding	285.3	309.2	284.5	309.4
Basic EPS:				
Income from continuing operations	\$ 0.77	\$ 0.70	\$ 1.22	\$ 1.09
Loss from discontinued operations, net of tax	—	—	—	—
Net income	\$ 0.77	\$ 0.70	\$ 1.22	\$ 1.09
Diluted EPS:				
Income from continuing operations	\$ 0.76	\$ 0.68	\$ 1.19	\$ 1.07
Loss from discontinued operations, net of tax	—	—	—	—
Net income	\$ 0.76	\$ 0.68	\$ 1.19	\$ 1.07

Restricted performance shares outstanding of 1.4 million and 1.6 million as of June 30, 2012 and June 30, 2011 , respectively, were not included in the computation of diluted EPS because the necessary vesting conditions had not been met.

The effect of the potential exercise of stock options is excluded from the computation of diluted EPS when the average market price of our common stock is lower than the exercise price of the related option during the period because the effect would have been antidilutive. For the three months ended June 30, 2012 and 2011 , the number of stock options excluded from the computation was 3.8 million and 10.0 million , respectively, and 4.0 million and 10.8 million for the six months ended June 30, 2012 and 2011 , respectively.

12. Restructuring

In order to contain costs and mitigate the impact of current and expected future economic conditions, as well as a continued focus on process improvements, we have initiated various restructuring plans over the last several years. The plans that are currently active with a remaining liability are further described below. The charges for each restructuring plan are classified as selling and general expenses within the consolidated statements of income.

During the fourth quarter of 2011, we initiated a restructuring plan to create a flatter and more agile organization as part of our Growth and Value Plan, which includes creating two independent public companies with focused cost structures. While initially focused on our MHE segment, these actions also included other parts of the Company. We recorded a pre-tax restructuring charge of \$66 million , consisting primarily of facility exit costs and employee severance costs related to a company-wide workforce

reduction of approximately 800 positions. In the second quarter of 2012 we recorded an additional pre-tax restructuring charge of \$5 million primarily for employee severance costs as part of the Growth and Value Plan. For the three months ended June 30, 2012, we have reduced the reserve by \$12 million, primarily relating to cash payments for employee severance costs, mainly at MHE. The remaining reserve as of June 30, 2012 is \$37 million and is included in other current liabilities in the unaudited consolidated balance sheet.

As of June 30, 2012, our 2006 restructuring initiative still has a remaining reserve relating to facilities costs of \$3 million.

13. Segment and Related Information

We have four reportable segments: Standard & Poor's Ratings ("S&P Ratings"), S&P Capital IQ / S&P Indices, C&C and MHE.

- S&P Ratings provides independent global credit ratings, credit risk evaluations, and ratings-related information research to investors, corporations, governments, financial institutions, investment managers and advisors globally.
- S&P Capital IQ / S&P Indices provides comprehensive value-added financial data, information, indices and research services to investors, corporations, governments, financial institutions, investment managers and advisors globally.
- C&C includes business and professional media, offering information, insight and analysis; and consists of business to business companies (including such brands as Platts, J.D. Power and Associates ("JDPA"), McGraw-Hill Construction and Aviation Week). In accordance with the presentation of the Broadcasting Group as discontinued operations, the results of operations for all prior periods presented have been reclassified to reflect this change. See Note 3 for further discussion.
- MHE is one of the leading global educational publishers. This segment consists of two operating groups: the Higher Education, Professional and International Group ("HPI"), serving the college, professional, international and adult education markets, and the School Education Group ("SEG"), serving the elementary and high school markets.

The Executive Committee, consisting of our principal corporate executives, is our chief operating decision-maker and evaluates performance of our segments and allocates resources based primarily on operating income. A summary of operating results by segment for the periods ended June 30 is as follows:

Three Months (in millions)	2012		2011	
	Revenue	Operating Income	Revenue	Operating Income
S&P Ratings	\$ 483	\$ 208	\$ 480	\$ 213
S&P Capital IQ / S&P Indices	366	100	333	98
C&C	241	71	222	49
MHE	474	57	537	42
Intersegment elimination ¹	(17)	—	(15)	—
Total operating segments	1,547	436	1,557	402
General corporate expense	—	(71)	—	(44)
Total	\$ 1,547	\$ 365	\$ 1,557	\$ 358

Six Months (in millions)	2012		2011	
	Revenue	Operating Income (Loss)	Revenue	Operating Income (Loss)
S&P Ratings	\$ 949	\$ 394	\$ 923	\$ 403
S&P Capital IQ / S&P Indices	719	207	657	194
C&C	474	135	429	87
MHE	770	(8)	839	(33)
Intersegment elimination ¹	(34)	—	(30)	—
Total operating segments	2,878	728	2,818	651
General corporate expense	—	(142)	—	(78)
Total	\$ 2,878	\$ 586	\$ 2,818	\$ 573

¹ Revenue for S&P Ratings and expenses for S&P Capital IQ / S&P Indices include an intersegment royalty charged to S&P Capital IQ /

S&P Indices for the rights to use and distribute content and data developed by S&P Ratings.

14. Commitments and Contingencies

Rental Expense and Lease Obligations

As of June 30, 2012, the remaining deferred gain related to our sale-leaseback transaction with Rock-McGraw, Inc. was \$129 million, as \$3 million and \$7 million was amortized during the three and six months ended June 30, 2012, respectively. Interest expense associated with this operating lease for the three and six months ended June 30, 2012 was \$2 million and \$3 million, respectively.

Related Party Agreements

We entered into a new license agreement (the "License Agreement") with the holder of S&P/DJ Indices noncontrolling interest, CME Group, which replaced the 2005 license agreement between S&P Indices and CME Group. Under the terms of the License Agreement, S&P/DJ Indices receives a share of the profits from the trading and clearing of CME Group's equity index products. During the three months ended June 30, 2012, S&P/DJ Indices earned an immaterial amount of revenue under the terms of the License Agreement. The entire amount of this revenue is included in our unaudited consolidated statement of income, and the portion related to the 27% noncontrolling interest is removed in the net income attributable to noncontrolling interests.

Legal Matters

The following amends the disclosure in Note 13 — *Commitments and Contingencies* to the consolidated financial statements of our Annual Report.

- In connection with the Reese matter, on April 2, 2012, the District Court entered judgment granting the Defendants' motion to dismiss, and dismissing all claims asserted against the Defendants in their entirety. The Lead Plaintiff has appealed the dismissal order.
- In connection with the Gearren and Sullivan matters, on February 23, 2012, the Court of Appeals denied the plaintiffs' petition for reconsideration by the full Court. Plaintiffs have filed a petition with the United States Supreme Court asking it to review the decision.
- The Civil Division of the Department of Justice ("DOJ") and the Division of Enforcement of the Securities and Exchange Commission ("SEC") are investigating potential violations of civil provisions of federal law relating to S&P's ratings of structured products. We have been in discussions with representatives of the DOJ and the SEC presenting our position on the issues raised by them and articulating why neither of them should commence proceedings adverse to the Company or its personnel.

We believe that the claims asserted and/or contemplated in the proceedings described in Note 13 — *Commitments and Contingencies* to the consolidated financial statements of our Annual Report, as amended above, have no basis and they will be vigorously defended by the Company and/or the subsidiaries involved.

In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in early stages of discovery, we cannot state with confidence what the eventual outcome of the pending matters described in Note 13 – *Commitments and Contingencies* to the consolidated financial statements of our Annual Report will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines, penalties or impact related to each pending matter may be. We believe, based on our current knowledge, the outcome of the legal actions, proceedings and investigations currently pending should not have a material, adverse effect to our financial position, results of operations or cash flows.

15. Recently Adopted Accounting Standards

In September 2011, the Financial Accounting Standards Board ("FASB") issued guidance that simplified how an entity tests goodwill for impairment. The revised guidance provides an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment. Under the revised guidance, an entity is permitted to first assess qualitative factors to determine whether goodwill impairment exists prior to performing analyses comparing the fair value of a reporting unit to its carrying amount. If, after assessing the totality of events or circumstances, an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the quantitative impairment test is required. Otherwise, no further testing is required. The guidance is effective beginning January 1, 2012; however, early adoption is permitted. We adopted the

FASB's guidance during the three months ended December 31, 2011 . The adoption of the guidance did not have a significant impact on our financial position, results of operations or cash flows.

In May 2011, the FASB issued new guidance for fair value measurements intended to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The amended guidance provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The amended guidance changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. The amended guidance, which went into effect for us beginning January 1, 2012, did not have a significant impact on our financial position, results of operations or cash flows.

In June 2011, the FASB issued guidance that modified how comprehensive income is presented in an entity's financial statements. The guidance issued requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of equity. The revised financial statement presentation for comprehensive income was effective on January 1, 2012 and has been incorporated into this quarterly report on Form 10-Q.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Unaudited)

(Dollars in millions, except per share amounts or as noted)

The following Management's Discussion and Analysis ("MD&A") provides a narrative of the results of operations and financial condition of The McGraw-Hill Companies, Inc. (together with its consolidated subsidiaries, "McGraw-Hill," the "Company," "we," "us" or "our") for the three and six months ended June 30, 2012. The MD&A should be read in conjunction with the consolidated financial statements, accompanying notes and MD&A included in our annual report on Form 10-K for the year ended December 31, 2011 (our "Annual Report"), which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Percentages in the following exhibits within the MD&A are calculated off the whole number, not the disclosed rounded number in the table. The MD&A includes the following sections:

- Overview
- Results of Operations — Comparing the Three and Six Months June 30, 2012 and 2011
- Liquidity and Capital Resources
- Reconciliation of Non-GAAP Financial Information
- Critical Accounting Estimates
- Recently Adopted Accounting Standards
- Forward-Looking Statements

OVERVIEW

We are a leading global information services provider serving the financial services, commodities and commercial, and education markets with the information they need to succeed in the "Knowledge Economy". The commodities market includes energy, while the commercial markets include automotive, construction, aerospace and defense, and marketing/research information services. Our operations consist of four reportable segments: Standard & Poor's Ratings ("S&P Ratings"), S&P Capital IQ / S&P Indices, Commodities & Commercial ("C&C") and McGraw-Hill Education ("MHE").

- S&P Ratings is a leading provider of credit ratings, providing investors and market participants with information and independent ratings benchmarks.
- S&P Capital IQ / S&P Indices is a leading global provider of digital and traditional research and analytical tools, which integrate cross-asset analytics, desktop services, and valuation and index benchmarks for investment advisors, wealth managers and institutional investors.
- C&C consists of business-to-business companies specializing in commercial and commodities markets that deliver their customers access to actionable data and analytics.
- MHE is a leading global provider of educational materials, information and solutions serving the elementary and high school, college and university, professional, international and adult education markets.

We reported our Broadcasting Group, previously included in our C&C segment, as a discontinued operation. We completed the sale on December 30, 2011 and, accordingly, the results of operations of the Broadcasting Group for all prior periods presented have been reclassified to reflect the business as a discontinued operation and the assets and liabilities of the business have been removed from the consolidated balance sheet as of December 31, 2011 and reclassified as held for sale as of June 30, 2011.

On September 12, 2011, we announced that our Board of Directors has unanimously approved a comprehensive Growth and Value Plan that includes separation into two public companies: McGraw-Hill Financial, focused on content and analytics for the financial markets, and McGraw-Hill Education, Inc., focused on education products and services and digital learning. The separation will be accomplished through a series of transactions in which the assets, liabilities and operations of the current MHE segment of McGraw-Hill on a global basis will be transferred to McGraw-Hill Education, Inc. or entities that are, or will become prior to the separation, subsidiaries of McGraw-Hill Education, Inc. Each shareholder of McGraw-Hill will receive one share of McGraw-Hill Education, Inc. common stock for every three shares of McGraw-Hill common stock held on the record date for the share distribution. Current holders of McGraw-Hill stock will also retain their shares of McGraw-Hill.

We received a favorable tax ruling from the Internal Revenue Service on April 23, 2012, which provides that the separation of McGraw-Hill Education, Inc. will be tax free to the Company and its shareholders. In addition, we filed the initial McGraw-Hill



Education, Inc. Form 10 registration statement with the U.S. Securities and Exchange Commission on July 11, 2012. We expect to complete the separation by the end of 2012 through a spin-off of the education business to the Company’s shareholders, subject to various conditions and regulatory approvals, including final Board approval. While we are pursuing a separation as described above we are also actively evaluating other options to deliver shareholder value, including a potential sale of MHE.

For the three and six months ended June 30, 2012 , we recorded \$42 million and \$75 million , respectively, of Growth and Value Plan related costs. These costs are necessary to enable separation, reduce our cost structure, accelerate growth and increase shareholder value. Specifically, these costs related to professional fees, transaction costs for our S&P/Dow Jones Indices, LLC joint venture, severance charges, and for the six months, a charge related to a reduction in our lease commitments, and are included in selling and general expenses in the consolidated statements of income. Total costs incurred to date related to the Growth and Value Plan are \$85 million and we currently estimate for the remainder of the year that we will incur an additional \$80 million of one-time separation expenses necessary to implement the Growth and Value Plan. These one-time expenses are largely professional fees, as we need the support of various consultants, business process and information technology firms, and financial advisors. In addition, we anticipate that during 2012 we will continue to incur restructuring costs as part of our ongoing cost reduction initiatives and restructuring expense for 2012 could be approximately \$65 million.

Key results for the periods ended June 30 are as follows:

(in millions, except per share amounts)

	Three Months Ended			Six Months Ended		
	2012	2011	% Change	2012	2011	% Change
Revenue	\$ 1,547	\$ 1,557	(1)%	\$ 2,878	\$ 2,818	2%
Operating income	\$ 365	\$ 358	2 %	\$ 586	\$ 573	2%
Operating margin %	24%	23%	4 %	20%	20%	—%
Diluted earnings per share	\$ 0.76	\$ 0.68	11 %	\$ 1.19	\$ 1.07	11%

Revenue increased in all of our segments, except MHE, and operating income (loss) improved in all of our segments, except S&P Ratings, as compared to the second quarter and first half of 2011.

- S&P Ratings revenue for the second quarter increased 1% , while operating income decreased (2)% . For the first six months revenue increased 3% , while operating income decreased (2)% . Revenue growth was driven by increases in public finance driven by strong municipal bond issuance in the U.S., partially offset by declines in CRISIL, our majority owned Indian credit rating agency, and weaker bank loan ratings. The increase for the first six months was also impacted by record high-yield corporate bond issuance in the first quarter of 2012, partially offset by structured finance. Operating income decreased slightly compared to the second quarter and first six months of 2011 due to increased expenses resulting from higher personnel costs driven by global staff increases and increased legal expenses.
- S&P Capital IQ / S&P Indices revenue and operating income for the second quarter increased 10% and 2% , respectively, and for the first six months increased 9% and 7% , respectively. These increases were primarily attributable to Integrated Desktop Solutions, mainly at Capital IQ and our subscription base for the Global Credit Portal, which includes RatingsDirect; increases at Enterprise Solutions driven by growth at Global Data Solutions, which includes RatingsXpress; and S&P Indices due to growth in exchange-traded fund products. Also impacting operating income were higher expenses primarily from personnel costs, additional costs to further develop infrastructure, our acquisition of QuantHouse in April 2012 and transaction costs for our S&P/Dow Jones Indices, LLC joint venture.
- C&C revenue and operating income for the second quarter increased 9% and 45% , respectively, and for the first six months increased 10% and 55% , respectively. These increases were primarily driven by strong demand for Platts’ proprietary content and growth in our syndicated studies and advertising claims across our automotive and non-automotive sectors at JDP, partially offset by decreases in our construction businesses. Additional costs related to revenue growth at Platts, timing of certain technology and new product initiatives across C&C, as well as the acquisition of the Steel Business Briefing Group, which was not included in our results until the third quarter of 2011, partially offset the growth in the segment.
- MHE revenue decreased (12)% , while operating income increased 36% for the second quarter. For the first six months revenue decreased (8)% , while operating loss improved 76% . Revenue decreased primarily due to decreases in the adoption states as well as open territory sales at School Education Group. Operating income (loss) improved primarily due to lower personnel costs as a result of the restructuring actions taken in the fourth quarter of 2011 and lower expenses given the reduced revenue opportunities in the adoption states. In addition, operating margin improved due to tight overall cost controls, a reduction in amortization of prepublication costs and lower reserve requirements.

Outlook

As discussed above, on September 12, 2011, we announced our Growth and Value Plan that includes separation into two public companies: McGraw-Hill Financial and McGraw-Hill Education. This transaction is expected to be completed by the end of 2012.

Four key trends are increasing the need for content and analytics in the financial, commodities and commercial markets:

- The globalization of the capital markets: the global demand for capital and commodities markets trading and liquidity is expanding rapidly in both developed and emerging markets;
- The need for data-driven decision making tools: developments in technology, communications and data processing have increased the demand for time-critical, multi-asset class data and solutions;
- Systemic regulatory change: new global legislation (e.g. Dodd-Frank, U.S. Commodity Futures Trading Commission and Basel III) is creating new and complex operating and capital models for banks and market participants; and
- Increased volatility and risk: amplified uncertainty and market volatility around short-term events are driving the need for new methodologies to measure risk, return and profitability.

McGraw-Hill Financial

In 2012, we plan to focus on the following strategies for our financial information businesses to capitalize on the above four trends:

- Integrated Solutions: providing integrated solutions within and across market segments that fill evolving customer needs;
- Distribution: capturing additional revenue by leveraging and expanding our strong channel relationships;
- Geographic Penetration: using our vast global footprint to capitalize on opportunities in mature and growth markets;
- Scalable Capabilities: creating and leveraging efficiency and effectiveness through common platforms, processes and standards;
- Continuing to pursue targeted acquisitions and alliances; and
- Continuing cost-reduction initiatives.

McGraw-Hill Education

In 2012, we plan to focus on the following strategies for our education business:

- Exploiting high-growth markets for digital-enabled learning;
- Building presence in important emerging markets;
- Expanding educational services;
- Managing the core business for profitability; and
- Pursuing compelling acquisitions and strategic partnerships.

Uncertainties

There can be no assurance that we will achieve success in implementing any one or more of these strategies. The following factors could unfavorably impact operating results in 2012:

- Prolonged difficulties in the global credit markets;
- A change in the regulatory environment affecting our businesses;
- Lower educational funding as a result of state budget concerns;
- A change in educational spending; and
- Unanticipated problems in executing our Growth and Value Plan.

Further projections and discussion on our 2012 outlook for our segments can be found within “Results of Operations”.



RESULTS OF OPERATIONS — COMPARING THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011

Consolidated Review

(in millions)	Three Months			Six Months		
	2012	2011	% Change	2012	2011	% Change
Revenue						
Product	\$ 462	\$ 523	(12)%	\$ 756	\$ 821	(8)%
Service	1,085	1,034	5 %	2,122	1,997	6 %
Total revenue	1,547	1,557	(1)%	2,878	2,818	2 %
Total Expenses						
Operating-related expenses						
Product	213	239	(11)%	376	411	(9)%
Service	361	354	2 %	728	685	6 %
Total operating-related expenses	574	593	(3)%	1,104	1,096	1 %
Selling and general expenses	568	580	(2)%	1,110	1,083	2 %
Depreciation and amortization	40	39	3 %	78	79	(1)%
Total expenses	1,182	1,212	(2)%	2,292	2,258	2 %
Other income	—	(13)	(100)%	—	(13)	(100)%
Operating income	365	358	2 %	586	573	2 %
Interest expense, net	20	20	2 %	41	39	5 %
Provision for taxes on income	125	122	2 %	198	194	2 %
Loss from discontinued operations, net of tax	—	—	—	—	(1)	N/M
Less: net income attributable to noncontrolling interests	(4)	(5)	(10)%	(8)	(8)	(5)%
Net income attributable to the Company	\$ 216	\$ 211	2 %	\$ 339	\$ 331	2 %

Product revenue and operating-related expenses consist of educational and information products, primarily books, magazine circulations and syndicated study programs in our MHE and C&C segments. More than 90% of MHE’s revenue and operating-related expenses are product related. Less than 20% of C&C’s revenue and operating-related expenses are product related.

Service revenue and expenses consist of our S&P Ratings and S&P Capital IQ / S&P Indices segments, service assessment contracts in our MHE segment and information-related services and advertising in our C&C segment.

As the customers of our businesses vary, we manage and assess the performance of our operations based on the performance of our reportable segments and use operating income as a key measure. Based on this approach and the nature of our operations, the discussion of results generally focuses around our four reportable segments and their related operating groups versus distinguishing between products and services.

Revenue

Three Months

Product revenue decreased primarily due to decreases at MHE from lower adoption state and open territory sales. Service revenue increased primarily due to growth in our global commodities products, increases in public finance, growth for our Capital IQ product, higher sales of exchange-traded fund products, growth in Global Data Solutions and the acquisition of QuantHouse in April. This was partially offset by a decline at CRISIL, and declines in our construction business and custom testing revenue at MHE. See “Segment Review” below for further information.

Foreign exchange rates had an unfavorable impact of \$20 million on revenue for the second quarter. This impact refers to constant currency comparisons estimated by re-calculating current year results of foreign operations using the average exchange rate from the prior year.

Six Months

Product revenue decreased primarily due to the reasons noted above for the three months, partially offset by higher syndicated studies at C&C. Service revenue increased primarily due to the reasons noted above for the three months as well as increases in U.S. high-yield corporate bond issuance. This was partially offset by a decline in our construction business, structured finance and custom testing revenue at MHE. See “Segment Review” below for further information.

Foreign exchange rates had an unfavorable impact of \$26 million on revenue for the first half of 2012.

Total Expenses

The following tables provide an analysis by segment of our operating-related expenses and selling and general expenses for the periods ended June 30 :

Three Months

(in millions)	2012		2011		% Change	
	Operating-related expenses	Selling and general expenses	Operating-related expenses	Selling and general expenses	Operating-related expenses	Selling and general expenses
S&P Ratings	\$ 162	\$ 107	\$ 170	\$ 92	(5)%	16 %
S&P Capital IQ / S&P Indices ¹	127	129	113	114	12 %	13 %
C&C	87	78	86	97	1 %	(20)%
MHE	217	183	241	233	(10)%	(21)%
Intersegment eliminations	(17)	—	(15)	—	13 %	—
Total segments	576	497	595	536	(3)%	(7)%
Corporate ²	(2)	71	(2)	44	—	N/M
	<u>\$ 574</u>	<u>\$ 568</u>	<u>\$ 593</u>	<u>\$ 580</u>	<u>(3)%</u>	<u>(2)%</u>

¹ Selling and general expenses includes transaction costs for our S&P/Dow Jones Indices, LLC joint venture.

² Selling and general expenses includes expenses for our Growth and Value Plan, including costs related to the spin-off of MHE and other related non-recurring costs.

Operating-Related Expenses

Operating-related expenses decreased \$19 million or (3)% , primarily driven by lower costs at MHE compared to the second quarter of 2011, primarily due to a reduction in plant amortization, lower manufacturing costs and lower direct expenses associated with the decrease in the adoption states sales at MHE, collectively totaling \$16 million in savings. Partially offsetting the decrease were increased compensation costs at S&P Capital IQ / S&P Indices of \$9 million or 14% as a result of global staff increases and higher personnel costs. Incentive costs have also increased primarily due to higher expected performance achievement and an increase in the grant price of our equity awards.

Intersegment eliminations relates to a royalty charged to S&P Capital IQ / S&P Indices for the rights to use and distribute content and data developed by S&P Ratings.

Selling and General Expenses

During the second quarter of 2012, we recorded \$42 million of Growth and Value Plan related costs necessary to enable separation and reduce our cost structure, which includes \$19 million of professional fees, \$15 million of transaction costs for our S&P/Dow Jones Indices, LLC joint venture and \$8 million of severance charges. Excluding these costs, selling and general expenses decreased \$54 million or (9)% , primarily due to lower personnel costs of \$18 million at MHE as a result of the restructuring actions taken in the fourth quarter of 2011, and lower selling and marketing expenses of \$30 million given the reduced revenue opportunities in the adoption states. In addition, the write-off of deferred costs recorded in prior periods at C&C during the second quarter of 2011 also impacted the reduction in selling and general expenses. These decreases were partially offset by higher costs associated with increased sales and additional stock-based compensation. Personnel costs increased \$7 million or 11% at C&C and \$4 million

or 6% at S&P Capital IQ / S&P Indices as revenue growth improved 9% and 10% , respectively. In addition, S&P Ratings had increased legal costs of \$7 million as compared to the second quarter of 2011.

Depreciation and Amortization

Depreciation and amortization increased \$1 million or 3% , primarily due to additional intangible asset amortization related to our recent acquisitions.

Six Months

(in millions)	2012		2011		% Change	
	Operating-related expenses	Selling and general expenses	Operating-related expenses	Selling and general expenses	Operating-related expenses	Selling and general expenses
S&P Ratings	\$ 343	\$ 198	\$ 325	\$ 183	6 %	8 %
S&P Capital IQ / S&P Indices ¹	251	243	224	222	12 %	9 %
C&C	165	165	167	179	(1)%	(8)%
MHE	383	360	414	421	(7)%	(14)%
Intersegment eliminations	(34)	—	(31)	—	10 %	—
Total segments	1,108	966	1,099	1,005	1 %	(4)%
Corporate ²	(4)	144	(3)	78	—	N/M
	<u>\$ 1,104</u>	<u>\$ 1,110</u>	<u>\$ 1,096</u>	<u>\$ 1,083</u>	<u>1 %</u>	<u>2 %</u>

¹ Selling and general expenses includes transaction costs for our S&P/Dow Jones Indices, LLC joint venture.

² Selling and general expenses includes expenses for our Growth and Value Plan, including costs related to the spin-off of MHE and other related non-recurring costs.

Operating-Related Expenses

Operating-related expenses increased \$8 million or 1% , primarily driven by increased compensation costs at S&P Ratings of \$21 million or 8% and S&P Capital IQ / S&P Indices of \$17 million or 14%. These increases were primarily a result of global staff increases and higher personnel costs. Incentive costs have also increased primarily due to higher expected performance achievement and an increase in the grant price of our equity awards. Partially offsetting the increases were lower costs at MHE compared to the first half of 2011 due to a reduction in plant amortization, lower manufacturing costs and lower direct expenses associated with the decrease in the adoption states sales at MHE, collectively totaling \$23 million in savings.

Intersegment eliminations relates to a royalty charged to S&P Capital IQ / S&P Indices for the rights to use and distribute content and data developed by S&P Ratings.

Selling and General Expenses

During the first half of 2012, we recorded \$75 million of Growth and Value Plan related costs necessary to enable separation and reduce our cost structure, which includes professional fees, transaction costs for our S&P/Dow Jones Indices, LLC joint venture, severance charges and a charge related to a reduction in our lease commitments. Excluding these costs, selling and general expenses decreased \$48 million or (4)% , primarily due to lower personnel costs at MHE of \$22 million as a result of the restructuring actions taken in the fourth quarter of 2011, and lower selling and marketing expenses of \$36 million given the reduced revenue opportunities in the adoption states. In addition, the write-off of deferred costs recorded in prior periods at C&C during the second quarter of 2011 also impacted the reduction in selling and general expenses. These decreases were partially offset by higher costs associated with increased sales and additional stock-based compensation. Personnel costs increased \$16 million or 13% at C&C and \$10 million or 8% at S&P Capital IQ / S&P Indices as revenue growth improved 10% and 9% , respectively. In addition, S&P Ratings had increased legal costs of \$19 million as compared to the first six months of 2011.

Depreciation and Amortization

Depreciation and amortization decreased \$1 million or (1)% primarily due to reduced purchases of furniture and computer equipment last year as we focused on continued cost controls, partially offset by additional intangible asset amortization related

to our recent acquisitions.

Operating Income

We consider operating income to be an important measure for evaluating our operating performance and we define operating income as revenues less the related cost of producing the revenues and selling and general expenses. We also further evaluate operating income for each of the reportable business segments in which we operate.

We internally manage our operations by reference to “segment operating income” and resources are allocated primarily based on segment operating income. Segment operating income is defined as operating income before general corporate expenses, which are centrally managed costs and do not affect the operating results of our segments. Segment operating income is one of the key metrics we use to evaluate operating performance. Segment operating income is not, however, a measure of financial performance under U.S. GAAP, and may not be defined and calculated by other companies in the same manner.

The table below reconciles segment operating income (loss) to total operating income for the periods ended June 30 :

Three Months

(in millions)	2012	2011	% Change
S&P Ratings	\$ 208	\$ 213	(2)%
S&P Capital IQ / S&P Indices ¹	100	98	2 %
C&C	71	49	45 %
MHE	57	42	36 %
Total segment operating income	436	402	8 %
General corporate expense ²	(71)	(44)	61 %
Total operating income	\$ 365	\$ 358	2 %

¹ Includes transaction costs for our S&P/Dow Jones Indices, LLC joint venture.

² Includes depreciation expense and expenses for our Growth and Value Plan, including costs related to the spin-off of MHE and other related non-recurring costs.

Segment Operating Income — Segment operating income for the three months ended June 30, 2012 , increased \$34 million or 8% , as compared with the same period in 2011. Segment operating income margins were 28% and 26% for the three months ended June 30, 2012 and 2011, respectively. Continued growth at C&C and cost improvements at MHE contributed to the margin improvement in 2012. See “Segment Review” below for further information. In addition, segment operating income benefited in the quarter from reduced pension costs as we froze our U.S. Employee Retirement Plan effective on April 1, 2012.

General Corporate Expense — General corporate expenses, included in selling and general expenses, mainly include the portion of corporate expenses not allocated to the segments, such as management and administration, legal, certain compensation and retiree benefits, and other expenses. General corporate expenses for the three months ended June 30, 2012 , increased by \$27 million mainly as a result of \$27 million of Growth and Value Plan related costs necessary to enable separation and reduce our cost structure, which includes \$19 million of professional fees and \$8 million of severance charges.

Foreign exchange rates had a favorable impact of \$9 million on operating income for the second quarter. This impact refers to constant currency comparisons and the remeasurement of monetary assets and liabilities. Constant currency impacts are estimated by re-calculating current year results of foreign operations using the average exchange rate from the prior year. Remeasurement impacts are based on the variance between current-year and prior-year foreign exchange rate fluctuations on assets and liabilities denominated in currencies other than the individual businesses functional currency.

Six Months

(in millions)	2012	2011	% Change
S&P Ratings	\$ 394	\$ 403	(2)%
S&P Capital IQ / S&P Indices ¹	207	194	7 %
C&C	135	87	55 %
MHE	(8)	(33)	76 %
Total segment operating income	728	651	12 %
General corporate expense ²	(142)	(78)	82 %
Total operating income	\$ 586	\$ 573	2 %

¹ Includes transaction costs for our S&P/Dow Jones Indices, LLC joint venture.

² Includes depreciation expense and expenses for our Growth and Value Plan, including costs related to the spin-off of MHE and other related non-recurring costs.

Segment Operating Income — Segment operating income for the six months ended June 30, 2012, increased \$77 million, or 12%, as compared with the same period in 2011. Segment operating income margins were 25% and 23% for the six months ended June 30, 2012 and 2011, respectively. Growth at C&C and S&P Capital IQ / S&P Indices and cost improvements at MHE contributed to the margin improvement in the first half of 2012. See “Segment Review” below for further information. In addition, segment operating income benefited from reduced pension costs as we froze our U.S. Employee Retirement Plan effective on April 1, 2012.

General Corporate Expense — General corporate expenses, included in selling and general expenses, mainly include the portion of corporate expenses not allocated to the segments, such as management and administration, legal, certain compensation and retiree benefits, and other expenses. General corporate expenses for the six months ended June 30, 2012, increased by \$64 million mainly as a result of \$60 million of Growth and Value Plan related costs necessary to enable separation and reduce our cost structure, which includes professional fees, severance charges, and a charge related to a reduction in our lease commitments.

Foreign exchange rates had a favorable impact of \$11 million on operating income for the first six months of 2012.

Interest Expense, net

Net interest expense remained relatively flat in the second quarter as compared to the second quarter of 2011 and increased 5% in the first six months of 2012, primarily due to increased interest expense related to uncertain tax positions, as well as lower international interest income from our investments in the first half of 2012 compared to the first half of 2011.

Provision for Income Taxes

Our effective tax rate from continuing operations was 36.3% for the three and six months ended June 30, 2012 and 2011. Including discontinued operations, the effective tax rate was 36.4% for the three and months ended June 30, 2011.

Segment Review

S&P Ratings

Credit ratings are one of several tools that investors can use when making decisions about purchasing bonds and other fixed income investments. They are opinions about credit risk and our ratings express our opinion about the ability and willingness of an issuer, such as a corporation or state or city government, to meet its financial obligations in full and on time. Our credit ratings can also relate to the credit quality of an individual debt issue, such as a corporate or municipal bond, and the relative likelihood that the issuer may default.

S&P Ratings differentiates its revenue between transactional and non-transactional. Transaction revenue primarily includes fees associated with:

- ratings related to new issuance of corporate and government debt instruments, and structured finance debt instruments;
- bank loan ratings; and

- corporate credit estimates, which are intended, based on an abbreviated analysis, to provide an indication of our opinion regarding creditworthiness of a company which does not currently have an S&P Ratings credit rating.

Non-transaction revenue primarily includes fees for surveillance of a credit rating, annual fees for customer relationship-based pricing programs and fees for entity credit ratings.

The following table provides revenue and segment operating income information for the periods ended June 30 :

(in millions)	Three Months			Six Months		
	2012	2011	% Change	2012	2011	% Change
Revenue:						
Transaction	\$ 203	\$ 196	4 %	\$ 397	\$ 372	7 %
Non-transaction	280	284	(2)%	552	551	— %
Total revenue	\$ 483	\$ 480	1 %	\$ 949	\$ 923	3 %
% of total revenue:						
Transaction	42%	41%		42%	40%	
Non-transaction	58%	59%		58%	60%	
Revenue:						
Domestic	\$ 263	\$ 246	7 %	\$ 510	\$ 485	5 %
International	220	234	(6)%	439	438	— %
Total revenue	\$ 483	\$ 480	1 %	\$ 949	\$ 923	3 %
Operating income	\$ 208	\$ 213	(2)%	\$ 394	\$ 403	(2)%
Operating margin %	43%	44%		42%	44%	

Foreign exchange rates had an unfavorable impact of \$13 million on revenue and a favorable impact of \$2 million on operating income for the quarter, and an unfavorable impact of \$18 million on revenue and a favorable impact of \$1 million on operating income in the first six months of 2012.

Revenue

Three Months

Transaction revenue increased and non-transaction revenue decreased compared to the second quarter of 2011. Non-transaction revenue includes an intersegment royalty charged to S&P Capital IQ / S&P Indices for the rights to use and distribute content and data developed by S&P Ratings. Royalty revenue for the three months ended June 30, 2012 and 2011 was \$17 million and \$15 million, respectively.

The increase in transaction revenue compared to the second quarter of 2011 was driven by increases in public finance primarily from strong municipal bond issuance in the U.S. as refunding activity increased dramatically over the comparable prior-year quarter, which was impacted significantly by the conclusion of the federal Build America Bond program at the end of 2010. In addition, structured finance contributed to the growth in transaction revenue driven by increased issuance of collateralized loan obligations ("CLOs") and asset backed securities ("ABS"). These increases were partially offset by decreases in high-yield bond issuance and weaker bank loan ratings.

Revenue derived from non-transaction related sources decreased compared to the second quarter of 2011 due to declines at CRISIL, our majority owned Indian credit rating agency, mainly due to adverse foreign exchange rates and a decline in outsourcing services, and declines in surveillance and program fees in structured finance. These decreases were partially offset by growth in entity credit ratings.

Six Months

Transaction revenue grew and non-transaction revenue remained relatively flat compared to the first half of 2011. The increase

in transaction revenue was driven by record high-yield corporate bond issuance in the first quarter of 2012 and the reasons noted above for the quarter. Non-transaction revenue remained relatively flat as growth in entity credit ratings was offset by declines in structured finance related to lower annual fees, which includes surveillance and other customer-relationship fees, and program fees for asset-backed commercial paper as there was less outstanding. Royalty revenue for the six months ended June 30, 2012 and 2011 was \$34 million and \$30 million, respectively.

Operating Income

Operating income decreased slightly compared to the second quarter and first six months of 2011 as the increase in revenue as noted above was offset by increased expenses resulting from higher personnel costs driven by global staff increases and increased legal expenses.

Issuance Volumes

We monitor issuance volumes as an indicator of trends in transaction revenue streams within S&P Ratings. Issuance volumes noted within the discussion that follows are based on the domicile of the issuer. Issuance volumes can be reported in two ways: by “domicile” which is based on where an issuer is located or where the assets associated with an issue are located, or based on “marketplace” which is where the bonds are sold. The following tables depict changes in issuance levels as compared to the prior year, based on Thomson Financial, Harrison Scott Publications and S&P Rating’s internal estimates.

Corporate Issuance	Second Quarter Compared to Prior Year		Year-to-Date Compared to Prior Year	
	U.S.	Europe	U.S.	Europe
High-Yield Issuance	(39)%	(48)%	(13)%	(31)%
Investment Grade	7 %	(35)%	7 %	(15)%
Total New Issue Dollars — Corporate Issuance	(9)%	(36)%	1 %	(16)%

- Corporate issuance in the U.S. was down in the quarter driven by weak high-yield issuance due to risk aversion emanating from the Eurozone crisis. Investment grade issuance remained resilient in the U.S. as borrowers took advantage of low funding rates to opportunistically refinance existing debt, which was greeted very favorably by investors seeking higher yield . Year-to-date comparisons benefited from record high-yield debt issuance in the first quarter and healthy investment grade debt issuance in the first half of 2012.
- Europe corporate issuance is down in the quarter and year-to-date primarily driven by weak financial services issuance due to the Eurozone crisis. Year-to-date comparisons benefited from the robust increase in industrial debt issuance in the first quarter of 2012.

Structured Finance	Second Quarter Compared to Prior Year		Year-to-Date Compared to Prior Year	
	U.S.	Europe	U.S.	Europe
Residential Mortgage-Backed Securities (“RMBS”)	(8)%	(37)%	11 %	(47)%
Commercial Mortgage-Backed Securities (“CMBS”)	33 %	97 %	(3)%	(47)%
Collateralized Debt Obligations (“CDO”)	44 %	1 %	22 %	41 %
Asset-Backed Securities (“ABS”)	19 %	25 %	27 %	(4)%
Covered Bonds	— %	(75)%	*	(53)%
Total New Issue Dollars — Structured Finance	22 %	(60)%	24 %	(48)%

* Represents low issuance levels in 2012 and no activity in 2011.

- RMBS volume is down in the U.S. in the quarter as the sector continues to battle high unemployment, continued home pricing pressures and historically lower levels of mortgage originations accompanied by a general decline in re-REMIC activity. Year-to-date RMBS grew marginally off a low base in 2011. RMBS volume in Europe was down in the quarter and year-to-date reflective of a general lack of supply as many investors were holding off on issuing new primary transactions until the European Central Bank's ("ECB") long-term refinancing operations ("LTRO"), which provided lower cost financing options, expire.
- CMBS issuance in the quarter is up in the U.S. as the sector continues to recover. Year-to-date issuance is slightly down

as a result of lower average deal size in the first quarter. European CMBS issuance continued to remain constrained in the quarter with low issuance levels in both periods.

- Issuance in the CDO asset class in the U.S. in the quarter and year-to-date was driven by strong CLO issuance and a higher volume of market transactions. European issuance in the CDO asset class was minimal due to economic uncertainty and quarter and year-to-date increases compare to a very low level of activity in 2011.
- ABS issuance in the U.S. is up in the quarter and year-to-date primarily due to strength in autos, credit cards and, to a lesser extent, student loans. Strong credit and rating performance, tighter pricing, increased consumer borrowing and refinancing opportunities in the student loan sector all contributed to the increase. European ABS is up in the quarter driven by higher market activity and down slightly year-to-date since financial institutions had lower funding requirements as the result of additional liquidity provided by the ECB through its LTRO in the first quarter of 2012.
- Covered bond issuance (which are debt securities backed by cash flows from mortgages or public sector loans) in Europe is down in the quarter and year-to-date resulting from uncertainty regarding sovereign risk and the potential unfavorable impact on this sector as well as lower funding requirements due to additional liquidity provided by the ECB through its LTRO.

Industry Highlights and Outlook

Uncertain economic conditions in Europe have contributed to the decline in issuance levels in the second quarter of 2012. This followed record U.S. high-yield issuance in the first quarter of 2012, which was driven by attractive funding rates as a result of a decline in corporate credit spreads, historically low treasury yields and an increase in investor demand for new issues. Spreads for both investment grade and high-yield issuance have still tightened from the end of 2011 driven primarily by liquidity infusions by the central banks. We believe the longer term outlook for the corporate bond market continues to be healthy. There is a large amount of maturing global corporate debt which will eventually need to be refunded over the next several years. Also, in Europe, non-financial issuance should continue to be bolstered by a shift in corporate financing from bank loans to bonds resulting from increased bank capital requirements. However, in the short-term, issuers may exercise some discretion as to the timing of the refunding transactions depending upon market conditions. We expect corporate bond issuance to be subdued until the market volatility stabilizes. Once this occurs, we expect a resurgence in market activity as many issuers are still waiting for more favorable market conditions in which to issue corporate bonds.

Structured finance is expected to increase modestly in the second half of 2012 in comparison to 2011, primarily due to a combination of slightly better economic prospects for companies and less pessimistic expectations of defaults and downgrades in the corporate world, coupled with some regained stability in the asset class. The outlook for the CDO market is dependent upon banks' willingness to initiate new loans and investors' risk appetite to invest in new CDO structures.

The recovery of the RMBS and CMBS markets continues to be dependent upon the recovery of both the residential and commercial real estate markets. The U.S. CMBS market has fared better than the European CMBS market as the European market has been more unfavorably affected by the slowdown in economic growth. Increasing CMBS volumes will be somewhat dependent on the refinancing of commercial loans. The U.S. RMBS market will continue to remain under pressure given continued uncertainty over home prices and unemployment. European RMBS issuance volumes continued to weaken during the first half of 2012 and any potential resurgence is dependent upon sovereign and economic concerns subsiding.

ABS asset classes have generally performed as expected or better than expected through multiple economic cycles. We anticipate that trend to continue for 2012. Although the ABS markets continue to strengthen, we continue to face significant regulatory head winds. While we expect the new rules and regulations to increase the cost to issuers of creating these types of structured instruments, we expect the markets to adjust and continue the use of securitization as an important funding tool going forward. In addition, we anticipate a positive outlook on covered bond issuance in Europe due to recent regulatory initiatives that are favorable to covered bonds. They have also proven to be resilient during the European sovereign crisis.

Legal and Regulatory Environment

In the normal course of business both in the U.S. and abroad, the Company and its subsidiaries are defendants in numerous legal proceedings and are involved, from time to time, in governmental and self-regulatory agency proceedings which may result in adverse judgments, damages, fines or penalties. Also, various governmental and self-regulatory agencies regularly make inquiries and conduct investigations concerning compliance with applicable laws and regulations.

See Note 14 — *Commitments and Contingencies* to our unaudited consolidated financial statements for further discussion.

S&P Capital IQ / S&P Indices

S&P Capital IQ / S&P Indices differentiates its revenue between subscription and non-subscription. Subscription revenue primarily includes:

- products in our Integrated Desktop Solutions Group, which include the following content: Capital IQ — a product suite that provides data and analytics for global financial professionals, Global Credit Portal — a web-based solution that provides real-time credit research, market information and risk analytics, and TheMarkets.com — a real-time research offering featuring content from the world’s leading brokers and independent research providers;
- products in our Enterprise Solutions group, such as Global Data Solutions, which combines high-quality, multi-asset class and market data to help professional investors, traders, and analysts meet the new analytical, risk management, regulatory and front-to-back office operations requirements;
- investment research products in our Research & Analytics group;
- and other data subscriptions.

Non-subscription revenue is generated primarily from products in S&P Indices, specifically through fees based on assets underlying exchange-traded funds (“ETFs”), as well as certain advisory, pricing and analytical services in our Integrated Desktop Solutions group.

The following table provides revenue and segment operating income information for the periods ended June 30 :

(in millions)	Three Months			Six Months		
	2012	2011	% Change	2012	2011	% Change
Revenue:						
Subscription	\$ 269	\$ 245	10%	\$ 535	\$ 486	10%
Non-subscription	97	88	10%	184	171	7%
Total revenue	\$ 366	\$ 333	10%	\$ 719	\$ 657	9%
Revenue:						
Domestic	\$ 251	\$ 230	9%	\$ 497	\$ 461	8%
International	115	103	12%	222	196	14%
Total revenue	\$ 366	\$ 333	10%	\$ 719	\$ 657	9%
Operating income	\$ 100	\$ 98	2%	\$ 207	\$ 194	7%
Operating margin %	27%	29%		29%	30%	

Foreign exchange rates had an unfavorable impact of \$1 million on revenue and a favorable impact of \$6 million on operating income for the quarter, and an unfavorable impact on revenue of \$1 million and a favorable impact on operating income of \$7 million for the first six months of 2012.

Revenue

Three Months

Subscription and non-subscription revenue grew compared to the second quarter of 2011. Subscription revenue increased compared to the second quarter of 2011, primarily due to growth at Integrated Desktop Solutions and Enterprise Solutions. This was driven by market share gains and increased contract values for existing accounts at Capital IQ and growth in the subscription base, both in new clients and in further expanding the existing customer base for the Global Credit Portal, which includes RatingsDirect. Capital IQ continues to have significant client growth as the number of clients as of June 30, 2012 increased 13% from the comparable prior-year quarter. This includes a certain percentage of clients on TheMarkets.com platform that have been migrated to the Capital IQ platform.

Enterprise Solutions continues to benefit from the demand for securities identifiers and ratings data (i.e. CUSIP and RatingsXpress). There has also been growth in the subscription base for Global Data Solutions, which includes RatingsXpress, from new client

relationships and expanded relationships into existing accounts and increases at CUSIP from growth in contract values. The acquisition of QuantHouse that occurred in April 2012 also contributed to double-digit growth at Enterprise Solutions in the second quarter of 2012.

Traditionally, subscription revenue has been primarily domestic, however, due to strong sales for the Global Credit Portal and RatingsXpress, particularly in Europe, and the continued enhancements of the Capital IQ international database, double-digit international growth continued to occur in the second quarter of 2012.

Non-subscription revenue increased as total revenue at S&P Indices increased 12%. Revenue from S&P Indices represents 24% of total S&P Capital IQ / S&P Indices revenue in the quarter. S&P Indices increased due to higher mutual fund revenue, higher average levels of assets under management for ETF products linked to our indices and slightly higher average trading volumes. Incremental fees related to the new licensing agreement with CME on their licensed exchange traded derivatives, implemented as a result of the closing of the S&P/Dow Jones Indices joint venture on June 29, 2012, also contributed to increases in the quarter.

Eleven new ETFs were launched during the second quarter of 2012 compared to sixteen launched during the second quarter of 2011. Assets under management for ETFs rose 7% to \$349 billion in 2012 from \$325 billion in the second quarter of 2011.

Six Months

Both subscription and non-subscription revenue grew compared to the first half of 2011 due to the factors noted above for the quarter.

Operating Income

Operating income increased compared to the second quarter and first six months of 2011, primarily due the growth in revenue as discussed above, partially offset by staff increases, primarily in developing regions, increased technology costs to support the growth in the employee base, higher personnel costs, costs to further develop our infrastructure and our acquisition of QuantHouse in April 2012. Transaction costs for our S&P/Dow Jones Indices, LLC joint venture also impacted margins for the second quarter and first six months of 2012. In addition, partially offsetting the growth in revenue for the first six months were additional costs to build out our integrated data feed within Global Data Solutions and increased royalty payments due to the growth in contract values in RatingsXpress and RatingsDirect.

Industry Highlights and Outlook

The segment is focused on integrating and evolving its assets and capabilities into one scaled business that offers unique, high-value offerings across all asset classes. With the addition of the following strategic acquisitions we are positioned to deliver future competitive capabilities to our client:

- In February 2012, we completed the acquisition of R² Technologies, a provider of advanced risk and scenario-based analytics to traders, portfolio and risk managers for pricing, hedging and capital management across asset classes, allowing us to offer an integrated view of market and credit risks across asset classes.
- In April 2012, we completed the acquisition of QuantHouse, an independent global provider of end-to-end systematic low-latency market data solutions, allowing us to offer unique real-time monitors, derived data sets and analytics as well as the ability to package and resell this data as part of a core solution.

As a result of our focus on integration and these recent developments, demand is expected to continue to increase for our Capital IQ and data and information offerings in 2012.

Products at S&P Indices should continue to benefit as ETF assets grow globally. The business will also benefit from our joint venture with CME Group to form a new company, S&P/Dow Jones Indices LLC, which we completed in June 2012. The combination of these businesses creates the world's largest provider of financial market indices. While market volatility is expected to continue in 2012, an anticipated recovering economy and a slightly less volatile market may slow growth in our traded S&P Indices products. This group also should see opportunities in products internationally, primarily in the Middle East and Asia.

Legal and Regulatory Environment

The following amends the disclosure in Item 7, *Management's Discussion and Analysis*, in our Annual Report as it relates to S&P Capital IQ / S&P Indices:

- In connection with the Standard & Poor's CUSIP Service Bureau matter, CUSIP Global Services has created and distributed a new data feed of US International Securities Identification Numbers tailored specifically to the institutions for their use within the European Economic Area.

Commodities & Commercial

C&C includes such brands as Platts, J.D. Power and Associates ("JDPA"), McGraw-Hill Construction and Aviation Week. The Broadcasting Group had historically been part of C&C. As of December 30, 2011 we completed the sale of the Broadcasting Group and in accordance with the presentation of the Broadcasting Group as discontinued operations, the results of operations of the business for periods presented in 2011 have been reclassified to reflect this change. See Note 3 – *Acquisitions and Divestitures* to our unaudited consolidated financial statements for further discussion.

The following table provides revenue and segment operating income information for the periods ended June 30 :

(in millions)	Three Months			Six Months		
	2012	2011	% Change	2012	2011	% Change
Total revenue	\$ 241	\$ 222	9%	\$ 474	\$ 429	10%
Operating income	\$ 71	\$ 49	45%	\$ 135	\$ 87	55%
Operating margin %	29%	22%		28%	20%	

Foreign exchange rates had immaterial impact on revenue for the quarter and first six months, and favorable impacts of \$1 million and \$2 million on operating income for the quarter and first six months of 2012, respectively.

Revenue

Three Months

In the second quarter of 2012, revenue at C&C increased primarily due to strong demand for Platts' proprietary content and by growth in advertising claims and proprietary studies across our automotive sectors at JDPA.

Platts' revenue grew by 19% and represents 50% of total C&C revenue for the quarter with growth in North America and Europe, Middle East and Africa, slightly outpacing Latin America and Asia. This growth was mainly driven by strength in Platts' data products, primarily related to petroleum and natural gas. The continued volatility in crude oil and other commodity prices is also having a favorable impact on revenue growth. The average price for crude oil futures during the second quarter was approximately 9% lower than the average price in the prior-year comparable quarter. Growth in international revenue across the commodities products was strong across all regions, particularly in Asia.

JDPA had revenue growth across both automotive and non-automotive sectors, including their Power Information Network® ("PIN") as well as their tracking business. PIN provides real-time automotive information and decision-support tools based on the collection and analysis of daily new- and used-vehicle retail transaction data from thousands of automotive franchises. JDPA's tracking business focuses on analyzing key performance measures against industry benchmarks, which helps companies better understand their competitive position on key measures of the customer experience.

Partially offsetting these increases at C&C were decreases in McGraw-Hill Construction as market declines have continued to reduce contract values; however new business growth related to new products and enhancements is beginning to increase.

Six Months

In the first half of 2012, C&C revenue increase was driven primarily by the factors noted above for the quarter. The two strategic acquisitions in 2011, Bentek Energy LLC in January and Steel Business Briefing Group (the "SBB Group") in July, also contributed to the increase in revenue at Platts. Also contributing to the year-to-date increase at JDPA was an increase in syndicated sales in non-auto sectors compared to the prior-year, particularly energy and healthcare in the U.S. and telecom globally.

Operating Income

The key drivers for operating income growth in the segment for the second quarter and first half of 2012 were the revenue growth described above along with the timing of certain technology and new product initiatives across C&C. McGraw-Hill Construction also contributed to the overall growth in operating income as a result of expense savings from their continued focus on cost control across their business that outweighed their revenue decline. Offsetting the operating income increase were additional costs related to revenue growth at Platts as well as the acquisition of the SBB Group which was not included in our results until the third quarter of 2011.

Industry Highlights and Outlook

In 2012, C&C expects to continue to invest in digital capabilities that will enable our brands to become more integrated, creating a foundation for the development of new products and revenue streams. The segment will further expand its presence in selected markets and geographies to help drive growth.

The continuing growth in oil demand and the uncertainty of supply causes volatility in energy prices, which will drive market participant demand for Platts' proprietary content, including news, price assessments and analytics. The International Energy Agency projects that world oil consumption will rise to 89.9 million barrels per day, a gain of 0.8 million barrels per day compared to 2011. The global oil market may continue to be volatile in coming months due to greater dependence on shrinking OPEC spare production capacity as sanctions on Iranian oil begin to impact the market.

Demand for our automotive studies is driven by the performance of the automotive industry. In the second quarter of 2012, global and U.S. light vehicle sales increased approximately 10% and 15%, respectively, compared to the second quarter of 2011, with growth across all major markets except Europe and Brazil.

Demand for our construction offerings is primarily dependent on the non-residential construction industry. In the second quarter of 2012, non-residential building construction was down 11% from a year ago, as a 22% drop for the institutional side outweighed a modest 5% gain for the commercial sector. Residential building climbed 27%, compared to the second quarter of 2011. Non-building construction in the second quarter of 2012 was up 20% from a year ago, supported by a 31% surge for electric utilities.

McGraw-Hill Education

MHE consists of two operating groups: the Higher Education, Professional and International Group ("HPI"), serving the college and university, professional, international and adult education markets, and the School Education Group ("SEG"), serving the elementary and high school markets.

The following table provides revenue and segment operating income information for the periods ended June 30 :

(in millions)	Three Months			Six Months		
	2012	2011	% Change	2012	2011	% Change
Revenue:						
HPI	\$ 241	\$ 245	(2)%	\$ 442	\$ 441	— %
SEG	233	292	(20)%	328	398	(18)%
Total revenue	\$ 474	\$ 537	(12)%	\$ 770	\$ 839	(8)%
Operating income (loss)	\$ 57	\$ 42	36 %	\$ (8)	\$ (33)	(76)%
Operating margin %	12%	8%		(1)%	(4)%	

Revenue and operating results for our MHE segment reflect the seasonal nature of our educational publishing businesses, with the first quarter being the least significant and the third quarter being the most significant.

Foreign exchange rates had a unfavorable impact of \$6 million on revenue and an immaterial impact on operating income for the quarter, and a unfavorable impact on revenue of \$7 million and a favorable impact on operating loss of \$1 million for the first six months of 2012.

Revenue

Three Months

In the HPI group, Higher Education increased from the prior-year quarter due to an increase in digital sales of over 40% and higher sales of titles in the Business & Economics product line. The continued digital revenue growth is driven by our *LearnSmart*® and *McGraw-Hill Connect*® offering, which combines our homework management product line with our adaptive learning tutorial product.

Key titles contributing to the performance of Higher Education in the quarter included Sanderson, *Computers in the Medical Office*, 7/e; Lucas, *The Art of Public Speaking*, 11/e; Ober, *Gregg College Keyboarding*, 11/e; Saladin, *Anatomy and Physiology*, 6/e; and McConnell, *Economics*, 19/e.

Professional decreased over the comparable prior-year quarter, driven by a decline in print book sales resulting from market conditions and the publication of fewer major titles. This was partially offset by higher sales for digital subscription products and eBooks. Over 30% of Professional's second quarter revenue was digital, and digital revenue grew by more than 19% as compared to the prior-year quarter.

International decreased from the comparable prior-year quarter driven by the unfavorable impact of foreign exchange rates. Sales increased in the Middle East and Asia and were flat with the prior-year quarter in Latin America, but were down in other regions.

Revenue at SEG decreased compared to the prior-year quarter, with declines occurring in both the adoption states and open territories. The decline in the adoption states resulted primarily from a difficult prior-quarter comparison as a result of a large K-5 reading purchase in California and stronger sales in Indiana, which purchased science and health in 2011 but offered fewer opportunities this year. Partially offsetting the adoption state revenue decline were higher sales in Florida, which is purchasing K-12 social studies this year. Declines in the open territory resulted primarily from lower sales in Maryland, Pennsylvania and Washington, partially offset by the timing of orders in New York.

Custom and formative testing revenue decreased due to planned reductions in the scope of work on several contracts, while non-custom or "shelf" revenue declined as a result of lower sales in some product lines.

Six Months

In the HPI group, Higher Education increased from the prior year primarily due to the increases noted above for the quarter. Professional decreased from the prior year primarily due to the reasons noted above for the quarter; however, slightly higher sales of print books in the first quarter partially offset some of the revenue reduction. International also decreased from the prior year primarily due to the reasons noted above for the quarter, although, India had higher sales in the first quarter due to the timing of orders for Higher Education product.

Revenue at SEG decreased compared to the prior year, with declines occurring in both the adoption states and open territories. In addition to the decreases noted above for the quarter, the decline in the adoption states resulted primarily from 2011 orders for intervention materials in Texas and reading in California that did not repeat this year. Custom and formative testing revenue and non-custom or "shelf" revenue declined compared to the prior year primarily due to the reasons noted above for the quarter.

Operating Income (Loss)

In the second quarter and first half of 2012 operating results for MHE improved, primarily due to reduced expenses in SEG compared to the prior-year periods. Personnel costs were lower as a result of the restructuring actions taken in the fourth quarter of 2011 and selling and marketing expenses were lower given the reduced revenue opportunities in the adoption states. In addition, operating margin improved due to tight overall cost controls, a reduction in amortization of prepublication costs and lower reserve requirements. These cost savings were partially offset by technology requirements and the continuing investment in digital product development within Higher Education.

Industry Highlights and Outlook

The projected increase in U.S. college enrollments is a rise of nearly 15% to 24.1 million between 2010 and 2020, according to the National Center for Education Statistics ("NCES"). The U.S. college new textbook market is \$4.5 billion and is expected to grow about 0%-3% in 2012.

According to statistics compiled by the Association of American Publishers, total net sales of elementary and secondary instructional materials decreased by 10.6% through May 2012. Net sales for the industry in the adoption states decreased by 10.9% compared to the prior-year period, while net sales in the open territory states decreased by 10.4% compared to the prior-year period.

Total U.S. PreK-12 enrollment for 2011-2012 is estimated at nearly 55 million students, up 0.3% from 2010-2011, according to the NCES. We project that the 2012 el-hi market could decrease by approximately 10% versus the 2011 market, which was \$3.3 billion for adoption and open territory sales.

LIQUIDITY AND CAPITAL RESOURCES

We continue to maintain a strong financial position and expect our cash on hand, cash flows from operations and availability under our existing credit facility to be sufficient to meet any additional operating and recurring cash needs into the foreseeable future. Our primary source of funds for operations is cash from our businesses. We use our cash for a variety of needs, including among others: ongoing investments in our businesses, strategic acquisitions, share repurchases, dividends, investment in publishing programs, capital expenditures and investment in our digital initiatives and infrastructure. Our core businesses have been strong cash generators. However, income and, consequently, cash provided from operations during the year are significantly impacted by the seasonality of our businesses, particularly educational publishing. This seasonality also impacts cash flow and related borrowing patterns as investments for our MHE segment are typically made in the first half of the year to support the strong selling period that occurs in the third quarter. As a result, our cash flow is typically lower in the first half of the year and higher in the second half.

Cash Flow Overview

Cash and equivalents were \$836 million as of June 30, 2012, a decrease of \$108 million from December 31, 2011, and consisted of domestic cash of \$284 million and cash held abroad of \$552 million. Typically, cash held outside the U.S. is anticipated to be utilized to fund international operations or to be reinvested outside of the U.S., as a significant portion of our opportunities for growth in the coming years are expected to be abroad. In the event funds from international operations are needed to fund operations in the U.S., we would be required to accrue for and pay taxes in the U.S. to repatriate these funds.

The following table provides cash flow information for the six months ended June 30 :

(in millions)	2012	2011	% Change
Net cash provided by (used for):			
Operating activities	\$ 155	\$ 338	(54)%
Investing activities	(243)	(214)	14 %
Financing activities	(15)	(379)	(96)%

In the first half of 2012, free cash flow decreased to \$(122) million compared to \$72 million in the first half of 2011, a decrease of \$194 million. The decline is primarily due to a decrease in cash provided by operating activities as discussed below. Free cash flow is a non-GAAP financial measure and reflects our cash flow provided by operating activities less investment in prepublication costs, capital expenditures and dividends. Capital expenditures include purchases of property and equipment and additions to technology projects. See “Reconciliation of Non-GAAP Financial Information” for a reconciliation of cash flow provided by operating activities, the most directly comparable U.S. GAAP financial measure, to free cash flow.

Our consolidated statements of cash flows for the three and six months ended June 30, 2011 include amounts related to discontinued operations. Discontinued operations did not have a significant impact on cash flows from operating, investing and financing activities.

Operating activities

Cash provided by operating activities was \$155 million for the first six months of 2012 compared to \$338 million for the first six months of 2011, a decrease of \$183 million. The decrease is mainly due to the temporary acceleration of payments to vendors in the first half of 2012 driven by the transition to a new enterprise resource planning system at the end of the second quarter, as well as cash outlays associated with our Growth and Value Plan. We anticipate we will return to our normal payment cycle in the third quarter as the system transition will be complete. In addition, the reduction in cash provided by operating activities was primarily due to additional reductions in payables and accruals and an increase in accounts receivable. Specifically, payables and accruals decreased due to higher restructuring payments primarily at MHE, higher payables at S&P Ratings and a pension plan contribution

payment made in the first quarter of 2012 that did not occur in 2011. The increase in accounts receivable was driven primarily by increased billings at S&P Ratings and S&P Capital IQ / S&P Indices.

Investing activities

Our cash outflows from investing activities are primarily for acquisitions, investment in prepublication costs and capital expenditures.

Cash used for investing activities increased \$29 million to \$243 million for the first six months of 2012, primarily due to a higher amount of cash paid for acquisitions, increased investment in prepublication costs and lower proceeds from dispositions due to the sale of our interest in LinkedIn Corporation in 2011, partially offset by cash inflows from short-term investments. Refer to Note 3 – *Acquisitions and Divestitures* to our unaudited consolidated financial statements for further information.

Financing activities

Our cash outflows from financing activities consist primarily of share repurchases and dividends to shareholders, while cash inflows are primarily proceeds from the exercise of stock options.

Cash used for financing activities was \$15 million in the first six months of 2012 compared to \$379 million in the first six months of 2011, a decrease of \$364 million. The decrease is primarily attributable to a decrease in cash used for share repurchases and an increase in the exercise of employee stock options.

We did not utilize any cash for share repurchases in 2012. However, we received an additional 0.9 million shares from the conclusion of our Accelerated Share Repurchase Agreements that we entered into on December 7, 2011. Further discussion relating to these agreements can be found in Note 10 – *Equity* to our unaudited consolidated financial statements.

Additional Financing

Currently, we have the ability to borrow \$1.2 billion in additional funds through our commercial paper program, which is supported by our \$1.2 billion three-year credit agreement (our “credit facility”) that will terminate on July 30, 2013. We pay a commitment fee of 15 to 35 basis points for our credit facility, depending on our credit rating, whether or not amounts have been borrowed, and currently pay a commitment fee of 20 basis points. The interest rate on borrowings under our credit facility is, at our option, calculated using rates that are primarily based on either the prevailing London Inter-Bank Offer Rate, the prime rate determined by the administrative agent or the Federal funds rate. For certain borrowings under our credit facility there is also a spread based on our credit rating added to the applicable rate. As of June 30, 2012, we have not utilized our credit facility for additional funds.

Our credit facility contains certain covenants. The only financial covenant requires that our indebtedness to cash flow ratio, as defined in our credit facility, is not greater than 4 to 1, and this covenant has never been exceeded.

Dividends

On January 18, 2012, the Board of Directors approved an increase in the quarterly common stock dividend from \$0.250 per share to \$0.255 per share.

RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

Free cash flow is a non-GAAP financial measure and reflects our cash flow provided by operating activities less investment in prepublication costs, capital expenditures and dividends. Capital expenditures include purchases of property and equipment and additions to technology projects. Our cash flow provided by operating activities is the most directly comparable U.S. GAAP financial measure to free cash flow.

We believe the presentation of free cash flow allows our investors to evaluate the cash generated from our underlying operations in a manner similar to the method used by management. We use free cash flow to conduct and evaluate our business because we believe it typically presents a more conservative measure of cash flows since capital expenditures and dividends are considered a necessary component of ongoing operations. Free cash flow is useful for management and investors because it allows management and investors to evaluate the cash available to us to service debt, make strategic acquisitions and investments, repurchase stock and fund ongoing operation and working capital needs.

The presentation of free cash flow is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. Free cash flow, as we calculate it, may not be comparable to similarly

titled measures employed by other companies. The following table presents a reconciliation of our cash flow provided by operating activities to free cash flow for the six months ended June 30 :

(in millions)	2012	2011
Cash provided by operating activities	\$ 155	\$ 338
Investment in prepublication costs	(79)	(60)
Capital expenditures	(42)	(45)
Cash flow before dividends	34	233
Dividends paid to shareholders	(145)	(152)
Dividends paid to noncontrolling interests	(11)	(9)
Free cash flow	\$ (122)	\$ 72

CRITICAL ACCOUNTING ESTIMATES

Our accounting policies are described in Note 1 – *Accounting Policies* to the consolidated financial statements in our Annual Report. As discussed in Item 7, *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report, we consider an accounting estimate to be critical if it required assumptions to be made that were uncertain at the time the estimate was made and changes in the estimate or different estimates could have a material effect on our results of operations. These critical estimates include those related to revenue recognition, allowance for doubtful accounts and sales returns, inventories, prepublication costs, accounting for the impairment of long-lived assets (including other intangible assets), goodwill and indefinite-lived intangible assets, retirement plans and post-retirement healthcare and other benefits, stock-based compensation, income taxes and contingencies. We base our estimates on historical experience, current developments and on various other assumptions that we believe to be reasonable under these circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that cannot readily be determined from other sources. There can be no assurance that actual results will not differ from those estimates. Since the date of our Annual Report, there have been no changes to our critical accounting estimates.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In September 2011, the Financial Accounting Standards Board (“FASB”) issued guidance that simplified how an entity tests goodwill for impairment. The revised guidance provides an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment. Under the revised guidance, an entity is permitted to first assess qualitative factors to determine whether goodwill impairment exists prior to performing analyses comparing the fair value of a reporting unit to its carrying amount. If, after assessing the totality of events or circumstances, an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the quantitative impairment test is required. Otherwise, no further testing is required. The guidance is effective beginning January 1, 2012; however, early adoption is permitted. We adopted the FASB’s guidance during the three months ended December 31, 2011. The adoption of the guidance did not have a significant impact on our financial position, results of operations or cash flows.

In May 2011, the FASB issued new guidance for fair value measurements intended to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The amended guidance provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The amended guidance changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. The amended guidance, which went into effect for us beginning January 1, 2012, did not have a significant impact on our financial position, results of operations or cash flows.

In June 2011, the FASB issued guidance that modified how comprehensive income is presented in an entity’s financial statements. The guidance issued requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements and eliminates the option to present the components of other comprehensive income as part of the statement of equity. The revised financial statement presentation for comprehensive income was effective on January 1, 2012 and has been incorporated into this quarterly report on Form 10-Q.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, including without limitation statements relating to our businesses and our prospects, new products, sales, expenses, tax rates, cash flows, prepublication investments and operating and capital requirements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are intended to provide management's current expectations or plans for our future operating and financial performance and are based on assumptions management believes are reasonable at the time they are made.

Forward-looking statements can be identified by the use of words such as "believe," "expect," "plan," "estimate," "project," "target," "anticipate," "intend," "may," "will," "continue" and other words of similar meaning in connection with a discussion of future operating or financial performance. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict; therefore, actual outcomes and results could differ materially from what is expected or forecasted. These risks and uncertainties include, among others:

- worldwide economic, financial, political and regulatory conditions;
- currency and foreign exchange volatility;
- the effect of competitive products and pricing;
- the level of success of new product development and global expansion;
- the level of future cash flows;
- the levels of capital and prepublication investments;
- income tax rates;
- restructuring charges;
- the health of debt and equity markets, including credit quality and spreads, the level of liquidity and future debt issuances;
- the level of interest rates and the strength of the capital markets in the U.S. and abroad;
- the demand and market for debt ratings, including collateralized debt obligations, residential and commercial mortgage and asset-backed securities and related asset classes;
- the state of the credit markets and their impact on Standard & Poor's Ratings and the economy in general;
- the regulatory environment affecting Standard & Poor's Ratings and our other businesses;
- the level of merger and acquisition activity in the U.S. and abroad;
- the level of funding in the education market;
- School Education Group's level of success in adoptions and open territories;
- enrollment and demographic trends;
- the strength of School Education Group's testing market, Higher Education, Professional and International's publishing markets and the impact of technology on them;
- continued investment by the construction, automotive, computer and aviation industries;
- the strength and performance of the domestic and international automotive markets;
- the volatility of the energy marketplace;
- and the contract value of public works, manufacturing and single-family unit construction.

In addition, there are certain risks and uncertainties relating to our previously announced Growth and Value Plan which contemplates a separation of our education business, including, but not limited to, the impact and possible disruption to our operations, the timing and certainty of completing the transaction, unanticipated developments that may delay or negatively impact the spin-off, and the ability of each business to operate as an independent entity upon completion of the spin-off. We caution readers not to place undue reliance on forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in our exposure to market risk during the six months ended June 30, 2012 from December 31, 2011. Our exposure to market risk includes changes in foreign exchange rates. We have operations in various foreign countries where the functional currency is primarily the local currency. For international operations that are determined to be extensions of the parent company, the U.S. dollar is the functional currency. We typically have naturally hedged positions in most countries from a local currency perspective with offsetting assets and liabilities. We estimate that a hypothetical 10% adverse movement in the foreign currency exchange rates would not be material to our financial position, statement of income or cash flows. As of June 30, 2012, we have entered into an immaterial amount of forward exchange contracts to hedge the effect of adverse fluctuations in foreign currency exchange rates. We have not entered into any derivative financial instruments for speculative purposes.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

As of June 30, 2012, an evaluation was performed under the supervision and with the participation of management, including the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the U.S. Securities Exchange Act of 1934). Based on that evaluation, management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of June 30, 2012.

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The following amends the disclosure in Note 13 – *Commitments and Contingencies* to the consolidated financial statements of our annual report on Form 10-K for the year ended December 31, 2011 (our “Annual Report”).

- In connection with the Reese matter, on April 2, 2012, the District Court entered judgment granting the Defendants’ motion to dismiss, and dismissing all claims asserted against the Defendants in their entirety. The Lead Plaintiff has appealed the dismissal order.
- In connection with the Gearren and Sullivan matters, on February 23, 2012, the Court of Appeals denied the plaintiffs’ petition for reconsideration by the full Court. Plaintiffs have filed a petition with the United States Supreme Court asking it to review the decision.
- The Civil Division of the Department of Justice (“DOJ”) and the Division of Enforcement of the Securities and Exchange Commission (“SEC”) are investigating potential violations of civil provisions of federal law relating to S&P’s ratings of structured products. We have been in discussions with representatives of the DOJ and the SEC presenting our position on the issues raised by them and articulating why neither of them should commence proceedings adverse to the Company or its personnel.

We believe that the claims asserted and/or contemplated in the proceedings described in Note 13 — *Commitments and Contingencies* to the consolidated financial statements of our Annual Report, as amended above, have no basis and they will be vigorously defended by the Company and/or the subsidiaries involved.

In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in early stages of discovery, we cannot state with confidence what the eventual outcome of the pending matters described in Note 13 – *Commitments and Contingencies* to the consolidated financial statements of our Annual Report will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines, penalties or impact related to each pending matter may be. We believe, based on our current knowledge, the outcome of the legal actions, proceedings and investigations currently pending should not have a material, adverse effect on our financial position, results of operations or cash flows.

Item 1a. Risk Factors

Our Annual Report contains detailed cautionary statements which identify all known material risks, uncertainties and other factors that could cause our actual results to differ materially from historical or expected results. There have been no material changes to the risk factors we have previously disclosed in Item 1a, *Risk Factors*, in our Annual Report.

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

On June 29, 2011, the Board of Directors approved a stock repurchase program authorizing the purchase of up to 50.0 million shares (the “2011 Repurchase Program”), which was approximately 17% of the total shares of our outstanding common stock at that time. During the second quarter of 2012, we received an additional 0.1 million shares from the conclusion of our capped Accelerated Share Repurchase Agreement that we entered into on December 7, 2011. Further discussion relating to this agreement can be found in Note 9 - *Equity* to the unaudited consolidated financial statements. As of June 30, 2012, 22.7 million shares remained available under the 2011 Repurchase Program.

Repurchased shares may be used for general corporate purposes, including the issuance of shares for stock compensation plans and to offset the dilutive effect of the exercise of employee stock options. The 2011 Repurchase Program has no expiration date and purchases under this program may be made from time to time on the open market and in private transactions, depending on market conditions.

The following table provides information on our purchases of our outstanding common stock during the second quarter of 2012 pursuant to the 2011 Repurchase Program (column c). In addition to these purchases, the number of shares in column (a) include: 1) shares of common stock that are tendered to us to satisfy our employees’ tax withholding obligations in connection with the vesting of awards of restricted shares (we repurchase such shares based on their fair market value on the vesting date), and 2) our shares deemed surrendered to us to pay the exercise price and to satisfy our employees’ tax withholding obligations in connection with the exercise of employee stock options. There were no other share repurchases during the quarter outside the repurchases noted below.

(amounts in millions, except per share price)

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share ¹	(c) Total Number of Shares Purchased as Part of Publicly Announced Programs	(d) Maximum Number of Shares that may yet be Purchased Under the Programs
Apr. 1 — Apr. 30, 2012	0.1	\$ 48.47	0.1	22.7
May 1 — May 31, 2012	—	—	—	22.7
Jun. 1 — Jun. 30, 2012	—	48.68	—	22.7
Total — Qtr	0.1	\$ 48.49	0.1	22.7

¹ Average price per share information does not include the accelerated share repurchase transaction.

Item 6. Exhibits

- (3.ii) By-laws of the Registrant, as amended and restated as of June 27, 2012
- (15) Letter on Unaudited Interim Financials
- (31.1) Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
- (31.2) Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
- (32) Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (101.INS) XBRL Instance Document
- (101.SCH) XBRL Taxonomy Extension Schema
- (101.CAL) XBRL Taxonomy Extension Calculation Linkbase
- (101.LAB) XBRL Taxonomy Extension Label Linkbase
- (101.PRE) XBRL Taxonomy Extension Presentation Linkbase
- (101.DEF) XBRL Taxonomy Extension Definition Linkbase

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

The McGraw-Hill Companies, Inc.

Registrant

Date: July 26, 2012

By /s/ Jack F. Callahan, Jr.

Jack F. Callahan, Jr.

Executive Vice President and Chief Financial Officer

Date: July 26, 2012

By /s/ Kenneth M. Vittor

Kenneth M. Vittor

Executive Vice President and General Counsel

Date: July 26, 2012

By /s/ Emmanuel N. Korakis

Emmanuel N. Korakis

Senior Vice President and Corporate Controller

**THE MCGRAW-HILL COMPANIES, INC.
BY-LAWS**

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 and subject to the requirements of Section 4 of this Article I.

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 or her address as the same appears on the books of the Company.

3. Special meetings of stockholders shall be held at the principal executive offices of the Company or at such other place as may be designated by a resolution of the Board of Directors and may be called only as specified in Section D of Article VIII of the certificate of incorporation. Special meetings called at the request of one or more stockholders (a "Stockholder Requested Special Meeting") shall be called by the Chairman of the Board or the Secretary of the Company only if the request complies with all of the requirements of Section 4 of this Article I.

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4. In order for a Stockholder Requested Special Meeting to be called, a request for a special meeting must be signed by the stockholders of record of the Company (or their duly authorized agents) that Own (as defined in Section D of Article VIII of the certificate of incorporation) the Requisite Percent (as defined in Section D of Article VIII of the certificate of incorporation) and must be delivered to the Secretary of the Company at the principal executive offices of the Company by registered mail, return receipt requested (such signed and delivered request, a "Special Meeting Request"). The Special Meeting Request shall (i) set forth the name and address, as they appear on the Company's books, of each stockholder of the Company signing such request (or on whose behalf such request is signed) and the beneficial owner(s) (as defined in Section D of Article VIII of the certificate of incorporation), if any, on whose behalf such request is made, (ii) state the specific purpose or purposes of the special meeting, the matter or matters proposed to be acted on at the special meeting, the reasons for conducting such business at the special meeting, the text of any proposal or business to be considered at the special meeting (including the text of any resolutions proposed to be considered and, in the event that such business includes a proposal to amend these By-Laws, the language of the proposed amendment), and such information as would be required by Section 2 of Article I-A were such business to be brought before an annual meeting, (iii) bear the date of signature of each such stockholder (or duly authorized agent) signing the Special Meeting Request, (iv) provide a representation by each stockholder signing the Special Meeting Request, with documentary evidence, that (A) the stockholder is a holder of record of, and Owns, the number of shares of stock of the Company that is attributed to such stockholder in its Special Meeting Request and such stockholder intends to appear in person or by proxy at the Stockholder Requested Special Meeting, and (B) the beneficial owner(s) on whose behalf the stockholder is making such Special Meeting Request, if any, beneficially owns the number of shares of stock of the Company attributed to such beneficial owner (s) in the stockholder's Special Meeting Request, and (v) an acknowledgement by the requesting stockholders and the beneficial owners, if any, on whose behalf the Special Meeting Request is being made that such Special Meeting Request shall be deemed to be revoked (and any meeting scheduled in response may be cancelled) if such requesting stockholders do not Own at least the Requisite Percent at all times between the date on which such Special Meeting Request is delivered and the date of the applicable Stockholder Requested Special Meeting. Any requesting stockholder may revoke its participation in a Special Meeting Request at any time by written revocation delivered to the Secretary at the principal executive offices of the Company.

Any special meeting shall be held at such date and time as may be fixed by the Board of Directors in accordance with these By-Laws and in compliance with the New York Business Corporation Law; provided that, in the case of a Stockholder Requested Special Meeting, except as otherwise provided herein or unless a later date is required in order to allow the Company to file the information required under Schedule 14A under the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder (the "Exchange Act"), if applicable, the date of any Stockholder Requested Special Meeting shall be not more than ninety (90) days after the determination of the validity of the applicable Special Meeting Request in the manner provided in Section D of Article VIII of the certificate of incorporation.

Business transacted at any Stockholder Requested Special Meeting shall be limited to the purpose (s) stated in the applicable Special Meeting Request, which shall be included in

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the Company's notice of such Stockholder Requested Special Meeting; provided, however, that nothing herein shall prohibit the Board of Directors from submitting additional matters to the stockholders at any Stockholder Requested Special

Meeting. If none of the stockholders who submitted a Special Meeting Request appears at or sends a qualified representative to the Stockholder Requested Special Meeting to present the matters to be presented for consideration that were specified in the Special Meeting Request, the Company need not present such matters for a vote at such meeting.

Except as otherwise provided by law, in the case of a Stockholder Requested Special Meeting, the chairman of the meeting shall have the power and duty (i) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 4, and (ii) if any proposed nomination or business was not made or proposed in compliance with this Section 4 or the stated business to be brought before the special meeting is not a proper subject for stockholder action under applicable law, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. In addition, a Stockholder Requested Special Meeting shall not be held if (1) the Board of Directors has called or calls for an annual meeting of stockholders to be held within ninety (90) days after delivery of the applicable Special Meeting Request and the Board of Directors determines in good faith that the business of such annual meeting includes (among any other matters properly brought before the annual meeting) the business specified in such Special Meeting Request, (2) an annual or special meeting was held within ninety (90) days before the delivery of the applicable Special Meeting Request and the Board of Directors determines in good faith that the business of such prior annual or special meeting included (among any other matters properly brought before such prior annual or special meeting) the business specified in such Special Meeting Request, or (3) the Board of Directors determines in good faith that all of the stated business to be brought before such Stockholder Requested Special Meeting is not a proper subject for stockholder action under applicable law.

5. 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 sixty days prior to the meeting to each stockholder at his or her address as the same appears on the books of the Company.

6. 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.

7. 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.

8. The Chairman of the Board, and in his or her absence the Presiding Director, and

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in his or her absence a Chairman appointed by the Board of Directors, shall call meetings of the stockholders to order and shall act as Chairman thereof.

9. The Secretary of the Company shall act as Secretary at all meetings of the stockholders and in his or her absence the Chairman of the meeting may appoint any person to act as Secretary.

10. At each meeting of stockholders every stockholder entitled to vote may vote in person or by proxy. The Board of Directors may fix a day not more than sixty 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.

11. 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.

12. 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; Presentation of Business at Stockholder Meetings; Required Vote for Directors; Director Eligibility

1. Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Company's notice of meeting, (b) by or at the direction of the Board of Directors or (c) by any stockholder of the Company who (i) was a stockholder of record at the time of giving of notice provided for in this Article I-A and at the time of the annual meeting, (ii) is entitled to vote at the meeting and (iii) complies 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 Section (1)(c) of this Article I-A, the stockholder must have given timely notice thereof in writing to the Secretary and such other

business must otherwise be a proper matter for stockholder action. To be timely, such a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Company not earlier than the close of business on the 120th day and not later than the close of business on the 90th day 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 more

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than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting and the 10th day following the day on which public announcement of the date of such meeting is first made by the Company. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. To be in proper form, such a stockholder's notice to the Secretary must: (a) set forth, as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Company's books, and of such beneficial owner, if any, (ii) as of the date of such notice (which information shall be supplemented by such stockholder and beneficial owner, if any, not later than 10 days after the record date for the meeting to disclose such ownership as of the record date), (A) the class or series and number of shares of the Company which are owned beneficially and of record by such stockholder and such beneficial owner, if any, (B) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Company or with a value derived in whole or in part from the value of any class or series of shares of the Company, any derivative or synthetic arrangement having the characteristics of a long position in any class or series of shares of the Company, or any contract, derivative, swap or other transaction or series of transactions designed to produce economic benefits and risks that correspond substantially to the ownership of any class or series of shares of the Company, including due to the fact that the value of such contract, derivative, swap or other transaction or series of transactions is determined by reference to the price, value or volatility of any class or series of shares of the Company, whether or not such instrument, contract or right shall be subject to settlement in the underlying class or series of shares of the Company, through the delivery of cash or other property, or otherwise, and without regard to whether the stockholder of record, the beneficial owner, if any, or any affiliates or associates or others acting in concert therewith, may have entered into transactions that hedge or mitigate the economic effect of such instrument, contract or right (a "Derivative Instrument") directly or indirectly owned beneficially by such stockholder, the beneficial owner, if any, or any affiliates or associates or others acting in concert therewith and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Company, (C) any proxy, contract, arrangement, understanding, or relationship pursuant to which such stockholder has a right to vote any class or series of shares of the Company, (D) any agreement, arrangement, understanding, relationship or otherwise, including any repurchase or similar so-called "stock borrowing" agreement or arrangement, engaged in, directly or indirectly, by such stockholder, the purpose or effect of which is to mitigate loss to, reduce the economic risk (of ownership or otherwise) of any class or series of the shares of the Company by, manage the risk of share price changes for, or increase or decrease the voting power of, such stockholder with respect to any class or series of the shares of the Company, or which provides, directly or indirectly, the opportunity to profit or share in any profit derived from any decrease in the price or value of any class or series of the shares of the Company ("Short Interests"), (E) any rights to dividends on the shares of the Company owned beneficially by such stockholder that are separated or separable from the underlying shares of the Company, (F) any proportionate interest in shares of the Company or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such stockholder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner of

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such general or limited partnership, (G) any performance-related fees (other than an asset-based fee) that such stockholder is entitled to based on any increase or decrease in the value of shares of the Company or Derivative Instruments, if any, including without limitation any such interests held by members of such stockholder's immediate family sharing the same household, (H) any significant equity interests or any Derivative Instruments or Short Interests in any principal competitor of the Company held by such stockholder, and (I) any direct or indirect interest of such stockholder in any contract with the Company, any affiliate of the Company or any principal competitor of the Company (including, in any such case, any employment agreement, collective bargaining agreement or consulting agreement), and (iii) any other information relating to such stockholder and beneficial owner, if any, that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act; (b) if the notice relates to any business other than the nomination of a director that the stockholder proposes to bring before the meeting, set forth (i) 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 of such stockholder and beneficial owner, if any, in such business and (ii) a description of all agreements, arrangements and understandings between such stockholder and beneficial owner, if any, and any other person or persons (including their names) in connection with the proposal of such business by such stockholder; and (c) set forth, as to each person, if any, whom the stockholder proposes to nominate for election or reelection as a director (i) all information relating to such person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected) and (ii) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such stockholder and beneficial owner, if any, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the stockholder making the nomination and any beneficial owner on whose behalf the nomination is made, if any, or any affiliate or associate thereof or person acting in concert therewith, were the "registrant" for purposes of such rule and the nominee were a director or executive officer of such registrant. In addition, each nominee for election or reelection to the Board of Directors must include the completed and signed questionnaire, representation and agreement required by Section 9 of this Article I-A. The Company may require any proposed nominee to furnish such other information as may reasonably be required by the Company to determine the eligibility of such proposed nominee to serve as an independent director of the Company or that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such nominee.

3. Notwithstanding anything in the second sentence of Section 2 of this Article I-A 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 by the Company naming all of the nominees for director or specifying the size of the increased Board of Directors at

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least 100 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Article I-A 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.

4. 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 such meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders (a) by or at the direction of the Board of Directors, or (b) in the case of a special meeting (other than a Stockholder Requested Special Meeting), provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Company who (i) is a stockholder of record at the time of giving of notice provided for in this Article I-A and at the time of the special meeting, (ii) is entitled to vote at the meeting and (iii) complies with the notice procedures set forth in this Article I-A, or (c) in the case of a Stockholder Requested Special Meeting, pursuant to the Special Meeting Request for such Stockholder Requested Special Meeting. In the event the Company calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors other than a Stockholder Requested Special Meeting, 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 pursuant to clause (b) of the preceding sentence, if the stockholder's notice required by Section 2 of this Article I-A (including the completed and signed questionnaire, representation and agreement required by Section 9 of this Article I-A) shall be delivered to the Secretary at the principal executive offices of the Company not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting and 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. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above. Notwithstanding anything in these By-Laws to the contrary, in the case of a Stockholder Requested Special Meeting, no stockholder may propose to conduct business or nominate a person for election to the Board of Directors at such Stockholder Requested Special Meeting, except pursuant to Special Meeting Request delivered for such Stockholder Requested Special Meeting.

5. Only such persons who are nominated in accordance with the procedures set forth in this Article I-A shall be properly nominated for election 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. Except as otherwise provided by law, the Certificate of Incorporation or these By-Laws, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, 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 proposal or nomination shall be disregarded.

6. For purposes of this Article I-A, "public announcement" shall mean disclosure in a

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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 Section 13, 14 or 15(d) of the Exchange Act.

7. 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 (i) of stockholders to request inclusion of proposals in the Company's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of Convertible Preference Stock or Series Preferred Stock if and to the extent provided for under law, the Certificate of Incorporation or these By-Laws.

8. At each annual or special meeting of the stockholders for the election of Directors, at which a quorum is present, each Director shall be elected by the vote of the majority of the votes cast with respect to the Director, provided that if as of the date that is fourteen (14) days in advance of the date the Company files its definitive proxy statement (regardless of whether or not thereafter revised or supplemented) with the Securities and Exchange Commission the number of nominees exceeds the number of Directors to be elected, the directors shall be elected by the vote of a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of Directors. For purposes of this section, a majority of the votes cast means that the number of shares voted "for" a Director must exceed the number of votes cast "against" that Director. Any Director standing for reelection at an annual or special meeting of stockholders who is not elected shall promptly tender his or her resignation to the Board of Directors. The Nominating and Corporate Governance Committee shall make a recommendation to the Board of Directors as to whether to accept or reject the tendered resignation, or whether other action should be taken. The Board of Directors shall act on the tendered resignation, taking into account the Nominating and Corporate Governance Committee's recommendation, and publicly disclose (by a press release, a filing with the Securities and Exchange Commission or other broadly disseminated means of communication) its decision regarding the tendered resignation and the rationale behind the decision within 90 days from the date of the certification of the election results. The Nominating and Corporate Governance Committee in making its recommendation, and the Board of Directors in making its decision, may each consider any factors or other information that it considers appropriate and relevant. The director who tenders his or her resignation shall not participate in the recommendation of the Nominating and Corporate Governance Committee or the decision of the Board of Directors with respect to his or her resignation. If a director's resignation is accepted by the Board of Directors pursuant to this Section 8, then the Board of Directors, in its sole discretion, may fill any resulting vacancy pursuant to the provisions of Article VIII(B) of the Certificate of Incorporation or may decrease the size of the Board of Directors pursuant to the provisions of Article VIII(A) of the Certificate of Incorporation.

9. To be eligible to be a nominee for election as a director of the Company, a person must deliver (in accordance with the time periods prescribed for delivery of notice under this Article I-A) to the Secretary at the principal executive offices of the Company a written questionnaire with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made (which questionnaire shall be provided by the Secretary upon written request) and a written representation and agreement (in the form provided by the Secretary upon written request)

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that such person (A) will abide by the requirements of Section 8 of this Article I-A, (B) is not and will not become a party to (1) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such person, if elected as a director of the Company, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the Company or (2) any Voting Commitment that could limit or interfere with such person's ability to comply, if elected as a director of the Company, with such person's fiduciary duties under applicable law, (C) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Company with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed therein, (D) beneficially owns, or agrees to purchase within 90 days if elected as a director of the Company, not less than 400 shares of stock of the Company ("Qualifying Shares") (subject to adjustment for any stock splits or stock dividends occurring after January 31, 2007), will not dispose of such minimum number of shares so long as such person is a director, and has disclosed therein whether all or any portion of the Qualifying Shares were purchased with any financial assistance provided by any other person and whether any other person has any interest in the Qualifying Shares, and (E) in such person's individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the Company, and will comply with all applicable publicly disclosed corporate governance, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the Company.

ARTICLE II Board of Directors

1. The business and affairs of the Company 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 thirteen (13). 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 Company 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 Company, 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:

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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 any 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 or she shall be elected and until his or her successor shall be chosen and shall accept his or her election, but any director may resign at any time.

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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, a Chairman of the Board, 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 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. 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 or she shall perform all duties incident to the office of the Chairman of the Board. If the Company shall have a Presiding Director in accordance with its Corporate Governance Guidelines, the Presiding Director shall preside at all meetings of the Board of Directors at which the Chairman is not present, including all meetings of non-management Directors and all executive sessions of the independent Directors. In the absence or inability to act of both the Chairman and the Presiding Director, the Board may designate any director to perform the duties of temporary Chairman which shall include presiding at meetings of stockholders and of the Board of Directors.

9. 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.

10. 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

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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 Company shall be 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, except the offices of President and Secretary. 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 or her 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.

2. The President shall be the chief executive officer of the Company and shall be responsible for the general and active supervision and direction of the business, policies and activities of the Company, subject to the control of the Board of Directors. He or she may execute on behalf of the Company all authorized deeds, bonds, mortgages, contracts, documents and papers and may affix thereto the corporate seal when required. He or she shall have power to sign debentures and certificates of stock of the Company. He or she shall also have such duties as the Board may from time to time determine or as may be prescribed by these By-Laws. He or she shall be responsible for seeing that the orders and resolutions of the Board are carried into effect.

3. 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.

4. The Secretary shall attend all meetings of the directors and stockholders, and

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

5. 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 Company, in books belonging to the Company, and shall deposit all moneys, securities, and valuables of the Company in the name of and to the credit of the Company, in such depositories as shall be designated by the Board of Directors. He or she 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 or she 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 or she shall perform all other duties incident to the position of Treasurer, subject to the control of the Board.

6. 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.

7. 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 Company.

ARTICLE IV-A

Bank Accounts, Deposits, Checks, Drafts and Orders

1. Any two of the following officers: the 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.

2. 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,

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the 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.

3. All checks, drafts, or orders for the payment of money, drawn in the name of the Company, may be signed by the 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 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 Company 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 Company shall be indemnified by the Company, and the Company may advance such person's related expenses, to the full extent permitted by law.

For purposes of this section, references to "the Company" 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 Company, 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

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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 Company 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 Company itself or its employee. Notwithstanding the foregoing provisions regarding share certificates or any other provisions of this Article V, officers of the Company may provide that some or all of any or all classes or series of the Company's capital stock may be uncertificated shares.

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 Company, 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 Company for a least six months immediately preceding his or her 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 Company by the holder thereof in person or by his or her 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 Company 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

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1. The Board shall provide a suitable seal, containing the name of the Company, 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 Company 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 or her 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.

As amended as of June 27, 2012

Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended

I, Harold W. McGraw III, certify that:

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

Dated: July 26, 2012

/s/ Harold W. McGraw III

Harold W. McGraw III

Chairman, President and Chief Executive Officer

Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended

I, Jack F. Callahan, Jr., certify that:

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

Dated: July 26, 2012

/s/ Jack F. Callahan, Jr.

Jack F. Callahan, Jr.

Executive Vice President and Chief Financial Officer

Certifications pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, each of the undersigned officers of The McGraw-Hill Companies, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

The quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2012 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

The information contained in the quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 26, 2012

/s/ Harold W. McGraw III

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

Dated: July 26, 2012

/s/ Jack F. Callahan, Jr.

Jack F. Callahan, Jr.
Executive Vice President and
Chief Financial Officer

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