

# MCGRAW-HILL COMPANIES INC

## FORM 10-Q (Quarterly Report)

Filed 11/13/1997 For Period Ending 9/30/1997

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

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

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

For the quarterly period ended September 30, 1997

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.**

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(Exact name of registrant as specified in its charter)

New York	13-1026995
----- (State or other jurisdiction of incorporation or organization)	----- (I.R.S. Employer Identification No.)
1221 Avenue of the Americas, New York, N.Y.	10020
----- (Address of principal executive offices)	----- (Zip Code)

Registrant's telephone number, including area code (212) 512-2000 Not Applicable

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(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

On October 31, 1997 there were approximately 99 million shares of common stock (par value \$1.00 per share) outstanding.

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

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**PART I**

**Financial Information**

**Item 1. Financial Statements**

The McGraw-Hill Companies, Inc.  
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 Consolidated Statement of Income  
 -----  
 Periods Ended September 30, 1997 and 1996  
 -----

	Three Months		Nine Months	
	1997	1996	1997	1996
	(In thousands, except per-share data)			
Operating revenue	\$1,143,740	\$ 949,009	\$2,633,327	\$2,243,794
Expenses:				
Operating	510,345	397,775	1,207,425	1,018,040
Selling and general	310,710	265,517	830,399	708,419
Depreciation and amortization	104,442	84,716	226,763	178,974
Total expenses	925,497	748,008	2,264,587	1,905,433
Other income - net	23,029	4,847	31,720	14,817
Income from operations	241,272	205,848	400,460	353,178
Interest expense - net	15,299	13,075	40,917	36,906
Income before taxes on income	225,973	192,773	359,543	316,272
Provision for taxes on income	82,474	78,265	135,902	128,406
Net income	\$ 143,499	\$ 114,508	\$ 223,641	\$ 187,866
	=====	=====	=====	=====
Earnings per common share	\$ 1.44	\$ 1.15	\$ 2.24	\$ 1.88
	=====	=====	=====	=====
Average number of common shares outstanding	99,582	99,477	99,971	100,109

The McGraw-Hill Companies, Inc.

Consolidated Balance Sheet

	Sept. 30, 1997	Dec. 31, 1996	Sept. 30, 1996
	-----	-----	-----
	(In thousands)		
ASSETS			
Current assets:			
Cash and equivalents	\$ 19,183	\$ 3,430	\$ 9,883
Accounts receivable (net of allowance for doubtful accounts and sales returns) (Note 3)	1,085,947	879,466	965,932
Receivable from broker-dealers and dealer banks (Note 4)	2,474	2,473	14,218
Inventories (Note 3)	316,587	273,158	264,272
Prepaid income taxes	107,079	106,464	71,579
Prepaid and other current assets	82,654	84,592	65,063
	-----	-----	-----
Total current assets	1,613,924	1,349,583	1,390,947
	-----	-----	-----
Prepublication costs (net of accumulated amortization) (Note 3)	316,774	353,064	300,854
Investments and other assets:			
Investment in Rock-McGraw, Inc. - at equity	70,878	66,899	65,514
Prepaid pension expense	108,848	104,515	102,931
Other	173,213	150,373	153,040
	-----	-----	-----
Total investments and other assets	352,939	321,787	321,485
	-----	-----	-----
Property and equipment - at cost	808,269	835,680	854,055
Less - accumulated depreciation	547,988	524,187	535,069
	-----	-----	-----
Net property and equipment	260,281	311,493	318,986
Goodwill and other intangible assets - at cost (net of accumulated amortization)			
	1,268,578	1,306,312	945,727
	-----	-----	-----
	\$3,812,496	\$3,642,239	\$3,277,999
	=====	=====	=====

The McGraw-Hill Companies, Inc.

Consolidated Balance Sheet

	Sept. 30, 1997	Dec. 31, 1996	Sept. 30, 1996
	-----	-----	-----
	(In thousands)		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Notes payable	\$ 236,019	\$ 24,518	\$ 179,790
Accounts payable	249,262	241,736	192,270
Payable to broker-dealers and dealer banks (Note 4)	2,331	2,400	13,520
Accrued liabilities	243,402	232,024	186,166
Income taxes currently payable	164,500	235,573	144,858
Unearned revenue	190,128	229,216	222,075
Other current liabilities	254,784	253,196	229,714
	-----	-----	-----
Total current liabilities	1,340,426	1,218,663	1,168,393
	-----	-----	-----
Other liabilities:			
Long-term debt (Note 5)	562,902	556,850	556,766
Deferred income taxes	137,990	150,319	138,959
Accrued postretirement healthcare and other benefits	197,562	198,709	199,441
Other non-current liabilities	164,570	156,580	132,601
	-----	-----	-----
Total other liabilities	1,063,024	1,062,458	1,027,767
	-----	-----	-----
Total liabilities	2,403,450	2,281,121	2,196,160
	-----	-----	-----
Shareholders' equity (Note 6):			
Capital stock	102,933	102,933	102,933
Additional paid-in capital	43,399	37,473	37,635
Retained income	1,511,316	1,394,884	1,119,732
Foreign currency translation adjustments	(69,919)	(57,302)	(56,419)
	-----	-----	-----
	1,587,729	1,477,988	1,203,881
	-----	-----	-----
Less - common stock in treasury-at cost	164,601	107,410	110,551
unearned compensation on restricted stock	14,082	9,460	11,491
	-----	-----	-----
Total shareholders' equity	1,409,046	1,361,118	1,081,839
	-----	-----	-----
	\$3,812,496	\$3,642,239	\$3,277,999
	=====	=====	=====

The McGraw-Hill Companies, Inc.  
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Consolidated Statement of Cash Flows  
-----  
For The Nine Months Ended September 30, 1997 And 1996  
-----

	1997	1996
	-----	-----
	(In thousands)	
Cash flows from operating activities		
Net income	\$ 223,641	\$ 187,866
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	53,068	52,719
Amortization of goodwill and intangibles	37,429	27,336
Amortization of prepublication costs	136,266	98,919
Provision for losses on accounts receivable	64,296	50,047
Provision for Facility Reserve	33,152	-
Gain on the Disposition of Datapro	(20,404)	-
Other	4,949	458
Changes in assets and liabilities net of effect of acquisitions and dispositions:		
Increase in accounts receivable	(286,385)	(162,553)
Increase in inventories	(46,081)	(22,259)
Decrease/(Increase) in prepaid and other current assets	769	(7,562)
Increase/(Decrease) in accounts payable and accrued expenses	21,421	(25,963)
Decrease in unearned revenue	(24,515)	(19,017)
Decrease in other current liabilities	(461)	(24,038)
(Decrease)/increase in interest and income taxes currently payable	(76,547)	70,056
Decrease in prepaid/deferred income taxes	(643)	(1,174)
Net change in other assets and liabilities	(16,771)	189
-----	-----	-----
Cash provided by operating activities	103,184	225,024
-----	-----	-----
Investing activities		
Investment in prepublication costs	(122,376)	(126,919)
Purchases of property and equipment	(46,172)	(36,895)
Proceeds from exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group	6,730	-
Acquisition of businesses	(24,834)	(31,809)
Disposition of property, equipment and businesses	57,579	6,657
Other	-	1,189
-----	-----	-----
Cash used for investing activities	(129,073)	(187,777)
-----	-----	-----
Financing activities		
Additions to short-term debt - net	212,630	108,671
Dividends paid to shareholders	(107,209)	(98,629)
Exercise of stock options	18,291	16,316
Repurchase of treasury shares	(79,899)	(63,313)
Other	(2,171)	(659)
-----	-----	-----
Cash provided by/(used for) financing activities	41,642	(37,614)
-----	-----	-----
Net change in cash and equivalents	15,753	(367)
Cash and equivalents at beginning of period	3,430	10,250
-----	-----	-----
Cash and equivalents at end of period	\$ 19,183	\$ 9,883
	=====	=====

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

**Notes to Financial Statements**

1. The financial information in this report has not been audited, but in the opinion of management all adjustments (consisting only of normal recurring adjustments) considered necessary to present fairly such information have been included. The operating results for the three and nine month periods ended September 30, 1997 and 1996 are not necessarily indicative of results to be expected for the full year due to the seasonal nature of some of the company's businesses. The financial statements included herein should be read in conjunction with the financial statements and notes included in the company's Annual Report on Form 10-K for the year ended December 31, 1996.

Certain prior year amounts have been reclassified for comparability purposes.

2. Operating profit by segment is total operating revenue less expenses which are deemed to be related to the unit's operating revenue. A summary of operating results by segment for the three months and nine months ended September 30, 1997 and 1996 follows:

	1997		1996	
	Revenue	Operating Profit	Revenue	Operating Profit
	(In thousands)			
Three Months				
-----				
Educational and Professional Publishing	\$ 681,214	\$178,276	\$523,575	\$140,822
Financial Services	243,944	49,660	209,867	63,624
Information and Media Services	218,582	37,336	215,567	18,088
-----				
Total operating segments	1,143,740	265,272	949,009	222,534
General corporate expense	-	(24,000)	-	(16,686)
Interest expense - net	-	(15,299)	-	(13,075)
-----				
Total company	\$1,143,740	\$225,973*	\$949,009	\$192,773*
	=====	=====	=====	=====

\*Income before taxes on income.

The McGraw-Hill Companies, Inc.

Notes to Financial Statements

	1997		1996	
	Revenue	Operating Profit	Revenue	Operating Profit
(In thousands)				
Nine Months				
-----				
Educational and Professional Publishing	\$1,235,349	\$169,929	\$ 967,059	\$135,844
Financial Services	713,272	194,186	630,062	193,404
Information and Media Services	684,706	89,508	646,673	67,077
-----				
Total operating segments	2,633,327	453,623	2,243,794	396,325
General corporate expense	-	(53,163)	-	(43,147)
Interest expense - net	-	(40,917)	-	(36,906)
-----				
Total company	\$2,633,327	\$359,543*	\$2,243,794	\$316,272*
=====				

\*Income before taxes on income.

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

	Sept. 30, 1997	Dec. 31, 1996	Sept. 30, 1996
(In thousands)			
Allowance for doubtful accounts	\$ 100,197	\$ 85,965	\$ 80,654
Allowance for sales returns	\$ 87,945	\$ 76,295	\$ 48,249
Inventories:			
Finished goods	\$ 242,608	\$ 219,295	\$ 195,639
Work-in-process	43,012	19,887	38,706
Paper and other materials	30,967	33,976	29,927
Total inventories	\$ 316,587	\$ 273,158	\$ 264,272
Accumulated amortization of prepublication costs	\$ 576,938	\$ 486,960	\$ 456,267

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

4. A subsidiary of J.J. Kenny Co. acts as an undisclosed agent in the purchase and sale of municipal securities for broker-dealers and dealer banks and the company had \$275 million of matched purchase and sale commitments at September 30, 1997. Only those transactions not closed at the settlement date are reflected in the balance sheet as receivables and payables.

5. A summary of long-term debt follows:

	Sept. 30, 1997	Dec. 31, 1996	Sept. 30, 1996
	-----	-----	-----
			(In thousands)
9.43% senior notes due 2000	\$ 250,000	\$ 250,000	\$ 250,000
Commercial paper supported by bank revolving credit agreement	300,000	300,000	300,000
Other	12,902	6,850	6,766
	-----	-----	-----
Total long-term debt	\$ 562,902	\$ 556,850	\$ 556,766
	=====	=====	=====

6. Common shares approved for issuance for conversions and stock based awards were as follows:

	Sept. 30, 1997	Dec. 31, 1996	Sept. 30, 1996
	-----	-----	-----
\$1.20 convertible preference stock at the rate of 6.6 shares for each share of preference stock	9,134	9,161	9,260
Stock based awards	10,591,967	6,350,994	6,479,841
	-----	-----	-----
	10,601,101	6,360,155	6,489,101
	=====	=====	=====

7. Cash dividends per share declared during the periods were as follows:

	Three Months		Nine Months	
	-----	-----	-----	-----
	1997	1996	1997	1996
	----	----	----	----
Common stock	\$.36	\$.33	\$1.08	\$.99
Preference stock	.30	.30	.90	.90

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

8. In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share. Under the new standard, which must be adopted on December 31, 1997, the company will be required to change the method used to compute earnings per share and to restate prior periods presented. A dual presentation of basic and diluted earnings per share will be required. The basic earnings per share calculation, which will replace primary earnings per share, will exclude the dilutive impact of stock options and other common share equivalents. The dilutive earnings per share calculation, which will replace fully diluted earnings per share, will include common share equivalents. The adoption of SFAS No. 128 is not expected to have a significant impact on earnings per share for the nine months ended September 30, 1997 and 1996.

## **Management's Discussion and Analysis of Operating**

### **Results and Financial Condition**

#### **Operating Results - Comparing Periods Ended September 30, 1997 and 1996**

##### **Three Months**

##### **Consolidated Review**

Operating revenue for the quarter grew \$194.7 million, or 20.5%, over the 1996 quarter to \$1.14 billion. The revenue increase reflects excellent sales in elementary-high school (el-hi) publishing, continued strong new issuance volume in the U.S. bond market and global expansion at Standard & Poor's Rating's Services, and the acquisition of the former Times Mirror Higher Education Group.

Net income for the quarter increased \$29 million, or 25.3%, to \$143.5 million. Earnings per share were \$1.44 compared to \$1.15 last year. The seasonality of the company's earnings increased over the prior year due to the October 1996 exchange of the Shepard's/McGraw-Hill legal publishing business for the Times Mirror Higher Education Group. The exchange transaction contributed 9 cents to earnings in the quarter, compared to 9 cents dilution in the first half of the year, reflecting the seasonality of the higher education business as compared to Shepard's and cost reductions from integration activities.

In July 1997 the company divested its McGraw-Hill London House and McGraw-Hill School Systems businesses for proceeds of \$29 million in cash; the proceeds approximated the book values of the properties. Also in July, the company divested its Datapro Information Services business for proceeds of \$25 million in cash; the quarter results reflect a pre-tax gain of \$20.4 million (\$20.2 million after tax, or 20 cents per share) on the divestiture. The pre-tax gain is recorded as other income on the consolidated statement of income and is reflected in the operating profit of the Information and Media Services segment.

1997 expenses include a one-time, non-cash provision of \$33.2 million (\$19.9 million after tax, or 20 cents per share) for the consolidation of office space in New York City. The company is consolidating its locations in New York City and will lease approximately 1.3 million square feet of office space for 20 years. The one-time provision is primarily for a writedown of a building which the company will sell as part of the office consolidation and the writedown of leasehold improvements for the early surrender of office space to be vacated in the company's headquarters building. The company has taken these actions to consolidate its offices into fewer and more efficient locations and to align its future space requirements with the growth plans of its businesses. The operating profit of each segment and corporate expenses reflect the amount of the provision associated with each segment.

Total expenses in 1997, excluding the provision for the consolidation of office space, increased \$144.3 million, or 19.3%, reflecting volume-related costs due to the revenue growth, operating costs of the acquired higher education business and expenses associated with new products and initiatives.

Net interest expense increased \$2.2 million, or 17%, due primarily to higher commercial paper borrowing levels. Average commercial paper interest rates increased from 5.5% in 1996 to 5.6% in 1997.

The provision for taxes as a percent of income before taxes, excluding the gain on the sale of Datapro, was 40.0% in 1997 compared to 40.6% in 1996. The reduction in the effective tax rate reflects lower state taxes resulting primarily from the acquisition of the Times Mirror Higher Education Group. Including the gain on the sale of Datapro, the effective tax rate was 36.5% due to lower taxes on the gain.

### **Segment Review**

Educational and Professional Publishing revenues increased \$157.6 million, or 30.1%, to \$681.2 million. The revenue increase is due to strong elementary school publishing sales including a market leading 35% share in the 1997 California reading adoption. The company had two successful product offerings in the California adoption, the McGraw-Hill School Division's basal program, Spotlight on Literacy, and the SRA/McGraw-Hill reading series, Collections for Young Scholars. These programs also performed well in other adoption states and open territories. Also, completing a strong start in the second quarter, the School Division finished with a 60% share in the Texas social studies adoption. Secondary school publishing sales improved due to open territory sales. 1997 revenues include \$95 million from the former Times Mirror Higher Education properties compared to \$22 million contributed by Shepard's last year. International publishing revenues increased due to sales of the Times Mirror products, the new edition of Harrison's Principles of Internal Medicine and improved economic conditions in Canada. Domestic professional publishing revenues improved due to strong computer titles while revenues declined at the Continuing Education Center. Segment operating profit of \$178.3 million includes a \$8.6 million provision for the consolidation of office space. Excluding the provision, operating profit improved 32.7% reflecting the strong el-hi performance, improved operating results in international markets and increased profits in the expanded higher education business, partially offset by a decline at the Continuing Education Center.

Financial Services' revenue increased \$34.1 million, or 16.2%, to \$243.9 million. Segment operating profit of \$49.7 million reflects a \$20.4 million provision for the consolidation of office space. Excluding the provision, operating profit improved 10.2%. Standard & Poor's Ratings Services' revenues and profits improved due to increased new issuance volume in the U.S. bond market, particularly the high yield sector. New ratings products and continued global expansion also significantly contributed to the strong performance. Standard & Poor's Financial Information Services' revenue improved due to growth in the retail, institutional and global sectors while revenues were flat in municipal securities services reflecting a continued weak market. Operating profit declined due to investments in new products to be launched later this year and the weak municipal securities services market.

Information and Media Services' revenue increased \$3.0 million, or 1.4%, to \$218.6 million. Excluding the impact of the Datapro divestiture, revenues increased 4.6%. Segment operating profit of \$37.3 million includes the \$20.4 million gain on the sale of Datapro Information Services and a \$1.5 million provision for the consolidation of office space. Excluding these items, operating profit improved 1.9%. Business Week revenues increased modestly despite flat advertising pages as revenue per page improved; profits declined due to higher marketing and circulation expenses. Revenues and profits declined at the Information Technology and Communications Group due to reduced advertising pages. The operating performance of the healthcare, aviation and science and technology publications improved modestly from the prior year. Revenue and profits improved in the Construction Information Group due to growth in electronic products and increased advertising in Architectural Record and ENR magazines. Broadcasting revenue improved while profits grew at a greater rate due to cost reductions.

## **Nine Months**

### **Consolidated Review**

For the first nine months of the year, operating revenue of \$2.6 billion increased \$389.5 million, or 17.4%, over 1996. The revenue increase reflects excellent sales in elementary-high school (el-hi) publishing, continued strong new issuance volume in the U.S. bond market and global expansion at Standard & Poor's Rating's Services, the acquisition of the former Times Mirror Higher Education Group and larger advertising revenues at Business Week and other magazines. 1997 expenses include a one-time, non-cash provision of \$33.2 million (\$19.9 million after tax, or 20 cents per share) for the consolidation of office space in New York City. Total expenses in 1997, excluding the provision for the consolidation of office space, increased \$326.0 million, or 17.1%, reflecting volume-related costs due to the revenue growth, operating costs of the acquired higher education business and expenses associated with new products and initiatives. Also reflected in the results is a pre-tax gain of \$20.4 million (\$20.2 million after tax, or 20 cents per share) on the sale of Datapro Information Services. Net income increased \$35.8 million, or 19.0%, reflecting the revenue increases. Earnings per share were \$2.24 compared to \$1.88 last year. The year to date results reflect no dilution in earnings from last year's exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group.

Net interest expense increased \$4.0 million, or 10.9%, due primarily to higher commercial paper borrowing levels. Average commercial paper borrowing rates increased from 5.4% in 1996 to 5.6% in 1997.

The provision for taxes as a percent of income before taxes, excluding the gain on the sale of Datapro, was 40.0% in 1997 compared to 40.6% in 1996. This reduction in the effective tax rate reflects lower state taxes resulting primarily from the acquisition of the Times Mirror Higher Education Group. Including the gain on the sale of Datapro, the effective tax rate was 37.8% due to lower taxes on the gain.

### **Segment Review**

Educational and Professional Publishing revenue increased \$268.3 million, or 27.7%, to \$1.235 billion. The revenue increase is due to strong elementary

school publishing sales including a market leading 35% share in the 1997 California reading adoption. The company had two successful product offerings in the California adoption that also performed well in other adoption states and open territories. The company also captured a 60% share in the Texas social studies adoption. Secondary school publishing sales improved due to open territory sales. 1997 revenues include \$159 million from the former Times Mirror Higher Education properties compared to \$54 million contributed by Shepard's last year. International publishing revenues increased due to sales of the Times Mirror products and improved economic conditions in Canada. Revenues declined at the Continuing Education Center. Segment operating profit of \$169.9 million includes a \$8.6 million provision for the consolidation of office space. Excluding the provision, operating profit improved 31.4% reflecting the strong el-hi performance, improved operating results in international markets and increased profits in the expanded higher education business, partially offset by a decline at the Continuing Education Center.

Financial Services' revenue increased \$83.2 million, or 13.2%, to \$713.3 million. Segment operating profit of \$194.2 million includes a \$20.4 million provision for the consolidation of office space. Excluding the provision, operating profit improved 11.0%. Standard & Poor's Ratings Services' revenues and profits improved due to increased new issuance volume in the U.S. bond market, particularly the high yield sector. New ratings products and continued global expansion also significantly contributed to the strong performance. Standard & Poor's Financial Information Services' revenue improved due to growth in the retail, institutional and global sectors offsetting a decline in municipal securities services reflecting a continued weak market. Operating profit declined due to investments in new products to be launched later this year and reduced profits at municipal securities services.

Information and Media Services' revenue increased \$38.0 million, or 5.9%, to \$684.7 million. Segment operating profit of \$89.5 million includes the \$20.4 million gain on the sale of Datapro and a \$1.5 million provision for the consolidation of office space. Excluding these items, operating profit improved 5.2%. Business Week revenues and profits increased due to advertising page growth and increased revenue per page. Revenues and profits declined at the Information Technology and Communications Group due to reduced advertising pages. The operating performance of the healthcare, aviation and science and technology publications improved due to increased advertising pages and the acquisition of several healthcare publications late last year. Revenue and profits improved in the Construction Information Group due to growth in electronic products and increased advertising in Architectural Record and ENR magazines. Broadcasting revenue improved modestly while profits grew at a greater rate due to cost reductions.

### **Financial Condition**

The company continues to maintain a strong financial position. Cash generated by operating activities in the first nine months of 1997 totaled \$103 million, which is net of \$150 million in tax payments on last year's gain on the exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group, compared to \$225 million for the same period last year. Total debt increased \$218 million from year-end reflecting the tax payments, expenditures for the integration of the higher education businesses, seasonal spending for inventory and marketing costs for school publishing adoptions, prepublication spending for publishing programs and the repurchase of common shares, partially offset by the net proceeds from the disposition of businesses. The company's strong presence

in school and higher education publishing significantly impacts the seasonality of its earnings and borrowing patterns over the year with the company borrowing during the first half of the fiscal year and generating cash in the second half of the year, primarily in the fourth quarter.

Commercial paper borrowings at September 30, 1997 totaled \$529 million, an increase of \$207 million from December 31, 1996. Commercial paper debt is supported by a \$800 million revolving credit agreement with a group of banks terminating in February 2002, and \$300 million has been classified as long-term. There are no amounts outstanding under this agreement.

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

In January 1996, the company's Board of Directors approved a stock repurchase program authorizing the purchase of up to four million shares of the company's common stock. In 1997, the company has repurchased 1.3 million shares at a cost of \$80 million. In fiscal 1996, 1.4 million shares were repurchased under the program at a cost of \$63 million. The repurchased shares will be used for general corporate purposes, including the issuance of shares for the exercise of employee stock options.

Accounts receivable before reserves of \$1.274 billion increased \$232 million from the end of 1996 due primarily to the seasonal nature of the company's book publishing businesses, reflecting an increase in school publishing receivables from third quarter sales. Inventories increased \$43 million to \$317 million from the end of 1996 due primarily to inventory purchases for school publishing adoptions and the seasonal buildup for the annual Sweet's files.

Net prepublication costs decreased \$36 million from the end of 1996 to \$317 million as amortization expense in this significant adoption year exceeded spending; prepublication costs also declined due to the divestiture of McGraw-Hill London House and McGraw-Hill School Systems. Prepublication cost spending in the first nine months of 1997 totaled \$122 million compared to \$127 million in 1996. The level of spending is expected to increase over the remainder of the year.

Purchases of property and equipment of \$46 million were \$9 million higher than the comparable period last year; the purchases were primarily for computer equipment and the integration of the Times Mirror Higher Education properties.

The company's consolidation of office space in New York City will entail capital expenditures for the build-out of the new space of up to \$150 million, primarily in 1998 and 1999, which are expected to be financed by operating cash flow and commercial paper borrowings under existing facilities.

The company has reviewed its technology environment to assess Year 2000 risks, develop plans and timetables to convert or replace systems to achieve Year 2000 compatibility and to estimate related costs. The company currently estimates that the costs for conversion will approximate \$15 million. Certain systems that are not Year 2000 compliant may be replaced as part of the company's ongoing system development projects.

On November 12, the company acquired the outstanding shares of Micropal Group Limited, the leading provider of mutual funds data and information, for \$48 million in cash and notes.

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

This section, as well as other portions of this document, include certain forward-looking statements about the company's business, new products, sales, expenses, cash flows, and operating and capital requirements. Such forward-looking statements include, but are not limited to: the timing of integration actions related to the Times Mirror Higher Education Group; the strength of profit levels at Standard & Poor's Rating's Services; the level of prepublication cost spending in 1997; shares to be reacquired under the share repurchase plan; and the level of the future cash flow and debt levels.

Actual results may differ materially from those in any forward-looking statements because any such statements involve risks and uncertainties and are subject to change based on various important factors, including but not limited to worldwide economic and political conditions, the health of capital and equity markets, the successful marketing of new products, the effect of competitive products and pricing, and the timing of reducing costs in the newly merged higher education business.

## PART II

### Other Information

#### Item 1. Legal Proceedings

On September 5, 1997, a Complaint was filed in New York State Supreme Court in an action captioned Julian H. Robertson, Jr. v. The McGraw- Hill Companies, Inc., et al.(Index No. 105357/97); an Amended Complaint was filed on September 11, 1997. The Amended Complaint alleges that an article about Mr. Robertson entitled "The Fall of the Wizard of Wall Street" published in the April 1, 1996 issue of Business Week was false and defamatory. The Amended Complaint seeks compensatory damages in the amount of \$500 million and punitive damages in the amount of \$500 million. The Company believes that the allegations in the Amended Complaint lack merit and intends to vigorously contest the lawsuit. As a threshold matter, on October 28, 1997 the Company filed a motion for summary judgment seeking dismissal of the Amended Complaint on statute of limitations grounds.

Item 2.	Exhibits	Page Number
	-----	-----
(12)	Computation of Ratio of Earnings to Fixed Charges.	19
(27)	Financial Data Schedule.	20

**SIGNATURES**

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

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

Date: 11/13/97  
-----

By Robert J. Bahash  
-----

Robert J. Bahash  
Executive Vice President  
and Chief Financial Officer

Date: 11/11/97  
-----

By Thomas J. Kilkenny  
-----

Thomas J. Kilkenny  
Vice President and Controller

Date: 11/11/97  
-----

By Kenneth M. Vittor  
-----

Kenneth M. Vittor  
Senior Vice President  
and General Counsel

## The McGraw-Hill Companies, Inc.

-----  
Computation of Ratio of Earnings to Fixed Charges  
-----Periods Ended September 30, 1997  
-----

	Nine Months	Twelve Months
	-----	-----
	(In thousands)	
Earnings		
Earnings from continuing operations		
before income tax expense (Note).....	\$ 355,564	\$ 852,714
Fixed charges.....	64,023	82,529
	-----	-----
Total Earnings.....	\$ 419,587	\$ 935,243
	=====	=====
Fixed Charges (Note)		
Interest expense.....	\$ 43,713	\$ 55,691
Portion of rental payments deemed to be interest.....	20,310	26,838
	-----	-----
Total Fixed Charges.....	\$ 64,023	\$ 82,529
	=====	=====
Ratio of Earnings to Fixed Charges	6.6x	11.3x

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

Earnings from continuing operations before income taxes for the nine and twelve month periods ended September 30, 1997 includes a \$33.2 million provision for real estate write-downs and a \$20.4 million gain on the sale of Datapro Information Services. The twelve month period ended September 30, 1997 also includes a \$418.7 million gain on the exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group and a one-time integration charge of \$25.0 million.

## ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD END	SEP 30 1997
CASH	19,183
SECURITIES	0
RECEIVABLES	1,274,089
ALLOWANCES	188,142
INVENTORY	316,587
CURRENT ASSETS	1,613,924
PP&E	808,269
DEPRECIATION	547,988
TOTAL ASSETS	3,812,496
CURRENT LIABILITIES	1,340,426
BONDS	0
COMMON	102,919
PREFERRED MANDATORY	14
PREFERRED	0
OTHER SE	0
TOTAL LIABILITY AND EQUITY	3,812,496
SALES	2,633,327
TOTAL REVENUES	2,633,327
CGS	2,264,587
TOTAL COSTS	2,264,587
OTHER EXPENSES	0
LOSS PROVISION	64,296
INTEREST EXPENSE	40,917
INCOME PRETAX	359,543
INCOME TAX	135,902
INCOME CONTINUING	223,641
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	223,641
EPS PRIMARY	2.24
EPS DILUTED	2.24

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