The McGraw-Hill Companies

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2nd Quarter 2012 Earnings Conference Call

Prepared Remarks
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Chip Merritt
Vice President, Investor Relations
The McGraw-Hill Companies

Good morning and thank you for joining us this morning at The McGraw-Hill Companies' second quarter 2012 earnings call.

This morning we issued a news release with our results. We hope you have all had a chance to read the release. If you need a copy of the release and financial schedules, they can be downloaded at www.mcgraw-hill.com.

In today's earnings release and during the conference call, we are providing adjusted financial information. This information is provided to enable investors to make meaningful comparisons of the Corporation's operating performance between periods and to view the Corporation's business from the same perspective as management's.

The earnings release contains exhibits that reconcile the differences between the non-GAAP measures and comparable financial measures calculated in accordance with U.S. GAAP. The results for the prior-year quarter also reflect the reclassification of the Broadcasting Group as a discontinued operation.

Before we begin, I need to provide certain cautionary remarks about forward-looking statements. Except for historical information, the matters discussed in the teleconference may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including projections, estimates, and descriptions of future events. Any such statements are based on current expectations and current economic conditions and are subject to risks and uncertainties that may cause actual results to differ materially from results anticipated in these forward-looking statements. In this regard, we direct listeners to the cautionary statements contained in our Form 10-Ks, 10-Qs, and other periodic reports filed with the U.S. Securities and Exchange Commission.

We're aware that we do have some media representatives with us on the call. However, this call is for investors and we would ask that questions from the media be directed to Patti Rockenwagner in our New York office at (212) 512-3533 subsequent to this call.

Now, I would like to turn the call over to Harold McGraw III, chairman, president and CEO of The McGraw-Hill Companies. Terry.

Harold McGraw III
Chairman, President and CEO
The McGraw-Hill Companies

Thank you, Chip. Good morning everyone. Welcome to today's conference call.

Joining me today on the conference call is Jack Callahan, our chief financial officer. This morning, Jack and I will review our corporate results, provide an update on our Growth and Value Plan progress, provide a detailed look at the segment results that make up what will be McGraw-Hill Financial and McGraw-Hill Education and then provide an outlook for the balance of the year.

Three months ago I was able to share record first quarter earnings. I couldn't be more pleased today to share with you our record second quarter earnings. What makes these results particularly noteworthy is that they occurred during a period of tremendous volatility in the debt markets as a result of the European debt crisis and in a year in which we are experiencing the weakest state funding for textbooks in the past decade. To say the least, our employees are to be commended for delivering these results in today's very challenging global economic environment, while simultaneously advancing the separation and implementing major cost reduction programs.

During the second quarter, despite revenue that was modestly below a year ago, we delivered adjusted operating profit growth of 14% from both increased revenue in Commodities & Commercial, S&P Capital IQ / S&P Indices, as well as an acceleration of cost reductions that were realized during the quarter. Our recent aggressive share repurchase program amplified this growth and we delivered 25% adjusted diluted earnings per share growth and Jack will provide additional detail on that in just a moment.

The primary focus of the Company remains delivering on the Growth and Value Plan. As part of that effort, we continue to progress toward the creation of two powerful new companies: one, McGraw-Hill Education and the other McGraw-Hill Financial and doing so in 2012.

Steady progress has been made on the Growth and Value Plan during the second quarter:

- Key management has been put in place at McGraw-Hill Education, and that includes Buzz Waterhouse as president and CEO and Pat Milano as CFO and chief administrative officer. Buzz brings a wealth of both technology and education experience, while Pat brings the financial expertise coupled with a deep knowledge of McGraw-Hill given his long tenure. Both are terrific leaders and I can't say enough about them and the team that we put in place.
- The Form 10 Registration Statement was filed with the SEC several weeks ago
- Consolidated cost reductions accelerated in the second quarter with total company adjusted expenses decreasing 5% versus the second quarter of 2011— resulting in an increase in margins
- These cost reduction actions, and others currently underway, keep us on track to delivering at least $100 million in cost savings, on a run-rate basis, by year end

Also, as part of the Growth and Value Plan we are working on more than just cost reduction and separation. Strategic investments are an important component and we made several during the quarter to accelerate long-term growth:

- We launched the S&P Dow Jones Indices combining two iconic brands that will continue to deliver index-based solutions for global investors. It is a very exciting joint venture with a wonderful partner in the CME and should deliver annual revenues in 2013—in its first full year—of approximately a half billion dollars with great margins. Since the deal closed in late June the impact on second quarter earnings was minimal.

- We acquired Credit Market Analysis Limited or CMA, a leading provider of clear, reliable over-the-counter credit pricing and related information from CME. This adds another foundational benchmark capability to our portfolio. The business will be reported within S&P Capital IQ.

- Our India-based credit rating agency, CRISIL, announced the acquisition of Coalition Development Ltd. Coalition provides high-end analytics, primarily to global investment banks. It is a London-based company with considerable operations in India.

From a corporate development standpoint, we have been very active in adding new capabilities to the company. Along with S&P Dow Jones Indices, CMA, and Coalition, which I just discussed, we had acquisitions of R Squared and QuantHouse earlier in the year both in S&P Capital IQ. Overall, the Growth and Value Plan is a comprehensive set of integrated initiatives which includes separation, cost reduction, share repurchases, as well as funding both organic growth and tuck-in acquisitions. I am pleased with the progress so far this year, and I am excited about the prospects for the future of both companies as we complete the process.

With that, let me turn to the business results. I will go through each of the various business units.

McGraw-Hill Financial

Let me start, McGraw-Hill Financial, on a pro forma basis, delivered a 5% increase in revenue and a 9% increase in adjusted operating profit during the quarter. While all three segments delivered revenue growth, it was S&P Capital IQ / S&P Indices along with Commodities & Commercial that provided the operating profit growth. Cost reduction benefits were realized across all segments.

McGraw-Hill Financial derived 40% of its revenues from outside the United States during the second quarter. Domestic revenue growth of 7% outpaced international growth of 3% which was impacted by volatile conditions in Europe and adverse foreign exchange rates. Standard & Poor's Ratings continues to be the segment with the largest international presence in terms of dollars, with 46% of revenue coming from outside the United States.

Standard and Poor's Ratings is the largest business segment within McGraw-Hill Financial. Revenue for the segment grew 1% with a 7% increase in domestic revenue and a 6% decrease in international revenue. Nearly all of the decrease in international revenue was the result of foreign exchange rates; however, these rate changes had a negligible impact on operating profit. Excluding the impact of foreign exchange rates, total revenue for the segment would have increased 3%. The operating margin was down year-over-year but improved versus the first quarter.

Transaction revenue increased 4% to $203 million. The key drivers to the increase in transaction revenue were:

- U.S. public finance issuance, which increased 58%. You may recall that the muni market was adversely impacted back in the second quarter of 2011 by the perceived risk of a wave of muni defaults which did not come to fruition.
- U.S. structured finance issuance, which increased 22% due to growth in asset-backed securities, and also CLOs, collateralized loan obligations. It is certainly encouraging to see growth in structured products and we look for that to continue.
- U.S. corporate investment-grade issuance, which remained resilient and increased 7%.

Offsetting this growth was:

- U.S. corporate speculative-grade issuance, which decreased 39% as investors became more risk averse.
- European corporate issuance, which decreased 36%, and European structured finance issuance which decreased 60%.

Non-transaction revenue, which represents 58% of second quarter revenue, decreased 2% primarily due to the strengthening U.S. dollar. Excluding the impact of foreign exchange rates, non-transaction revenue increased 2%.

It is becoming increasingly apparent that global debt issuance trends are diverging. While trends in the U.S. are increasingly encouraging, the picture in Europe continues to be quite volatile. With the exception of strong issuance in January and February, as a result of the injection of liquidity into the Eurozone banking system by the ECB, issuance activity has been rather subdued.

However, over the long term, the ratings business outlook appears very encouraging with numerous secular drivers of growth including:

- A large pipeline of maturing global corporate debt that will need to be refinanced.
- The shift in Europe from bank loans to public debt markets as banks face new regulations as well as capital requirements.
- And finally, the structured finance market, which should recover with improved activity in the residential and commercial real estate markets.

However, there are a number of issues that continue to create considerable volatility. These include:

- The European financial crisis
- Risk aversion among some investors
- Sovereign debt levels
- Pending government regulations, which create uncertainty

Our success on the litigation front has been encouraging. The trends that we have discussed in past quarterly conference calls continue. Two additional cases were dismissed in the second quarter bringing the total dismissed to-date at 29 cases. Seven dismissals by lower courts have been affirmed by higher courts, and ten cases have been voluntarily withdrawn.

Among the dismissals was the Oddo litigation which was affirmed by the highest court in New York.

Several dozen cases remain outstanding. We continue to believe that the legal risk of pending litigation remains low.

On the regulatory and government front, the ratings business remains an area of focus for regulators both in the U.S. and Europe. There are three principal items that we are monitoring.

The first is CRA3 in Europe. There remains the possibility of mandatory rotation of rating agencies for structured finance products or a subset of these products. There is also a proposal for a new EU-wide liability standard enabling investors who purchase investments to sue a credit rating agency that breaches the EU regulations intentionally, or through gross negligence.

Next is Dodd-Frank, which requires all U.S. regulations be changed to remove any reference to, or requirement of, reliance on credit ratings.

Last is the Franken Amendment, which is being studied by the SEC. This amendment recommends establishing an organization to assign which NRSRO will provide the initial rating on each new structured finance product.

As new regulations are considered in the global markets we serve, we will continue to provide investors with high-quality, forward-looking opinions about creditworthiness.

In addition, 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 regarding and relating to S&P's ratings of structured products. Of course, we have been in discussions with representatives of both the DOJ and the SEC and presenting our position on those issues.

The Ratings segment is now past its toughest revenue comparisons of the year, although we have a difficult expense comparison ahead of us in the third quarter, especially with exchange rate issues. With the investments we have made in the business, along with our repositioning of our commercial mortgage-backed securities offering, we continue to work towards improved performance of this very, very important business.

With that, let me now turn to S&P Capital IQ / S&P Indices, the second-largest segment within McGraw-Hill Financial. It delivered solid top- and bottom-line results with revenue and adjusted operating profit increasing 10% and 17%, respectively. Both S&P Capital IQ and S&P Indices delivered year-over-year revenue growth with 74% of revenue coming from subscriptions, the same as a year ago.

Looking at S&P Capital IQ alone, revenue increased 9%. A key driver of this growth was double-digit growth in S&P Capital IQ subscriptions, with solid growth at both Desktop Solutions and Enterprise Solutions. In addition, both RatingsXpress and the Global Credit Portal contributed to the growth.

As I mentioned earlier, during the quarter we acquired Credit Market Analysis, or CMA. With CMA we significantly expanded our asset-class coverage for data and pricing and added technology to move into live, intra-day coverage of derivatives and other over-the-counter securities.

We are continuously working to upgrade the S&P Capital IQ platform and there have been a number of new products and capabilities that have been launched recently. One that I would like to touch on briefly is in the area of counterparty risk. We have expanded the capabilities for measuring counterparty risk in the S&P Capital IQ platform. S&P Capital IQ Credit Analytics offers new capabilities for clients to produce even more dynamic risk measures to support their counterparty analysis. With new and enhanced features for CreditModel, CreditPro, and Credit Risk Tracker products, clients can stay on top of market movements in the credit risk space quickly and efficiently.

Lastly, the integration of our recent acquisitions R Squared and QuantHouse are progressing well. We have effectively empowered R Squared and QuantHouse to lead our efforts in the development of next-generation cross-asset class portfolio analytics and low-latency data capabilities, respectively.

S&P Indices' revenue increased 12%. We realized growth in trading volume of exchange-traded derivatives as well as in assets under management for both mutual funds and ETFs linked to S&P indices. Despite a turbulent stock market during the quarter, assets under management in exchange-traded funds linked to S&P indices increased 7% to $349 billion. This was driven by a 10% increase in the number of ETF units which more than offset a decline in the *net asset value* per unit. During the quarter, 17 brand new indices and 27 variants to existing indices were launched. Also during the quarter, 11 new ETFs linked to S&P indices were launched bringing the total of ETFs linked to S&P Indices to 430. These additions create new alternatives for investors and greater liquidity obviously to markets.

At the end of the quarter, we launched the S&P Dow Jones Indices, our new joint venture with the CME Group. Here you can see the full-page ad that ran in the *Financial Times* and *The Wall Street Journal* announcing the launch. Alex Matturri, a veteran of the index industry who has been running our index business for a number of years, was named CEO of S&P Dow Jones Indices. This joint venture will enable our clients to create investment products that offer new choices to investors. As a result of our 73% ownership of the joint venture, we will, for the first time, participate in the profitability of CME's execution and clearing.

With the S&P Dow Jones Indices joint venture now in place, there are approximately $1.5 trillion directly linked to our indices and over 400 financial institutions that use our indices to build or price funds, swaps, notes, options, forwards, and futures. We are proud that the S&P Dow Jones Indices is home to some of the most widely followed and trusted indices in the world.

Now let me turn to the Commodities & Commercial group, which delivered year-over-year operating profit gains that led all segments. Revenue growth was 9%, with international revenue up 16%. The leverage of the business is very evident and, along with cost reductions, resulted in operating margins that increased almost 700 basis points to over 29%.

Within Commodities, subscriptions for petroleum, natural gas, and steel products drove the 19% increase in revenue. We have capitalized on the acquisitions of BENTEK Energy and the Steel Business Briefing Group to take advantage of cross-selling opportunities. In addition, due to volatility in the oil markets, we realized revenue growth from increased trading of future contracts linked to Platts' pricing. Our Commodities business is now approaching a half billion dollars on an annualized basis, and is poised for further growth.

Commercial's revenue decreased 1%. J.D. Power's revenue growth was offset by modest declines in the remainder of the portfolio. The revenue growth at J.D. Power was the result of growth in the Power Information Network or PIN, Ad Claims, and syndicated reports. The widely followed J.D. Power Initial Quality Study was released this quarter. In its 26th year, the study is purchased by virtually all of the world's major automotive manufacturers and results in meaningful ad claims from many of the companies whose automobiles rank highest in each category. I'm pleased to say that J.D. Power is on its way to its best year ever.

With that, let me turn to Education and McGraw-Hill Education.

McGraw-Hill Education

McGraw-Hill Education reported a 12% decline in revenue yet delivered a 36% increase in segment operating profit. The revenue decline occurred largely at the School Education Group. We continue to expect a 10% decline in the K–12 market this year, which will represent, in our opinion, the lowest spending level in over a decade and gives us opportunities looking ahead.

Despite this difficult market, the segment delivered cost reductions that overcame the revenue shortfall and enabled us to deliver solid growth in operating profit. Our focus is to ensure that the business has a cost structure that is appropriate for such challenging market realities and provides the flexibility to invest to accelerate digital development.

Product development continues to focus on providing innovative digital learning materials for our customers. As a result of the increased sales of digital products, many of which are subscription based, our deferred revenue has become more pronounced, increasing by approximately $50 million year-over-year.

The Higher Education, Professional and International Group reported a 2% decrease in revenue. Revenue growth at Higher Education was offset by declines at International, which was almost entirely due to a stronger U.S. dollar. Higher Education now has 1.4 million digital users, an increase of 40%, as digital products continue to displace books. One noteworthy product — McGraw-Hill Connect, which is a homework management platform, grew by 65%. It enables instructors to create assignments and track student performance and provides a range of digital learning tools, such as LearnSmart, that improve student learning. LearnSmart is an adaptive learning system that is available for approximately 150 different college course titles.

The School Education Group reported a 20% decline in revenue from the prior year, with decreases occurring in both instructional materials and testing. The key third-quarter selling season is underway and our view of the market, as I said a moment ago, remains unchanged. We continue to believe 2012 will be the low water mark in the K–12 space, and the market should begin to show a modest recovery as we get into 2013.

Over the next couple of years we anticipate that demand for our Common Core-compliant materials will increase as school districts prepare for the new tests that take effect in the spring of 2015. 46 states have adopted the Common Core State Standards and need to prepare their students for these new tests.

Our testing business was selected by the Smarter Balanced Assessment Consortium to develop its suite of language arts and mathematics test items for the new Common Core Assessments. Smarter Balanced is one of two state-led consortia funded by the U.S. Department of Education to develop assessment tools to help states gauge student progress toward meeting the new Common Core State Standards. Together with a co-contractor, we are also developing test items for the second federally funded test consortium, which is called the Partnership for Reassessment of Readiness for College and Careers.

We are setting up the Education business to thrive as a stand-alone company. We are putting in place the cost structure and digital capabilities necessary for McGraw-Hill Education to lead the transformation of the industry and we are absolutely thrilled to have Buzz Waterhouse and Pat Milano in place to lead this effort along with the entire team.

In summary:

- The McGraw-Hill Companies is off to a very strong start with record first-half adjusted diluted earnings per share
- McGraw-Hill Financial should continue to deliver solid top- and bottom-line growth. We continue to build new capabilities to deliver organic growth while pursuing bolt-on acquisitions to add additional expertise or move into new markets
- McGraw-Hill Education will focus on all that is required to become a stand-alone company. We are creating a cost structure that is right-sized to serve the education market and building out our unique set of digital products to meet the needs of our customers. Our intent is to position this business for longer term growth as the market recovers and the digital shift accelerates
- The Company will remain focused on delivering on its Growth and Value Plan and continue to work toward the completion of the spin-off of McGraw-Hill Education by year-end
- And to say the least, 2012 will be remembered as a very important inflection point in the Company's history. I am very pleased with the results of both first and now the second quarter results.

That completes my prepared comments. I will now ask Jack Callahan, our chief financial officer, to update you on some of our key financials.

Jack Callahan
Executive Vice President and Chief Financial Officer
The McGraw-Hill Companies

Thank you, Terry.

This morning I want to provide additional detail on our consolidated results, including cash flow, and provide additional detail on the progress and one-time costs in the implementation of the Growth and Value Plan.

Let me begin by discussing our consolidated results. Revenue decreased 1 percent year-over-year; however, it was more than offset by a 5% year-over-year decrease in overall adjusted expenses. The decrease in expenses was primarily the result of the Growth and Value Plan cost reduction initiatives that began in the fourth quarter of 2011 and will continue into next year. As a result, consolidated adjusted operating profit increased 14% and consolidated adjusted operating margins increased over 300 basis points to 26.3%. Obviously, we are pleased with the progress thus far on margin expansion.

To summarize the operating results Terry just reviewed, there was continued revenue growth at McGraw-Hill Financial of 5% with margins that expanded 140 basis points delivering strong adjusted operating profit growth of 9%. For McGraw-Hill Education, while there was a 12% decline in revenue, margins expanded 420 basis points based on the meaningful cost initiatives that began with the significant restructuring of the business in the fourth quarter of last year. Both businesses did benefit from a reduction in employee related costs due to the realignment of our retirement programs.

The share repurchase program remains an important aspect of the Growth and Value Plan and the impact was evident again this quarter. Year-over-year, we reduced shares outstanding by 24 million shares. This amplified a 15% increase in adjusted net income to a 25% increase in adjusted diluted earnings per share, or $0.85 per share.

Since the beginning of 2011 through the second quarter of 2012, the Company has repurchased nearly 36 million shares at a weighted average price of $42.05. This reduced shares outstanding by approximately 12%.

Apart from the completion of the accelerated share repurchase program in April, no other shares were repurchased in the quarter; however, we do anticipate resuming share repurchases over the back half of the year which will provide continued EPS leverage into next year.

We continue to have a very strong balance sheet with approximately $840 million in cash and short-term investments. Year-over-year, our free cash flow was down. This decrease was largely the result of a temporary acceleration of payments of approximately $100 million to vendors associated with a transition to a new accounting system, as well as $65 million of cash outlays associated with the Growth and Value Plan. On a full-year basis, we fully expect to deliver solid free cash flow. Our guidance of approximately $750 million, excluding cash outlays associated with the Growth and Value Plan, remains unchanged.

Now, let me provide some additional details around the execution of the Growth and Value Plan. During the quarter, we continued to make progress on our target of at least $100 million in run-rate cost savings by the end of 2012. The actions taken over the last several quarters resulted in the acceleration of cost reductions that were realized in the second quarter. Year-over-year, total adjusted expenses decreased 5%. As I mentioned earlier, one important component of this was the realignment of our U.S. pension plan that took effect on April 1st.

As we form two new companies, we need to separate several critical support operations that are currently shared. The next important round of cost savings will benefit from the realignment of these operations. We currently have 15 workstreams underway to implement cost savings in the areas of accounting, purchasing, information technology, human resources and real estate. We are already deep in the implementation of these plans, and we anticipate the realization of these cost reduction benefits by the time separation occurs in the latter part of this year.

During the second quarter, we incurred $42 million of one-time Growth and Value Plan costs that we noted in this morning's press release. They include $19 million for professional fees, $15 million for deal fees, and $8 million for severance.

We anticipate that for the remainder of the year 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. Please keep in mind this is a working estimate.

In addition, we anticipate that during 2012 we will continue to incur restructuring costs as part of our ongoing cost reduction initiatives. While the timing of these actions is still fluid, restructuring expense for 2012 could be up to approximately $65 million over the balance of the year.

The Form 10 was filed several weeks ago and outlined many aspects of the separation. There are a few key financial items that I would like to draw your attention to.

McGraw-Hill Financial will retain all of the outstanding long-term debt as well as substantially all of the cash on hand at the time of the spin. Concurrent with the spin, we anticipate that McGraw-Hill Education will issue up to $600 million in new debt, likely a mix of bank term loans and public debt. McGraw-Hill Education will retain approximately $100 million of cash and issue a one-time dividend to McGraw-Hill Financial for up to $500 million.

McGraw-Hill Education will also establish a revolving credit line. This, along with $100 million of newly raised cash, should provide McGraw-Hill Education with ample liquidity to meet its business needs.

Along with receiving the one-time dividend of up to $500 million, McGraw-Hill Financial will retain all of the pension liabilities, which are now largely frozen plans for both companies, as well as other selected liabilities to simplify separation. In the spin, our goal is to provide the Education business with balance sheet flexibility to support its long-term growth potential.

As we now look to the back half of the year, there are a couple of items that I want to point out. First, as I mentioned earlier, we plan on resuming share repurchases. Our plan is to repurchase up to $500 million in the second half of the year. As always, share repurchases are subject to appropriate market conditions.

Another item that I want to highlight is the financial impact of our new joint venture, S&P Dow Jones Indices. The transaction was closed at the end of June and, as such, our balance sheet reflects $792 million of additional net assets. It was closed on the last business day in the quarter such that the income statement impact was negligible. We anticipate that by the end of the third quarter the "net income attributable to noncontrolling interest" line on the income statement will become more prominent. Since we own 73% of the joint venture, we will consolidate the entire business in our income statement. 27% of the joint venture net income is then removed and recorded as "net income attributable to noncontrolling interest." Obviously, we will review the impact of this exciting new venture with CME once there are operating results to review on the 3rd quarter call.

In closing, our outlook for the balance of 2012 remains positive. We are executing upon the Growth and Value Plan that we laid out late last year. At the same time, we delivered record first-half adjusted earnings per share. While there is an inclination to raise guidance after such a strong first half, we need to be mindful that the third quarter, our largest of the year, is still ahead of us. This is the key quarter for McGraw-Hill Education as schools across the U.S. purchase the lion's share of educational materials for the upcoming school year. Therefore, we believe it is prudent to keep our guidance unchanged with diluted adjusted earnings per share of $3.25 to $3.35. Although, based on the strong first half, we now anticipate being near the high end of that range.

Our cost reduction efforts will continue and we fully expect to deliver on our target of at least $100 million in run-rate cost savings by the end of the year.

Executing on all aspects of the Growth and Value Plan remains our highest priority and we continue to anticipate completing the separation into two powerful industry leaders, McGraw-Hill Education and McGraw-Hill Financial, by year-end.

We are doing all the work to support a spin of McGraw-Hill Education by year end. We are also evaluating other options to deliver shareholder value including a potential sale. We will update the market as appropriate in the coming months.

With that, thank you for joining the call this morning and now let me turn the call back over to Chip Merritt to moderate the Q&A.

To access the accompanying slides online, go to:
http://investor.mcgraw-hill.com/phoenix.zhtml?c=96562&p=irol-EventDetails&EventId=4805518

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995
This presentation 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 transaction, and the ability of each business to operate as an independent entity upon completion of the transaction. We caution readers not to place undue reliance on forward-looking statements.