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The McGraw-Hill Companies, Inc. Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Donald Rubin

Yes, thank you Terry. Just a couple of instructions for our phone participants. (Operator instructions)
We are now ready for questions.

Operator

Our first question comes from Peter Appert with Piper Jaffray. Please go ahead.

Peter Appert – Piper Jaffray

Thank you, good morning. First question I think is for Bob. Bob on the incentive comp decline of \$274 million; can you help me understand how much of that is reversible per year of accruals versus a year-to-year reduction in '08 from '07?

Robert Bahash

Okay, yes Peter not to enter specifics about the specific amounts but the incentive compensation decline consists of really two components, one is lower, short-term annual incentive compensation just driven by the overall performance but also as you point out, there is a reversal of accruals relating to our three-year grant program which really deals with 2007 and 2006 grants and certain accruals that were restarted in the beginning of the year for 2008 grants that were reversed. So there is a much larger change that occurred in 2008 than you would normally see. So it is a combination of lower, short-term incentive compensation relating to the specific year as well as reversals of accruals that were put on the books for the three-year long-term plans in the previous couple of years.

Peter Appert – Piper Jaffray

Right. So would incentive comp in total then be a zero or negative number in '08?

Robert Bahash

Say that, I am not sure I understood that.

Peter Appert – Piper Jaffray

I am wondering if the reversal of prior year accruals exceeded the short-term incentive comp accruals in '09.

Robert Bahash

No. Okay, the answer to that is no. There is a combination here. First of all, let's say, there are certain businesses that did achieve their targets or achieved within the bands [ph] and short-term incentive compensation was paid to some of those businesses. In addition there is the component of the long-term incentive award that is stock-based compensation and as you know, you are recording an accrual for the stock-based compensation regardless of what happens at the end. So the answer to that is it would not be zero. I think the key point here is that as I mentioned in my remarks, there are certain accruals that we were making or planning for 2009 totaling \$110 million but that is at targets that are a bit lower than we normally would be – than a normal year. So we are anticipating lower payouts for certain types of awards.

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