

**The McGraw-Hill Companies
2nd Quarter 2006 Earnings Conference Call**

**Prepared Remarks
July 25, 2006**

**Donald Rubin
Senior Vice President, Investor Relations
The McGraw-Hill Companies**

Thank you. And good morning and thank you everyone for joining us for The McGraw-Hill Companies' second quarter 2006 earnings conference call. I'm Donald Rubin, Senior Vice President, Investor Relations for The McGraw-Hill Companies.

With me today are Harold McGraw III, Chairman, President and CEO, and Robert Bahash, Executive Vice President and Chief Financial Officer of the Corporation.

This morning we issued a news release with our second quarter 2006 results. We trust you have all had a chance to review the release. If you need a copy of the release and financial schedules, they can be downloaded from www.mcgraw-hill.com/investor_relations. Once again, that is www.mcgraw-hill.com/investor_relations.

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 Steve Weiss in our New York office at (212) 512-2247 subsequent to this call.

Today's update will last approximately an hour. After our presentation, we will open the meeting to questions and answers.

It is now my pleasure to introduce the Chairman, President and CEO of The McGraw-Hill Companies, Harold McGraw III.

Terry.

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

Thank you for joining us for a review of The McGraw-Hill Companies second quarter results. I am Terry McGraw. Joining me on today's conference call is Bob Bahash, our Executive Vice President and Chief Financial Officer of The McGraw-Hill Companies.

We will start today's call by discussing the performance of our businesses and the outlook for the remainder of 2006. Then Bob Bahash will review our financial performance and expectations for the year. After the presentations, we will answer your questions about The McGraw-Hill Companies.

Earlier this morning, we announced second quarter results.

- Diluted earnings per share increased 17.6% to 60 cents, including 3 cents for incremental stock-based compensation;
- Net income was \$221.0 million, a 13.3% increase; and
- Revenue was \$1.5 billion, a 4.9% increase.

This year is off to a good start. Based on the strength of our performance, we are taking this opportunity to raise our earnings per share guidance for the full year by 8 cents per share. Our previous guidance for 2006 called for earnings per share of \$2.36 to \$2.41, excluding the incremental impact of all stock-based compensation.

Our new EPS guidance for 2006 is \$2.44 to \$2.49 excluding the incremental impact of all stock-based compensation. And to be clear, that excludes 13 cents for incremental stock-based compensation this year and 4 cents for the one-time charge for the elimination of the restoration stock option program already which was already announced in the first quarter.

With more robust opportunities taking shape next year, we expect a return to double-digit earnings growth in 2007.

Concern over rising interest rates is abating. Based on recent comments from Federal Reserve Chairman Ben Bernanke, there is growing sentiment that the Fed after 17 straight rate hikes, may be done with them for some time. We will know that with more certainty after the Federal Reserve meets on August 8th, but it now looks like we may be at the start of a long pause. The Fed has been working to cool the economy and there is evidence that the strategy is working, although there is still some concern over the rate of inflation.

David Wyss, the chief economist at Standard & Poor's, expects the Gross Domestic Product to grow at an annual rate of about 2.5% over the next 18 months after an estimated 4.3% increase for the first half of 2006 and a 3.5% growth rate for 2005.

Given the outlook for economic growth and inflation, Wyss concludes that after a long pause in interest rate hikes the Fed is very likely to start cutting interest rates by the middle of next year. In the meantime, capital expenditures continue to grow at about 10%. Construction is benefiting from a reduction in office vacancies, and states are in great financial shape – probably the best shape since 2000. That is certainly a plus for education and educational spending, especially given the robust adoption schedules for 2007, 2008, and 2009.

With that background, let's take a closer look at our second quarter results and the outlook for the second half.

McGraw-Hill Education

Let's start with McGraw-Hill Education.

In the second quarter:

- Revenue was off 2.7%.
- Operating profit declined 5.3%. That includes \$2.5 million for incremental stock-based compensation.
- The operating margin slipped 31 basis points to just over 11.0%. That reflects excellent cost controls.

Revenue for the McGraw-Hill School Education Group, our elementary/high-school business, was off 5.8% for the second quarter and is down 4.5% for the first half. Revenue for McGraw-Hill Higher Education, Professional and International Group was up 3.3% for second quarter and is ahead by 4.1% for the first half.

We've said all along that this will be a challenging year in the elementary/high-school market. Industry sales after five months are down 1.2%, according to the Association of American Publishers. We still expect the market this year will be flat at best, and could be down as much as 4% because an approximately 30% decline in state new adoption opportunities limits potential sales.

Our estimate for the state new adoption market this year is still in the \$650-\$700 million range, but the dollar volume may be at the lower end of the range because of delayed purchasing in California and Florida. By law, California schools can buy over several years and we now expect that about 35% of the state's social studies business will slip into 2007 and beyond. That's 10 percentage points higher than our original estimate for next year. In Florida, school districts have only two years to implement new state-adopted programs, but here, too, we have seen some large districts delay purchasing until 2007.

In assessing our second quarter results, it is clear that a 17% gain in sales last year in the second quarter is not making comparisons any easier.

Given the weaker new adoption calendar this year, we are focusing more attention on the open territories and our new elementary basal reading program called *Treasures*. *Treasures* is off to a really strong start. We're pleased with that. It has already won the two largest open territory districts to date: Wichita and Pittsburgh.

Our program has also been successful in Kentucky. This is an adoption state whose rules permit schools to purchase our product off-list. Since *Treasures* wasn't completed in time to meet the state adoption deadline last year, we obtained permission to sell our new national edition off-list. As a result, we expect to capture second place in the Kentucky adoption.

We are also benefiting from the growing interest in reading and math intervention as No Child Left Behind Act accountability measures begin to take effect. Under these rules, schools face sanctions if they fail to achieve improvement in test scores prescribed for them.

Several years ago, when the term intervention became common, interest was chiefly in remediating reading at grades four through six. That was based on the understanding that students moving into middle schools would not be able to handle increasingly heavier content loads in science, social studies, and other subjects without reading proficiency.

Recently, educators have realized that intervention must begin earlier because many children, particularly in urban districts, start school without the English vocabulary or the number sense needed to deal with standardized primary-grade instruction.

Several of our newer programs – *Early Interventions in Reading*, *Kaleidoscope*, and *Number Worlds* — include the early grades and are selling well in both the open territory and in adoption states where most schools can access federal and other special funding for intervention materials.

And because many students still enter middle and high school without achieving proficiency, the secondary intervention market is also growing rapidly. We are encouraged by the favorable reception of *Jamestown Reading Navigator*, our new online program for the middle schools. *Jamestown Reading Navigator* is a subscription product and we expect revenue to build. Early adopters include Palm Beach County in Florida and Lawrence, Massachusetts, which have committed to three-year subscriptions for the program.

In this year's key adoptions – science in Florida and social studies in California – we are achieving strong results at the secondary level. In Florida, we expect to lead the list in the secondary market, which offers the higher dollar volume. We had expected to ship more middle school products in the second quarter, but the early order flow in Florida emphasized K–5 programs. As a result, we will be fulfilling many additional middle school orders in the third quarter.

In California, we also expect to capture the leading position in the secondary market, although some sales anticipated in the second quarter will move into the third quarter because of a delay in the state's approval of middle school texts.

Our performance in elementary science in Florida and elementary social studies in California fell short of expectations.

In looking ahead, we continue to face tough comparisons in a soft market. Last year, we had an outstanding year in the Texas adoption. But Texas did not start processing orders last year until mid-August. As you all remember, late-ordering from Texas contributed to our 18.9% increase in sales in the third quarter and a 23.6% gain in the fourth quarter. We don't have that going for us in 2006, nor is it clear that success in the open territories will make up for the shortfall in state new adoption market this year.

We also face margin pressure in testing as the market continues to shift away from norm-referenced tests to state-specific custom assessments where speed and customization are so important. New requirements created by the No Child Left Behind Act are driving these changes. In the second quarter, increased custom contract work on state assessment programs did not offset the decline in off-the-shelf testing products.

Growth in the study guide and state reporting markets helped mitigate the ongoing shift away from norm-referenced tests. In this connection, the Grow Network's effort in Florida is notable because the

compilation, validation, production, and delivery of 1.8 million student reports represented a major logistical achievement.

Those 1.8 million documents comprised 46 different reports in 3 languages across nine grades and four subjects. The reports offered features and user support unprecedented in the assessment field. For example, new family reports offer dynamic translations in Spanish and Haitian Creole as well as task samples that incorporated nearly 2.0 million student response images, which allowed each family to view their student's own work. A special website was also launched in Florida with personal log-in accounts that permitted parents to view individual student data.

That effort underscores why we are continuing to invest in technology and paperless publishing systems to improve development, delivery, and scoring capabilities. Technology initiatives are the key to improving our margins in testing.

In Higher Education, Professional and International, a good year is starting to take shape for us in the U.S. college and university market. We had a strong close at the end of June, which is a good signal as we enter the critical period in July and August – the education market's "60-day month."

Our three major imprints all produced gains in the second quarter. The imprints are:

- Science, Engineering and Math;
- Humanities, Social Sciences and Languages; and
- Business and Economics.

We expect the U.S. college and university market to grow about 5% this year. We expect to outperform it.

Summing up for McGraw-Hill Education: We will continue to be diligent in managing our cost structure. Our costs and expenses in this segment actually declined in the second quarter, so the effort clearly benefited our performance this year. Some of the benefit came from timing because of delays in filling some of the positions. We will now be adding to staff to ensure that important projects are completed, so we don't expect the same level of savings in the second half.

Excluding the impact of incremental stock-based compensation on the segment, we expect:

- Modest revenue growth,
- A decline in operating profit by as much as 10%, and
- A decline in operating margin, which in part is attributable to investments we are making now for the robust e-hi market in 2007 and beyond.

Financial Services

Now, let's review Financial Services, which just completed another record second quarter.

- Revenue was up 13.4%.
- Excluding \$34.8 million from Corporate Value Consulting, which was sold at the end of September 2005 and \$8.1 million from CRISIL Limited, where we acquired majority interest on June 1, 2005, revenue was up 18.9% on a non-GAAP basis.
- Operating profit grew by 21.5%. That includes \$6.3 million of incremental expense for stock-based compensation. Corporate Value Consulting contributed approximately \$7.5 million to operating results in the second quarter of 2005.
- The operating margin expanded to 46.3%, up from 43.2% last year.

There were many contributors both in the U.S. market and abroad to our outstanding record – the hallmark of a diversified portfolio. We produced:

- Growth in global structured finance.
- Growth in corporates.
- Growth in ratings products and services that are not dependent on new issue volume.
- Growth in data and information products.
- Growth in products and services related to our indexes.

International ratings accounted for 37.4% of ratings revenue in the second quarter, up from 36.7% for the same period a year ago.

Ratings and services that are not tied to the new issue market – bank loans, counterparty risk ratings, and rating evaluations, for example – produced 24.2% of ratings revenue in the second quarter, up from 21.5% a year ago.

In the U.S. Residential Mortgage-Backed Securities market, we saw the first signs in the second quarter that new issue volume was softening a little bit, these are the year-over-year comparisons that are softening a little. New issue dollar volume for U.S. Residential Mortgage-Backed Securities slipped by 1.2% in the second quarter.

But these figures, like the estimates for the Gross Domestic Product, are regularly updated. Frequently, the estimates grow, so I don't take today's figures as the last word on market activity.

Rating smaller deals is a plus for Standard & Poor's, so we benefited in the second quarter from an 8.6% increase in the number of U.S. Residential Mortgage-Backed Securities issues. We also benefited from a 20% increase in Residential Mortgage-Backed Securities dollar volume issuance in Europe in the second quarter.

We also enjoyed solid growth in the U.S. Commercial Mortgage-Backed Securities market, but the major factor in structured finance in the second quarter were U.S. Collateralized Debt Obligations (CDOs). New issue dollar volume for U.S. Collateralized Debt Obligations grew by 162%.

Collateralized Debt Obligations are an excellent example of the financial market's ability to innovate by pooling bonds, loans or derivatives that are then split into tranches with varying risk profiles for various investor audiences. What emerges are Collateralized Debt Obligations based on cash flow (backed by the actual bonds, loans or Asset-Backed Securities), synthetics (backed by derivatives), or some combination of both (called "hybrids").

Strong growth in Collateralized Debt Obligations throughout 2006 has been driven by a number of positive factors, including:

- Robust debt origination in areas like leveraged loans, Residential Mortgage-Backed Securities and Commercial Mortgage-Backed Securities, which are used to create pools of available loans to be put into Collateralized Debt Obligation structures;
- Strong investor demand as CDOs provide opportunities for higher yields (in a low interest rate environment) and diversification across credits; and
- Attractive arbitrage opportunities for issuers and investors to transfer specific risk or take advantage of spreads between asset income and liability funding cost.

The Asset-Backed Securities market softened because of a sharp decline in auto loan issuance. But we did see strong pick up in activity in the credit card and student loan sectors.

We saw a surge in the U.S. corporate market as companies turned to the public market to finance takeover activity and refinance debt that was coming due. The action wasn't confined to the investment-grade market where dollar volume issuance soared by 51.3%. The high-yield market was also very active with dollar volume issuance climbing by 77.7%.

The softness in the public finance market continued in the second quarter as refunding volume again declined.

We also had another good quarter in the data and information market. As the fixed-income market continues to grow, we are seeing strong demand for ratings data from our Web-based services, *Ratings Direct* and *RatingsXpress*.

We're pleased by progress at Capital IQ, which now has more than 1,500 clients. The latest release in April included additional fixed income data, auditable international data, and enhanced functionality.

Revenue generated by Standard & Poor's indexes increased as assets under management for exchange-traded funds rose \$143.4 billion, a 21.3% increase over the same period last year. We have also benefited from increased trading of derivatives based on S&P indexes. June has been a busy month with more exchange-traded funds (ETFs) coming to market.

ProFunds launched four S&P indexed ETFs. These funds are the first ETFs to use derivatives to implement short and leveraged strategies. This model opens the door to more exchange-traded funds offering returns like those of structured products.

State Street Global in June introduced five more SPDR industry ETFs. State Street successfully launched three industry funds last February, so this family is starting to attract a lot more assets.

The S&P BRIC index was released in June. It provides exposure to leading companies from Brazil, Russia, India and China. It has a unique weighting system that takes into account market capitalization and liquidity. Lehman and UBS have already been licensed to create products based on the index.

Those are just some of the highlights of a very strong second quarter and first half.

For the second half, excluding Corporate Value Consulting and the impact of incremental stock-based compensation, we expect double-digit top- and bottom-line growth to continue although probably not at the same pace we achieved in the first half. That may also have some effect on the operating margin which had expanded to 44.3% in the first half of 2006. Our optimism is based on continued strength in international ratings as well as products and services that are not tied to new issuance.

There are tougher comparisons ahead in the U.S. Residential Mortgage-Backed Securities market, which enjoyed a spectacular second half in 2005. Residential Mortgage-Backed Securities growth continued into the second quarter this year and U.S. Residential Mortgage-Backed Securities dollar volume issuance is up 13.5% for the first half of 2006.

We still have a very good pipeline of business heading into the third quarter, but probably not enough to expect year-over-year growth in the face of challenging comparisons. We now expect U.S. Residential Mortgage-Backed Securities issuance to decline by about 5% in 2006.

But in Europe, we expect the Residential Mortgage-Backed Securities and Commercial Mortgage-Backed Securities markets to show year-over-year growth in the second half.

Prospects for the U.S. Commercial Mortgage-Backed Securities, Asset-Backed Securities, and Public Finance look a little soft to us right now. But the pipeline for U.S. Collateralized Debt Obligation issuance remains very strong...very strong indeed.

We also expect more strength in corporates in the second half. There is a healthy pipeline of bonds maturing for refinancing. Debt-financed merger and acquisition activity is still promising. There is continued solid spending on capital equipment. Balance sheet restructuring will also be a positive factor.

The demand for data and information remains strong on a global basis and we expect more growth from the trading of derivatives based on S&P indexes.

Let me close this segment with some comments on the regulatory outlook for the ratings agencies now that the U.S. House of Representatives has passed HR 2990. We have consistently supported demands for greater transparency and more competition. Transparency is critical for the operation of sound and efficient capital markets. The transparency and efficiency of our ratings process has served the capital markets well.

We are not alone in observing that investors look at S&P's opinions on creditworthiness because of the credibility of its ratings over significant periods of time.

It is clear that the market has functioned successfully for many, many years. That is why any move here to change a system that has worked so effectively for decades should be very carefully evaluated. The wisdom of a market-based, self-regulatory approach is widely recognized in Europe after years of careful study.

When market participants were asked by the SEC in connection with the preparation of its 2003 Concept Release if the current Nationally Recognized Statistical Ratings Organization (NRSRO) system should be retained they overwhelmingly said it should. We hope that Congress would allow the SEC to complete its work by streamlining and making transparent its process for NRSROs and opening the market to more competition. We support the SEC's proposed rule that is expressly designed to accomplish these important objectives.

We also hope the SEC will soon finish its ongoing discussions with the ratings agencies to implement a Voluntary Oversight Framework that is similar to the self-regulatory, market-based system adopted by the European Commission (CESR) and International Organization of Securities Commissions (IOSCO).

In passing HR 2990, the House unfortunately voted for quantity over quality. The bill says a credit rating agency in business for only three consecutive years can become a Nationally Recognized Statistical Ratings Organization. That sets the quality bar pretty low. We think investors deserve a higher standard, so we will continue to work with Congress, the administration, and the SEC to ensure quality, to improve

transparency, to increase competition—which is good, and to ensure global regulatory consistency of the capital markets.

Standard & Poor's has been rating bonds since 1916, so the market knows our capability and our reputation very well. The integrity, reliability, and credibility of S&P has enabled us to compete successfully in an increasingly global and complex market. That is true today and we are confident it will be so in the future. And that will not change even if the proposed legislation passes in its current form. Either way, I see no material adverse effect to our business.

So let's sum up for Financial Services. Excluding the impact of CVC, which was divested at the end of last September, and incremental stock-based compensation on the segment, we expect:

- Double-digit top- and bottom-line growth,
- Continued strength in global ratings,
- A solid performance in corporates,
- Growth in structured finance, and
- An operating margin that at least matches our 2005 performance.

Information & Media

Now let's look at the Information & Media segment.

In the second quarter:

- Revenue increased 3.6%.
- Operating profit, reflecting the incremental impact of \$3.7 million for stock-based compensation, declined \$652,000, or 4.8%.
- The operating margin was 5.4% down from 5.9% last year.

Revenue for the Broadcasting Group was up 14.3%. Local advertising was up solidly, driven by increases in auto, services, and retailing categories. We also benefited from political advertising, mainly in California. There was an election to replace Duke Cunningham in the House of Representatives. And while the election for governor of California will not be held until November, we are already running political advertising for that race from the Governor as well as his opponents.

Revenue for the Business-to-Business Group was up 2.1%.

At J.D. Power and Associates, new products and additional services for both automotive and non-automotive clients drove an increase in revenue. Investments for new syndicated and consultative studies offset the revenue increase, but we expect these investments to create new growth opportunities in the second half of this year and next year as well.

In the volatile energy market, Platts' news and pricing services continued to attract new customers.

The McGraw-Hill Construction Network and advertising-based products showed gains in the second quarter.

Global advertising pages at *BusinessWeek* were off 11.7% in the second quarter, according to the Publishers Information Bureau (PIB). Elimination of *BusinessWeek*'s European and Asian editions impacted revenue, but benefited the bottom line. In the second quarter last year, the international editions had revenue of \$4.6 million.

Growth in online advertising continues both domestically and internationally at BusinessWeek.com, which produced 14.1% of *BusinessWeek*'s total ad revenue in the second quarter. BusinessWeek.com introduced a new homepage design and will be rolling out the new look throughout the site in coming months. I hope you get a chance to view that.

After four issues in July, *BusinessWeek*'s ad pages are up 29.33%. Year-to-date through the issue of July 24, *BusinessWeek*'s ad pages are off now only 2.2%.

So let's sum up for Information and Media. Excluding the impact of incremental stock-based compensation, we anticipate:

- Mid-to-high single-digit growth in revenue.
- A slight increase in operating profit after absorbing the impact of a \$15 million revenue reduction in Sweets where we are smoothing out the revenue recognition process by going online.

That completes our review of operations, so I'll sum up the outlook for The McGraw-Hill Companies. Based on the strength of the first half performance, we are raising our guidance for the year by eight cents.

Our previous guidance called for earnings per share of \$2.36 to \$2.41, excluding the incremental impact of all stock-based compensation. We now expect earnings per share in 2006 of \$2.44 to \$2.49, excluding the incremental impact of all stock-based compensation. That is thirteen cents for incremental stock-based compensation and four cents for the one-time charge for the elimination of the restoration stock option program, which was done in the first quarter.

With more robust opportunities taking shape next year, we expect a return to double-digit earnings growth in 2007.

Okay. That is a review of the operations. Let me turn it over now to Bob Bahash, and he will review some of the financials measurements with you, and then we will go in any direction you would like.

Robert J. Bahash
Executive Vice President and Chief Financial Officer
The McGraw-Hill Companies

Thank you Terry.

I will begin this morning with a discussion of our shareholder return initiatives.

We continue building on our record of producing total shareholder value through increased dividends and share repurchases. We acquired 18.4 million shares in the first quarter, completing the original authorization approved by the Board in January. Now this authorization consisted of two parts — the purchase of 3.4 million shares remaining from the Board-approved 2003 program and 15 million shares from the new 45 million share program approved by the Board in January of 2006. In April, the Board increased this year's authorization by another 10 million shares.

In the second quarter, we acquired 7.7 million shares from the Board's additional authorization at a cost of \$392.2 million. So, for the first half of 2006, we have acquired 26.1 million shares at a cost of \$1.4 billion.

The \$1.4 billion returned to shareholders through the first half's share repurchases was more than double the amount for all of 2005 and both years together represent the return of more than \$2 billion. We expect to repurchase the remaining 2.3 million shares that are authorized during the second half.

When we complete the full program, 20 million shares will remain from the 45 million share repurchase program approved by the Board in January 2006. This program represents, in total, 12.1% of the corporation's outstanding 372.7 million shares as of the end of 2005. Share repurchases will benefit the year by approximately three cents and is reflected in the earnings guidance that Terry discussed earlier.

The diluted weighted average shares outstanding for the second quarter of 2006 was 365.5 million shares, a 14.5 million share decrease compared to the second quarter 2005 and an 11.8 million share decrease compared to the first quarter of this year.

As a result of the increased share repurchases, we have ramped-up our borrowings in the commercial paper market. With our traditionally strong cash flows in the second half of the year, we expect to return to a net surplus cash position by year end.

As of June 30, our debt outstanding is \$681.6 million. This is offset by our cash holdings of \$211.1 million, primarily in foreign holdings, resulting in a net debt position of \$470.5 million.

Net interest expense was \$8.6 million in the second quarter, a \$5.1 million increase compared to last year. The increase is due to increased commercial paper borrowings for the expanded share repurchase program, as well as rising interest rates. We expect net interest expense will continue to increase in the third quarter and then decline in the fourth quarter as we return to an expected net surplus cash position by year end.

For 2006, we project interest expense in the range of \$22 to \$24 million.

The Company began expensing stock options at the beginning of this year and expects to incur an incremental 13 cents per share in 2006 as a result of the accounting change per FAS 123(R). This new incentive stock-based compensation program implemented is skewed more toward restricted stock and less toward stock options.

In the second quarter, the Company incurred incremental stock-based compensation expense of \$14.9 million, or three cents per share. In terms of its impact on the segments:

- McGraw-Hill Education's second quarter stock-based compensation expense increased \$2.5 million.
- Financial Services' increased \$6.3 million.
- Information & Media's increased \$3.7 million.

Corporate's second quarter stock-based compensation expense increased \$2.4 million, which covers both Corporate and Shared Services personnel.

Let's now look at our corporate expenses. Corporate expense increased \$4.7 million in the second quarter and was driven by increased stock-based compensation that I just referred to as well as a revaluation charge for certain equity investments. Corporate expense is now expected to increase in the high single-digits in 2006, excluding the incremental stock-based compensation.

In 2006, we still expect dilution of \$0.03 to \$0.04 from the acquisitions that were made in 2004 and 2005. They will be approximately cash neutral. In 2007, we expect these acquisitions to be cash positive. And of course, as you know, the Company did not make any acquisitions or material dispositions in the first half of 2006.

The effective tax rate in the second quarter was 37.2% and we continue to project this rate for the balance of the year.

Let's now review capital expenditures, which include pre-publication investments and purchases of property and equipment.

In the second quarter our pre-publication investments were \$63.5 million compared to \$60.7 million for the same period last year. Our full-year expense for pre-publication investments remains at approximately \$315 million. This level of investment is driven mainly for products we are currently developing to realize significant opportunities in the e-Hi market in 2007, 2008, and 2009.

Purchases of property and equipment were \$20.5 million in the second quarter compared to \$26.3 million for the same period last year. Construction will start later this year on a new information technology data center and a new facility for McGraw-Hill Education in Iowa, as well as technology initiatives at Financial Services. As a result, we continue to project \$200 million for capital expenditures for 2006.

Now for non-cash items:

- Amortization of pre-publication costs was \$53.0 million in the second quarter compared to \$55.2 million in the same period last year. We continue to project \$250 million for 2006.
- Depreciation was \$28.3 million in the second quarter compared to \$26.1 million in the same period last year. We continue to expect it to be about \$130 million in 2006, reflecting the higher level of capital expenditures in 2006 and a full year of depreciation from capital expenditures made in 2005.
- Amortization of intangibles was \$12.1 million in the second quarter compared to \$12.0 million in the same period last year—virtually flat. For 2006 we expect \$50 million, the increase driven by the 2005 acquisitions.

Thank you.

“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995

This website includes certain forward-looking statements about the Company's businesses, new products, sales, expenses, cash flows and operating and capital requirements. Such forward-looking statements include, but are not limited to: the strength and sustainability of the U.S. and global economy; Educational Publishing's level of success in 2006 adoptions and enrollment and demographic trends; the level of educational funding; the level of education technology investments; the strength of Higher Education, Professional and International publishing markets and the impact of technology on them; the level of interest rates and the strength of the economic recovery, profit levels and the capital markets in the U.S. and abroad; the level of success of new product development and global expansion and strength of domestic and international markets; the demand and market for debt ratings, including mortgage and asset-backed securities; the regulatory environment affecting Standard & Poor's; the level of merger and acquisition activity in the U.S. and abroad; the strength of the domestic and international advertising markets; the volatility of the energy marketplace; the contract value of public works, manufacturing and single-family unit construction; the level of political advertising; and the level of future cash flow, debt levels, product-related manufacturing expenses, pension expense, distribution expenses, postal rates, amortization and depreciation expense, income tax rates, capital, technology and other expenditures and prepublication cost investment.

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 upon various important factors, including, but not limited to, worldwide economic, financial, political and regulatory conditions; currency and foreign exchange volatility; the health of capital and equity markets, including future interest rate changes; the implementation of an expanded regulatory scheme affecting Standard & Poor's ratings and services; the level of funding in the education market (both domestically and internationally); the pace of recovery in advertising; continued investment by the construction, computer and aviation industries; the successful marketing of new products, and the effect of competitive products and pricing.