The McGraw-Hill Companies

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Thank you, Bill [Bird].

We are pleased to be here today to discuss the outlook for The McGraw-Hill Companies.

Before I begin, I must draw your attention to the following cautionary remarks. Except for historical information, matters discussed in this presentation 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-K's, 10-Q's, and other periodic reports filed with the U.S. Securities and Exchange Commission

At these meetings, we usually start with a review of operations and update our earnings guidance. But based on questions we've been repeatedly asked, I am going to spend most of my time today reviewing how The McGraw-Hill Companies is dealing with three key issues and then we can go in any direction you would like: The three key issues are:

1. Litigation;
2. Regulation; and
3. The digital transformation in education.

I will close with some comments on:

- The outlook for the year, which is off to a very good start;
- The increase in the dividend;
- The resumption of share buybacks; and
- The reaffirmation of our earnings guidance for the year.

Let's begin with the legal issues.

We are making good progress on the legal front. Twelve cases against the company have been dismissed in their entirety, including 11 so far this year. Those decisions were made by eight different judges. Five cases also have been dropped by the plaintiffs themselves. In the same period, three motions to dismiss have been denied in whole or in part by federal and state court judges, pending discovery. These cases are without merit and at the appropriate time we will ask the courts for dismissal on these. I will come back to these cases in just a minute.

First, I want to point out that the dismissals have occurred in all three major lawsuit categories.

1. Underwriter claims;
2. Stock drop lawsuits; and
3. State law claims

In all the dismissals, the courts have issued clear and unambiguous decisions. They have ruled that:

- Rating agencies are not underwriters or sellers of securities;
- Ratings are opinions, not statements of fact;
- After-the-fact criticisms of rating agencies do not support an inference that rating agencies did not believe their ratings were appropriate when issued;
- Alleged conflicts of interest in the business model were well known by investors; and
- Investors were adequately warned of the risks and limitations of credit ratings, which are not buy, sell, or hold recommendations.

Now let's look at the cases where a dismissal was not granted.

These are the Abu Dhabi and so-called Rhinebridge cases in federal court and CalPERS case in the state court in California. Some have read more into these court decisions than is warranted at this very early stage in the proceedings. For example, you may have read recently that the courts are rejecting our First Amendment defense. That assertion represents a fundamental misunderstanding of the law because it is simply not true.

Two critical points will help clear up any misunderstanding. First, in ruling on a motion to dismiss, courts are legally required to accept as true all of the facts alleged by the plaintiffs. And to the extent any reasonable inferences can be drawn from those facts, courts must also favor the plaintiffs at this preliminary stage of the case. Second, the courts' decisions are not definitive rulings on the factual or legal merits of the claims against S&P. The decisions simply allow the claims to move to the pre-trial phase of the case, or discovery.

For example, here is a fact that will become crystal clear in the Abu Dhabi case. The plaintiff asserted that S&P ratings were not widely disseminated. What we will clearly show the Court during discovery is that the rating opinions were available globally at no charge and distributed to the wire services for their dissemination. Even with the significant legal hurdles to overcome on a motion to dismiss, the court in the Abu Dhabi case dismissed 10 of 11 claims, including all of the plaintiff's negligence-based allegations. And the judge ruling from the bench in the CalPERS case dismissed one of the two claims. We remain confident of getting dismissals in the next phase of these cases. We continue to regard the legal risk in these cases as low. And for the record, we have not received a Wells notice from the SEC.

On the regulatory front, the last major legislative action this year probably will be the financial overhaul reform bill. The legislative process will continue until it is resolved in conference, which will probably take us into June. We are still working to resolve contradictory language in the proposed legislation. We have pointed out that the legislation promises a level playing field for all participants, but in an unprecedented and discriminatory move also proposes to lower pleading standards solely for credit rating agencies. Having a single pleading standard for all market participants would seem to be something that everyone should be able to agree on.

Let me be clear. We support proposals that increase transparency, accountability and restore confidence to financial markets. But some proposals in Congress would set a precedent for governments, not just the U.S. government, to interfere in the rating process, undermining analytical independence and ironically increasing investor perceptions that rating opinions are government endorsed. Having no apparent government seals of approval on rating opinions would also seem to be something that everyone should agree on.

These proposals ignore the strong oversight rules for rating agencies in the Senate bill and the significant new SEC rules encouraging more competition and requiring NRSROs to manage conflicts of interest, including requirements for issuers to provide underlying information on structured finance securities to all NRSROs and not just the one they hire. That will provide all NRSROs the opportunity to issue unsolicited opinions.

Clearly, we are confronting some fundamental contradictions. On the one hand, there is a move, which we support, to remove ratings from statutes and regulations to discourage anyone from thinking that our rating opinions have the government's seal of approval. But at the same time, there are proposals in Congress to put the government's thumb on the ratings scale. We are not alone in our concerns about the potential for unintended consequences.

You only have to listen to Senator Dodd's comments during the recent debate on why he was voting against the Franken and LeMieux amendments. The Franken amendment would establish a Board appointed by the SEC to assign a qualified NRSRO to do initial structured finance ratings. The LeMieux amendment would remove rating requirements and references from existing laws and deletes a provision from the Bill requiring a study on the implications of such a step.

On the Franken amendment, Senator Dodd said: "I do not know what the implications are because we have had no real examination of [it]…I am just uneasy about what the implications can be…I just do not know whether it is sound…" On the LeMieux amendment Senator Dodd said: "Congress could not simply repeal safety and soundness laws without careful prior study of the impact on the markets."

Senator Dodd urged his colleagues to review his Committee's bill. He said "Our bill sets out a process by which overreliance on these rating agencies can be reduced without creating risk throughout the financial system. That is my concern. Stripping everything out of safety and soundness in this area does not get you safety and soundness."

We agree. That's why we support proposals to increase transparency, accountability and restoring and rebuilding trust in the confidence of the financial markets.

In an environment stressing regulation and compliance, we are examining new ways to further improve our own processes consistent with regulations both here and abroad. For example, we are looking at new steps to evaluate data and the quality of the information sources used in the ratings process. We are evaluating whether or not to rate some issues, issuers, or transactions that don't have a track record. That may mean rating fewer emerging companies, potentially limiting access to funding in public markets for growth and innovation.

S&P has in the last two years taken important steps to meet new market needs, maintain a leadership position, and grow the business. These steps include:

- Improving rating's stability;

- Adding value to ratings through more analysis and features;
- Increasing comparability of ratings;
- Adding more checks and balances to the ratings process; and
- Educating the market about ratings and the ratings scale.

To increase transparency, S&P now regularly provides more information about:
- The assumption of its models,
- The use of “what if” scenarios, and
- Stress tests.

S&P now publishes specific economic scenarios for each rating category that illustrate the level of stress an instrument might withstand without defaulting.

S&P has invested heavily to expand its compliance capabilities. Including people, systems, and technology, S&P spent about $60 million last year on these efforts, and this is total S&P. In 2010, S&P may spend about $75 million, and depending on final regulations, these costs could begin to level off next year. Strengthening analytics, increasing transparency and reinforcing the integrity of the ratings process will enable S&P to enhance the value to investor of its global benchmarks for credit risk.

The third issue is a digital one.

Ultimately, the digital transformation of education is not about textbooks or e-books. It is about solutions. It is about linking technology, content and distribution. It is about moving educational content into an interactive, adaptive, mass customizable form that improves the teaching and learning experience. That’s an exciting prospect, but we are sometimes asked if we think technology is a threat to our educational business. The answer is no—and an emphatic one at that.

There are five basic concepts that underpin my answer and speak to how we are using the innovative power of technology to serve our markets more effectively.
1. In education, not all information is equal. Sequenced and correlated content is based more and more upon learning progression. Our professional editors know how to create material that meets marketplace requirements.
2. In education, content counts because you ignore standards at your peril. Faculty can’t and won’t use just any content in the classroom.
3. Digital does not disintermediate content.
4. The digital business model expands the addressable market. Changing the workflow changes the opportunity.
5. Digital delivery allows for added functionality and higher value.

For all these reasons, we believe digital products and services will be important factors in the performance of McGraw-Hill Education this year and in the years ahead. Our digital business is growing at a double-digit rate and now accounts for approximately 15% of our revenue, and that is in higher education and the professional market. In the college and university market, we are using technology to expand the addressable market. The great majority of our collegiate and university books are available in e-book format.

We are rapidly penetrating a new market by offering self-assessment tools to help college students master their coursework. We now have more than 1.2 million registered users of McGraw-Hill Connect and other digital study and homework management products.

Let's take a look at McGraw-Hill Connect.

[Video Clip: McGraw-Hill Connect]
McGraw-Hill Connect is a new all-digital learning platform for the higher education market. It connects students to their professors and to a range of engaging, interactive content for more effective learning. These connections are personalized to the particular content a student needs to succeed.

Here, a student taking a course in biology logs on to complete an assignment on cell anatomy. He identifies the parts of an animal cell and checks his work. Several answers are incorrect. The student seeks help and is brought to the appropriate page in the e-book for additional review. He then explores a library of online images and videos specific to the material he is learning. By using this interactive content, the student gains a better understanding of difficult concepts and is better able complete the assignment. The student tries to remember how the instructor explained the concept earlier that day and replays the exact point in the recorded class lecture on the function of animal cells.

He then uses LearnSmart, an adaptive study coach, to make sure he is ready to take a quiz on the chapter. The student answers questions to determine how well he knows the material and is provided an individualized learning plan which includes how much time he needs to study. He can also download these resources to mobile devices for additional studying on the go.

Instructors can track each student and class through visual reports, and can provide early intervention to students who are at risk of failing.

McGraw-Hill Connect significantly enhances the value of McGraw-Hill's educational offerings and helps students connect to knowledge, connect to learning, and connect to their future.

In the elementary-high school market, digital components are integrated into virtually every program we produce. In fact, it is misleading to speak of el-hi textbooks because what we offer are really multimedia packages. The mix of components varies by grade and subject, but interactive online student editions are a part of the future, which is already here.

Let's take a look at this:

[Video Clip: ConnectED]
McGraw-Hill Education is now making its content and resources for pre-kindergarten through high school available on one digital platform for teachers, students and parents. ConnectED engages students with digital solutions and interactive content that enhances the learning experience across a range of subjects. Students have online, anytime access to interactive texts. They can highlight key points and add notes and comments. For math programs, such as Math Connects, the chapter playlist offers online manipulatives and games that provide students with a range of tools and strategies to learn difficult concepts.

To engage students and assist struggling readers, programs such as Treasures include a rich library of leveled readers with audio support. Writer's Workspace is a new, all-digital language arts and writing program for middle and high school students. It allows students to prepare writing assignments online and get feedback from their teacher throughout the process. Students and parents can use the digital resources on ConnectED while they are doing homework and studying. Materials are also available in Spanish.

To save teacher's time, every program includes daily lesson plans for the entire school year. Teachers can personalize their lessons by adding additional content which is easily accessible through four types of searches: by a textbook's table of contents, by state standards, by a specific learning concept, and by keywords.

Even in the middle of a classroom lesson, teachers can call on digital resources to help students understand and learn.

McGraw-Hill ConnectED – Digital Solutions, Better Teaching, Better Learning.

ConnectED and McGraw-Hill Connect illustrate our ability to adapt to a rapidly changing environment and how we are using the power of technology to provide the solutions our customers need to teach and learn more effectively.

Let's conclude with some observations about our current situation. Again, we're not going through full operations, but we can go into any direction you would like. For us:

- The economy is improving;
- Our markets are recovering;
- We expect to grow in 2010;
- Our year is off to a very good start;
- Our financial position is strong;
- In January we increased the dividend for the 37th consecutive year. Since 1974, our annual dividend has grown at an average compound rate of 9.9%;
- We have resumed share buy backs this year. There were 17.1 million shares authorized in the share repurchase program; and
- In an increasingly digital and global economy, we are investing to capture growing opportunities and to improve the operating leverage across all our businesses.

A strong finish in the fourth quarter last year—earnings per share grew by 43.2%—set the stage for a very solid start in 2010. That momentum continued in the first quarter when we reported a 65% increase in diluted earnings per share of 33 cents.

In Financial Services, the encouraging trends we experienced in the first quarter continued through April. April's been a very strong month. The pipeline for corporate issuance still looks good in May, although not at the record level we experienced in April. Recently we have seen some issuers moving to the sideline in the face of uncertainty over conditions in Europe, pending regulatory changes in the U.S. and widening credit spreads. We're talking about 650 basis points for speculative grade and about 200 basis points for investment grade.

In Education, we still expect growth in our markets:

- 6% to 7% growth in the el-hi market; and
- 5% to 7% in U.S. higher education.

In Information & Media, excluding the $99 million from the *BusinessWeek* divestiture:

- Revenue will increase in the mid single-digit range; and,
- Operating margin will rebound into the mid-teens.

Overall, for The McGraw-Hill Companies, our guidance for the full year calls for diluted earnings per share of $2.55 to $2.65.

Thank you.

To access the accompanying slides online, go to:
http://investor.mcgraw-hill.com/phoenix.zhtml?p=irol-eventDetails&c=96562&eventID=3098905