Creating a Skilled Workforce to Compete in the Global Knowledge Economy

There is broad recognition in the government and business communities that the United States must do a better job of building and maintaining a skilled workforce if it is to compete successfully in the global knowledge economy. In addition to the heightened focus on improving the mathematical, scientific, and technological skills of today's students is the need for innovation and greater importance of education and lifelong learning to retain our society's competitiveness.

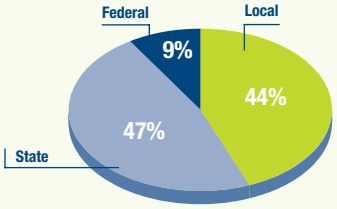
Even with reauthorization pending for the *No Child Left Behind Act*, evidence shows that NCLB helped revitalize the states' role in education. Today, all 50 states and the District of Columbia hold schools accountable for improving academic achievement and measuring their students against clear academic standards. With the value of education growing nationwide, McGraw-Hill Education will continue to create a diverse range of print and digital solutions to improve and measure student performance.

Education Funding and Expenditures per Pupil

Of the approximately $463 billion in federal, state, and local funding for public education in the 2003–04 school year, 91% was provided by state and local governments. More than two-thirds of the $218 billion funded by the states came from sales and income tax. At the local level, property taxes accounted for 65%, or $132 billion, of the $203 billion local funding amount. States spent an average of $8,471 for every student in 2003–04, up from $8,220 in 2002–03. Expenditures per student are projected to increase more than 25% to $11,000 by 2015.

The Public Education Dollar: Revenues by Source

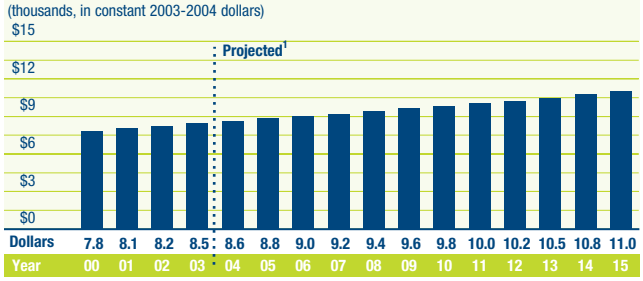
Total Revenue: $463 billion



Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data, "National Public Education Financial Survey, 2003-04"

Current and Projected Expenditures per Pupil in K–12

(thousands, in constant 2003-2004 dollars)

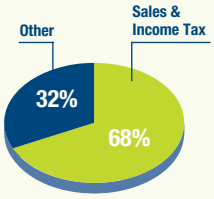


Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2015"

[1] Middle range of projections cited

Sources of State Funding

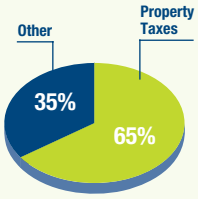
Total State Revenue: $218 billion



Source: U.S. Census Bureau, "Public Education Finances Report: 2004"

Sources of Local Funding

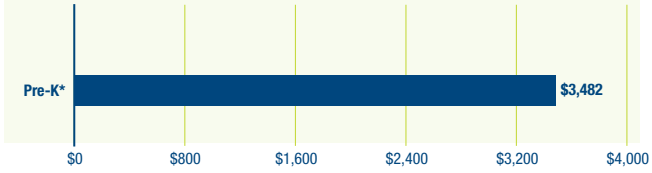
Total Local Revenue: $203 billion



Source: U.S. Census Bureau, "Public Education Finances Report: 2004"

National Average Spending per Child Enrolled in Pre-K Programs

(2006 dollars)



Source: National Institute for Early Education Research, "The State of Preschool: 2006 State Preschool Yearbook"

* Pre-K may receive additional funds from federal or local sources that are not included in this figure

Outlook on Federal Funding and Legislation

Efforts at education reform over the last five years, particularly the expanded testing mandated by the *No Child Left Behind Act*, have focused attention on the achievement gaps that limit opportunities for far too many children. Whether or not the *No Child Left Behind Act* is reauthorized under its present name, there is strong commitment to the *Act*'s basic principles among the public as well as both parties in Congress. Education is also high on the agendas of elected officials across all 50 states. As a result, market participants should continue to see a favorable funding environment.

It is important to note that "No Child Left Behind" was a new name given by the Bush administration to the 2002 reauthorization of older legislation, the *Elementary and Secondary Education Act*, which already contained many funding categories that provided support for instructional materials purchasing. These included the large Title 1 program for schools with disadvantaged children as well as a grant program to help states improve early-grade reading.

The renamed legislation added more testing requirements and made some programs more prescriptive but did not significantly raise overall funding as a percentage of total U.S. spending on education. In fact, with reauthorization under a different administration, funding could increase.

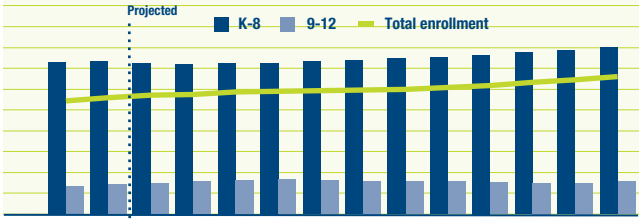
At the time of publication of the *2007-2008 Investor Fact Book* it is too early in the legislative session to predict whether NCLB will be reauthorized before the end of 2007. Many observers predict that any major action will be postponed until after the 2008 presidential election. Congress is operating under a Continuing Resolution which holds federal funding at the levels provided in the prior fiscal-year budget. Failure to pass the bill would not have a significant effect on schools in 2007. For 2008, it appears likely that an extension bill incorporating some modifications would be passed until a new administration is in place.

PRE-K–12: GROWING ENROLLMENTS

School enrollments are on the rise. According to the latest projections by the National Center for Education Statistics, 58.1 million students will be enrolled in grades pre-K–12 by 2015. Enrollment in pre-K reached approximately 990,000 children in the 2004–2005 school year. The trend toward full-day kindergarten is also growing and demonstrates the increased recognition that early childhood education improves school readiness and improves the development of verbal and math skills – both keys to future academic success.

Enrollment in Elementary and Secondary Institutions

(enrollment in millions)

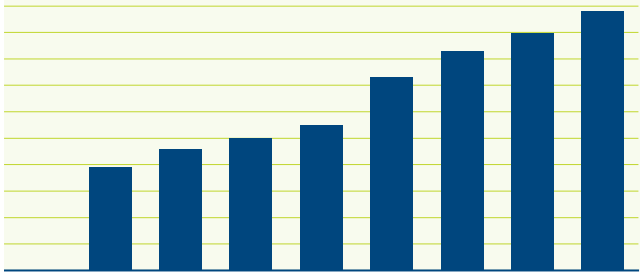


K-8	39.1	39.3	38.9	38.8	39.0	39.0	39.3	39.5	39.8	40.1	40.6	41.1	41.5	41.9
9-12	15.4	15.7	16.0	16.3	16.5	16.6	16.5	16.4	16.2	16.2	16.1	16.0	16.0	16.2
Total	54.0	54.6	55.0	55.1	55.5	55.6	55.7	55.9	56.0	56.3	56.6	57.1	57.6	58.1
Year	02	03	04	05	06	07	08	09	10	11	12	13	14	15

Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2015"

Public School Pre-Kindergarten Enrollment, 1997-2005

(number of students in thousands)

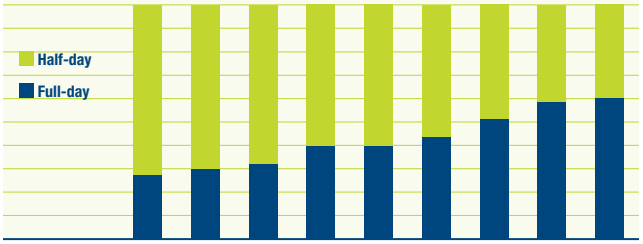


Enroll	695.1	728.7	751.2	776.1	865.1	914.9	949.6	990.4
Year	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05

Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data

Kindergarten Enrollment Trends

(number of students in millions)



Total	3.2	3.1	3.3	3.9	3.8	4.0	3.8	3.8	3.7
Full-day	0.9	1.0	1.1	1.6	1.5	1.8	2.0	2.2	2.2
Year	77	80	83	86	89	92	95	98	01

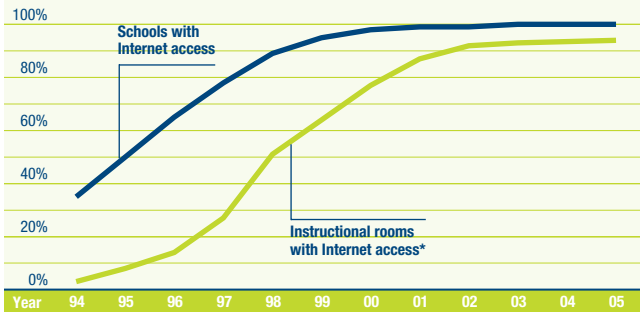
Source: National Center for Education Statistics, "The Condition of Education 2004"

ACCESS TO TECHNOLOGY IS IMPROVING IN K–12 EDUCATION

Technology is playing an increasingly important role in education. The use of computers in schools is substantially changing the way students learn and how they are taught. By 2003 100 percent of U.S. public schools had access to the Internet. The proportion of instructional rooms with Internet access increased to 94 percent in 2005.

Teachers are leveraging a variety of education resources available via the Internet to improve overall instruction, from student performance data to inform instruction at the school level, to assessment results to individualize instruction. Schools are also beginning to offer students, especially those at the secondary level, access to distance education for courses not available at their own school.

Internet Access in U.S. Public Schools and Classrooms



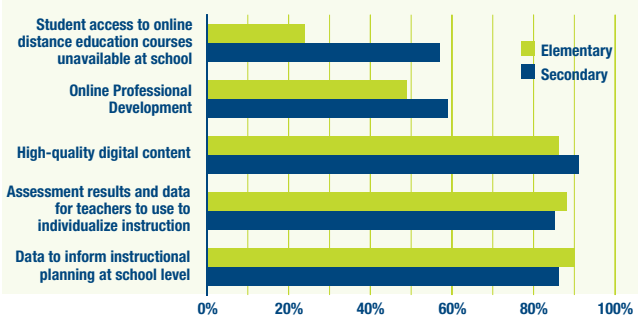
Source: U.S. Department of Education, National Center for Education Statistics, Fast Response Survey System, Internet Access in U.S. Public Schools and Classrooms: 1994-2005; and unpublished data

* Includes all classrooms, computer labs, and library/media centers

Note: No data collected for 2004

Public School Usage of Internet to Enhance Teaching and Learning

(instructional level, percent)



Source: U.S. Department of Education, National Center for Education Statistics, Fast Response Survey System, Internet Access in U.S. Public Schools and Classrooms: 1994-2005; and unpublished data

Reading and Math: Teaching the Complete Spectrum

With annual testing in reading and mathematics now mandatory under the *No Child Left Behind Act*, student performance is getting increased scrutiny. In this environment, McGraw-Hill's goal is to produce programs reflecting a range of proven instructional approaches so that educators will have the solutions they need to help all students improve their academic performance. Along with major investments in new and revised basal programs, such as *Treasures* and *Everyday Mathematics*, McGraw-Hill has been building a list of intervention programs, such as *Jamestown Reading Navigator*, designed for students who need extra help to reach grade-level standards.

Reading

Literacy-Based	Balanced Basal	Skills-Based
Wright Group Literacy (pre-K–5) Wright Group Sunshine (K–3)	Macmillan/McGraw-Hill Treasures (K–6) Macmillan/McGraw-Hill Little Treasures (pre-K) Macmillan/McGraw-Hill Treasure Chest (K–6) Glencoe Reading with Purpose (6–8) Glencoe The Reader's Choice (9–12)	SRA Imagine It!: An Open Court Program (pre-K–6) SRA Reading Mastery Plus: A Direct Instruction Program (pre-K–6) Wright Group Breakthrough to Literacy (pre-K–3)

Literacy-Based
These programs work well in districts where students begin formal schooling with basic skills acquired at home or in academic pre-schools. Reading programs in this category develop language learning through literature.

Balanced Basal
Traditional basal programs are effective with most students.

Skills-Based
These programs have proven to be especially effective with students who come from disadvantaged backgrounds, have limited proficiency in English, or have special needs. Lesson plans are highly structured.

Math

Reform-Based	Balanced Basal	Skills-Based
Wright Group Everyday Mathematics (pre-K–6) Wright Group UCSMP Math (6–12) SRA Growing with Mathematics (pre-K–5) Glencoe MathScape (6–8) Glencoe Impact Math (6–8) Glencoe Core-Plus (9–12)	Macmillan/McGraw-Hill pre-K–5 Math Glencoe Math Applications and Concepts (6–8) Glencoe Math (8–12): Pre-Algebra, Algebra 1&2, Geometry, Pre-Calculus, Calculus	SRA Real Math (pre-K–6) SRA Connecting Math Concepts (K–8) Glencoe Math Matters (6–8)

Reform-Based
These math programs emphasize investigative problem-solving activities and work well in school districts where teachers have strong math backgrounds and effective staff development is in place. Most of these programs receive National Science Foundation funding.

Balanced Basal
Effective with most students, these programs are well suited for school districts that need flexible lesson plans to accommodate a variety of teaching styles and meet each student's individual needs.

Skills-Based
These products have been designed for school districts where skill development is the most important aspect of the math program. Lesson plans are highly structured and often involve direct instruction.

Intervention: Digital + Print Solutions

Like the majority of McGraw-Hill's current basal programs, most of the intervention solutions below are multi-component programs combining print and digital materials in ways that take advantage of each format's best uses while providing educators with many practical options. In *Jamestown Reading Navigator,* which is designed for the secondary level, interactive content and resources for both students and teachers are primarily online. In other programs, especially for younger learners, there may be print workbooks and digital practice materials for students plus an electronic grade book and other technology-based resources for teachers.

Reading Intervention	Math Intervention
Macmillan/McGraw-Hill Reading Triumphs (K–6) Macmillan/McGraw-Hill Treasure Chest for English-Language Learners (K–6) SRA Kaleidoscope (2–6) SRA Corrective Reading: A Direct Instruction Program (3–12) Glencoe Jamestown Reading Navigator (6–12) Glencoe Signature Reading (6–12)	SRA Number Worlds (pre-K–6) SRA Corrective Math: A Direct Instruction Program (3–12) Wright Group Pinpoint Math (4–7) Glencoe Math Matters (6–8)

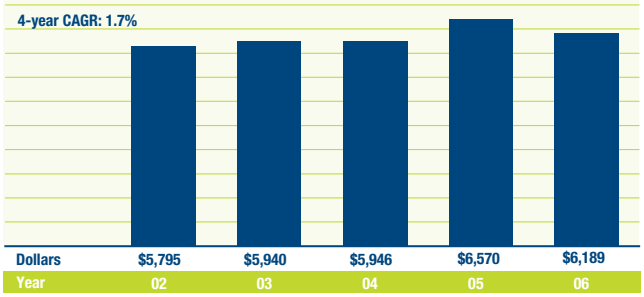
Pre-K–12 Education: Market, Adoption States, Open Territories, and Supplemental Sales

Pre-K–12 Sales

In 2006, sales of textbooks and educational materials for the pre-K–12 school market decreased by 5.8% to $6.2 billion, according to the Association of American Publishers (AAP).

Estimated Total Pre-K–12 Industry Sales

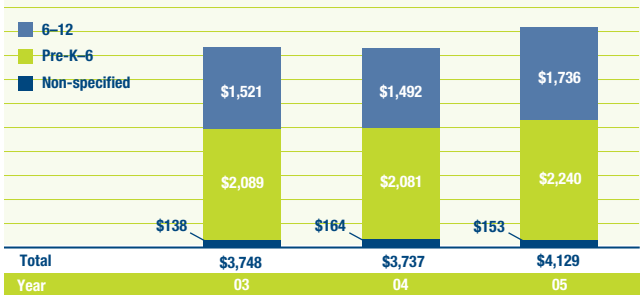
(dollars in millions)



Source: AAP Includes sales of domestic and non-domestic products

Total Net Elementary/High School Sales

Basal, Supplemental, and Online Materials
(dollars in millions)



Source: AAP, as reported by 6 publishers. Includes sales of U.S. products only. Includes sales to foreign subsidiaries and third parties

Pre-K–6 Market

Sales by State (dollars in thousands)

	2005	% of 2005 Total	2004	2003
1 California	$ 238,210	13.2%	$ 227,460	$ 299,730
2 Texas	232,360	12.9%	104,827	170,815
3 Florida	108,085	6.0%	107,577	85,572
Top 3 for 2005	**$ 578,656**	**32.1%**	**$ 439,864**	**$ 556,117**
4 New York	96,823	5.4%	115,512	92,158
5 Illinois	89,053	4.9%	77,647	85,991
6 Pennsylvania	75,734	4.2%	74,204	78,520
7 New Jersey	74,511	4.1%	76,617	69,695
8 Ohio	70,476	3.9%	60,558	65,795
9 Indiana	51,502	2.9%	36,657	37,843
10 Georgia	46,624	2.6%	42,867	82,991
Top 10 for 2005	**$ 1,083,378**	**60.0%**	**$ 923,925**	**$ 1,069,110**
11 Arizona	45,417	2.5%	34,111	34,960
12 Maryland	40,985	2.3%	39,184	32,035
13 Virginia	40,148	2.2%	53,680	47,286
14 Michigan	39,323	2.2%	44,572	47,710
15 North Carolina	38,273	2.1%	50,828	36,832
Top 15 for 2005	**$ 1,287,523**	**71.3%**	**$ 1,146,300**	**$ 1,267,932**
All Others	**$ 517,232**	**28.7%**	**$ 500,324**	**$ 411,058**
Total Domestic U.S.	**$ 1,804,755**	**100%**	**$ 1,646,623**	**$ 1,678,990**

Source: AAP, as reported by 6 publishers. Excludes supplemental and non grade-specific basal materials. State ranking varies each year in accordance with adoption cycle

Sales by Subject Category (dollars in millions)

	2005	% of 2005 Total	2004	% of 2004 Total	2003	% of 2003 Total
Reading/Literature	$ 711	38.7%	$ 758	45.3%	$ 785	46.1%
Mathematics	498	27.1%	530	31.7%	418	24.5%
Social Studies	144	7.8%	86	5.2%	207	12.2%
Science	133	7.3%	99	5.9%	115	6.7%
Language Arts/English	102	5.5%	105	6.3%	102	6.0%
Music	93	5.0%	27	1.6%	31	1.8%
Health	77	4.2%	14	0.8%	10	0.6%
All Others	81	4.4%	55	3.3%	37	2.2%
Total	**$ 1,839**	**100%**	**$ 1,674**	**100%**	**$ 1,705**	**100%**

Source: AAP, as reported by 6 publishers. Excludes supplemental, non grade-specific basal, and non-domestic

6–12 Market

Sales by State (dollars in thousands)

	2005	% of 2005 Total	2004	2003
1 California	$ 202,844	12.6%	$ 158,017	$ 164,039
2 Texas	159,707	9.9%	59,049	168,228
3 Florida	129,667	8.0%	121,833	116,884
Top 3 for 2005	**$ 492,218**	**30.5%**	**$ 338,900**	**$ 449,150**
4 New York	87,913	5.4%	91,804	85,303
5 Virginia	63,257	3.9%	40,792	42,276
6 Illinois	59,922	3.7%	73,666	67,848
7 Pennsylvania	59,574	3.7%	63,108	52,519
8 North Carolina	55,882	3.5%	50,359	43,310
9 Indiana	51,842	3.2%	38,799	38,511
10 Ohio	50,842	3.1%	49,559	54,352
Top 10 for 2005	**$ 921,451**	**57.0%**	**$ 746,986**	**$ 833,270**
11 New Jersey	48,814	3.0%	52,873	44,965
12 Georgia	48,491	3.0%	47,012	40,253
13 Maryland	37,329	2.3%	39,433	26,078
14 Tennessee	37,038	2.3%	36,060	37,616
15 Michigan	33,514	2.1%	34,593	37,062
Top 15 for 2005	**$ 1,126,637**	**69.7%**	**$ 956,958**	**$ 1,019,243**
All Others	**$ 489,335**	**30.3%**	**$ 413,233**	**$ 379,372**
Total Domestic U.S.	**$ 1,615,972**	**100%**	**$ 1,370,191**	**$ 1,398,616**

Source: AAP, as reported by 6 publishers. Excludes supplemental and non grade-specific basal materials. State ranking varies each year in accordance with adoption cycle

Sales by Subject Category (dollars in millions)

	2005	% of 2005 Total	2004	% of 2004 Total	2003	% of 2003 Total
Social Studies	$ 334	20.4%	$ 200	14.5%	$ 368	26.0%
Mathematics	315	19.3%	406	29.5%	244	17.2%
Science	303	18.5%	246	17.9%	242	17.1%
Foreign Language	176	10.7%	129	9.4%	106	7.5%
Reading/Literature	175	10.7%	133	9.7%	186	13.1%
Language Arts/English	91	5.6%	105	7.6%	118	8.3%
Business Education	65	4.0%	53	3.9%	57	4.0%
All Others	176	10.8%	103	7.5%	96	6.7%
Total	**$ 1,634**	**100%**	**$ 1,376**	**100%**	**$ 1,417**	**100%**

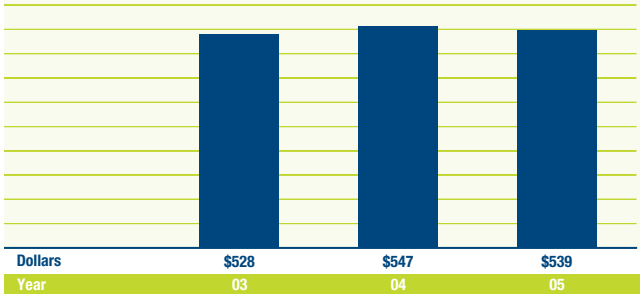
Source: AAP, as reported by 6 publishers. Excludes supplemental, non grade-specific basal, and non-domestic

Adoption States, Open Territories, and Supplemental Sales

Based on data from the AAP, growth in the elementary-high school market in 2005 came from the adoption states, which increased 20.9%. The open territories had a modest increase of 0.7%. The supplemental materials market had a slight decline of 1.5%.

Supplemental Materials Market (Pre-K–12)

(dollars in millions)

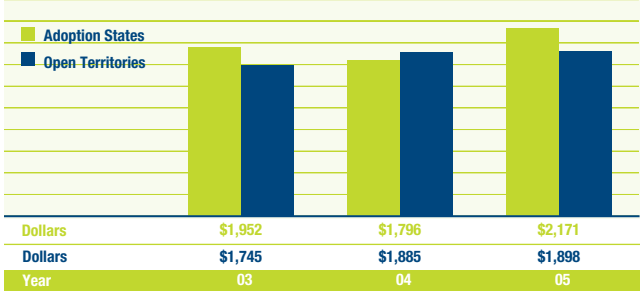


Dollars	$528	$547	$539
Year	03	04	05

Source: AAP, as reported by 6 publishers. Includes non grade-specific materials

Industry Textbook Sales: Adoption States, Open Territories (Pre-K–12)

(dollars in millions)



Dollars	$1,952	$1,796	$2,171
Dollars	$1,745	$1,885	$1,898
Year	03	04	05

Source: AAP, as reported by 6 publishers. Includes non grade-specific basal and supplemental materials. Excludes non-domestic sales of $61 million, $56 million, and $51 million for 2005, 2004, and 2003, respectively

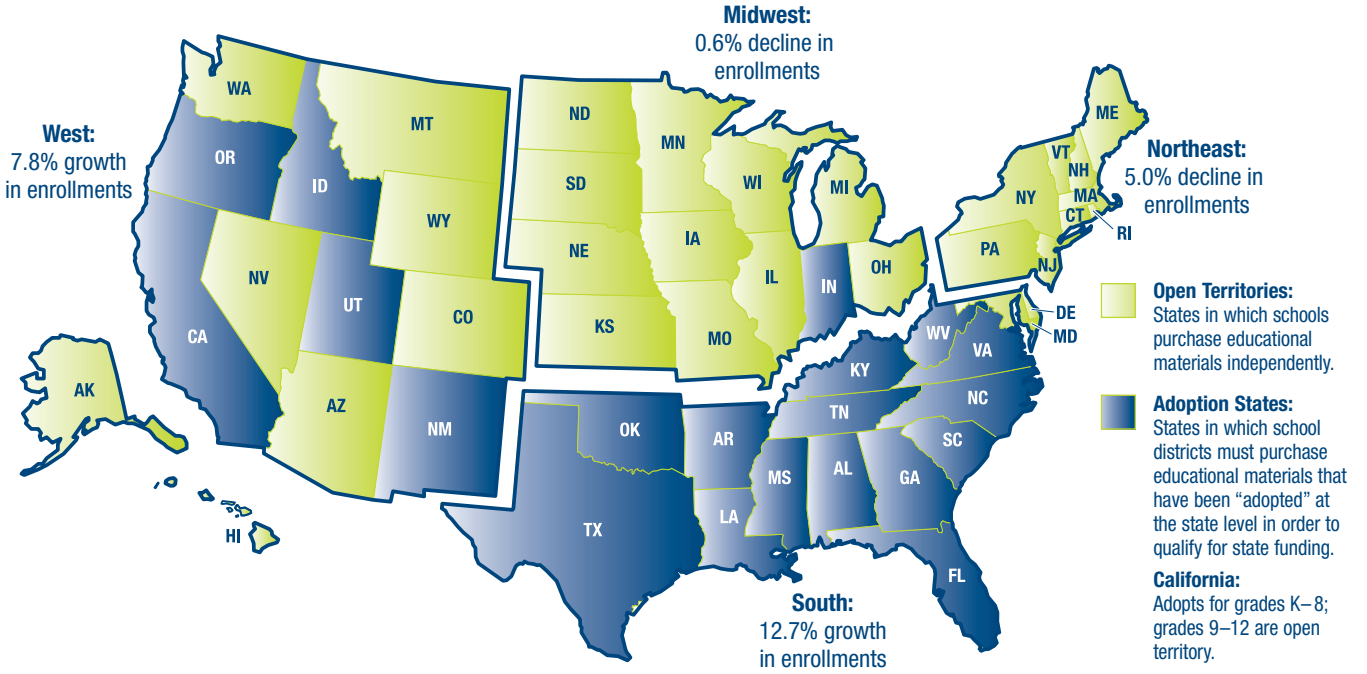
Mapping the Adoption Process

Nineteen states use the adoption process to buy elementary and secondary textbooks. A twentieth state, California, adopts textbooks through the eighth grade. In the adoption process, a state education board selects textbooks to be placed on an approved list. To use state education funds, local school districts must choose textbooks from the approved list. In adoption states, the state board issues curriculum guidelines and schedules the purchase of new books in each subject area. In the remaining states, known as "open territories," textbooks are purchased independently by local school districts or individual schools. There are no statewide purchasing schedules or state selected lists of textbooks.

Growing Enrollments in Key Adoption States

Changing U.S. K–12 Enrollment by Region, 2002–2015

Enrollments are growing faster in the key adoption states in the west and south as Americans continue to migrate to the Sunbelt.



Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2015"

Elementary and Secondary School Adoption Schedules

EL-HI ADOPTION OPPORTUNITIES

There is good visibility in the growing state new adoption market over the next several years. As these schedules show, prospects improve for the rest of the decade. Major adoption states, including Florida, Texas, and California, have announced plans to buy new educational materials.

ELEMENTARY SCHOOL ADOPTION SCHEDULE

Bid Year	2006	2007	2008	2009	2010	2011	2012
Purchase Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Reading[2]	Indiana (1-8) Oregon Tennessee West Virginia	Alabama Florida Idaho Louisiana Oklahoma	California Georgia New Mexico (P-8)	Mississippi South Carolina (K-5) Texas[3] (K-5) *Texas[3] (Span K-5)*	Arkansas North Carolina	Kentucky	Indiana (1-8) Tennessee West Virginia
Mathematics	Georgia New Mexico (P-8) Texas (6-8) *Texas (Span 6)*	California Mississippi Texas (K-5) *Texas (Span K-5)*	Idaho Kentucky (P-8) North Carolina Oregon South Carolina	Alabama Florida Indiana (1-8) Oklahoma West Virginia	Tennessee	Arkansas	Georgia Louisiana New Mexico
English/ Language Arts[2]	Idaho Mississippi Oregon	Indiana West Virginia	Alabama (K-8) California (K-8) Florida (K-5) Georgia (K-8) Louisiana (K-8)	New Mexico (P-8) South Carolina (K-5) Tennessee (1-8) Texas[3] (K-5) *Texas[3] (Span 1-5)*	Arkansas (K-8) North Carolina (3-8) Oklahoma (K-8) Virginia (tentative)	Kentucky	Idaho Mississippi
Science	Arkansas California South Carolina	Georgia Kentucky	Mississippi Tennessee	North Carolina Oregon Virginia (tentative)	Florida Indiana (1-8) Louisiana	Alabama Idaho New Mexico Oklahoma Texas (1-5) *Texas (Span 1-5)* West Virginia	Arkansas California South Carolina
Social Studies	Kentucky Louisiana Oklahoma	Arkansas North Carolina Tennessee	Indiana (1-8)	Virginia	Alabama Georgia Idaho New Mexico (P-8) West Virginia	California Florida Mississippi Oregon South Carolina	Kentucky North Carolina Oklahoma Texas (1-5) *Texas (Span 1-5)*
Health (H) Physical Education (PE)	Arkansas (H, PE) Florida (H) Mississippi (H, PE)	Oregon (H, PE)	Georgia (H, PE) Oklahoma (H, PE) Tennessee (H)	Alabama (H, PE) Idaho (H) Kentucky (H, PE)	Indiana (H) Louisiana (H, PE) South Carolina (H) (K-5)	New Mexico (H, PE) West Virginia (H)	Arkansas (H, PE) California (H) Florida (H, PE) Mississippi (H, PE)
Art (A) Music (M) Drama (D)	Alabama (A, M, D) California (A, M) Florida (A) Idaho (A, M) New Mexico (A, M) North Carolina (A, M, D) Oklahoma (A, M)	South Carolina (A, M, D) West Virginia (A, M)	Florida (M)	Arkansas (A, M) Idaho (A, M)	Georgia (A, M, D) Kentucky (A, M)	Indiana (A, M) Louisiana (A, M) Mississippi (A, M) North Carolina (A, M, D) Tennessee (A, M)	Alabama (A, M, D) New Mexico (A, M) Oklahoma (A, M) Oregon (A, M)
Spelling	Idaho Mississippi West Virginia	Indiana (1-6)	Alabama Georgia	South Carolina (K-5)	Arkansas North Carolina (2-8) Oklahoma	Kentucky	Idaho Mississippi West Virginia
Literature	–	Alabama Oklahoma	New Mexico	–	Virginia (K-8) (tentative)	Kentucky	Indiana (6-8)
World Languages	Alabama Florida	South Carolina	New Mexico	–	–	California	Alabama Florida
Computer Education	Florida Idaho	Mississippi	Idaho	Florida Idaho	Idaho Louisiana	Arkansas Idaho Mississippi	–
English as a Second Language (ESL)	Oregon	–	Arkansas Florida	Georgia Tennessee (1-8)	Oklahoma Oregon	–	–
Handwriting	Indiana (1-3) Mississippi	Indiana West Virginia	Alabama	South Carolina (K-3)	Arkansas North Carolina (1-5) Oklahoma	Kentucky Louisiana	Idaho Indiana (1-3) Mississippi
Dictionaries	Idaho Mississippi	–	Alabama Florida	–	Arkansas Oklahoma	–	Idaho Mississippi

Source: AAP School Division/NASTA

Notes:
- Elementary adoptions are for grades K-8, unless otherwise noted
- Secondary adoptions are for grades 6-12, unless otherwise noted
- *Italics indicate Spanish-language program*
- Schedules are subject to change. 2006 and 2007 bid years are in effect. 2008 to 2012 bid years reflect assumptions from various sources including state websites

[1] Selected titles

[2] Some states bid separately on, or some combination of, Reading, English/Language Arts, and Literature programs. These states may be listed under more than one discipline in a bid year until they issue their actual bids

[3] Schedule assumes Texas issues new state Reading and Language Arts standards in September 2007

Secondary School Adoption Schedule

Bid Year	2006	2007	2008	2009	2010	2011	2012
Purchase Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Mathematics	Georgia (6-8) New Mexico Texas *Texas (Span 6)*	California (6-8) Georgia (9-12) Mississippi	Idaho Kentucky North Carolina Oregon South Carolina[1]	Alabama Florida Indiana Oklahoma South Carolina[1] (9-12) West Virginia	Tennessee Virginia West Virginia	Arkansas	Georgia (6-8) Louisiana New Mexico
Science	Arkansas California (6-8) South Carolina (6-8)	Georgia Kentucky South Carolina[1] (9-12)	Mississippi South Carolina[1] (9-12) Tennessee	Florida North Carolina Oregon South Carolina[1] (9-12) Virginia (tentative)	Florida Indiana Louisiana	Alabama Idaho New Mexico Oklahoma Texas *Texas (Span 6)* West Virginia	Arkansas California (6-8) South Carolina (6-8)
Social Studies	Kentucky Louisiana Oklahoma	Arkansas North Carolina South Carolina[1] (9-12) Tennessee	Indiana	South Carolina[1] (9-12) Virginia	Alabama Georgia Idaho[1] New Mexico South Carolina[1] (9-12) West Virginia	California (6-8) Florida Mississippi Oregon South Carolina[1] (6-8)	Kentucky North Carolina Oklahoma Texas *Texas (Span 6)*
Literature[2]	Oregon West Virginia	Alabama Indiana Louisiana Oklahoma	Florida Georgia (6-8) New Mexico South Carolina (9-12)	Georgia (9-12) Mississippi	Arkansas (9-12) Idaho North Carolina (9-12) Virginia Texas[3] *Texas[3] (Span 6)*	Kentucky Tennessee	West Virginia
Reading[2]	Indiana (6-8) Tennessee West Virginia	Alabama Florida[1] Idaho Louisiana Oklahoma[1]	California[1] (6-8) New Mexico	Mississippi	Arkansas North Carolina (6-8) Oklahoma[1]	Kentucky	Indiana (6-8) Tennessee West Virginia
English/ Language Arts[2]	Idaho[1] Mississippi Oregon	Indiana West Virginia	Alabama California[1] (6-8) Florida Georgia (6-8) Louisiana South Carolina[1] (9-12)	Georgia (9-12) New Mexico Tennessee	Arkansas North Carolina Oklahoma Virginia Texas[3] *Texas[3] (Span 6)*	Kentucky South Carolina[1] (6-8)	Idaho Mississippi
World Languages	Alabama Florida Idaho	Indiana South Carolina	Arkansas Mississippi New Mexico Oklahoma West Virginia	Georgia Idaho North Carolina Tennessee	Kentucky Oregon Virginia	California (6-8) Louisiana	Alabama Florida
Business Education	Florida[1] South Carolina[1]	Mississippi[1] New Mexico North Carolina South Carolina[1]	Arkansas Idaho[1] Oklahoma South Carolina[1] (9-12)	Alabama Florida[1] Kentucky Louisiana South Carolina[1]	South Carolina[1]	Georgia Indiana Tennessee	Florida North Carolina South Carolina[1] Texas
Computer Education	Florida Idaho[1] South Carolina[1]	Idaho[1] Mississippi North Carolina (7-12) South Carolina[1]	Idaho[1] Oklahoma	Alabama Florida Kentucky South Carolina[1]	Louisiana[1] South Carolina[1] Tennessee	Arkansas Mississippi Oklahoma	Florida North Carolina (7-12) South Carolina[1]
Health (H) Physical Education (PE)	Arkansas (H, PE) Florida (H, PE) Mississippi (H, PE)	Oregon (H, PE)	Georgia (H, PE) North Carolina (6-9) (H) Oklahoma (H, PE) South Carolina (PE) Tennessee (H)	Alabama (H, PE) Idaho (H, PE) Kentucky (H, PE)	Indiana (H) Louisiana (H, PE)	New Mexico (H, PE) South Carolina (H) West Virginia (H)	Arkansas (H, PE) California (H) (6-8) Florida (H, PE) Mississippi (H, PE)
Family/ Consumer Science	Florida Mississippi North Carolina	New Mexico South Carolina[1]	Idaho Oklahoma Tennessee West Virginia[1]	Alabama Arkansas Kentucky Louisiana	South Carolina[1]	Georgia Indiana North Carolina South Carolina[1]	Florida Mississippi Texas
Art (A) Music (M) Drama (D) Speech (S)	Alabama (A, M, D) California (A, M 6-8) Florida (A) Idaho[1] (A, M, D, S) Mississippi (S) New Mexico (A, M, D) North Carolina (A, M, D) Oklahoma (A, M, D)	Indiana (S) South Carolina[1] (A, M, D) West Virginia (A, M, S)	Alabama (S) Florida (M, D, S) Louisiana (S) South Carolina (S) West Virginia (D)	Arkansas (A, M) Georgia (S) Idaho[1] (A, M, D) Tennessee (S)	Arkansas (S) Georgia (A, M, D) Kentucky (A, M, D) Oklahoma (S) Texas (S 7-8)	Idaho (A, M) Indiana (A, M) Kentucky (S) Louisiana (A, M) Mississippi (A, M, D) North Carolina (A, M, D) Tennessee (A, M, D)	Alabama (A, M, D) Idaho (S) Mississippi (S) New Mexico (A, M, D) Oklahoma (A, M, D) Oregon (A, M)
Vocational/ Technical Education	Arkansas[1] Florida[1] South Carolina[1]	Mississippi[1] New Mexico South Carolina[1]	Idaho Mississippi[1] North Carolina Oklahoma South Carolina[1]	Alabama Arkansas Florida[1] Kentucky Louisiana[1]	South Carolina[1]	Georgia Indiana Tennessee	Arkansas[1] Florida[1] South Carolina[1] Texas
Career/ Workforce Education	Mississippi	New Mexico South Carolina[1]	Arkansas Idaho[1] Louisiana North Carolina Oklahoma	Alabama Louisiana	–	Georgia	Mississippi Texas
Driver Education	South Carolina	Alabama Arkansas Mississippi New Mexico	Florida Georgia Oklahoma West Virginia	Idaho Kentucky	–	Tennessee	Florida South Carolina

Innovative Solutions for the Pre-K–12 Classroom

McGraw-Hill Education has created a range of effective products to serve the growing demand for solutions that measure and improve student performance. To meet this need, MHE continues to develop innovative programs that leverage the convergence of traditional textbook-based instruction with online digital products. The result: better ways to measure student performance and more individualized standards-based classroom instruction.

New research-based elementary reading & language arts program

Imagine It!
www.sraimagineit.com

Imagine It! is a comprehensive core reading and language arts program for pre-K–6. It combines the latest and most innovative knowledge about differentiated instruction with proven teaching approaches based on 45 years of research, field study, documented classroom success, and teacher input. Fully meeting the requirements of *No Child Left Behind* as a research-based program, *Imagine It!* features:

- A strong inquiry strand that helps students develop the skills to think and investigate answers to their own questions. Built-in tools promote curiosity, investigation, and higher-order thinking
- An assessment plan that provides a snapshot of each student's progress at any time and helps close the learning gap through diagnosis and differentiated instruction

New reading program for K–6, including English-language learners and intervention market

***Treasures* Reading Program**
www.macmillanmh.com

Treasures is a comprehensive research-based K–6 reading program that covers phonemic awareness, fluency, vocabulary, and text comprehension. The built-in assessment tools help teachers provide students with what they need to comprehend, interpret, and evaluate a wide range of topics as well as identify strengths and weaknesses of all students. Two supplemental programs are available:

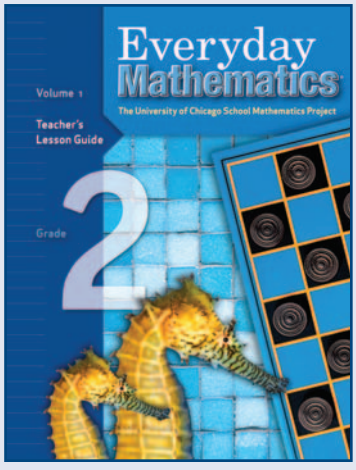
- *Treasure Chest,* a comprehensive program that helps English-language learners in the areas of listening, speaking, reading, and writing
- *Triumphs*, an intervention program that includes validated diagnostic and prescriptive tools to determine needs and put students back on track

Supporting teachers to improve students' understanding of math

Everyday Mathematics, Third Edition
ww.emgames.com

Everyday Mathematics, Third Edition is designed to provide teachers with stronger lesson and content support to make the program easier to teach while giving every student an even greater understanding of mathematics. *Everyday Mathematics, Third Edition* now includes:

- Student components and materials that enable teachers to provide differentiated instruction
- A newly-modified assessment tool and a redesigned kindergarten program
- Assessment Management System, an online system designed to track student, school, and district progress toward the *Everyday Mathematics* grade-level goals
- Interactive reference books which facilitate student learning at school and at home
- An easier-to-use Teachers' Lesson Guide

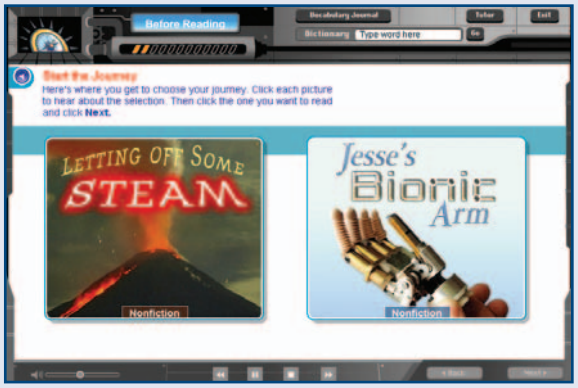


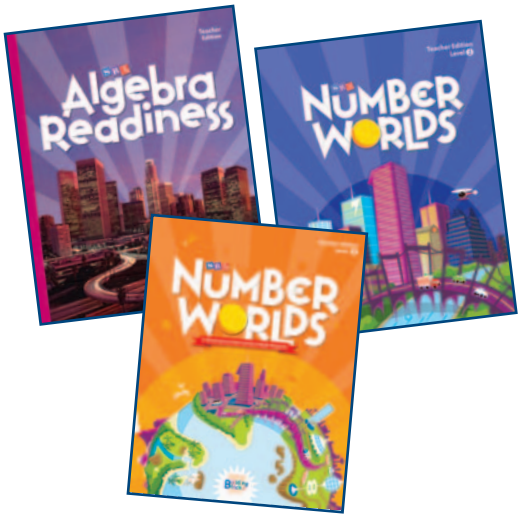
Reading intervention for grades 6–12

Jamestown Reading Navigator
www.readingnavigator.com

The U.S. Department of Education estimates that 40% of all middle and high school students cannot read at a basic literacy level. *Jamestown Reading Navigator* is the first online reading intervention program built specifically for students in grades 6–12 that fully integrates the latest research in adolescent literacy. Designed to accelerate growth in reading fluency and comprehension skills, it helps struggling students catch up to where they need to be by:

- Providing online instruction, print resources, and progress monitoring
- Continuously assessing student progress, adjusting instruction, and providing individualized reports
- Aligning with federal Striving Readers grant requirements
- Integrating professional reading training and development for district staff





Math intervention for struggling students

Number Worlds
www.sranumberworlds.com

Number Worlds is an intensive intervention program that focuses on students who are one or more grade levels behind in elementary mathematics. It provides all the tools teachers need to assess students' abilities, individualize instruction, build foundational skills and concepts, and make learning fun.

- Includes a prevention program for grades pre-K–1
- Builds foundational math skills and prepares younger children to understand more complex concepts later
- Shows proven results through years of rigorous field testing

Combining video and text to engage all elementary students in science lessons

Snapshots Video Science™
www.sraonline.com/snapshots

Snapshots Video Science is a supplemental videotext program designed to teach upper elementary students core science concepts and key vocabulary for grades 3–5. The program reduces teacher preparation time by providing easy-to-use materials and provides differentiated instruction and English-language learner support. The combination of video lessons and student books will help prepare students for the 2007–2008 state-wide science assessments required by *No Child Left Behind*.

Snapshots Video Science addresses three key concerns in the science classroom:

- Prevention – Keeps students from falling behind when science content, vocabulary, and new science concepts can make reading and learning science difficult
- Vocabulary – Students learn challenging science vocabulary through a deliberate process of multiple exposures to new terms
- Test Prep – Built-in test preparation helps students succeed on high-stakes science tests

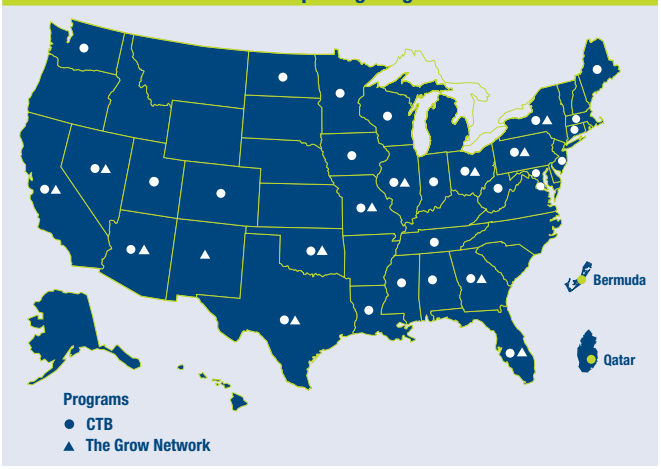
TRANSFORMING THE ASSESSMENT MARKET: DIFFERENTIATED OFFERINGS

McGraw-Hill Education assessment and reporting solutions, offered through its leading brands CTB and The Grow Network, leverage capabilities to create research-based assessment programs that link student results to individual instruction in state, district, and international markets.

With increased focus on educational accountability, assessment is recognized as a critical learning and teaching tool and provides the data educators need to enhance instruction and student performance. McGraw-Hill Education is uniquely qualified to provide integrated solutions that transform data into action plans for educators, students, and parents. Robust assessment capabilities and products and innovative reports and individualized study guides diagnose student strengths and weaknesses, help gauge the quality of education, and ultimately improve student achievement. Combined solutions include:

- A personalized study guide program integrated into a state assessment program
- Multi-lingual reports for families – both in print and online – as part of a state assessment program
- Unique reports that integrate national norm data and state standards as part of a large district assessment program
- Math and science assessments and related student reports for an international assessment program

McGraw-Hill Assessment and Reporting Programs



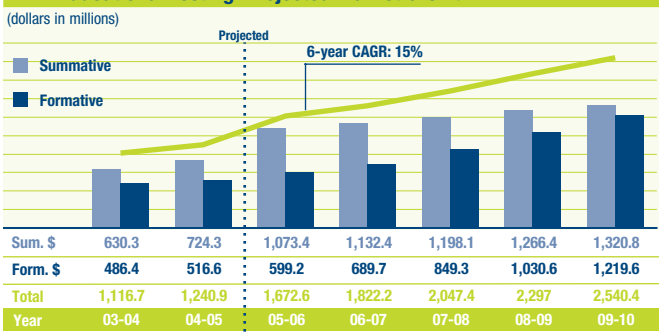
The Impact of *No Child Left Behind* on Annual Testing

Starting Year	Subject	Grades	Frequency
2005-06	Reading	3–8 10–12	Once a year Once in high school*
	Mathematics	3–8 10–12	Once a year Once in high school*
2007-08	Science	3–5, 6–9, 10–12	Once a year at three different grade levels

* Grade not specified

K–12 Educational Testing: Projected Market Growth

(dollars in millions)



Sum. $	630.3	724.3	1,073.4	1,132.4	1,198.1	1,266.4	1,320.8
Form. $	486.4	516.6	599.2	689.7	849.3	1,030.6	1,219.6
Total	1,116.7	1,240.9	1,672.6	1,822.2	2,047.4	2,297	2,540.4
Year	03-04	04-05	05-06	06-07	07-08	08-09	09-10

Source: Eduventures

TECHNOLOGY TO ENHANCE TEACHING AND LEARNING

The future of testing and reporting lies in digital delivery. States and districts increasingly are requesting online solutions to bring the benefits of technology into classrooms and reduce the turn-around time required for the delivery of student data. McGraw-Hill Education is meeting this market demand by using summative and formative testing to create a learning continuum that supports end-of-year testing with diagnostic information and enhanced instruction.

Acuity™, a formative assessment system administered online as well as via paper and pencil, helps teachers gauge how students are performing against what is being taught in the classroom and assists schools and districts in meeting *No Child Left Behind* (NCLB) requirements. The Online Assessment System (OAS) enables students and schools to take summative tests online. The Parent Network delivers student reports to parents online, providing rapid access to students' results in a format that can be easily understood. McGraw-Hill's delivery of online reports for more than 1.8 million Florida students via the Parent Network (https://www.fcatparentnetwork.com) represents the first example of a state providing online results to parents for a statewide assessment program.

As the volume of testing increases due to NCLB mandates as well as interest from higher education institutions, the business community, and adult education programs, so does the market for products and services that support many aspects of educational assessment and accountability.

Measures academic achievement in core subjects and compares to state standards

TerraNova™*, Third Edition*

The *TerraNova* family of assessments, launched in 1996, sets new standards of innovation for achievement test design. Technical excellence and curricula-based content are the hallmarks of *TerraNova*, one of the most trusted and respected assessment and reporting solutions in K–12 education. The latest version, *TerraNova, Third Edition*, measures academic achievement in reading, language, math, science, and social studies for grades K–12. The scores show a student's achievement relative to a nationally representative sample, helping teachers reliably pinpoint student strengths and weaknesses as compared to state standards. *TerraNova, Third Edition* can also estimate performance on the state test and report student progress toward state standards.

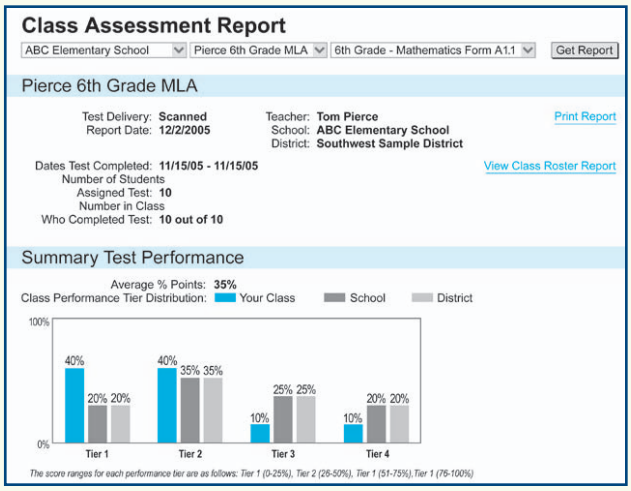
Technology to Enhance Teaching and Learning

Diagnostic and predictive benchmark assessments for the formative testing market

Acuity™

Acuity is a suite of diagnostic and predictive benchmark assessments designed to show student growth toward state standards in reading and math for grades 3–8 and in algebra for grades 7–12. Acuity features online and paper-and-pencil administration options to match the level of technology available in schools. Informative reports provide the data teachers need to improve student achievement.

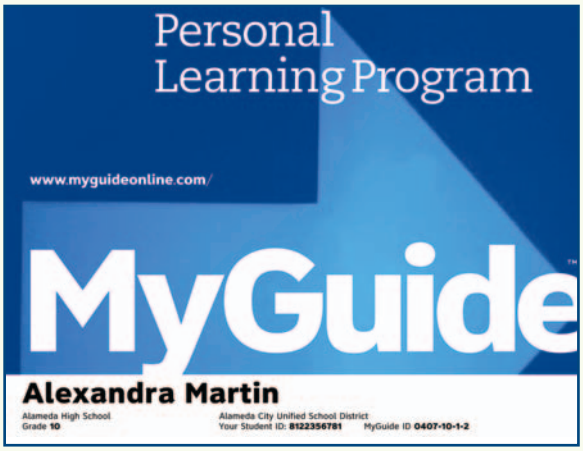
Instructional exercises tied to student performance and state correlated online item banks enable custom, teacher-created tests to help students remain current on classroom instruction.



Individualized learning and differentiated instruction for K-12 students

The *MyGuide*™ Personal Learning Program

Instructional technology, individualized learning, and differentiated instruction are key to the *MyGuide* Personal Learning Program. By analyzing each student's assessment results, the *MyGuide* Personal Learning Program provides individualized, standards-based instruction, both in print and online. The program includes specific support for struggling learners and English-language learners (ELL), professional development for educators, connections to college and career choices, and multi-lingual parent engagement tools.



Assessments and instructional guidance for English-language learners

LAS Links™ English- and Spanish-Language Assessments

LAS Links is an integrated system of research-based assessments and instructional guidance designed to identify grade K-12 students' ability to speak, read, write, listen to, and comprehend English. The system also provides compliance with NCLB Title III requirements, which mandate research-based English-language instruction and annual assessment of English-language proficiency for limited English proficiency (LEP) students.

LAS Links Español is a comprehensive language assessment system for Spanish-speaking students that measures Spanish-language proficiency and supports educators in developing effective Spanish-language program curricula.

Diagnostic assessments and instructional support for adult students

TABE CLAS-E™

The TABE® family of products, the nation's leading adult basic education program, offers a complete and flexible system of diagnostic assessments and instructional support materials to meet the diverse needs of adult students. The latest addition to the family, TABE CLAS-E (Complete Language Assessment System – English), is an English-language proficiency test for students who speak English as a second language.

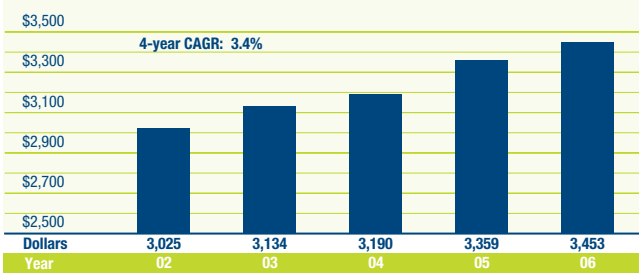
Higher Education in a Knowledge Economy

The worldwide demand for education is growing. It is being driven by the requirements of a knowledge economy for skilled workers, growth in enrollments both in the U.S. and abroad, and the increased use of technology, including online courses, to deliver products and services.

Growth in the emerging markets of Asia, Latin America, and the Middle East is being stimulated by increased government spending and growing enrollments in higher education.

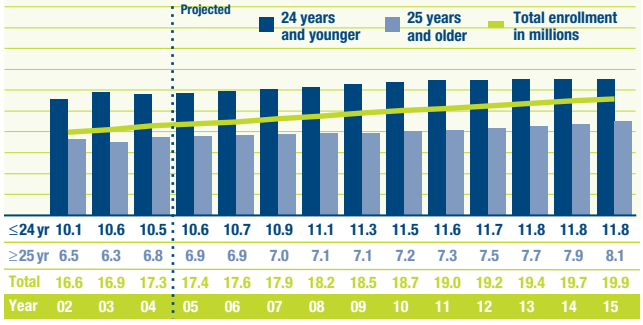
As the applications of technology for course management and content delivery continue to grow, McGraw-Hill Education is pursuing a variety of initiatives, including the development of e-books, online homework support for students, audio and video presentations on iPods and compatible MP3 devices, and course management tools for faculty.

Estimated Higher Education Industry Sales of U.S. Publishers



Source: AAP Includes sales of domestic and non-domestic products

Enrollment in U.S. Higher Education Institutions

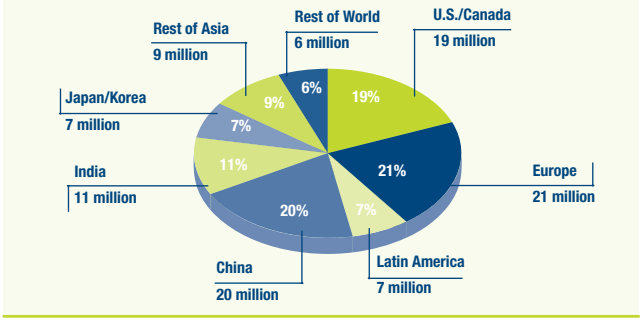


≤24 yr	10.1	10.6	10.5	10.6	10.7	10.9	11.1	11.3	11.5	11.6	11.7	11.8	11.8	11.8
≥25 yr	6.5	6.3	6.8	6.9	6.9	7.0	7.1	7.1	7.2	7.3	7.5	7.7	7.9	8.1
Total	16.6	16.9	17.3	17.4	17.6	17.9	18.2	18.5	18.7	19.0	19.2	19.4	19.7	19.9
Year	02	03	04	05	06	07	08	09	10	11	12	13	14	15

Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2015"

Note: Detail may not sum to totals due to rounding

Global Higher Education Enrollment – 2005

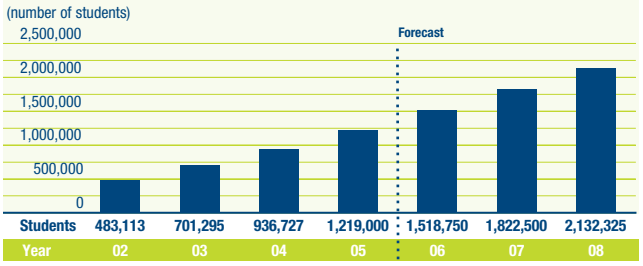


Sources: UNESCO, Hezel Associates

Technology Is Enabling Flexible Educational Solutions and Opportunities

Digital learning solutions are making online course delivery one of the most dynamic segments of the higher education market. Online delivery is enabling busy college students and working adults to learn anytime, anywhere. Most traditional postsecondary institutions are rapidly increasing their offerings of online courses for credit, and a number of totally online schools have emerged in the for-profit sector. Online courses are gaining traction in the United States with older students, particularly at for-profit post-secondary schools. According to a 2006 Eduventures report, approximately 1.2 million students were taking at least one online course during the Fall 2005 term and that number is forecasted to increase to 2.1 million in 2008.

Online Student Headcount



Source: Eduventures

Convenience is the singular driver of student demand for totally online courses, even when students are otherwise enrolled on a campus. These digital deliveries, whether of the core course content normally delivered in print or of new products and services, will move McGraw-Hill Education toward a subscription model, which has significant advantages for the Company.

Access to high-speed Internet has become virtually universal in the U.S. higher education market, providing opportunities for a new generation of products that can improve course management for instructors and enhance the experience for students. McGraw-Hill Education is taking advantage of this trend by providing online content in a number of ways:

- **Online Courses**: These courses can be used as a complete course or as part of a regular course with both traditional classroom and online instruction. Online course features include streaming video, animation, and personalized assessment. *(See facing page)*
- **Mobile Resources**: Flexible delivery of student study materials to iPods and other mobile devices.
- **Instructor Resource Materials**: Virtually all instructor resource materials previously delivered as print product are now delivered as digital product, resulting in substantial cost savings.
- **eBooks**: Textbook content for both instructors and students is now available online. McGraw-Hill Education, along with five other publishers, is a founding member of an industry consortium formed to develop a common eBook platform to serve the higher education market by standardizing content delivery.
- **Digital Homework Services**: Available for mathematics, economics, finance, accounting, world languages, and more. Students complete and submit homework online; feedback identifies areas for further study. Program automatically grades homework and enters results into instructor's digital grade book.

The Emerging Digital Model

Online Courses

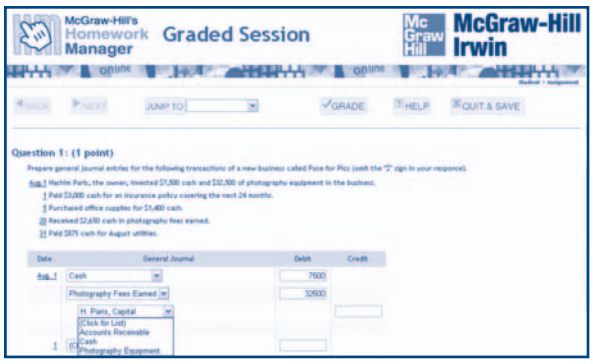
McGraw-Hill Education offers 40 online higher education courses and will be adding more in 2007 to capitalize on the growing demand for digital products and services at colleges and universities worldwide. Each online course represents a standard 15-week semester – about 45 hours of class time. The courses integrate with most learning management systems and provide instructional design, animation, graphics, streaming video, and interactive activities to motivate learners. The digitized course represents a new blended learning environment for the student and the instructor with the potential to increase interaction between them. Colleges are using the courses to either launch or enhance their current online program. The online course can also be used in a hybrid curriculum that leverages the best of traditional and innovative online learning solutions.

McGraw-Hill's online courses use an end-to-end critical path method of instructional design and were named a 2007 SIIA CODiE finalist in the categories of Best Education Solution and Best Postsecondary Course/Content Management Solution.

Current courses include:

- Accounting I & II
- Introduction to Business
- Principles of Management
- Principles of Macroeconomics
- Principles of Microeconomics
- Anatomy & Physiology I & II
- Medical Assisting I & II
- Medical Law & Ethics
- Introduction to Sociology
- Introduction to Psychology
- Introduction to Criminal Justice
- EnglishComposition: MLA Style
- U.S. History I & II
- Introductory Algebra
- Intermediate Algebra
- Medical Terminology

www.OnlineLearning.com



Study Aids for Online Homework

McGraw-Hill's *Homework Manager Plus* combines the power of *Homework Manager* with the latest interactive learning technology to create a comprehensive, fully-integrated online study package. Students can access an interactive online textbook that allows students working on assignments to click a link and instantly review the appropriate material in the textbook. These links give students quick access to relevant content as they work through problems, exercises, and practice quizzes.

Enhanced Digital Content Delivery

Two prime examples of delivering content anytime, anywhere can be found with the media-enhanced editions of *Fundamental Accounting Principles, 18th Edition* and *The Art of Public Speaking*.

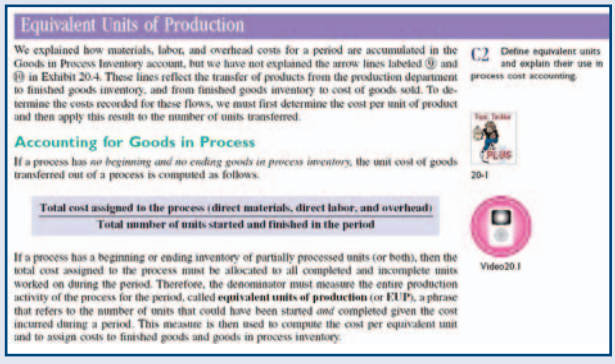
Media-enhanced edition of *Fundamental Accounting Principles*

With this media-enhanced edition, iPod icons appear throughout the text, pointing students to audio and video presentations, quizzes, and narrated demonstration problems that correlate to the text. iPod content can be quickly downloaded from a DVD that is packaged with the book or by going online.

Using digital media to bring *The Art of Public Speaking* to life

Lucas-On-the-Go (www.mhhe.com/socscience/comm/lucas2007) is a companion website to *The Art of Public Speaking, Ninth Edition* that enables students to download content directly to their iPod or other MP3 compatible player and features:

- Student speech video clips
- Audio chapter summaries
- Audio abridgment CD files
- Video flashcards



Icons appear throughout *Fundamental Accounting Principles* linking the text to iPod content

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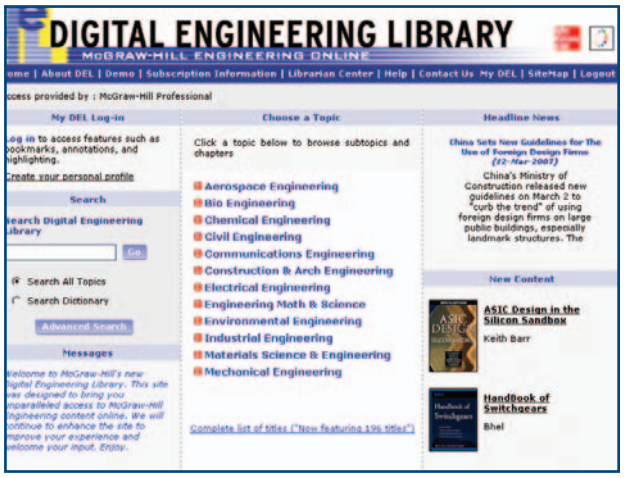

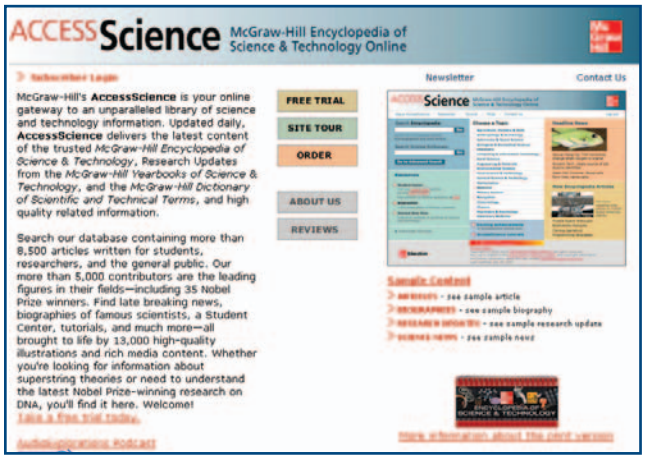

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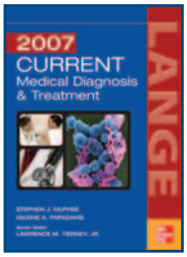

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