

# STANDARD & POOR'S

## S&P 500: BUYBACKS AND THE IMPACT OF SHARE COUNT REDUCTION

*Howard Silverblatt  
Senior Index Analyst  
(212) 438-3916  
email:howard\_silverblatt@  
standardandpoors.com*

*Dave Guarino  
Communications  
(212) 438-1471  
email:dave\_guarino@  
standardandpoors.com*

- Buybacks soared to \$349 billion in 2005, vs. \$197 billion in 2004.
- The drastic increase in buybacks is the result of the new corporate trend toward share count reduction (SCR).
- Share reductions add to shareholder equity, support the short-term stock price, increase earnings per share, and answer the growing demands of investors for companies to invest their accumulated cash.
- **Share reductions accounted for 29% of the average issue Q4 2005 EPS gain over Q4 2004 for the targeted group.**
- The long-term impact of share reductions depends on the use of shares.
- **The key question now is, what will companies do with the shares?**

|   |           |
|---|-----------|
| <b>Overview</b>   | <b>3</b>  |
| <b>Buybacks</b>   | <b>5</b>  |
| <b>Share Reductions</b>   | <b>6</b>  |
| <b>Impact on Share Price</b>                                      | <b>7</b>  |
| <b>Impact on Earnings Per Share</b>                               | <b>8</b>  |
| <b>Moving Forward</b>   | <b>8</b>  |
| <b>Mathematics of Share Count Reductions on the S&amp;P Index</b> | <b>11</b> |
| <b>Disclaimer</b>   | <b>13</b> |
| <b>Targeted Companies</b>   | <b>14</b> |

### OVERVIEW

The aim of this report is to quantify the growing tendency of S&P 500 members to implement share count reductions (SCR) via their buyback activity and public tenders for shares. **S&P believes SCRs are a legitimate use of discretionary corporate cash, but that the full impact and intent of such action needs to be understood by the investing public.** Over time, share counts increase as shares are issued by companies for options, growth and M&A. Share count reductions are not a common event, and prolonged reductions by a large number of companies are rare. Starting with the fourth quarter of 2004, S&P noticed and publicly commented on the significant increase in S&P 500 buybacks and the increase in issues that reduced their share count. Buybacks reached record levels in all four quarters of 2005, and quarterly share reductions were registered for a broad number of companies. With five consecutive quarters of strong SCRs, year-over-year quarterly observations and interpretations presented themselves for the fourth quarter of 2005.

S&P 500 members spent a record \$349 billion on buybacks in 2005, compared to \$197 billion in 2004. A total of 266 issues posted year-over-year share reductions, with 80 posting significant reductions of at least 4%. Earnings per share are calculated by using the average diluted shares outstanding for the period, not the actual share count. It is not uncommon for the actual share and diluted share count change to be disproportionate or even move in opposite directions. Diluted fourth quarter (year-over-year) counts diminished for 279 issues, with significant reductions of at least 4% posted by 95 issues. In order to limit contributing factors and illustrate the impact of SCRs, S&P used only issues that reduced their share and diluted share counts by at least 4% (64 issues), issues for which operating earnings were positive in both the fourth quarter of 2004 and the fourth quarter of 2005 (60 issues) and then manually eliminated issues where the data was incomplete or due to a specific issue situation; the remaining issue count was 52 issues.

## S&P 500: BUYBACKS AND THE IMPACT OF SHARE COUNT REDUCTION

---

|   |     |
|---|-----|
| Issues reducing their actual shares                         | 266 |
| Issues reducing their average diluted shares                | 279 |
| Issues reducing their actual shares by at least 4%          | 80  |
| Issues reducing their average diluted shares by at least 4% | 95  |
| Interception at 4% reduction                                | 64  |
| Positive EPS  | 60  |
| Issues not used due to situations or data                   | 8   |
| Issues used   | 52  |

For the target 52 issues, the average quarterly year-over-year earnings per share gain was 16.22% (note these values are averages and not index weighted). When the target earnings were recomputed, based on the prior years average diluted share count, the average increase became 11.51%. The 29% variance was the result of corporate expenditures directed at SCRs. As stated, S&P believes that expenditures for SCRs are a legitimate use of corporate cash, and that they in no manner or form represent the pro-forma earnings used by some companies in the 2000-2002 earnings season. Still, investors need to know where their growth is coming from. If a company stops reducing its shares, the share reduction impact fades over the following quarters. If the company reissues its shares the effect is reversed, with an increase in net income producing a lower increase in EPS.

The most relevant issue for investors is what the company will do with the shares. These shares have not been retired; they sit in the corporate treasury, where, subject to regulator timing, they can be reissued at the discretion of the company. Through buybacks, the company transfers some of its cash (on the asset side of the balance sheet) into its shareholders' equity account. With the transfer comes higher equity, improved EPS, the risk and reward of share price fluctuation, and the limits as to their use. As cash, the proceeds were universal; as shares, their reissuance brings dilution and is limited to what it can buy.

### S&P DATA AND CLASSIFICATIONS

The data used in this report are compiled from Standard & Poor's *Compustat* and *Stock Guide* databases, and are based on SEC filings. The constituents used are of the current S&P 500 membership, and the data represent the latest values. Data that do not conform or were deemed incomplete for presentation were not utilized.

Additionally, individual issues that did not have complete data were omitted from the summary data. For this reason, some of the sum or variances of the data may not match the aggregates. Earnings modified in this report were based on As-Reported (GAAP) earnings per share, adjusted for the change in diluted year-over-year average diluted shares. No adjustment was made to income for share adjustments or conversions. This report was prepared by the Standard & Poor's Index Analysis and Management Group, which is separate from the Standard & Poor's Credit Market Services Group (fixed income) and separate from Standard & Poor's Equity Research Services. This report does not discuss ratings or credit market aspects and does not make any buy/hold/sell recommendations for any securities.

### **BUYBACKS**

Traditionally, companies have used buybacks to offset the issuance of employee options, M&A activity, to temporarily support their stock and to reduce their share count. Over the past decade the option portion has accounted for the major use of repurchased shares and actual share reductions the least. Companies usually highlight and lump these expenditures, along with dividends, and present them as a return to investors of shareholder value. Encouraged by the dividend tax cut of 2003 and fueled by a bear market that left investors less aggressive and more attentive to total returns, dividend increases and initiations in the S&P 500 started to turn upwards after a 20-year decline. In 1980, 469 issues paid cash dividends in the S&P 500. By 2002, that had dropped to 351. Since then there have been 924 increases and 43 initiations, compared to just 25 decreases and 10 suspensions. The net result is that 387 issues now pay a cash dividend, and S&P expects a record \$227 billion in dividend payments this year (vs. \$202 billion in 2004). As earnings continued to improve cash started to accumulate in corporate accounts. Still hungry for returns, investors started to pressure companies to use their cash reserves. Corporate expenditures for buybacks started climbing significantly in the fourth quarter of 2004, and S&P noticed an increase in the number of companies that actually reduced their

## S&P 500: BUYBACKS AND THE IMPACT OF SHARE COUNT REDUCTION

---

shares. The trend continued into 2005, resulting in a record \$349 billion spent on buybacks and a significant number of issues reducing their share count.

| Dividend payers | Dividend Changes from 1/1/2003 | Cash and Equivalent in Billions |             |
|-----------------|--------------------------------|---------------------------------|-------------|
| Current: 387    | Increases: 924                 | Current: \$634                  | 2002: \$414 |
| 2005: 386       | Initiations: 43                | 2005: \$633                     | 2001: \$352 |
| 2000: 351       | Decreases: 25                  | 2004: \$626                     | 2000: \$329 |
| 1980: 469       | Suspensions: 10                | 2003: \$500                     | 1999: \$261 |

### S&P 500, VALUES IN BILLIONS, 12/31/2005 PRELIMINARY

| QUARTER<br>END | MARKET<br>VALUE | OPERATING<br>EARNINGS | AS REPORTED<br>EARNINGS | DIVIDENDS | BUYBACKS |
|----------------|-----------------|-----------------------|-------------------------|-----------|----------|
| 12/31/2005     | 11,255          | \$181.85              | \$169.86                | \$54.83   | \$104.28 |
| 09/30/2005     | 11,083          | \$169.74              | \$160.72                | \$48.99   | \$81.47  |
| 06/30/2005     | 10,890          | \$177.52              | \$167.19                | \$49.03   | \$81.42  |
| 03/31/2005     | 10,820          | \$164.42              | \$154.43                | \$48.99   | \$82.05  |
| 12/31/2004     | 11,289          | \$167.20              | \$129.85                | \$49.68   | \$66.42  |
| 09/30/2004     | 10,398          | \$157.47              | \$132.28                | \$45.54   | \$45.68  |
| 06/30/2004     | 10,623          | \$158.12              | \$142.01                | \$43.43   | \$42.46  |
| 03/31/2004     | 10,461          | \$147.42              | \$141.01                | \$42.36   | \$42.92  |
| 12/31/2003     | 10,286          | \$137.65              | \$121.74                | \$46.76   | \$38.53  |
| 09/30/2003     | 9,208           | \$133.22              | \$116.12                | \$39.96   | \$34.13  |
| 06/30/2003     | 9,001           | \$119.34              | \$102.53                | \$37.74   | \$28.36  |
| 03/31/2003     | 7,827           | \$115.16              | \$109.99                | \$36.19   | \$30.03  |
| 12/31/2002     | 8,107           | \$110.03              | \$27.64                 | \$39.22   | \$30.62  |
| 09/30/2002     | 7,518           | \$107.07              | \$78.66                 | \$35.97   | \$35.18  |
| 06/30/2002     | 9,091           | \$106.90              | \$63.09                 | \$38.11   | \$30.98  |
| 03/31/2002     | 10,502          | \$99.31               | \$84.11                 | \$34.51   | \$30.47  |

### SHARE REDUCTIONS

Share count reduction is not a common occurrence. While companies may reduce shares over the short term, over longer time periods share counts generally go up. One of the major uses of both new and reissued shares is M&A activity. Employee options are usually covered via buybacks, to prevent any share dilution. The issuance of shares is itself dilutive, so companies are usually careful not to reissue them as an ongoing practice. **Their use in M&A is the exception. In M&A the acquired company usually has a greater P/E (if it has earnings at all), and the prospect of the initial dilutive effect is acceptable for a short period, as the acquired company is melded in and the ‘synergies’ take effect.**

Share reductions also have an impact on EPS via the calculation of average diluted shares, which is used for determining earnings per share. As illustrated, an 8% increase in net earnings combined with a 4% reduction in shares results in a 12.5% EPS gain. If the company maintains its share level, the boost to earnings will fade over the next year. If, however, it had issued the same number of shares, the impact would be reversed and an 8% net increase would result in a 3.85% EPS gain. Again, investors need to know where their growth is coming from.

### **SIMPLE ILLUSTRATION OF SHARE CHANGE IMPACT ON EPS**

#### **8% increase in aggregate earnings**

|                               | <b>Q4 2004</b> | <b>Q4 2005<br/>Shares<br/>decreased<br/>4%</b> | <b>Q4 2005<br/>Shares<br/>increased<br/>4%</b> |
|-------------------------------|----------------|--|--|
| Income (millions)             | \$100          | \$108  | \$108  |
| Average shares (millions)     | 100            | 96   | 104  |
| EPS                           | \$1.00         | \$1.125  | \$1.038  |
| EPS if shares frozen          | \$1.00         | \$1.080  | \$1.080  |
| Year-over-year Q4 EPS growth  |                | 12.50%   | 3.85%  |
| Year-over-year if shares flat |                | 8.00%  | 8.00%  |
| Growth due to share reduction |                | 4.50%  | -4.15%   |

### **IMPACT ON SHARE PRICE**

The most prevalent question is how share buybacks and share count reductions impact long-term stock price. As stated, share reductions are not a common occurrence, but they do support stock price over a short period of time. This support may not be easily seen if the stock is declining. To date, neither academic nor quantitative research has proven the impact of buybacks or share count reductions. For example, to claim that the stock price of Exxon went up because it reduced its actual share count (every quarter since the fourth quarter of 2000) could not be supported by cause and effect. Similarly, the results of our 52-targeted issues do not provide the proof, but they measure the performance over a small period of time in which one of the common traits was share count reduction.

### IMPACT ON EARNINGS PER SHARE

A company's historical and projected earnings are the data most commonly used in evaluating a company's current value. The per-share value metric is key in P/E and year-over-year growth and, to a lesser extent, the payout ratio. The net aggregate value is dominant in return values, with the comparison to equity, assets and interest times earned. Traditional changes in share count usually reflect corporate changes with respect to M&A and or financing (again, with buybacks covering the majority of employee options). The sudden change in share count over the past 15 months for a growing number of S&P 500 issues, unassociated with either M&A or financing, has created a variance in the calculated change of aggregate net income and earnings per share. While it is believed that this disassociation will last for a short period, current perceived growth and multiples might need to be adjusted to accommodate the change. If share reductions are made permanent, multiples will need to rise in order to calibrate the value. However, if, as is expected, shares are reissued, then premium multiples become dependant on the use of the shares. **Specifically, S&P believes that the current buildup in treasury shares will be used to support growing M&A activity.** In these cases, the specific merger becomes more paramount than the shares. In many large-scale mergers, the initial transactional cost (whether shares, cash or leverage) is only the down payment. The integration of the concern and the realignment of personnel, product and clients have a far greater influence on the future profitability of the ongoing concern. It is this aspect that investors need to concern themselves with.

### MOVING FORWARD

The high level of buybacks and dividends now represents almost 94% of the As-Reported income of the S&P 500. While dividends payouts remain historically low (partially due to the lower number of paying issues), buybacks have grown at an enormous rate. Given the number of stock options already in the hands of employees (at substantially lower strike prices), many of the shares currently held in treasuries

## S&P 500: BUYBACKS AND THE IMPACT OF SHARE COUNT REDUCTION

---

may be used for their satisfaction. Since the shares have already been paid for, the additional cash (when the options are exercised) will be added to the already large cash reserves. Recently, several companies have publicly mentioned that they may utilize short-term borrowing to finance buybacks. In these cases, the additional cash from the exercised options may be used to repay the debt.

| QUARTER<br>END | DIVIDEND<br>YIELD | BUYBACK<br>YIELD | DIVIDEND &<br>BUYBACK<br>YIELD | DIVIDEND &<br>BUYBACK<br>% OF AS<br>REPORTED<br>EARNINGS |
|----------------|-------------------|------------------|--------------------------------|--|
| 12/31/2005     | 0.49%             | 0.93%            | 1.41%                          | 93.52%   |
| 09/30/2005     | 0.44%             | 0.74%            | 1.18%                          | 81.17%   |
| 06/30/2005     | 0.45%             | 0.75%            | 1.20%                          | 78.03%   |
| 03/31/2005     | 0.45%             | 0.76%            | 1.21%                          | 84.86%   |
| 12/31/2004     | 0.44%             | 0.59%            | 1.03%                          | 89.41%   |
| 09/30/2004     | 0.44%             | 0.44%            | 0.88%                          | 68.96%   |
| 06/30/2004     | 0.41%             | 0.40%            | 0.81%                          | 60.48%   |
| 03/31/2004     | 0.40%             | 0.41%            | 0.82%                          | 60.48%   |
| 12/31/2003     | 0.45%             | 0.37%            | 0.83%                          | 70.06%   |
| 09/30/2003     | 0.43%             | 0.37%            | 0.80%                          | 63.81%   |
| 06/30/2003     | 0.42%             | 0.32%            | 0.73%                          | 64.47%   |
| 03/31/2003     | 0.46%             | 0.38%            | 0.85%                          | 60.20%   |

The record level of cash has produced record expenditures for both buybacks and dividends. Combined, dividends and buybacks amounted to an unprecedented \$551 billion for 2005, up \$173 billion from 2004's \$378 billion and almost doubling the \$279 billion spent in 1999. While no data have been registered for 2006, the announcements (which are authorization from the Board of Directors to management) have been active. Based on 2005 data currently available, shares held in treasury are up 29.3% from 2004, compared to the 2004 increase of 2.7%. The treasury cost of the shares was up 31.0%, vs. 10.6% for 2004 (note that the accounting treatment and specific use of shares limits the cost basis use for this report). **The treasury stock now represents 9.8% of the total shares outstanding.** These shares are totally at the discretion of the company and can be maintained in the treasury or reissued.

## S&P 500: BUYBACKS AND THE IMPACT OF SHARE COUNT REDUCTION

---

### Historical % share change in current S&P 500 membership

2005 data based available data to date

|                                   | 2005   | 2004   | 2003  |
|-----------------------------------|--------|--------|-------|
| Outstanding                       | 0.38%  | 2.11%  | 1.52% |
| Treasury                          | 29.26% | 2.67%  | 4.33% |
| Cost                              | 31.05% | 10.60% | 7.53% |
| Treasury % of outstanding         | 9.76%  | 7.36%  | 7.20% |
| Average Treasury % of outstanding | 11.39% | 9.18%  | 8.88% |

### STANDARD & POOR'S INVESTMENT SERVICES

S&P 500,12-MONTH VALUES

| FISCAL     | MARKET<br>VALUE<br>BILLIONS | DIVIDENDS<br>BILLIONS | BUYBACKS<br>BILLIONS | TOTAL<br>BUYBACKS<br>BILLIONS | DIVIDEND &<br>BUYBACK<br>YIELD |
|------------|-----------------------------|-----------------------|----------------------|-------------------------------|--------------------------------|
| 12/31/2005 | \$11,255                    | \$202                 | \$349                | \$551                         | 4.90%                          |
| 12/31/2004 | \$11,289                    | \$181                 | \$197                | \$378                         | 3.35%                          |
| 12/31/2003 | \$10,286                    | \$161                 | \$131                | \$292                         | 2.84%                          |
| 12/31/2002 | \$8,107                     | \$148                 | \$127                | \$275                         | 3.39%                          |
| 12/31/2001 | \$10,463                    | \$142                 | \$132                | \$274                         | 2.62%                          |
| 12/31/2000 | \$11,715                    | \$141                 | \$151                | \$292                         | 2.49%                          |
| 12/31/1999 | \$12,315                    | \$138                 | \$141                | \$279                         | 2.27%                          |

The recent rise in M&A activity is the result of the comparisons to lower prior periods, the gun-shy reaction of management to the expansions of the late 1990s followed by the bear market of 2000-2002, and companies' need to expand their profits, especially now that earnings are poised to show a single-digit gain after 16 quarters of double-digit increases. Contributing to the situation is the abundance of cash, both in corporate accounts and available via the public and private markets. Recent S&P 500 major actions include Procter & Gamble's share purchase of Gillette (with Procter & Gamble being the largest repurchaser of shares in Q3 2005), AT&T's merger with (and into) SBC Communications, Merrill Lynch's and JP Morgan Chase's increased buyback program, and General Electric's sale of its insurance unit and commitment to use the proceeds to increase its buyback program (from \$15 billion to \$25 billion). There is currently over \$250 billion in M&A deals pending in the S&P 500, as well as several spin-offs, breakups and aggressive buyback programs.

The availability of both cash and treasury shares, aligned with increasing pressure from investors to utilize them, leaves many companies at the threshold of major decisions that affect their long-term prospects. Investors need to examine the current buyback trend and determine what each company will do with the shares. Part of the examination is a review of management's history of shareholder returns via dividend and prolonged share count reductions. **We believe, however, that the major emphasis should be on the ability of management to execute and integrate acquisitions into the existing company.** The shares represent a significant part of company wealth, either as a direct investment in itself, future use for costs (options) or reissuance in M&A. Similar to strategic reviews of products, competition, and development, the use of these shares needs to be scrutinized in order to gain a clear view of a company's growth and earnings potential.

| Pending M&A in the S&P 500                   | Billions |
|--|----------|
| AT&T and BellSouth Corp                      | \$62.5   |
| Boston Scientific and Guidant Corp           | \$27.0   |
| Capital One Fin'l and North Fork Bancorp     | \$14.6   |
| ConocoPhillips and Burlington Resources      | \$35.6   |
| Constellation Energy Gr and FPL Gr           | \$11.0   |
| Exelon Corp and Public Service Enterprise Gr | \$12.8   |
| Jefferson-Pilot and Lincoln Fin'l Gr         | \$7.5    |
| Keyspan Energy and National Grid             | \$7.1    |
| Knight-Ridder and The McClatchy Co           | \$4.5    |
| Novartis and Chiron Corp                     | \$45.5   |
| Supervalu Inc, CVS and Albertson's           | \$9.5    |
| Walt Disney Co and Pixar                     | \$6.3    |

#### SPIN-OFFS, DISTRIBUTIONS, TENDERS

Alberto-Culver to spin off Sally Beauty  
ALLTEL Corp to spin off Wirelin  
AutoNation cash tender for 50M shares  
Cendant Corp to separate into four publicly companies  
Firstdata spin-off of Western Union  
Kerr-McGee to spin off the remaining Tronox  
Tyco Int'l to separate into three companies

## MATHEMATICS OF SHARE REDUCTIONS ON THE S&P INDEX

S&P adjusts its index share weightings on an event basis. A full rebalancing is done each quarter. On the third Friday of the last month of the quarter (the most recent being released on March 17, 2006) S&P rebalances the shares used in the

index. The rebalancing process includes an issue-by-issue review of the membership and an adjustment to the shares for any variance. Between rebalancing, shares are adjusted only for significant changes or events. The rebalancing, just prior to the ending period, brings the share counts and weightings closer to the actual shares that the company have outstanding. At the end of each calendar quarter (March 31, 2006 for the current Q1 EPS) the membership, shares and divisor of the index are frozen for use in calculating its quarterly EPS. The index divisor, which is similar in nature to a company's share count, is adjusted whenever the membership or weightings are changed. The divisor adjustment prevents any artificial gain or loss due to a change. Simply put, if you have \$10,000 in an account and add another \$1,000, you did not gain 10%; your portfolio base has increased due to the added proceeds. **Since corporations do not rebalance their shares, a greater variance in quarter-over-quarter issue measurement should be expected than in that of the index.**

S&P bottom-up forward estimates are based on earnings per share values supplied by the S&P equity analyst covering each issue. S&P analysts utilize current and expected share count in making their estimates. S&P has concern as to the extent that some equity analysts incorporate share changes into their analysis. If a higher share count is used in the calculation of an estimate, the result would be an under estimation of the EPS. This could lead to an initial assumption of a positive earnings surprise when the actual EPS is announced, since the announced value is higher than the estimated value. The discovery that the variance is due to share change, however, would not take long, resulting in any initial upward price movement being negated.

Index earnings are the product of weightings. All earnings are used, regardless of their values. Year-over-year changes are measured on an index level, with no historical adjustment for change in membership or weighting (which is the task of the divisor). The weighted numbers are not compatible with averaging, regardless of collars that may be incorporated to adjust for outliers.

### Disclaimers

This report was prepared by the Standard & Poor's Index Analysis and Management Group, which is separate from the Standard & Poor's Credit Market Services Group (fixed income) and separate from Standard & Poor's Equity Research Services. This report does not discuss ratings or credit market aspects and does not make any buy/hold/sell recommendations for any securities.

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

### About Standard & Poor's

Standard & Poor's is the world's foremost provider of independent credit ratings, indices, risk evaluation, investment research, data and valuations. With approximately 6,300 employees located in 20 countries, Standard & Poor's is an essential part of the world's financial infrastructure and has played a leading role for more than 140 years in providing investors with the independent benchmarks they need to feel more confident about their investment and financial decisions. For more information, visit [www.standardandpoors.com](http://www.standardandpoors.com).

### About The McGraw-Hill Companies

Founded in 1888, The McGraw-Hill Companies is a global information services provider meeting worldwide needs in the financial services, education and business information markets through leading brands such as Standard & Poor's, BusinessWeek and McGraw-Hill Education. The Corporation has more than 280 offices in 37 countries. Sales in 2004 were \$5.3 billion. Additional information is available at [www.mcgraw-hill.com](http://www.mcgraw-hill.com).

**STANDARD & POOR'S INVESTMENT SERVICES**

Targeted S&amp;P 500 issues: Q4 As Reported (GAAP) values

| COMPANY                      | SECTOR                 | ACTUAL<br>SHARE<br>CHANGE | AVERAGE<br>DILUTED<br>SHARE<br>CHANGE | AS<br>REPORTED<br>NET<br>INCOME<br>CHANGE | AS<br>REPORTED<br>EARNINGS<br>PER SHARE<br>CHANGE | 12-MONTH<br>BUYBACKS<br>\$ MILLIONS |
|------------------------------|------------------------|---------------------------|---------------------------------------|---|---|-------------------------------------|
| ALLSTATE CORP                | Financials             | -5.42%                    | -5.46%                                | -8.84%                                    | -3.05%  | 2,484                               |
| APPLERA CORP APPLIED BIOSYS  | Health Care            | -4.29%                    | -4.08%                                | -57.48%                                   | -54.05%   | NA                                  |
| APPLIED MATERIALS INC        | Information Technology | -4.87%                    | -4.68%                                | -50.55%                                   | -47.06%   | 1,900                               |
| BALL CORP                    | Materials              | -7.54%                    | -7.75%                                | -20.92%                                   | -16.00%   | 394                                 |
| BLACK & DECKER CORP          | Consumer Discretionary | -5.77%                    | -5.37%                                | -25.65%                                   | -20.00%   | 526                                 |
| CIGNA CORP                   | Health Care            | -8.19%                    | -6.28%                                | -62.37%                                   | -59.86%   | 1,618                               |
| CIT GROUP INC                | Financials             | -5.38%                    | -4.50%                                | 25.52%                                    | 27.37%  | 585                                 |
| CLEAR CHANNEL COMMUNICATIONS | Consumer Discretionary | -4.71%                    | -5.88%                                | -19.74%                                   | -15.00%   | NA                                  |
| DARDEN RESTAURANTS INC       | Consumer Discretionary | -4.85%                    | -4.41%                                | 28.11%                                    | 34.62%  | 431                                 |
| DEERE & CO                   | Industrials            | -4.84%                    | -4.98%                                | 5.88%                                     | 9.30%   | 998                                 |
| DELL INC                     | Information Technology | -4.19%                    | -6.97%                                | 51.72%                                    | 65.38%  | 7,249                               |
| DEVON ENERGY CORP            | Energy                 | -8.37%                    | -9.80%                                | 44.13%                                    | 58.52%  | 2,263                               |
| DILLARDS INC -CL A           | Consumer Discretionary | -5.09%                    | -5.04%                                | -9.32%                                    | -4.62%  | NA                                  |
| DU PONT (E I) DE NEMOURS     | Materials              | -7.52%                    | -5.12%                                | -44.96%                                   | -42.86%   | 3,530                               |
| ENTERGY CORP                 | Utilities              | -4.34%                    | -6.61%                                | -40.09%                                   | -13.24%   | NA                                  |
| FAMILY DOLLAR STORES         | Consumer Discretionary | -7.41%                    | -4.49%                                | -7.16%                                    | -3.03%  | 294                                 |
| FIRST DATA CORP              | Information Technology | -5.12%                    | -6.71%                                | -14.45%                                   | -5.36%  | 2,223                               |
| FISERV INC                   | Information Technology | -6.43%                    | -5.96%                                | 54.41%                                    | 60.00%  | 653                                 |
| FOREST LABORATORIES -CL A    | Health Care            | -6.77%                    | -8.33%                                | -25.17%                                   | -18.57%   | 1,122                               |
| GANNETT CO                   | Consumer Discretionary | -6.41%                    | -7.20%                                | -9.22%                                    | -2.04%  | 1,309                               |
| GOLDMAN SACHS GROUP INC      | Financials             | -9.10%                    | -4.15%                                | 36.68%                                    | 41.95%  | 7,108                               |
| HARLEY-DAVIDSON INC          | Consumer Discretionary | -6.90%                    | -6.96%                                | 10.09%                                    | 18.31%  | 1,055                               |
| INTEL CORP                   | Information Technology | -5.34%                    | -4.27%                                | 15.54%                                    | 21.21%  | 10,637                              |
| INTL BUSINESS MACHINES CORP  | Information Technology | -4.35%                    | -5.13%                                | 12.73%                                    | 19.64%  | 6,506                               |
| INTUIT INC                   | Information Technology | -6.25%                    | -4.37%                                | 24.26%                                    | 13.16%  | 921                                 |
| JANUS CAPITAL GROUP INC      | Financials             | -7.85%                    | -7.66%                                | -40.66%                                   | -37.50%   | 310                                 |
| JONES APPAREL GROUP INC      | Consumer Discretionary | -5.16%                    | -5.83%                                | 63.34%                                    | 71.43%  | 235                                 |
| KIMBERLY-CLARK CORP          | Consumer Staples       | -4.43%                    | -4.67%                                | -16.66%                                   | -10.87%   | 1,520                               |
| KNIGHT-RIDDER INC            | Consumer Discretionary | -12.27%                   | -13.44%                               | -22.22%                                   | -10.14%   | NA                                  |
| LABORATORY CP OF AMER HLDGS  | Health Care            | -12.88%                   | -4.18%                                | 4.83%                                     | 10.34%  | 584                                 |
| LEXMARK INTL INC -CL A       | Information Technology | -12.30%                   | -12.32%                               | -46.90%                                   | -39.83%   | 1,070                               |
| LOUISIANA-PACIFIC CORP       | Materials              | -4.03%                    | -4.23%                                | 521.90%                                   | 514.29%   | 151                                 |
| MANOR CARE INC               | Health Care            | -8.49%                    | -7.42%                                | -32.54%                                   | -27.27%   | 316                                 |
| MARRIOTT INTL INC            | Consumer Discretionary | -8.81%                    | -7.40%                                | 25.40%                                    | 35.44%  | 1,644                               |

**STANDARD & POOR'S INVESTMENT SERVICES**

Targeted S&amp;P 500 issues: Q4 As Reported (GAAP) values

| <b>COMPANY</b>               | <b>SECTOR</b>          | <b>ACTUAL<br/>SHARE<br/>CHANGE</b> | <b>AVERAGE<br/>DILUTED<br/>SHARE<br/>CHANGE</b> | <b>AS<br/>REPORTED<br/>NET<br/>INCOME<br/>CHANGE</b> | <b>AS<br/>REPORTED<br/>EARNINGS<br/>PER SHARE<br/>CHANGE</b> | <b>12-MONTH<br/>BUYBACKS<br/>\$ MILLIONS</b> |
|------------------------------|------------------------|------------------------------------|---|--|--|--|
| MASCO CORP                   | Industrials            | -6.20%                             | -6.87%  | 64.76%   | 47.83%   | 986  |
| MEADWESTVACO CORP            | Materials              | -11.04%                            | -11.53%   | 112.42%  | 65.00%   | 711  |
| MYLAN LABORATORIES INC       | Health Care            | -21.94%                            | -19.93%   | 38.65%   | 69.23%   | 1,220  |
| NATIONAL CITY CORP           | Financials             | -4.90%                             | -6.18%  | -58.52%  | -56.16%  | NA   |
| NATIONAL SEMICONDUCTOR CORP  | Information Technology | -5.01%                             | -4.68%  | 27.44%   | 33.33%   | 799  |
| NOVELLUS SYSTEMS INC         | Information Technology | -4.94%                             | -4.22%  | -38.75%  | -37.04%  | NA   |
| PENNEY (J C) CO              | Consumer Discretionary | -14.39%                            | -17.73%   | 65.47%   | 68.42%   | 2,252  |
| PEPSI BOTTLING GROUP INC     | Consumer Staples       | -4.02%                             | -4.28%  | 0.00%  | 3.45%  | 490  |
| PRINCIPAL FINANCIAL GRP INC  | Financials             | -6.65%                             | -7.15%  | 19.53%   | 16.90%   | 952  |
| RADIOSHACK CORP              | Consumer Discretionary | -14.90%                            | -15.56%   | -62.18%  | -53.09%  | 626  |
| SHERWIN-WILLIAMS CO          | Consumer Discretionary | -4.00%                             | -4.23%  | -8.91%   | -5.26%   | 356  |
| STARBUCKS CORP               | Consumer Discretionary | -4.78%                             | -4.54%  | 20.37%   | 29.41%   | 1,248  |
| TEXAS INSTRUMENTS INC        | Information Technology | -7.07%                             | -6.59%  | 33.67%   | 42.86%   | 4,151  |
| TJX COMPANIES INC            | Consumer Discretionary | -4.16%                             | -4.16%  | 63.17%   | 71.43%   | 604  |
| TORCHMARK CORP               | Financials             | -4.05%                             | -5.22%  | 9.16%  | 15.24%   | 555  |
| UNIVISION COMMUNICATIONS INC | Consumer Discretionary | -5.64%                             | -5.19%  | -59.22%  | -57.89%  | 500  |
| WATERS CORP                  | Health Care            | -12.10%                            | -10.37%   | 5.71%  | 18.97%   | 659  |
| YUM BRANDS INC               | Consumer Discretionary | -4.14%                             | -4.89%  | -3.83%   | 0.00%  | 1,056  |