

STANDARD & POOR'S

S&P 500 BUYBACKS: THREE YEARS AND \$1.3 TRILLION LATER

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- Cash build-up remains high due to record earnings and a management that is commitment-shy of everything except buybacks.
- Over the past three year's buybacks at \$1,318 billion surpassed Capital Expenditures of \$1,276 billion, Research & Development of \$376 billion, and common dividends of \$605 billion.
- 279 issues spent more on buybacks than Capital Expenditures.
- Buybacks represented 2.41% of exchange-listed trades and 2.54% of those reporting buyback activities.
- Total shares repurchased amounted to 38.0 billion shares, which equates to 12.5% of the current outstanding shares.
- **Treasury shares increased 18.1 billion shares, accounting for 47.7% of the repurchased shares, with the remaining shares going for options and M&A.**
- Information Technology has led the buyback bonanza with 21.65% of the aggregate buying, reducing its share count by 5.24%. Conversely, the Financial sector has accounted for 20.93% of the buying, but has increased their share count by 2.24%.
- LTD increased 76.1%, but ex-Financials the increase was 6.0%.
- Direct correlations between total return and buybacks were not established, partially due to the alternative use of shares.
- 65.1% of the issues reduced their shares, but overall share reduction was limited to 1.44%, with diluted shares used for EPS calculations, declining 0.89%
- **Despite higher volatility, market uncertainty and reduced liquidity, Q3 buybacks amounted to \$172 billion, representing a 56.6% year-over-year increase, easily surpassing the old record set last quarter (Q2) of \$158 billion.**
- **Given the current appetite for buybacks, the immediate gratification via EPS reporting, requirements for current option exercising and the resources of companies, buybacks are expected to continue at a strong pace for the next year.**

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IN THE BEGINNING: CASH THE SEED OF BUYBACKS

Cash and equivalents (cash) are classified under current assets on the balance sheet, and represent the readily available discretionary liquid assets of a company. Cash is measured for the S&P Industrials (Old), which consist of the S&P 500 minus Financials, Utilities and Transportation issues since these issues maintain high cash reserves as part of their normal operating process [Note: The S&P Industrials (Old) date back for decades. When the GICS classifications were developed, one of the new sectors was the Industrials, so the former group is referred to as the S&P Industrials (Old)].

Over the past eight years, cash has grown to a record size with its proportion of market value growing to levels not seen in almost two decades. **The cash build-up was the result of 18 consecutive quarters of double-digit earnings growth, combined with commitment-shy managements that pulled back on M&A, capital expenditures, expansion and new investments after the bear market of 2000-2002.** As investor demand grew for total return and for companies to maximize shareholder return, corporations started to initiate and increase dividend payments. Starting with the Microsoft initiation in January 2003, companies have steadily increased their dividend payments. This marked the reversal of a 20-year slide in the number of issues paying a cash dividend. The increase was substantial at the time, but as a percentage of As-Reported earnings, it continued to decrease. In the fourth quarter of 2004, the first major use of built-up cash started in the form of increased buybacks. **The increased buyback levels were unique in that the additional shares were not being used for options or M&A, but rather were being put into corporate treasuries, creating share count reduction (SCR).** SCR was an uncommon event in the S&P 500, with most companies tending to increase their share counts through M&A over time and to neutralize exercised options via buybacks (or at least minimize their impact on EPS). The aggregate value of buybacks continued to grow, as did the number of companies participating. Over the three years between Q4 2004 and Q3 2007, current S&P 500 members spent \$1,318 billion on buybacks, slightly more than the \$1,276 billion spent on capital expenditures, and substantially more than the \$376 billion spent on Research and Development or the \$605 billion paid in the form of common dividends. For the 12-months ending September 2007, S&P 500 companies spent significantly more on buybacks

(\$553 billion) than the United States government spent on Medicare (\$465 billion estimated for the fiscal ending October 2007).

Historically, excess buybacks have been criticized as portraying companies that have found no better investment for their money. Over the last year and a half however, their acceptance in the marketplace, by both individual and institutional investors, has grown enormously. Currently, the mere announcement (extension, increase or acceleration) of a buyback program sparks upward pressure on the stock. This immediate positive reaction feeds upon itself. Buybacks continued to increase during the first three quarters of 2007, with each quarter setting a new record high. In the second quarter, International Business Machines consummated the largest buyback via an accelerated repurchase of \$12.5 billion, and Wal-Mart authorized \$15 billion in buybacks. During the third quarter, Home Depot completed \$10.7 billion in buybacks, with Exxon Mobil doing \$8.4 billion, General Electric \$5.9 billion and Dominion Resources completing \$5.6 billion. Additional authorizations were announced by ConocoPhillips for \$15 billion and Johnson & Johnson for \$10 billion, with General Electric increasing its buyback program to \$14 billion. Follow through from authorizations to actual repurchases continued to be demonstrated. The fourth quarter has also included large authorization announcements by both Cisco and Dell for \$10 billion, as well as General Electric's three year \$15 billion authorization (versus their actual buybacks of \$24.8 billion over the past three years). AT&T authorized an additional purchase of 400 million shares (\$15 billion), however, it remains to be seen if the increase is a desire to reduce share count or a clean-up resulting from the BellSouth merger at the start of this year (similar to actions taken by Exxon after its merger with Mobil, and Procter & Gamble after its merger with Gillette).

In the short run, buybacks are a win-win situation for shareholders. They answer demands for companies to utilize their cash, add directly to shareholder equity, support the stock (even if it is in decline) and increase comparative earnings-per-share numbers in the same quarter the repurchase is made. From a management prospective, buybacks permit companies to maintain control and ownership over shares. Unlike a cash dividend that is distributed and cannot be recalled, these shares have not been retired, but sit in the corporate treasury where they can be reissued (subject to regulatory timing) at the discretion of the company. The shares,

while dormant when held in the corporate treasury, represent a growing asset in the marketplace that can be used for M&A, as well as defensive measures in the case of an unwanted offer.

THE NEED FOR BUYBACKS

The use of either cash or debt to support buybacks or share count reduction remains a legitimate management prerogative. Historically, shares repurchased in the open market were primarily used to satisfy stock options, therefore negating earnings dilution. Information Technology was, and remains, the most ardent user of buybacks for options, with the primary rationale being that options supplement the sector's wages to a higher degree compared to other sectors. Over the last three years however, buybacks have become a common tool used by companies to reduce their outstanding shares, which results in higher earnings per share, as well as support for their stock price. The use of buybacks however is complicated. Cisco, which recently announced a \$10 billion increase authorization, is a current case in point. Over the past three years, Cisco has purchased 1,117 million shares at a cost of \$26,204 million (average price of \$23.46 per share). Their actual share count over that time period was reduced by 491 million shares or 7.45% (from 6,591 million to 6,100 million) and their diluted shares, used for EPS calculations, were reduced by 443 million shares or 6.54% (from 6,773 million to 6,330 million). During that same three year period however, 538 million options were exercised. Moving forward, Cisco has 1,289 million options outstanding, with 549 million classified as "in the money." This speaks to the future need for repurchases to cover expected exercising. Based on their July 2007 annual report, Cisco had 474 million exercisable options with an aggregate strike price of \$8,206 million and an aggregate market value of \$13,732 million. The difference of \$5,525 million, over half of their new \$10 billion authorization, is the company's obligation. While being able to be exercised is different than actually being exercised, Cisco's obligation is clear. If the company does not wish to dilute its earnings, it will need to repurchase the shares. If dilution is to be avoided, the shares 'desired' to cover the options will have to come from the open market, adding upward pressure and potentially reducing float. Many exercised shares, however, are sold back into the market, theoretically becoming part of the circle of repurchases, exercises and issuance. Given Information Technology's history of

options, as well as the current number of options in the hands of employees, IT's high level participation in the buyback open market appears only to be dependant upon their stock price.

THE CURRENT IMPACT

In the first nine months of 2007, significant cumulative buybacks reached an unprecedented level of acceptance by investors, and continued their material impact on earnings per share and share price. Over the past three years, 65.1% of the current membership has managed to overcome their share issuance for options and M&A, and actually reduce the net number of shares outstanding. On a diluted basis, similar findings were found for the three year period with 65.7% of the issues reducing their shares. While the majority of issues have decreased their share count, new share issuance has kept the overall decrease to a minimum. On a year-over-year basis through September 2007, 27% of the individual issues reduced their share count by at least 4%, but only 20% the companies reduced their diluted shares. This year-over-year variance was also noted at the beginning of the buyback bonanza in Q4 2004. Subsequent to the start in Q4 2004, the outstanding and diluted share change moved in tandem. The source of the current variance, with the most likely rational being the addition of new diluted instruments or a change in status of existing ones, will have to wait until annual reports are filed. Currently, several Financial sector issues have marketed instruments in an effort to obtain additional capital, with many of the instruments having future common share conversions (voluntary and scheduled) that would dilute earnings. These eventual shares could come out of treasury or be newly issued.

While the use of discretionary cash for SCR is a legitimate function of management, investors were, and remain, unaccustomed to looking for the variance, and not all companies highlighted the EPS impact. **As a result, P/E and growth evaluations that were not adjusted for the SCR effect reflected a higher premium paid for operating earnings.**

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SIMPLE ILLUSTRATION OF SHARE CHANGE IMPACT ON EPS

10% increase in aggregate earnings, with reduced, the same, and increased share count

	Q3 2007 REPORTED	Q3 2007 IF SHARES DECREASED 4%	Q3 2007 IF SHARES THE SAME	Q3 2007 IF SHARES INCREASED 4%
Net income (millions)	\$100	\$110	\$110	\$110
Average shares (millions)	100	96	100	104
EPS	\$1.000	\$1.146	\$1.100	\$1.058
Year-over-year net income growth		10.00%	10.00%	10.00%
Year-over-year EPS growth		14.58%	10.00%	5.77%
Growth due to share reduction		4.58%	0.00%	-4.23%

SECTOR BREAKDOWNS

Information Technology has historically dominated the buyback market, with their primary use of the shares to offset the exercise of options. The current use and acceptance of buybacks over the past year and a half, however, has reduced their longer-term average of 28% of buyback expenditures to the current 21.6% level over the past three years.

The Financial sector has also reduced their buybacks over the past six months, accounting for 16.4% of the aggregate buybacks, compared to 26.3% in the prior six month period. The current liquidity difficulties of many Financials issues bring future buybacks into doubt.

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S&P 500 SECTOR AGGREGATES: 3 YEARS ENDING SEPTEMBER 2007

	BUYBACKS MILLIONS	CAPITAL EXPENDITURES MILLIONS	SHARES REPURCHASED MILLIONS
Consumer Discretionary	-\$200,488	\$207,774	7,137
Consumer Staples	-\$110,510	\$120,554	2,439
Energy	-\$129,721	\$276,517	2,090
Financials	-\$280,008	\$87,123	8,067
Health Care	-\$133,118	\$60,186	2,936
Industrials	-\$119,750	\$147,697	2,887
Information Technology	-\$289,696	\$104,251	10,701
Materials	-\$29,074	\$49,241	671
Telecommunication Services	-\$26,061	\$96,718	937
Utilities	-\$19,360	\$126,098	118
S&P 500	-\$1,337,786	\$1,276,160	37,983

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S&P 500 SECTOR PERCENTAGE: SEPTEMBER 2004 - SEPTEMBER 2007

	BUYBACKS	CAPITAL EXPENDITURES	SHARES REPURCHASED	COMMON CHANGE SHARE	DILUTED SHARE CHANGE	LTD CHANGE
Consumer Discretionary	14.99%	16.28%	18.79%	-8.18%	-7.95%	-26.57%
Consumer Staples	8.26%	9.45%	6.42%	2.08%	2.18%	8.96%
Energy	9.70%	21.67%	5.50%	-3.86%	-2.75%	28.88%
Financials	20.93%	6.83%	21.24%	2.24%	2.03%	157.25%
Health Care	9.95%	4.72%	7.73%	-0.72%	-0.41%	59.54%
Industrials	8.95%	11.57%	7.60%	-4.15%	-4.00%	33.51%
Information Technology	21.65%	8.17%	28.17%	-5.42%	-4.86%	76.07%
Materials	2.17%	3.86%	1.77%	-1.58%	-0.91%	-7.96%
Telecommunication Services	1.95%	7.58%	2.47%	23.68%	33.09%	46.03%
Utilities	1.45%	9.88%	0.31%	7.57%	7.86%	-4.66%
S&P 500	100.00%	100.00%	100.00%	-1.44%	-0.89%	76.13%

LIQUIDITY AND THE INDEX

Until recently, there has been little attention given to the liquidity aspect of buybacks. S&P adjusts the S&P 500 index shares on a quarterly basis, or intra-quarterly if there is at least a 5% change in shares. Intra-quarterly adjustments done solely for repurchased shares amounted to \$20.5 billion in 2006; for the first nine months of 2007 it was \$39.6 billion. The September 2007 quarterly rebalancing saw reduced share counts for 264 issues, increases for 211, and left 25 unchanged. The net result was that \$120 billion in market value was reallocated and the overall S&P 500 market value was reduced by \$69.1 billion. For the trailing year, rebalancing and the pure repurchase adjustments reduced the index market value by 2.4%.

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S&P 500 INDEX RECENT SHARE CHANGES ASSOCIATED WITH REPURCHASES

DATE	TICKER	COMPANY	CHANGE IN SHARES	REASON
12/05/07	ABC	AmerisourceBergen	-6.78%	Share repurchase program
12/05/07	COF	Capiatal One Financial	-6.44%	Accelerated repurchase
12/05/07	IGT	Int'l Game Technology	-6.02%	Share repurchase program
11/28/07	HAR	Harman Int'l. Industrial	-7.03%	Share repurchase program
11/14/07	VRSN	Verisign Inc	-9.39%	Accelerated repurchase/SRP
11/14/07	ALTR	Altera Corp	-5.67%	Share repurchase program
11/14/07	CPWR	Compuware Corp	-5.55%	Share repurchase program
11/14/07	DTV	DIRECTV Group Inc	-5.49%	Share repurchase program
11/14/07	HAS	Hasbro Inc	-8.07%	Share repurchase program
11/14/07	JNY	Jones Apparel Group	-8.76%	Share repurchase program
11/14/07	NVLS	Novellus Systems	-6.20%	Share repurchase program
11/14/07	HOT	Starwood Hotels&Resorts	-5.09%	Share repurchase program
11/14/07	JAVAD	Sun Microsystems	-6.31%	Share repurchase program
11/07/07	GWW	Grainger (W.W.) Inc	-6.10%	Accelerated repurchase/SRP
11/07/07	ASD	American Standard	-5.55%	Share repurchase program
11/07/07	EFX	Equifax	-7.61%	Share repurchase program
11/07/07	KLAC	KLA-Tencor Corp	-5.70%	Share repurchase program
11/07/07	MAT	Mattel Inc	-7.03%	Share repurchase program
11/07/07	QLGC	Qlogic Corp	-6.84%	Share repurchase program
11/07/07	SAF	SAFECO Corp	-9.17%	Share repurchase program
10/31/07	BBY	Best Buy Co	-11.84%	Accelerated repurchase/SRP
10/31/07	AN	AutoNation Inc	-8.96%	Share repurchase program
10/31/07	WLP	Wellpoint Inc	-5.38%	Share repurchase program
10/10/07	IFF	Internat'l Flavor & Fragrances	-8.90%	Accelerated repurchase/Latest 10Q
10/03/07	ROH	Rohm & Haas	-7.55%	Accelerated repurchase

There are two related growing concerns regarding buybacks. First, companies lump dividends and buybacks together as a return of shareholder value, but dividend growth has been reduced as buybacks have continued to grow. **The second is that the reduced supply of open market shares could create a short-term price upturn, especially where individuals have cumulatively surrendered large numbers of shares via (direct and indirect) tenders.**

HIDDEN ASSETS

Consistent with values and history, these repurchased shares remain in corporate treasuries and have not been retired. The value of these shares is held at cost in the equity section of the balance sheet; there is no mark-to-market adjustment when they are internally held. Their actual day-to-day value varies with the market.

Within the S&P 500, 346 issues were found to have treasury shares, with a cost basis of \$1,283 billion. If a mark-to-market adjustment were made, the issues would have had a market value of \$1,962 billion, representing 19.7% of their market value. If current (December 4, 2007) pricing were used, the value would have been \$1,897 billion, or 45.9% higher than the posted book value.

The market value of the treasury shares, on aggregate for the entire S&P 500, now represent 14.7% of the company's market value and 43.8% of its long-term debt value. For the S&P Industrials (Old), which report treasury shares, the cash on hand combined with the treasury shares amounts to 26.1% of the market value.

For some issues, the difference between the cost and market value is significant. Within the S&P 500, 264 issues had a lower cost value than current market value, and 91 had a higher cost basis. If a mark-to-market evaluation were made, the higher value would have resulted in an increase to equity and a corresponding reduction in return values. Exxon Mobil, which has reduced its share count for 29 quarters in a row, has a cost basis for treasury shares of \$106 billion, but their actual value (as of September 28, 2007) was \$237 billion - \$131 billion higher. Similar significant positive values can be found for Coca-Cola (\$23.5B cost versus \$69.6B market), Altria Group (\$23.5B versus \$48.7B) and Procter & Gamble (\$41.0B versus \$62.5B). Conversely, some of issues have a higher cost basis than their market value. Among those are Pfizer (\$54.3B versus \$41.4B), Dell (\$21.0B versus \$16.7B), Bristol-Myers Squibb (\$10.6B versus \$6.5B), and Home Depot (\$27.2B versus \$24.1B).

BUYBACKS AND TOTAL RETURNS

The key question remains, does the repurchase of shares add to the long-term return of shareholders? While I wish to be a believer in buybacks, I have found no convincing evidence (either quantifiable or academic) that they actually increase return. Part of the difficulty is that few companies have held on to their shares long enough to study. Additionally, the alternative use of proceeds that were spent on buybacks can only be speculated upon and finally, the use of interim shares for M&A and options need to be worked into the returns. For set periods of time, buybacks can be measured simply by comparing their total return on the net shares held

during the period. However, even this poses a problem since the shares, while dormant in the treasury, did serve to reduce float and did have a potential use for M&A.

For the three year period, 36.3% of the issues repurchased their shares at a higher average price than they were selling for on September 28, 2007, with over 60% of the issues paying less on average over the past three years than their issues are selling for now. These values however do not take into account the use, for better or for worse, of the shares during the period. While management must be held responsible for the buybacks, the ability to judge their actions is extremely elusive.

The comparison of returns to expenditures can also be difficult. Over the three year period, Exxon Mobil more than doubled in stock price, yet to claim their return was due to their record repurchase of common shares fails to demonstrate any cause and effect. Unfortunately, the reverse is not as difficult. Over the past few years, several companies have engaged in aggressive buybacks in order to support their stock. Over a short period of time this tactic is feasible and sometimes obtainable. However, over the prolonged period, companies cannot fight the market. **The simplest analogy is that fighting the market with buybacks is like hitting a cement wall with your fist.**

WHERE DO WE GO FROM HERE?

The availability of this discretionary liquid asset, cash and treasury shares, makes almost every company a potential growth issue and many a potential take-over target. What companies choose to do with this enormous asset is perhaps the most important decision facing them, and it could have long-lasting effects as to their profitability and market value for years to come. Individual and institutional holders are increasingly demanding higher returns on their investments. While dividends have turned around and many companies have increased their dollar payouts, their payout ratios (dividends as a percentage of earnings) have declined. For the third quarter of this year, however, the payout ratio has increased due to special charges (especially in the Financial sector, as well as the \$39 billion GM charge) but still remains well below the historical average. **Buybacks, while adding to short-term returns, are temporary in nature if the shares are not retired - which they have not been.** Cash build-ups that are now being used to supplement earnings via interest income and reduce share count are not a

substitute for operating earnings, and, as such, should not be priced into future earnings or multiples.

Investor demands, however, are not always reasonable. While companies may be hesitant if in their evaluation they do not find the appropriate use for their entrusted assets, it is far better for them to continue to hold the assets than to invest them in a venture that they do not believe in. Investors, especially institutions, rightfully look at the opportunity cost, but often view them in retrospect, picking out only the rewarding ventures. A substantial number of mergers with high promised returns and synergies have proven to be improper investments.

Traditionally, excess cash and treasury shares were deemed to be a temporary situation that would be alleviated through corporate actions. However, the cash build-up has now gone on for years, and the treasury share value has impaired EPS comparisons. Both values have also grown well beyond historical levels. Imbalances sometimes become the norm in the market, but given investor demands, recent market conditions and volatility, the necessity for corporate action seems to be mounting. Long-term, the ability to do buybacks is limited by both the available cash reserves and the upward pressure public markets can permit from reduced share liquidity and float. Long-term there are two alternatives. The first is a distribution in the form of significantly higher dividends, or a large, single, special dividend similar in nature to Microsoft's. Companies, however, appear reluctant to give up their cash. With earnings and cash flow slowing, legitimate arguments to maintain excess reserves can be made. Similarly, while the retirement of the treasury shares would make the EPS gains and increased shareholder value permanent, it would remove management control and ownership. The second alternative is direct investment of both the cash and shares. Chief among these options is M&A, followed by expansion, capital expenditures, related venture capital investments and joint ventures. Public companies have been shy of M&A, which has reduced the competitiveness of deals and has left the door open for private M&A. As earnings continue to decline, we believe public companies will increase their M&A in order to quickly add revenue and earnings. Historically, the major reason for S&P 500 issues to be deleted from the index was an acquisition by another S&P 500 issue. Over the past year and a half however, private deals have dominated the market,

partially due to the easily obtainable low cost financing, but also assisted by the lack of competitive public M&A.

Regardless of the actions, any substantial use of the combined resources will likely have an impact on both the market and individual issues. Investors need to review management's history of applying these assets. **Given that we believe the greatest use of these assets (cash and treasury shares) will be for M&A, investors need to evaluate management's track record of not just picking target companies, but more importantly, of merging the two together. While the greatest single cost is in the association (acquisition, purchase or merger of equals), the true payoff comes in the ability to successfully meld the entities' employees, clients and processes. A seasoned and experienced management team can make even a misaligned deal pay off, while a poor one can ruin even the best of associations.**

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S&P 500 INDUSTRIAL (OLD) CASH AND EQUIVALENT LEVELS**

YEAR	CASH & EQUIVALENT MILLIONS	LTD MILLIONS	MARKET VALUE MILLIONS	CASH % OF LTD	LTD % OF MARKET VALUE	CASH % OF MARKET VALUE
9/28/2007	\$622,800	\$1,540,208	\$10,450,042	40.44%	14.74%	5.96%
2006	\$608,135	\$1,501,843	\$9,556,587	40.49%	15.72%	6.36%
2005	\$633,313	\$1,539,063	\$8,546,448	41.15%	18.01%	7.41%
2004	\$626,258	\$1,556,341	\$8,356,668	40.24%	18.62%	7.49%
2003	\$499,847	\$1,291,980	\$7,633,094	38.69%	16.93%	6.55%
2002	\$413,611	\$1,305,865	\$6,069,374	31.67%	21.52%	6.81%
2001	\$352,382	\$1,327,191	\$8,161,323	26.55%	16.26%	4.32%
2000	\$328,865	\$1,082,998	\$9,085,055	30.37%	11.92%	3.62%
1999	\$260,587	\$980,602	\$10,290,886	26.57%	9.53%	2.53%
1998	\$202,802	\$847,602	\$7,943,060	23.93%	10.67%	2.55%
1997	\$168,869	\$790,784	\$5,596,751	21.35%	14.13%	3.02%
1996	\$155,298	\$722,181	\$4,279,561	21.50%	16.88%	3.63%
1995	\$134,937	\$669,956	\$3,484,313	20.14%	19.23%	3.87%
1994	\$125,911	\$619,194	\$2,605,363	20.33%	23.77%	4.83%
1993	\$115,242	\$599,104	\$2,505,420	19.24%	23.91%	4.60%
1992	\$109,269	\$738,720	\$2,315,199	14.79%	31.91%	4.72%
1991	\$104,726	\$636,680	\$2,214,981	16.45%	28.74%	4.73%
1990	\$95,487	\$624,179	\$1,719,068	15.30%	36.31%	5.55%
1989	\$98,332	\$564,907	\$1,815,750	17.41%	31.11%	5.42%
1988	\$129,599	\$369,216	\$1,494,055	35.10%	24.71%	8.67%
1987	\$137,663	\$342,966	\$1,393,413	40.14%	24.61%	9.88%
1986	\$124,287	\$343,480	\$1,331,761	36.18%	25.79%	9.33%
1985	\$104,713	\$314,570	\$1,180,624	33.29%	26.64%	8.87%
1984	\$108,685	\$329,635	\$1,030,219	32.97%	32.00%	10.55%
1983	\$96,933	\$292,600	\$1,048,497	33.13%	27.91%	9.24%
1982	\$77,147	\$301,134	\$863,107	25.62%	34.89%	8.94%
1981	\$74,518	\$266,022	\$733,524	28.01%	36.27%	10.16%
1980	\$75,921	\$239,220	\$803,978	31.74%	29.75%	9.44%

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S&P 500 DIVIDEND PAYERS DATA**

YEAR END	ISSUES WITH INDICATED DIVIDEND RATES	% OF ISSUES	YEAR END	ISSUES WITH INDICATED DIVIDEND RATES	% OF ISSUES
9/30/2007	388	77.6	1993	435	87.0
2006	383	76.6	1992	436	87.2
2005	386	77.2	1991	434	86.8
2004	377	75.4	1990	438	87.6
2003	370	74.0	1989	437	87.4
2002	351	70.2	1988	432	86.4
2001	351	70.2	1987	429	85.8
2000	372	74.4	1986	426	85.2
1999	402	80.4	1985	442	88.4
1998	418	83.6	1984	446	89.2
1997	427	85.4	1983	454	90.8
1996	428	85.6	1982	458	91.6
1995	432	86.4	1981	462	92.4
1994	436	87.2	1980	469	93.8

**STANDARD & POOR'S INDEX SERVICES
S&P 500 DIVIDEND ACTIONS FROM JANUARY 2003 - SEPTEMBER 2007**

SECTOR	ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
Consumer Discretionary	249	223	12	8	6
Consumer Staples	147	139	3	4	1
Energy	88	84	3	1	0
Financials	368	360	1	7	0
Health Care	81	73	4	2	2
Industrials	192	184	4	3	1
Information Technology	88	72	13	1	2
Materials	101	96	5	0	0
Telecommunications Services	26	22	2	2	0
Utilities	106	94	4	6	2
S&P 500	1,446	1,347	51	34	14
UNIQUE ISSUES	417	385	49	33	14

S&P 500 BUYBACKS: THREE YEARS AND \$1.3 TRILLION LATER

**STANDARD & POOR'S INDEX SERVICES
S&P 500 DIVIDEND PAYOUT**

QUARTER	PRICE	AS REPORTED EARNINGS PER SHARE	DIVIDENDS PER SHARE	YIELD	DIVIDEND % OF AS REPORTED
09/30/2007	1526.75	\$15.17	\$6.90	1.77%	45.46%
06/30/2007	1503.35	\$21.88	\$6.69	1.74%	30.59%
03/31/2007	1430.86	\$21.33	\$6.52	1.78%	30.58%
12/31/2006	1418.30	\$20.24	\$6.86	1.75%	33.91%
09/30/2006	1335.85	\$21.47	\$6.09	1.80%	28.36%
06/30/2006	1270.20	\$20.11	\$6.02	1.84%	29.92%
03/31/2006	1294.83	\$19.69	\$5.91	1.76%	30.03%
12/30/2005	1248.29	\$17.30	\$6.07	1.78%	35.10%
09/30/2005	1228.81	\$17.39	\$5.43	1.75%	31.24%
06/30/2005	1191.33	\$18.29	\$5.36	1.76%	29.33%
03/31/2005	1180.59	\$16.85	\$5.35	1.71%	31.72%
12/31/2004	1211.92	\$13.94	\$5.33	1.60%	38.26%
09/30/2004	1114.56	\$14.18	\$4.88	1.72%	34.43%
06/30/2004	1140.84	\$15.25	\$4.66	1.63%	30.58%
03/31/2004	1126.21	\$15.18	\$4.56	1.60%	30.04%
12/31/2003	1111.92	\$13.16	\$5.06	1.56%	38.41%
09/30/2003	995.97	\$12.56	\$4.32	1.67%	34.41%
06/30/2003	974.50	\$11.10	\$4.09	1.66%	36.81%
03/31/2003	848.18	\$11.92	\$3.92	1.91%	32.90%
12/31/2002	879.82	\$3.00	\$4.26	1.83%	141.87%
09/30/2002	815.28	\$8.53	\$3.90	1.94%	45.73%
06/30/2002	989.81	\$6.87	\$4.15	1.62%	60.41%
03/31/2002	1147.39	\$9.19	\$3.77	1.37%	41.02%
12/31/2001	1148.08	\$5.45	\$3.98	1.37%	73.03%
09/30/2001	1040.94	\$5.23	\$4.14	1.51%	79.16%
06/30/2001	1224.38	\$4.83	\$3.84	1.28%	79.50%
03/31/2001	1160.33	\$9.18	\$3.78	1.38%	41.18%
12/31/2000	1320.28	\$9.07	\$3.98	1.23%	43.88%
09/30/2000	1436.51	\$13.71	\$4.09	1.14%	29.83%
06/30/2000	1454.60	\$13.48	\$4.12	1.15%	30.56%
03/31/2000	1498.58	\$13.74	\$4.08	1.12%	29.69%
12/31/1999	1469.25	\$12.77	\$4.05	1.14%	31.71%
09/30/1999	1282.71	\$11.93	\$4.45	1.30%	37.30%
06/30/1999	1372.71	\$12.51	\$4.18	1.20%	33.41%
03/31/1999	1286.37	\$10.96	\$4.01	1.28%	36.59%
12/31/1998	1229.23	\$8.56	\$4.00	1.32%	46.73%
09/30/1998	1017.01	\$8.99	\$4.26	1.59%	47.39%
06/30/1998	1133.84	\$9.87	\$4.18	1.41%	42.35%
03/31/1998	1101.75	\$10.29	\$3.76	1.42%	36.54%
12/31/1997	970.43	\$8.94	\$3.95	1.60%	44.18%
09/30/1997	947.28	\$9.87	\$4.06	1.62%	41.13%
06/30/1997	885.14	\$10.44	\$3.87	1.71%	37.07%
03/31/1997	757.12	\$10.47	\$3.61	1.49%	34.48%
12/31/1996	740.74	\$9.86	\$3.79	1.04%	38.44%
09/30/1996	687.33	\$9.78	\$3.89	0.57%	39.78%

STANDARD & POOR'S INDEX SERVICES
S&P 500 INDEX RECENT SHARE CHANGES ASSOCIATED WITH REPURCHASES

DATE	TICKER	COMPANY	CHANGE IN SHARES	REASON
12/05/07	ABC	AmerisourceBergen	-6.78%	Share repurchase program
12/05/07	COF	Capiatal One Financial	-6.44%	Accelerated repurchase
12/05/07	IGT	Int'l Game Technology	-6.02%	Share repurchase program
11/28/07	HAR	Harman Int'l. Industrial	-7.03%	Share repurchase program
11/14/07	VRSN	Verisign Inc	-9.39%	Accelerated repurchase/SRP
11/14/07	ALTR	Altera Corp	-5.67%	Share repurchase program
11/14/07	CPWR	Compuware Corp	-5.55%	Share repurchase program
11/14/07	DTV	DIRECTV Group Inc	-5.49%	Share repurchase program
11/14/07	HAS	Hasbro Inc	-8.07%	Share repurchase program
11/14/07	JNY	Jones Apparel Group	-8.76%	Share repurchase program
11/14/07	NVLS	Novellus Systems	-6.20%	Share repurchase program
11/14/07	HOT	Starwood Hotels&Resorts	-5.09%	Share repurchase program
11/14/07	JAVAD	Sun Microsystems	-6.31%	Share repurchase program
11/07/07	GWW	Grainger (W.W.) Inc	-6.10%	Accelerated repurchase/SRP
11/07/07	ASD	American Standard	-5.55%	Share repurchase program
11/07/07	EFX	Equifax	-7.61%	Share repurchase program
11/07/07	KLAC	KLA-Tencor Corp	-5.70%	Share repurchase program
11/07/07	MAT	Mattel Inc	-7.03%	Share repurchase program
11/07/07	QLGC	Qlogic Corp	-6.84%	Share repurchase program
11/07/07	SAF	SAFECO Corp	-9.17%	Share repurchase program
10/31/07	BBY	Best Buy Co	-11.84%	Accelerated repurchase/SRP
10/31/07	AN	AutoNation Inc	-8.96%	Share repurchase program
10/31/07	WLP	Wellpoint Inc	-5.38%	Share repurchase program
10/10/07	IFF	Internat'l Flavor & Fragrances	-8.90%	Accelerated repurchase/Latest 10Q
10/03/07	ROH	Rohm & Haas	-7.55%	Accelerated repurchase
09/12/07	SHLD	Sears Holdings Corp	-6.33%	Share repurchase program
09/05/07	CLX	Clorox Co	-8.82%	Accelerated repurchase
09/05/07	CAH	Cardinal Health	-5.23%	Share repurchase program
08/29/07	LLTC	Linear Technology Corp	-12.54%	Accelerated repurchase
08/15/07	ABC	AmerisourceBergen Corp	-5.71%	Accelerated repurchase/SRP
08/15/07	NSM	National Semiconductor	-13.84%	Accelerated repurchase/SRP
08/15/07	AMGN	Amgen	-6.29%	Share repurchase program
08/15/07	ESRX	Express Scripts	-5.35%	Share repurchase program
08/15/07	JNS	Janus Capital Group	-5.41%	Share repurchase program
08/15/07	JNPR	Juniper Networks	-9.22%	Share repurchase program
08/15/07	LSI	LSI Corporation	-7.05%	Share repurchase program
08/15/07	QLGC	QLogic Corp	-7.62%	Share repurchase program
08/15/07	TEK	Tektronix Inc	-7.09%	Share repurchase program
08/01/07	KMB	Kimberly-Clark	-6.49%	Accelerated repurchase
06/06/07	IBM	International Bus. Mach	-9.27%	Accelerated repurchase/latest 10Q
05/23/07	STZ	Constellation Brands	-8.70%	Accelerated repurchase/SRP
05/23/07	LLTC	Linear Technology	-15.19%	Accelerated share repurchase
05/23/07	VLO	Valero Energy	-9.12%	Accelerated share repurchase
04/18/07	FD	Federated Dept. Stores	-12.48%	Accelerated share repurchase
03/28/07	WEN	Wendy's International	-9.40%	Accelerated share repurchase
02/21/07	CFC	Countrywide Financial	6.22%	Accelerated share repurchase
02/21/07	CPWR	Compuware Corp	-7.95%	Share repurchase program
01/31/07	ACS	Affiliated Computer	-16.58%	Share repurchase program

S&P 500 BUYBACKS: THREE YEARS AND \$1.3 TRILLION LATER

**STANDARD & POOR'S INDEX SERVICES
S&P 500 HISTORICAL DATA**

QUARTER END	MARKET VALUE BILLIONS	OPERATING EARNINGS BILLIONS	AS REPORTED EARNINGS BILLIONS	DIVIDENDS BILLIONS	BUYBACKS BILLIONS	DIVIDEND & BUYBACK YIELD
09/30/2007	13,469.72	\$183.95	\$133.84	\$60.84	\$171.95	5.89%
06/30/2007	13,349.73	\$213.65	\$194.29	\$59.44	\$157.76	5.43%
03/31/2007	12,706.32	\$200.23	\$190.75	\$58.32	\$117.70	5.34%
12/31/2006	12,728.86	\$197.35	\$181.65	\$61.76	\$105.18	5.15%
09/30/2006	12,019.85	\$207.22	\$193.19	\$54.78	\$109.81	5.39%
06/30/2006	11,496.84	\$198.67	\$182.02	\$54.46	\$116.66	5.34%
03/31/2006	11,659.69	\$186.85	\$177.30	\$53.25	\$100.18	4.92%
12/31/2005	11,254.54	\$182.03	\$155.89	\$54.83	\$104.28	4.90%
09/30/2005	11,082.59	\$169.74	\$160.72	\$48.99	\$81.47	4.58%
06/30/2005	10,890.01	\$177.52	\$167.19	\$49.03	\$81.42	4.31%
03/31/2005	10,819.81	\$164.42	\$154.43	\$48.99	\$82.05	3.92%
12/31/2004	11,288.60	\$167.20	\$129.85	\$49.68	\$66.42	3.35%
09/30/2004	10,397.80	\$157.47	\$132.28	\$45.54	\$45.68	3.34%
06/30/2004	10,623.42	\$158.12	\$142.01	\$43.43	\$42.46	3.11%
03/31/2004	10,461.32	\$147.42	\$141.01	\$42.36	\$42.92	2.97%
12/31/2003	10,285.83	\$137.65	\$121.74	\$46.76	\$38.53	2.84%
09/30/2003	9,207.69	\$133.22	\$116.12	\$39.96	\$34.13	3.00%
06/30/2003	9,001.01	\$119.34	\$102.53	\$37.74	\$28.36	3.04%
03/31/2003	7,826.70	\$115.16	\$109.99	\$36.19	\$30.03	3.53%
12/31/2002	8,107.41	\$110.03	\$27.64	\$39.22	\$30.62	3.39%
09/30/2002	7,518.37	\$107.07	\$78.66	\$35.97	\$35.18	3.65%
06/30/2002	9,090.53	\$106.90	\$63.09	\$38.11	\$30.98	3.03%
03/31/2002	10,501.89	\$99.31	\$84.11	\$34.51	\$30.47	2.61%
12/31/2001	10,463.39	\$90.59	\$49.67	\$36.27	\$32.75	2.62%
09/30/2001	9,436.72	\$83.04	\$47.41	\$37.53	\$34.63	2.91%
06/30/2001	11,027.29	\$81.24	\$43.50	\$34.58	\$33.62	2.44%
03/31/2001	10,384.68	\$96.03	\$82.16	\$33.83	\$31.21	2.63%
12/31/2000	11,714.55	\$116.32	\$80.48	\$35.31	\$33.69	2.49%
09/30/2000	12,598.77	\$124.28	\$120.24	\$35.87	\$30.97	2.40%
06/30/2000	12,484.41	\$127.71	\$115.69	\$35.36	\$37.35	2.42%
03/31/2000	12,686.17	\$118.26	\$116.32	\$34.54	\$48.57	2.33%
12/31/1999	12,314.99	\$115.42	\$107.04	\$33.95	\$45.24	2.27%
09/30/1999	10,553.80	\$106.71	\$98.16	\$36.61	\$30.57	2.51%
06/30/1999	11,231.51	\$108.08	\$102.36	\$34.20	\$31.78	2.40%
03/31/1999	10,513.09	\$95.87	\$89.57	\$32.77	\$33.89	2.53%
12/31/1998	9,942.37	\$92.77	\$69.24	\$32.35	\$32.40	2.57%

S&P 500 BUYBACKS: THREE YEARS AND \$1.3 TRILLION LATER

STANDARD & POOR'S INDEX SERVICES S&P 500 ISSUES WITH FULL TREASURY DATA

	VALUES IN MILLIONS	% OF MARKET VALUE
Cost of treasury stock - 346 issues		
Market value of companies	\$9,959,602	
Cost basis of treasury shares	\$1,282,673	12.88%
Market value of treasury shares	\$1,961,967	19.70%
Difference	\$679,294	6.82%
Market value of treasury sharers as of 9/4/07	\$1,896,769	

STANDARD & POOR'S INDEX SERVICES S&P INDUSTRIALS (OLD) ISSUES WITH FULL TREASURY AND CASH DATA

	VALUES IN MILLIONS	% OF MARKET VALUE
Cost of treasury stock - 275 issues		
Market value of companies	\$7,856,621	
Cost basis of treasury shares	\$1,037,898	13.21%
Market value of treasury shares	\$1,638,728	20.86%
Difference	\$600,830	7.65%
Cash	\$409,415	5.21%
Cash & market value of treasury	\$2,048,144	26.07%
Market value of treasury sharers as of 9/4/07	\$1,599,908	

STANDARD & POOR'S INDEX SERVICES
S&P 500 MAJOR QUARTERLY BUYBACKS BY SIZE RANGE

	FROM \$500M THROUGH \$1B	OVER \$1B	TOTAL
09/30/2007	48	40	88
06/30/2007	38	53	91
03/31/2007	29	46	75
12/31/2006	27	19	46
09/30/2006	28	35	63
06/30/2006	27	45	72
03/31/2006	25	30	55
12/31/2005	22	23	45
09/30/2005	17	24	41
06/30/2005	16	27	43
03/31/2005	21	19	40
12/31/2004	16	20	36
09/30/2004	9	21	30

STANDARD & POOR'S INDEX SERVICES
S&P 500 20 LARGEST QUARTERTLY BUYBACKS, \$ MILLIONS

\$15,707	Q2 2007	International Business Machines Corp
\$10,723	Q3 2007	The Home Depot, Inc
\$9,179	Q4 2006	Exxon Mobil Corp
\$8,463	Q3 2007	Exxon Mobil Corp
\$7,985	Q3 2006	Exxon Mobil Corp
\$7,788	Q1 2007	Exxon Mobil Corp
\$7,683	Q3 2006	Microsoft Cor
\$7,633	Q2 2007	Exxon Mobil Corp
\$7,435	Q4 2005	Microsoft Corp
\$7,217	Q2 2007	Microsoft Corp
\$6,878	Q1 2007	Microsoft Corp
\$6,630	Q2 2006	Exxon Mobil Corp
\$6,236	Q4 2005	Exxon Mobil Corp
\$6,234	Q2 2006	Procter & Gamble Co
\$6,006	Q4 2004	Regions Financial Corp
\$5,828	Q3 2007	General Electric Co
\$5,797	Q4 2006	Microsoft Corp
\$5,764	Q1 2006	Exxon Mobil Corp
\$5,646	Q3 2007	Dominion Resources Inc
\$5,555	Q3 2005	Procter & Gamble Co
\$5,500	Q3 2005	Citigroup Inc

S&P 500 BUYBACKS: THREE YEARS AND \$1.3 TRILLION LATER

STANDARD & POOR'S INDEX SERVICES TOP 20 BUYBACK EXPENDITURES: Q4 2004 - Q3 2007, MILLIONS

THREE-YEAR EXPENDITURE	COMPANY
\$76,208	Exxon Mobil Corp
\$57,414	Microsoft Corp
\$34,250	International Business Machines Corp
\$29,410	Procter & Gamble Co
\$26,203	Cisco Systems, Inc
\$25,325	Bank of America Corp
\$24,774	General Electric Co
\$22,180	Hewlett-Packard Co
\$21,734	Goldman Sachs Group Inc
\$21,515	Time Warner Inc
\$21,122	The Home Depot, Inc
\$20,458	Citigroup Inc
\$20,142	Pfizer Inc
\$18,480	Intel Corp
\$16,561	JPMorgan Chase & Co
\$13,881	AT&T Inc
\$13,656	Merrill Lynch & Co., Inc
\$12,831	Texas Instruments Inc
\$12,454	Amgen Inc.
\$12,120	Chevron Corp
\$500,718	Total top 20

S&P DATA AND CLASSIFICATIONS

The data used in this report were compiled from Standard & Poor's Capital IQ, Standard & Poor's Compustat and Standard & Poor's Stock Guide database, as well as data from publicly available filings with the SEC filings. Data was as of the close of December 4, 2007. The constituents used consist of the current S&P 500 memberships, and the data represent the latest compatible 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 do may match the aggregates. Both S&P 500 historical data as well as historical data for the current membership of the S&P were utilized for this report. The Standard & Poor's Index Services Group prepared this report, 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.

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