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The Magic of Pension Accounting

THE DECLINE IN EQUITY MARKETS AND RECORD-LOW INTEREST RATES HAVE HAD A NEGATIVE IMPACT ON THE HEALTH OF DEFINED BENEFIT PENSION PLANS. CONFUSING ACCOUNTING, COMPLICATED FUNDING REQUIREMENTS, AND PENSION OBLIGATIONS WITH UNKNOWN FUTURE CASH FLOWS FURTHER CONTRIBUTE TO INVESTOR ANXIETY. THIS REPORT ADDRESSES THOSE CONCERNS BY FOCUSING ON THE DEFINED BENEFIT PENSION PLANS OF COMPANIES IN THE S&P 500.

TO BETTER UNDERSTAND ACTUAL EXPOSURE FOR THOSE COMPANIES, WE REPLACE THE MAGIC OF PENSION ACCOUNTING WITH EACH PLAN’S ECONOMIC REALITY.

WE IDENTIFY VARYING DEGREES OF EXPOSURE TO PENSION ISSUES ACROSS INDUSTRIES AND COMPANIES WHILE EVALUATING THE ASSOCIATED RISKS.

Investors should assume that CSFB is seeking or will seek investment banking or other business from the covered companies.
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Executive Summary

If you bring up the topic of pension accounting, most people will roll their eyes, some will run the other way as fast as they can, and a few people will even fall fast asleep right on the spot. The problem: The accounting in FAS No. 87, “Employers’ Accounting for Pensions,” is convoluted, complicated, misleading, and for many it just doesn’t make any sense. The terminology alone is enough to make your head spin—unrecognized gains and losses, service cost, prior service cost, projected benefit obligation, minimum pension liability, curtailment, settlements, etc. What does it all mean? Add the enormously complicated rules from Section 412 of the tax code that determine when a company has to contribute to its pension plan (if you think that pension accounting is tough, try reading Section 412); mix in a pension obligation with unknown future cash flows; and you have a recipe for confusion.

Now on top of that confusion, add the decline in equity markets over the past three years and interest rates at record lows, and investors grow anxious as pension assets drop in value while the pension obligations continue to grow. Concern is rising that the smoothing mechanisms in FAS No. 87, originally designed to reduce reported earnings volatility, have led to misleading financial statements. Investors want to know which companies and industries have the most exposure to defined benefit pension plans, how large of a claim does the pension plan have on their stake in the company, and to what extent does the exposure to the pension plan affect earnings and balance sheets. In addition, investors are concerned about the increases in cash contributions that the companies would have to make to their pension plan if their funded status continues to decline. Standard & Poor’s is evaluating the potential credit-rating implications, and in a worst-case scenario, some companies could be forced into bankruptcy.

Our report addresses these concerns by focusing on the companies in the S&P 500. We first divide the companies into two camps: those that have defined benefit plans and those that don’t. We estimate that approximately 360 companies (72%) have defined benefit pension plans in the S&P 500. In other words, the 140 companies (28%) that don’t have such plans have no pension issues at all. Check Appendix A: If you only own companies on this list, you can stop reading right now. Otherwise . . . read on.

Next, we dig into the companies with defined benefit plans, analyzing the data from a number of different angles, including forecasting future results using our pension forecast model, which is extremely sensitive to the assumptions chosen. To answer the simple question—Who has the most exposure to pension issues?—we focus on four types of exposure: shareholder, balance sheet, earnings, and cash flow exposure.

Shareholders’ Exposure

We start by determining the pension plans that could end up with the largest claim on the shareholders’ stake in the sponsoring company. To do this, we simply compare the economic value of the pension plan—its funded status—with the value of the shareholders’ stake in the company—the equity market capitalization. Using our basic pension-forecasting model (assuming that the fair value of plan assets drops by 9.45% and discount rates fall 50 basis points, along with many other simplifying assumptions), we estimate that the 30 companies in Exhibit 5 will have defined benefit pension plans at the end of 2002 that are underfunded by at least 25% of the current equity market
capitalization. In other words, the pension plans may have a claim on over one-quarter of the shareholders’ stakes in these companies.

On the other hand, we estimate that 212 companies in the S&P 500 will have defined benefit plans at the end of 2002 that are underfunded by less than 5% of the current market capitalization, with 33 companies overfunded, including the 6 companies in Exhibit 6, where the amount overfunded exceeds 5% of the current equity market capitalization.

Next, we identify the companies that appear to be the most leveraged to their pension plans, by comparing the projected benefit obligation (PBO) to the equity market capitalization. We estimate that the 31 companies in Exhibit 7 will have a PBO at the end of 2002 that exceeds the current equity market capitalization, exhibiting the largest potential exposure to their defined benefit pension plans. For 94 companies, there appears to be minimal exposure, as the estimated PBO at the end of 2002 could represent less than 5% of the current equity market capitalization.

We explore shareholders’ exposure in more detail in the “Who Has Exposure?” and “Forecasting” sections of the report. We include an estimate of the 2002 funded status for each company in the S&P 500 in Appendix C. In the “Funded Status” section of the report, we examine the shareholders’ exposure to the pension plan from a historical perspective.

**Balance Sheet Exposure**

Pension plan assets and liabilities can vanish off balance sheet. We estimate that the companies in the S&P 500 carried $992 billion in off-balance-sheet pension liabilities and $900 billion in off-balance-sheet pension assets at the end of 2001. The real leverage to the pension plan is hidden in the footnotes. The 10 companies in Exhibit 21 each had an off-balance-sheet pension liability in excess of $15 billion at the end of 2001, accounting for over one-third of the total off-balance-sheet pension liability for the S&P 500.

To get a better idea of the real balance sheet exposure to the pension plan, we treat the plan as an investment subsidiary. For each company in the S&P 500, we put the plan assets on the asset side of the balance sheet and the PBO on the liability side. In the aggregate, placing the pension plan assets on the balance sheet would increase total assets for the S&P 500 by 5% in 2001. Total assets would increase by over 50% for the 17 companies in Exhibit 22. If we were to treat the PBO as debt, aggregate debt for the S&P 500 would increase by 16%. Debt would more than double for 71 companies, and more than triple for 36 companies, including the 16 companies in Exhibit 23 that had over $1 billion in debt outstanding. (See Appendix I.)

Using a few actuarial rules of thumb, we estimate that the 26 companies in Exhibit 14 might have to record a charge to equity in 2002 that would be greater than 25% of their total shareholders’ equity at the end of 2001. The charge would reflect something called the minimum pension liability on the balance sheet. For example, General Motors took a $9.5 billion charge to equity in 2001 to reflect this adjustment. Standard & Poor’s is evaluating the potential impact that this charge to equity could have on debt covenants and credit ratings. On the other hand, we estimate that over half the companies in the S&P 500 would incur no such charge in 2002.
We explore balance sheet exposure in more detail in the “Three Steps to Strip Out Accounting Magic,” “Funded Status,” and “Forecasting” sections of this report.

Earnings Exposure

We expect companies to begin announcing that they will be taking down their expected return assumptions for 2003. As the median rate falls from the current 9.2%, the illusory earnings shield created by the magic of pension accounting should become evident. If we were to take the expected rate of return down 50 basis points for 2003, which we view as a likely scenario, aggregate pension cost for the S&P 500 would increase by about $5 billion. We recommend using our pension-forecasting model to perform what-if scenarios. For example, if the expected rate of return dropped 100 basis points, aggregate pension cost would rise by $10 billion; and if we were to drop the rates all the way down to 6.5% (as suggested by Warren Buffett), aggregate pension cost would jump by more than $30 billion. The 10 companies that would experience the largest increase in pension cost per share from dropping the expected rate of return assumption are included in Exhibit 15.

As pension plans become more and more underfunded, we would not be surprised if companies began taking down numbers for 2003. We estimate that the aggregate benefit to earnings for the S&P 500 from the pension plan will dry up in 2002. For 2003, we estimate that the companies in the S&P 500 will record net pension expense of $15 billion.

We forecast the net pension cost for the next three years for each company in the S&P 500. (See Appendix D.) To measure whether a change in pension cost is meaningful to a particular company’s future earnings, we compare our estimated per share change in pension cost between 2002 and 2003 to the First Call consensus earnings estimate for 2003. The increase in pension cost represents at least 10% of the consensus earnings estimate for the 27 companies in Exhibit 11. The key question to ask is whether the consensus earnings estimate incorporates the potential increase in pension cost; we are not sure of the answer.

For each company in the S&P 500, we replace the smoothing mechanisms from FAS No. 87 with what actually happened in the pension plan. We calculate what we refer to as “real” pension expense or income by taking the expected return on plan assets and amortization amounts and throwing them out the window (that’s one way to eliminate the debate surrounding the expected rates of return), replacing them with the actual return on the plan assets and the actuarial gains and losses on the PBO. Making our adjustments would drop the aggregate earnings for the S&P 500 by 69% in 2001 and by 10% in 2000 but would increase earnings by 26% in 1999. We estimate earnings would decline by 50% or more for 82 companies. Net income would become a net loss for 41 companies (see Appendix J); 30 companies would see earnings decline by over $1 billion, including the 7 companies in Exhibit 32, where earnings would drop more than $5 billion.

We divide net pension cost into three buckets: compensation, financing, and investing; only the compensation component remains in operating income. Currently, companies record net pension cost wherever they record labor cost in the income statement, somewhere in operating income. For each company in the S&P 500, we eliminate the pension cost recorded in operating income (as defined by Compustat) and replace it...
with service cost (compensation). We then compare the reported operating income and margins with our modified operating income. Operating income for the S&P 500 would decline by 4% in 2001, 4% in 2000, and 3% in 1999 after making our adjustments. (See Appendix K.) For 59 companies, operating income would decline by 10% or more in 2001. The 9 companies in Exhibit 36 would experience a decline of over 50%. Operating margins would drop by over 100 basis points for 62 companies; the 7 companies in Exhibit 39 would experience a decline of over 400 basis points. Operating margins improve for 69 companies, including the 5 companies in Exhibit 40 that would show improvement of more than 100 basis points. We adjust EBITDA in a similar manner and calculate adjusted EV/EBITDA multiples for each company in the S&P 500. The EV/EBITDA multiple would increase by 10% or more for 44 companies; 20% or more for 17 companies; and more than 30% for the 7 companies in Exhibit 42.

Last, we analyze the historical data to focus on quality-of-earnings issues. For example: What percentage of net income is from the pension plan, and how much of the growth in earnings is from rising pension income or declining pension expense? We estimate that pension income accounted for 2% of aggregate net income for the S&P 500 in both 2000 and 2001. For 37 companies, pension income represented at least 10% of earnings; the 19 companies in Exhibit 72 relied on pension income for 20% or more of their net income in 2001. Exhibit 73 highlights the 11 companies where over 20% of the growth in net income between 2000 and 2001 can be attributed to either the rise in pension income or the decline in pension expense.

We explore earnings exposure in more detail in the “Forecasting,” “Three Steps to Strip Out Accounting Magic,” and “Quality of Earnings” sections of this report.

Cash Flow Exposure
The declining health of defined benefit pension plans may result in companies diverting cash from the providers of capital into the pension plans. We estimate that the cash contributions for the S&P 500 will rise from $15 billion in 2001 to $29 billion in 2003. We attempt to forecast the potential cash contributions that each company in the S&P 500 will have to make to their defined benefit pension plans according to the ERISA requirements over the next three years. We estimate that the required contributions for 38 companies in 2003 will exceed the actual 2001 contributions by more than $100 million. We estimate that the 2003 required contribution for the 10 companies in Exhibit 17 will have the largest increases over their 2001 pension plan contributions.

We explore cash flow exposure in more detail in the “Forecasting” section of this report.

Assumptions Analysis
We devote an entire section of the report to analyzing the assumptions that the companies use in their defined benefit plans. We focus on whether the assumptions appear aggressive or conservative.

Forecasting Model
To provide investors with a tool to help them answer some of these pension questions, we developed a model (with the help of an actuary) that estimates pension cost, funded status, and required contributions for each of the next three years. This is the same model we use to analyze each company in the S&P 500. Due to all the simplifying
assumptions that we make in the model, actual pension results may vary considerably from our forecasts. An individual company model is available to clients on the CSFB Web site (http://www.csfb.com/equity/presentations/pension_forecast_model.xls), so that you may apply your own set of assumptions or investigate companies that are outside the S&P 500. We recommend using the model and our forecast as a starting point for further investigation and analysis.

**The Basics of Pension Accounting**
For those brave enough, Appendix B explains the nuts and bolts of pension accounting by walking through each line of the pension footnote disclosure for Procter & Gamble.

**Conclusion**
We created a simple report card, grading the exposure to defined benefit pension plans for each industry group in the S&P 500 on the basis of key historical metrics that we focus on in this report. Many of the 360 companies in the S&P 500 with defined benefit pension plans have either low or moderate exposure to their pension plans; however, there is a select group of companies where the exposure is significant. We divide those with significant exposure into two groups:

1. **Overfunded pension plans.** These companies have income statement issues: How much will earnings decline due to falling pension income? How much of the bottom line is coming from the pension plan? Industries at the top of this list include Diversified Telecommunications, Paper & Forest Products, and Industrial Conglomerates.

2. **Underfunded pension plans.** These companies attract more troublesome balance sheet and cash flow questions: Will companies have to divert the cash that they have set aside to grow the business, buy back stock, pay down debt, or pay dividends and pour it into the pension plan? Will these companies have difficulty meeting their funding requirements, in a worst-case scenario, forcing some into bankruptcy? How does ongoing deterioration in the health of the pension plan affect the balance sheet, and does it have credit rating implications? This group is led by the Airlines, Automobiles, and Auto Components industries.

We again note that companies that offer only defined contribution plans to their employees have no pension problem, but the declining health of defined benefit pension plans is becoming an important issue for a select group of companies and industries. This group of generally old-line, heavily unionized companies could experience a decline in earnings, a deterioration in the balance sheet, and for some, a drain on cash flow as their pension plans become less funded. In addition, as companies become more underfunded, the shareholders have to share more of their stake in the company with the pension plans.
Our Key Findings

- The combination of a decline in equity markets over the past three years and interest rates at record lows have resulted in a double whammy for defined benefit pension plans. The economic value of the pension plan, its funded status, has deteriorated as plan assets have dropped in value and pension obligations have climbed higher. Throw on top a pension obligation with unknown future cash flows, complicated accounting, and even more complicated funding requirements, and investors grow concerned and confused.

- We estimate that the aggregate defined benefit pension plan for the companies in the S&P 500 could be as much as $243 billion underfunded at the end of 2002, the first time it will be underfunded since 1993. The number of companies with underfunded defined benefit pension plans had jumped to 240 at the end of 2001, the highest level in the last 10 years. We estimate there may be as many as 325 companies with underfunded plans at the end of 2002.

- We estimate that the 30 companies in Exhibit 5 will have defined benefit plans at the end of 2002 that are underfunded by at least 25% of the current equity market capitalization. It is for this group of companies that the pension plan appears to have the largest claim on the shareholders’ stake in the company. The estimates are the result of applying our basic pension-forecasting model to all the companies in the S&P 500 with defined benefit pension plans; we assume that the fair value of plan assets drops by about 9% in 2002 and discount rates fall by 50 basis points, along with many other simplifying assumptions. The funded status is extremely sensitive to changes in discount rate; for each 50-basis-point change in rate, we assume that the aggregate funded status for the S&P 500 changes by $60 billion.

- On the other hand, we estimate that 212 companies in the S&P 500 will have defined benefit plans at the end of 2002 that are underfunded by less than 5% of the current equity market capitalization.

- We estimate that the 31 companies in Exhibit 7 will have pension plans with a projected benefit obligation at the end of 2002 that exceeds the current equity market capitalization. It is with this group of companies that the shareholders appear to have the largest potential exposure to defined benefit pension plans. On the other hand, we estimate that 94 companies with defined benefit pension plans in the S&P 500 will have a PBO at the end of 2002 that is less than 5% of their market capitalization.

- We list the 140 companies in the S&P 500 that appear to have no pension problem in Appendix A. These companies appear to use defined contribution plans only. Defined contribution plans involve straightforward accounting that properly reflects the simple economics and costs of those plans.

- Many of the 360 companies in the S&P 500 with defined benefit plans have either low or moderate exposure to their pension plans. We divide those with significant exposure into two groups:

  Overfunded pension plans. For these companies, the risks are limited to earnings (Will pension income decline?) and earnings quality (How much of the
bottom line is from the pension plan?). Industries at the top of this list include Diversified Telecom, Paper & Forest Products, and Industrial Conglomerates.

**Underfunded pension plans.** For these companies, the exposure to the pension plan is more troublesome; the risks are to earnings (Will pension cost rise?), to the balance sheet, and most important, to cash flow. This group is led by the Airlines, Automobiles, and Auto Components industries.

- The declining health of defined benefit pension plans may result in companies diverting the cash that they have set aside to grow the business, buy back stock, pay down debt, or pay dividends and pour it into the pension plan. We estimate that the cash contributions for the S&P 500 will rise from $15 billion in 2001 to $29 billion in 2003.

- As pension plans become more and more underfunded, we estimate that the aggregate benefit to earnings for the S&P 500 from the pension plan will dry up in 2002. For 2003, we estimate that the companies in the S&P 500 will report net pension expense of $15 billion.

- We estimate the increase in pension cost between 2002 and 2003 will represent at least 10% of the 2003 First Call consensus earnings estimate for the 26 companies in Exhibit 11. The key question to ask is whether the consensus earnings estimate incorporates the potential increase in pension cost; we are not sure of the answer.

- As the health of a defined benefit pension plan deteriorates, some companies might have to adjust their balance sheets to reflect their minimum pension liabilities. That adjustment could result in a charge to shareholders’ equity, depending upon the status of the pension plan at the end of 2002. According to our estimates, the 26 companies in Exhibit 14 might have to record a charge to equity that would be greater than 25% of their total equity in 2001. On the other hand, we estimate that over half the companies in the S&P 500 would incur no such charge.

- We expect companies to begin announcing that they will be taking down their expected return assumptions for 2003. As the median rate falls from the current 9.2%, the illusory earnings shield created by the magic of pension accounting should become evident. If we were to take the expected return assumptions down 50 basis points for 2003, which we view as a likely scenario, aggregate pension cost for the S&P 500 would increase by about $5 billion.

- Of the 55 different industry groups within the S&P 500, 35 were underfunded by a total of $57 billion at the end of 2001. Five industry groups—Automobiles, Auto Components, Oil & Gas, Pharmaceuticals, and Airlines—accounted for 70% of the total underfunded amount. (See Exhibit 48 for the breakdown.)

- Concern is rising that the smoothing mechanisms in FAS No. 87, originally designed to reduce reported earnings volatility, have led to misleading financial statements. In 2001, the magic of pension accounting transformed a $90 billion loss on pension plan assets for the S&P 500 into income of $104 billion. In addition, we estimate that companies in the S&P 500 carried $992 billion in off-balance-sheet pension liabilities and $900 billion in off-balance-sheet pension assets at the end of 2001.

- To further understand the actual exposure of the 360 companies with defined benefit plans, where all the investment risk falls on the employer, we replace the magic of
pension accounting with each plan’s economic reality, treating the plan as if it were an investment subsidiary. We simplify the accounting through a three-step process. We then examine the impact on the income statement and the balance sheet, a summary of which is presented in Exhibit 1. It would not surprise us if the FASB were to take another look at pension accounting.

Exhibit 1: Summary Impact of Applying our Three-Step Framework—Aggregate S&P 500

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Off-Balance-Sheet Asset</td>
<td>$900</td>
<td>$1,041</td>
</tr>
<tr>
<td>Off-Balance-Sheet Liability</td>
<td>$992</td>
<td>$922</td>
</tr>
<tr>
<td>Increase in Assets</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Increase in Debt</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Change in Equity</td>
<td>(2%)</td>
<td>3%</td>
</tr>
<tr>
<td>Decrease in Earnings</td>
<td>(69%)</td>
<td>(10%)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

• The difficult economic environment has diminished profitability for the S&P 500, but the smoothing mechanisms of FAS No. 87 have alleviated some of the pressure on the bottom line. Replacing these mechanisms with what actually happened in the pension plans would drop the aggregate earnings for the S&P 500 by 69% in 2001 and 10% in 2000 but would increase earnings by 26% in 1999. Earnings would be cut by at least half for 14 industry groups and for 82 companies in 2001; earnings would not be affected for 140 companies, and would actually increase for 12 companies; the aggregate return on equity would drop from 8% to 2%.

• We estimate that after-tax net pension income was 2% of the aggregate net income for the S&P 500 in both 2001 and 2000; 150 companies reported net pension income in 2001 and 206 reported net pension expense. The 9 industries in Exhibit 71 generated at least 5% of profits from the pension plan, and the 19 companies in Exhibit 72 generated lower-quality earnings by relying on pension income for at least 20% of the bottom line in 2001.

• We devote an entire section of the report to analyzing the assumptions that the companies use in their defined benefit plans. We focus on whether the assumptions appear aggressive or conservative and on the impact that changes in the assumptions would have on earnings and the funded status.

• To provide investors with a tool to help them answer some of these pension questions, we developed a model (with the help of an actuary) that estimates pension cost for each of the next three years. Using the information from the pension footnote and a number of assumptions about the future, the model calculates both a FAS No. 87 “pension accounting cost” and our “real pension cost.” In addition, the model provides an estimate of the pension plan’s funded status for the next three years and the required contributions that the company might have to make to the pension plan. We use this model for each company in the S&P 500. The individual company model is available to clients on the CSFB Web site (http://www.csfb.com/equity/presentations/pension_forecast_model.xls), so that you may apply your own set of assumptions or investigate companies that are outside the S&P 500.

• We base our analysis on the companies comprising the S&P 500 index, reflecting changes to the index through July 31, 2002.
• In addition, we analyze the defined benefit pension plan data from a number of different angles, including our simple Pension Report Card. (See Exhibit 2 for some interesting summary statistics.)

Exhibit 2: Some Interesting Summary Statistics for the S&P 500

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Companies Overfunded</td>
<td>33</td>
<td>118</td>
<td>229</td>
<td>261</td>
</tr>
<tr>
<td>Number of Companies Underfunded</td>
<td>325</td>
<td>240</td>
<td>118</td>
<td>81</td>
</tr>
<tr>
<td>Plan Assets (US$ in billions)</td>
<td>$904</td>
<td>$1,069</td>
<td>$1,192</td>
<td>$1,149</td>
</tr>
<tr>
<td>Projected Benefit Obligation (PBO) (US$ in billions)</td>
<td>$1,147</td>
<td>$1,064</td>
<td>$972</td>
<td>$897</td>
</tr>
<tr>
<td>Funded Status $ (US$ in billions) (Under) Over</td>
<td>($243)</td>
<td>$4</td>
<td>$220</td>
<td>$252</td>
</tr>
<tr>
<td>Funded Status %</td>
<td>79%</td>
<td>100%</td>
<td>123%</td>
<td>128%</td>
</tr>
<tr>
<td># of Companies – Pretax Pension Income</td>
<td>117</td>
<td>150</td>
<td>155</td>
<td>102</td>
</tr>
<tr>
<td># of Companies – Pretax Pension Expense</td>
<td>242</td>
<td>206</td>
<td>188</td>
<td>234</td>
</tr>
<tr>
<td>After-Tax Pension Income % of Net Income</td>
<td>0%</td>
<td>2%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Median Expected Rate of Return on Plan Assets</td>
<td>9.20%</td>
<td>9.20%</td>
<td>9.20%</td>
<td></td>
</tr>
<tr>
<td>Median Discount Rate</td>
<td>7.25%</td>
<td>7.50%</td>
<td>7.50%</td>
<td></td>
</tr>
<tr>
<td>Median Salary Inflation Rate</td>
<td>4.50%</td>
<td>4.50%</td>
<td>4.50%</td>
<td></td>
</tr>
<tr>
<td>Actual Return</td>
<td>(7.50%)</td>
<td>4.94%</td>
<td>17.31%</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*
The “Magic of Pension Accounting”

How else do you explain when a decline in the value of pension plan assets is replaced by income in the form of the expected return on plan assets? For the S&P 500, we estimate this magic transformed a $90 billion loss on plan assets during 2001 into $104 billion of income. Pension assets and liabilities can also vanish off balance sheet. We estimate that companies in the S&P 500 carried $992 billion in off-balance-sheet pension liabilities and $900 billion in off-balance-sheet pension assets at the end of 2001. This reflects the very powerful smoothing mechanisms in FAS No. 87, “Employers’ Accounting for Pensions,” that were built to protect the balance sheet and reduce earnings volatility; gains and losses are deferred with the hope that over time they would offset each other. The end result: misleading financial statements that do not reflect the decaying economic reality of the pension plan.

The combination of a decline in equity markets over the past three years and interest rates at record lows have resulted in a double whammy for defined benefit pension plans. The economic value of the pension plan—its funded status—has deteriorated as plan assets have dropped in value, and pension obligations have climbed higher. For the S&P 500, pension plan assets have declined by $78 billion, while the projected benefit obligation (PBO) has increased by $170 billion, taking the pension plan from $252 billion overfunded at the end of 1999 to only $4 billion overfunded by the end of 2001, leaving the aggregate pension plan for the S&P 500 with approximately $1 trillion in plan assets and a $1 trillion obligation. We estimate that the aggregate pension plan for the companies in the S&P 500 may be as much as $243 billion underfunded at the end of 2002, the first time it is underfunded since 1993, as depicted in Exhibit 3.

Exhibit 3: Funded Status of Defined Benefit Pension Plans for the S&P 500

The deteriorating health of defined benefit pension plans, combined with misleading accounting, enormously complicated funding requirements, and a pension obligation with unknown future cash flows, has left investors dazed and confused.
The Most Popular Questions
The accounting rules erase much of the real volatility and exposure inherent in the pension plan from the financial statements. It is the pension disclosure that is buried in the footnotes that helps to shed some light on the complicated economics of a defined benefit plan. Throw on top a set of funding requirements that were written in hieroglyphics and involve an entirely separate set of assumptions and calculations to determine how much cash the company has to put in its pension plan, and you can understand why we have been inundated with questions about pension accounting for quite some time.

Typical questions that we have been getting recently include, “I don’t get it, the pension plan assets declined in value last year, but the expected return on plan assets moved higher.” Or, “If the pension plan is underfunded, why does the company report a pension asset on its balance sheet?” That’s the magic of pension accounting.

In the late 1990s, most of the questions we received on pension accounting (yes, people did ask accounting questions in the late 1990s) were geared toward the quality of earnings: How much of the bottom line was coming from the pension plan? Now, everyone wants to know if defined benefit pension plans are a time bomb waiting to explode. The fears and questions in the market include:

- Are there certain industries/companies that are more exposed to defined benefit pension plans?
- What is the real exposure for the sponsoring company to a defined benefit pension plan?
- How large of a claim does the pension plan have on my stake in the company?
- What companies will have difficulty meeting their funding requirements, in a worst-case scenario, forcing some into bankruptcy?
- As equity returns continue to falter, will pension plans rotate out of equity into fixed income to try and protect what is left of the pension plans’ funded status, further depressing the stock market?
- To meet funding requirements, will companies have to divert the cash they have set aside to grow the business, buy back stock, pay down debt, or pay dividends and pour it into the pension plan?
- At what point will companies have to increase the contributions that they make to the pension plan?
- When will earnings be negatively affected by accelerating pension expense or declining pension income?
- What will happen to the funded status of the pension plan and how does it affect the balance sheet?
- Do the assumptions that companies use make sense? In particular, are the expected return assumptions too high? What happens if companies have to bring them down?
- As to quality of earnings, how much of the bottom line and margins are a result of the pension plan?
We are issuing this research report to help investors answer these questions and provide a better understanding of the investment implications of pension accounting.

We want to make clear that this report is not taking up the topic of other postretirement benefits (OPEB). The accounting in FAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions,” is virtually the same as FAS No. 87. However, the economics are dramatically different, as many companies don’t fund their OPEB plans, because (1) they don’t have to and (2) they don’t get preferential tax treatment. When analyzing OPEB plans, we apply the same methodology that we describe in this report. We do not combine the OPEB plans with the pension plans, as they are entirely separate obligations.
Who Has Exposure?

Defined Benefit versus Defined Contribution
To determine whether a company has exposure to pension issues, we first need to identify what type of pension plan the company offers to its employees. There are two basic types of pension plans: defined benefit and defined contribution. The difference between the two is a function of what the employer has promised to its employees.

Defined contribution plans (401k’s) generally promise that the employer will make certain contributions on behalf of the employee; future benefits will depend upon the investment returns in the employee’s retirement account. Therefore, all investment risk lies with the employee. The employer has no obligation beyond the contributions made each period. The accounting for a defined contribution plan is straightforward. Expense is recognized when the employer makes a contribution on behalf of the employee. The economics are simple, as the accounting properly reflects the economics, which translates into no pension problem for the 140 companies included in Appendix A.

It is defined benefit plans that keep actuaries employed, give investors headaches, and are the focus of our report. Defined benefit plans promise a future retirement benefit determined by a benefit formula. For example, a company may promise to pay an employee a retirement benefit of $20 per month for each year of service; or it may guarantee the employee an annual retirement benefit of 50% of the last year’s salary. No matter what the benefit formula, the employer is obligated to pay a benefit at some point in the future, the ultimate cost of which is unknown. Therefore, all the investment risk falls on the employer. We estimate that approximately 360 companies have varying degrees of exposure to defined benefit pension plans in the S&P 500. Defined benefit pension plans are more common with old-line, industrialized, unionized types of companies; they are generally not found with newer companies, especially those founded post ERISA, 1974. Exhibit 4 lists the concentrations of defined benefit pension plans by industry.
Exhibit 4: Percentage of Companies with Defined Benefit Pension Plans by Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>%</th>
<th>Industry</th>
<th>%</th>
<th>Industry</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace &amp; Defense</td>
<td>100.0%</td>
<td>Paper &amp; Forest Products</td>
<td>100.0%</td>
<td>Electronic Equipment &amp; Instruments</td>
<td>60.0%</td>
</tr>
<tr>
<td>Air Freight &amp; Logistics</td>
<td>100.0%</td>
<td>Road &amp; Rail</td>
<td>100.0%</td>
<td>Commercial Services &amp; Supplies</td>
<td>57.9%</td>
</tr>
<tr>
<td>Auto Components</td>
<td>100.0%</td>
<td>Tobacco</td>
<td>100.0%</td>
<td>Multiline Retail</td>
<td>53.8%</td>
</tr>
<tr>
<td>Automobiles</td>
<td>100.0%</td>
<td>Diversified Telecom Services</td>
<td>88.9%</td>
<td>Health Care Providers &amp; Services</td>
<td>50.0%</td>
</tr>
<tr>
<td>Beverages</td>
<td>100.0%</td>
<td>Metals &amp; Mining</td>
<td>87.5%</td>
<td>Trading Companies &amp; Distributors</td>
<td>50.0%</td>
</tr>
<tr>
<td>Building Products</td>
<td>100.0%</td>
<td>Oil &amp; Gas</td>
<td>87.5%</td>
<td>Computers &amp; Peripherals</td>
<td>45.5%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>100.0%</td>
<td>Insurance</td>
<td>83.3%</td>
<td>Hotels Restaurants &amp; Leisure</td>
<td>45.5%</td>
</tr>
<tr>
<td>Construction &amp; Engineering</td>
<td>100.0%</td>
<td>Multi-Utilities &amp; Unregulated Power</td>
<td>83.3%</td>
<td>Biotechnology</td>
<td>40.0%</td>
</tr>
<tr>
<td>Construction Materials</td>
<td>100.0%</td>
<td>Banks</td>
<td>82.8%</td>
<td>Textiles Apparel &amp; Luxury Goods</td>
<td>40.0%</td>
</tr>
<tr>
<td>Containers &amp; Packaging</td>
<td>100.0%</td>
<td>Diversified Financials</td>
<td>78.3%</td>
<td>Communications Equipment</td>
<td>38.5%</td>
</tr>
<tr>
<td>Electric Utilities</td>
<td>100.0%</td>
<td>Household Durables</td>
<td>76.9%</td>
<td>Specialty Retail</td>
<td>33.3%</td>
</tr>
<tr>
<td>Energy Equipment &amp; Services</td>
<td>100.0%</td>
<td>Pharmaceuticals</td>
<td>76.9%</td>
<td>Real Estate</td>
<td>25.0%</td>
</tr>
<tr>
<td>Food Products</td>
<td>100.0%</td>
<td>Food &amp; Drug Retailing</td>
<td>75.0%</td>
<td>Semiconductor Equipment &amp; Products</td>
<td>19.0%</td>
</tr>
<tr>
<td>Gas Utilities</td>
<td>100.0%</td>
<td>Health Care Equipment &amp; Supplies</td>
<td>75.0%</td>
<td>Software</td>
<td>5.9%</td>
</tr>
<tr>
<td>Household Products</td>
<td>100.0%</td>
<td>IT Consulting &amp; Services</td>
<td>75.0%</td>
<td>Internet &amp; Catalog Retail</td>
<td>0.0%</td>
</tr>
<tr>
<td>Industrial Conglomerates</td>
<td>100.0%</td>
<td>Electrical Equipment</td>
<td>71.4%</td>
<td>Internet Software &amp; Services</td>
<td>0.0%</td>
</tr>
<tr>
<td>Leisure Equipment &amp; Products</td>
<td>100.0%</td>
<td>Airlines</td>
<td>66.7%</td>
<td>Wireless Telecommunication Services</td>
<td>0.0%</td>
</tr>
<tr>
<td>Machinery</td>
<td>100.0%</td>
<td>Personal Products</td>
<td>66.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Electronics</td>
<td>100.0%</td>
<td>Media</td>
<td>62.5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Over time, we expect the significance of defined benefit plans to decline as more companies shift employees to defined contribution plans only.

Defined Benefit Plans

The calculations behind the scenes, the assumptions in actuarial tables, the demographic data, and mortality predictions are all part of the wonderful world of an actuary and are extremely complicated. They should be complicated. With a defined benefit pension plan the sponsoring company has entered into an obligation where the ultimate cash flows are unknown. It is the unknown that spooks investors and is one reason why pension accounting gets so much attention.

However, once past the intricate calculations, there are only two components to a defined benefit pension plan: plan assets and an obligation. We think of a defined benefit pension plan as an investment subsidiary with a collection of assets (equity, fixed income, real estate, private equity, venture capital, etc.) and an obligation (the promise to pay retirement benefits to the employees in the future, similar to a series of zero coupon bonds). The most relevant information about this investment subsidiary is the fair value of the assets (the market value of the stocks, bonds, real estate and other assets that are in the portfolio) and the fair value (present value) of the obligation, the projected benefit obligation. We have reasonable estimates of each. If the assets are greater than the obligation, the pension plan is overfunded. If the obligation is larger than the assets, then the pension plan is underfunded.

The funded status represents the economic value of the pension plan. An overfunded pension plan is an economic asset for the sponsoring company, one that is difficult to monetize, however, still an asset. Capital that would have been allocated to the pension plan can now be put to other uses—reinvestment, share repurchases, debt paydown, dividends, etc. On the other hand, an underfunded plan can be considered an economic
liability that could increase future contributions to the pension plan from the company, drawing capital away from other parts of the business.

**Shareholders’ Exposure**

We start by determining the defined benefit pension plans that could have the largest claim on the shareholders’ stake in the company. To do this we simply compare the economic value of the pension plan, its funded status, with the value of the shareholders’ stake in the company, the equity market capitalization. We estimate that the 30 companies in Exhibit 5 may have defined benefit pension plans at the end of 2002 that are underfunded by more than 25% of their current equity market capitalization as of September 24, 2002. In other words, the pension plan may have a claim on over one-quarter of the shareholders’ stake in the company.

**Exhibit 5: Companies with Pension Plans Estimated Underfunded at the end of 2002 by More than 25% Equity Market Capitalization**

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2002E Underfunded Amount</th>
<th>Current Market Capitalization</th>
<th>2002E Underfunded/Market Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMR Corp</td>
<td>AMR</td>
<td>$3,367</td>
<td>$560</td>
<td>601%</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>4,376</td>
<td>1,240</td>
<td>353%</td>
</tr>
<tr>
<td>Avaya Inc</td>
<td>AV</td>
<td>703</td>
<td>485</td>
<td>145%</td>
</tr>
<tr>
<td>Goodyear Tire &amp; Rubber Co</td>
<td>GT</td>
<td>1,965</td>
<td>1,386</td>
<td>142%</td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>29,428</td>
<td>21,421</td>
<td>137%</td>
</tr>
<tr>
<td>McDermott Intl Inc</td>
<td>MDR</td>
<td>448</td>
<td>333</td>
<td>134%</td>
</tr>
<tr>
<td>Delphi Corp</td>
<td>DPH</td>
<td>4,245</td>
<td>4,811</td>
<td>88%</td>
</tr>
<tr>
<td>Navistar International</td>
<td>NAV</td>
<td>1,093</td>
<td>1,249</td>
<td>88%</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>14,273</td>
<td>17,026</td>
<td>84%</td>
</tr>
<tr>
<td>Cummins Inc</td>
<td>CUM</td>
<td>729</td>
<td>902</td>
<td>81%</td>
</tr>
<tr>
<td>CMS Energy Corp</td>
<td>CMS</td>
<td>590</td>
<td>1,108</td>
<td>53%</td>
</tr>
<tr>
<td>Xerox Corp</td>
<td>XRX</td>
<td>2,297</td>
<td>4,352</td>
<td>53%</td>
</tr>
<tr>
<td>Visteon Corp</td>
<td>VC</td>
<td>651</td>
<td>1,297</td>
<td>50%</td>
</tr>
<tr>
<td>Hercules Inc</td>
<td>HPC</td>
<td>477</td>
<td>954</td>
<td>50%</td>
</tr>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>237</td>
<td>500</td>
<td>47%</td>
</tr>
<tr>
<td>Boise Cascade Corp</td>
<td>BCC</td>
<td>613</td>
<td>1,356</td>
<td>45%</td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>515</td>
<td>1,170</td>
<td>44%</td>
</tr>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>1,466</td>
<td>3,364</td>
<td>44%</td>
</tr>
<tr>
<td>Williams Cos Inc</td>
<td>WMB</td>
<td>392</td>
<td>909</td>
<td>43%</td>
</tr>
<tr>
<td>Dana Corp</td>
<td>DCN</td>
<td>848</td>
<td>2,001</td>
<td>42%</td>
</tr>
<tr>
<td>Maytag Corp</td>
<td>MYG</td>
<td>638</td>
<td>1,800</td>
<td>35%</td>
</tr>
<tr>
<td>Georgia-Pacific Corp</td>
<td>GP</td>
<td>1,141</td>
<td>3,235</td>
<td>35%</td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>729</td>
<td>2,110</td>
<td>35%</td>
</tr>
<tr>
<td>Corning Inc</td>
<td>GLW</td>
<td>523</td>
<td>1,556</td>
<td>34%</td>
</tr>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>750</td>
<td>2,230</td>
<td>34%</td>
</tr>
<tr>
<td>AES Corp</td>
<td>AES</td>
<td>380</td>
<td>1,210</td>
<td>31%</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>3,612</td>
<td>12,651</td>
<td>29%</td>
</tr>
<tr>
<td>Goodrich Corp</td>
<td>GR</td>
<td>561</td>
<td>1,993</td>
<td>28%</td>
</tr>
<tr>
<td>Electronic Data Systems Corp</td>
<td>EDS</td>
<td>1,540</td>
<td>5,610</td>
<td>27%</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>6,846</td>
<td>27,936</td>
<td>25%</td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*
On the other hand, we estimate that 212 companies in the S&P 500 may have defined benefit pension plans at the end of 2002 that are underfunded by less than 5% of their current equity market capitalization. We estimate that 33 companies may have overfunded pension plans at the end of 2002, including the 6 companies in Exhibit 6, where we estimate that the amount overfunded exceeds 5% of the current equity market capitalization.

Exhibit 6: Four Plans Estimated Overfunded at End of 2002 by 5% or More of the Equity Market Capitalization

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2002E Funded Status</th>
<th>Current Market Capitalization</th>
<th>2002E Funded Status/Market Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meadwestvaco Corp</td>
<td>MWV</td>
<td>$ 733</td>
<td>$ 4,035</td>
<td>18%</td>
</tr>
<tr>
<td>FPL Group Inc</td>
<td>FPL</td>
<td>730</td>
<td>9,316</td>
<td>8%</td>
</tr>
<tr>
<td>Nicor Inc</td>
<td>GAS</td>
<td>91</td>
<td>1,195</td>
<td>8%</td>
</tr>
<tr>
<td>Sherwin-Williams Co</td>
<td>SHW</td>
<td>259</td>
<td>3,494</td>
<td>7%</td>
</tr>
<tr>
<td>Xcel Energy Inc</td>
<td>XEL</td>
<td>190</td>
<td>3,437</td>
<td>6%</td>
</tr>
<tr>
<td>People’s Energy Corp</td>
<td>PGL</td>
<td>57</td>
<td>1,177</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Next, we evaluate which companies have the largest potential exposure, the highest leverage, to defined benefit pension plans by comparing the pension obligation to the equity market capitalization. We estimate that the 31 companies in Exhibit 7 may have projected benefit obligations at the end of 2002 that exceed their current equity market capitalization. For 94 companies with defined benefit plans, the estimated PBOs at the end of 2002 could represent less than 5% of their current equity market capitalization.
Exhibit 7: Projected Benefit Obligation Equity Market Capitalization

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2002E PBO</th>
<th>Current Market Capitalization</th>
<th>2002E PBO/Market Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMR Corp</td>
<td>AMR</td>
<td>$8,313</td>
<td>$560</td>
<td>1483%</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>11,713</td>
<td>1,240</td>
<td>945%</td>
</tr>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>30,775</td>
<td>3,364</td>
<td>915%</td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>7,516</td>
<td>1,170</td>
<td>642%</td>
</tr>
<tr>
<td>McDermott Intl Inc</td>
<td>MDR</td>
<td>1,987</td>
<td>333</td>
<td>597%</td>
</tr>
<tr>
<td>Avaya Inc</td>
<td>AV</td>
<td>2,748</td>
<td>485</td>
<td>567%</td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>90,829</td>
<td>21,421</td>
<td>424%</td>
</tr>
<tr>
<td>Goodyear Tire &amp; Rubber Co</td>
<td>GT</td>
<td>5,512</td>
<td>1,386</td>
<td>398%</td>
</tr>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>1,926</td>
<td>500</td>
<td>386%</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>55,184</td>
<td>17,026</td>
<td>324%</td>
</tr>
<tr>
<td>Navistar International</td>
<td>NAV</td>
<td>3,515</td>
<td>1,249</td>
<td>281%</td>
</tr>
<tr>
<td>Cummins Inc</td>
<td>CUM</td>
<td>2,234</td>
<td>902</td>
<td>248%</td>
</tr>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>5,156</td>
<td>2,230</td>
<td>231%</td>
</tr>
<tr>
<td>Qwest Communication Intl Inc</td>
<td>Q</td>
<td>9,325</td>
<td>4,372</td>
<td>213%</td>
</tr>
<tr>
<td>Delphi Corp</td>
<td>DPH</td>
<td>9,778</td>
<td>4,811</td>
<td>203%</td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>3,900</td>
<td>2,110</td>
<td>185%</td>
</tr>
<tr>
<td>Xerox Corp</td>
<td>XRX</td>
<td>8,003</td>
<td>4,352</td>
<td>184%</td>
</tr>
<tr>
<td>PG&amp;E Corp</td>
<td>PCG</td>
<td>6,752</td>
<td>3,948</td>
<td>171%</td>
</tr>
<tr>
<td>Hercules Inc</td>
<td>HPC</td>
<td>1,535</td>
<td>954</td>
<td>161%</td>
</tr>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>3,604</td>
<td>2,622</td>
<td>137%</td>
</tr>
<tr>
<td>Dana Corp</td>
<td>DCN</td>
<td>2,728</td>
<td>2,001</td>
<td>136%</td>
</tr>
<tr>
<td>Georgia-Pacific Corp</td>
<td>GP</td>
<td>4,240</td>
<td>3,235</td>
<td>131%</td>
</tr>
<tr>
<td>Dynegy Inc</td>
<td>DYN</td>
<td>575</td>
<td>443</td>
<td>130%</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>35,498</td>
<td>27,936</td>
<td>127%</td>
</tr>
<tr>
<td>Williams Cos Inc</td>
<td>WMB</td>
<td>1,127</td>
<td>909</td>
<td>124%</td>
</tr>
<tr>
<td>CMS Energy Corp</td>
<td>CMS</td>
<td>1,361</td>
<td>1,108</td>
<td>123%</td>
</tr>
<tr>
<td>Visteon Corp</td>
<td>VC</td>
<td>1,550</td>
<td>1,297</td>
<td>120%</td>
</tr>
<tr>
<td>Corning Inc</td>
<td>GLW</td>
<td>1,853</td>
<td>1,556</td>
<td>119%</td>
</tr>
<tr>
<td>Boise Cascade Corp</td>
<td>BCC</td>
<td>1,611</td>
<td>1,356</td>
<td>119%</td>
</tr>
<tr>
<td>TRW Inc</td>
<td>TRW</td>
<td>7,975</td>
<td>7,546</td>
<td>106%</td>
</tr>
<tr>
<td>Goodrich Corp</td>
<td>GR</td>
<td>2,053</td>
<td>1,993</td>
<td>103%</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Pension Report Card
Throughout this report, we analyze defined benefit pension plan data for the S&P 500 companies from a number of different angles. We do this to try and answer the simple question: Who has exposure to defined benefit pension plans? We have created a simple report card, grading the exposure to defined benefit pension plans for each industry group in the S&P 500 on the basis of key historical metrics that we focus on in this report. Exhibit 8 aggregates by industry select portions of the data that we’ve examined and provides a weighted-average score for each. We arrive at a weighted-average score by selecting three key metrics to include in a simple test:

1. **Plan Assets/Projected Benefit Obligation**—Focuses on funded status over the past five years in relation to a 90% funding threshold, applying a score based on how overfunded or underfunded a particular industry is with respect to its peers. As a rule of thumb, 90% represents a useful hurdle rate for determining the adequacy of
a company's funded status (i.e., companies less than 90% funded may be required to make contributions to their pension plans). We cover this topic in greater detail in the “Funding Requirements” section.

2. **Pension Cost/Operating Income**—Focuses on whether the profitability of an industry has been significantly affected by pensions, applying a score based on whether an industry has posted significant pension income or pension expense as a percentage of operating income over the past five years.

3. **Funded Status/Market Capitalization**—Focuses on the size of the claim that the pension plan has on the shareholders’ stake in the company, applying a score based on how large the over- or underfunded status is as a percentage of market capitalization. To do this we simply compare the economic value of the pension plan, its funded status, with the value of the shareholders’ stake in the company, the equity market capitalization.

These are critical metrics for evaluating an industry's exposure to defined benefit pension plans, but we have a problem combining them in our analysis because each metric is unique (i.e., metric 1 focuses on funded status, metric 2 focuses on operating income, and metric 3 focuses on market value). We turn to a useful statistical tool to overcome this hurdle: the Z-score. Z-scores help to “standardize” each metric with respect to the others. Once we have Z-scores across each key metric, we can combine them to come up with an overall score for each industry. As we consider each metric equally important, we apply equal 33% weights to each. Quite simply, the Z-score focuses on the average. In our report card, average industries receive a Z-score of zero, while above-average industries receive a positive score and below-average industries received a negative score. We can then rank the industries by their combined Z-scores.

Let's walk through an example from Exhibit 8 to demonstrate. Media is “middle-of-the-road” and, for this reason, gets a Z-score close to zero across every metric. We interpret this by stating that, compared with other industries, Media is neither significantly over- or underfunded, does not report significant pension income or expense, and does not have a funded status that is significant relative to its market capitalization. Let's now shift to the upper extreme: the Diversified Telecom industry. This industry receives a very high (positive) Z-score because again, compared with other industries, it is very overfunded, reports substantial pension income, and has a large overfunded pension plan relative to its market capitalization. Finally, we move to the lower extreme: the Airlines industry. Airlines receive a very low (negative) Z-score because it is significantly underfunded, incurs high pension cost as a percentage of operating income, and is underfunded by a large percentage of its market capitalization.

As Exhibit 8 shows, scores ranged between plus 1.80 to minus 2.54; 30 out of 50 industries scored between plus or minus 0.6, highlighting the insignificance of their exposure. (We excluded 5 industries for which defined benefit pension plans were immaterial—Internet & Catalog Retail, Internet Software & Services, Wireless Telecom Services, Software, and Biotechnology.) Another 11 industries ranked on the high end of our report card. Although these industries don’t currently face any funding problems or cash flow constraints with respect to their plans, they do face high exposure to earnings (Will pension income decline?) and quality of earnings (How much of the bottom line is from the pension plan?) issues, given their significant levels of
overfunding. Finally, 9 industries ranked on the low end of our scale, facing high exposure to earnings (Will pension expense increase?) issues, the need to possibly commit cash flows to their pension plans, and potential pressure regarding their credit standings. Although we exercise judgment in selecting the metrics we use to arrive at each industry’s Z-score, the calculation itself and the corresponding rankings are objective. As a result, we believe that this report card effectively highlights industries with the greatest degrees of exposure to the pension accounting issues that we address in this report.
### Exhibit 8: Pension Report Card

<table>
<thead>
<tr>
<th>Industry</th>
<th>Metrics</th>
<th>Weighted Totals</th>
<th>Z-Score</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Plan Assets / PBO</td>
<td>Pension Cost/ Operating Income</td>
<td>Funded Status/ Mkt. Cap</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversified Telecom Services</td>
<td>2.05</td>
<td>1.65</td>
<td>1.69</td>
</tr>
<tr>
<td>Industrial Conglomerates</td>
<td>2.11</td>
<td>1.44</td>
<td>0.73</td>
</tr>
<tr>
<td>Paper &amp; Forest Products</td>
<td>1.18</td>
<td>1.83</td>
<td>0.79</td>
</tr>
<tr>
<td>Communications Equipment</td>
<td>1.69</td>
<td>1.19</td>
<td>0.66</td>
</tr>
<tr>
<td>Metals &amp; Mining</td>
<td>0.73</td>
<td>1.65</td>
<td>0.62</td>
</tr>
<tr>
<td>Gas Utilities</td>
<td>1.11</td>
<td>0.55</td>
<td>1.05</td>
</tr>
<tr>
<td>Specialty Retail</td>
<td>2.16</td>
<td>0.08</td>
<td>0.22</td>
</tr>
<tr>
<td>Construction Materials</td>
<td>1.70</td>
<td>0.09</td>
<td>0.55</td>
</tr>
<tr>
<td>Aerospace &amp; Defense</td>
<td>0.49</td>
<td>1.44</td>
<td>0.27</td>
</tr>
<tr>
<td>Containers &amp; Packaging</td>
<td>0.43</td>
<td>1.40</td>
<td>0.31</td>
</tr>
<tr>
<td>Electric Utilities</td>
<td>0.83</td>
<td>0.52</td>
<td>0.55</td>
</tr>
<tr>
<td>Construction &amp; Engineering</td>
<td>0.31</td>
<td>1.33</td>
<td>0.07</td>
</tr>
<tr>
<td>Computers &amp; Peripherals</td>
<td>0.23</td>
<td>1.14</td>
<td>0.20</td>
</tr>
<tr>
<td>Banks</td>
<td>0.87</td>
<td>0.12</td>
<td>0.26</td>
</tr>
<tr>
<td>Trading Companies &amp; Dstrbtrs.</td>
<td>0.52</td>
<td>0.33</td>
<td>0.27</td>
</tr>
<tr>
<td>Leisure Equipment &amp; Products</td>
<td>(0.08)</td>
<td>0.71</td>
<td>0.48</td>
</tr>
<tr>
<td>Food &amp; Drug Retailing</td>
<td>0.58</td>
<td>(0.05)</td>
<td>0.21</td>
</tr>
<tr>
<td>Tobacco</td>
<td>0.37</td>
<td>0.06</td>
<td>0.12</td>
</tr>
<tr>
<td>Commercial Serv. &amp; Suppl.</td>
<td>0.06</td>
<td>0.06</td>
<td>0.21</td>
</tr>
<tr>
<td>Chemicals</td>
<td>(0.15)</td>
<td>0.44</td>
<td>0.01</td>
</tr>
<tr>
<td>Road &amp; Rail</td>
<td>(0.06)</td>
<td>0.12</td>
<td>0.11</td>
</tr>
<tr>
<td>Diversified Financials</td>
<td>(0.10)</td>
<td>0.04</td>
<td>0.20</td>
</tr>
<tr>
<td>Insurance</td>
<td>(0.03)</td>
<td>(0.04)</td>
<td>0.20</td>
</tr>
<tr>
<td>Media</td>
<td>(0.01)</td>
<td>(0.11)</td>
<td>0.19</td>
</tr>
<tr>
<td>Real Estate</td>
<td>(0.34)</td>
<td>0.06</td>
<td>0.20</td>
</tr>
<tr>
<td>Household Durables</td>
<td>(0.05)</td>
<td>(0.11)</td>
<td>0.07</td>
</tr>
<tr>
<td>Food Products</td>
<td>(0.14)</td>
<td>(0.31)</td>
<td>0.19</td>
</tr>
<tr>
<td>Textiles Apparel &amp; Lux. Goods</td>
<td>(0.34)</td>
<td>(0.10)</td>
<td>0.16</td>
</tr>
<tr>
<td>Multiline Retail</td>
<td>(0.42)</td>
<td>(0.17)</td>
<td>0.16</td>
</tr>
<tr>
<td>Energy Equipment &amp; Serv.</td>
<td>(0.03)</td>
<td>(0.49)</td>
<td>0.09</td>
</tr>
<tr>
<td>Electrical Equipment</td>
<td>(0.34)</td>
<td>(0.24)</td>
<td>0.11</td>
</tr>
<tr>
<td>Multi-Utilities &amp; Unreg. Power</td>
<td>(0.13)</td>
<td>(0.30)</td>
<td>(0.10)</td>
</tr>
<tr>
<td>Health Care Providers &amp; Serv.</td>
<td>(0.47)</td>
<td>(0.22)</td>
<td>0.14</td>
</tr>
<tr>
<td>Hotels Restaurants &amp; Leisure</td>
<td>(0.78)</td>
<td>0.01</td>
<td>0.19</td>
</tr>
<tr>
<td>Health Care Equip. &amp; Suppl.</td>
<td>(0.62)</td>
<td>(0.28)</td>
<td>0.16</td>
</tr>
<tr>
<td>Air Freight &amp; Logistics</td>
<td>0.37</td>
<td>(1.39)</td>
<td>0.27</td>
</tr>
<tr>
<td>IT Consulting &amp; Services</td>
<td>(0.02)</td>
<td>(0.97)</td>
<td>0.13</td>
</tr>
<tr>
<td>Machinery</td>
<td>(0.29)</td>
<td>(0.42)</td>
<td>(0.18)</td>
</tr>
<tr>
<td>Beverages</td>
<td>(0.80)</td>
<td>(0.42)</td>
<td>0.12</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>(0.76)</td>
<td>(0.49)</td>
<td>0.11</td>
</tr>
<tr>
<td>Household Products</td>
<td>(1.32)</td>
<td>(0.44)</td>
<td>0.08</td>
</tr>
<tr>
<td>Electronic Equip. &amp; Instrumnts.</td>
<td>(0.95)</td>
<td>(1.00)</td>
<td>(0.06)</td>
</tr>
<tr>
<td>Personal Products</td>
<td>(1.24)</td>
<td>(0.81)</td>
<td>0.03</td>
</tr>
<tr>
<td>Building Products</td>
<td>(1.47)</td>
<td>(0.87)</td>
<td>(0.09)</td>
</tr>
<tr>
<td>Semiconductor Equip. &amp; Prod.</td>
<td>(2.46)</td>
<td>(0.23)</td>
<td>0.16</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>(1.56)</td>
<td>(0.86)</td>
<td>(0.13)</td>
</tr>
<tr>
<td>Office Electronics</td>
<td>(0.59)</td>
<td>(0.93)</td>
<td>(1.50)</td>
</tr>
<tr>
<td>Auto Components</td>
<td>(0.52)</td>
<td>(1.95)</td>
<td>(1.90)</td>
</tr>
<tr>
<td>Automobiles</td>
<td>(0.71)</td>
<td>(1.28)</td>
<td>(3.64)</td>
</tr>
<tr>
<td>Airlines</td>
<td>(1.00)</td>
<td>(1.92)</td>
<td>(4.70)</td>
</tr>
</tbody>
</table>

1 Excludes Internet & Catalog Retail, Internet Software & Services, and Wireless Telecom Services, which are not applicable. Also excludes Software and Biotechnology because the number of companies in each industry and their totals are not significant.

Source: Company data, CSFB estimates.
Forecasting

You’ve got to be very careful if you don’t know where you’re going, because you might not get there – Yogi Berra

Many of the questions that we get regarding pension accounting are forward looking. Investors are concerned about the potential impact that the low interest rate environment and poor equity returns could have on defined benefit pension plans. For example:

• At what point will companies have to increase their contributions to the pension plans, and by what amount? (We tackle this topic in the “Funding Requirements” section.)

• When will earnings be negatively affected by accelerating pension expense or declining pension income, and by what amount?

• What will happen to the funded status of the pension plan, and how will it impact the balance sheet?

• What impact will changes in assumptions, in particular taking down the expected rate of return, have on pension cost?

Pension-Forecasting Model

All the twists and turns of pension accounting make answering these questions extremely difficult. To provide investors with a tool to help them answer some of these questions, we developed a model (with the help of an actuary) that estimates pension cost, funded status, and required contributions for each of the next three years. Using the information from pension footnotes and a number of assumptions about the future, the model calculates both a FAS No. 87 “pension accounting cost” and our “real pension cost.” We applied the model to each company in the S&P 500. The model is available to clients on the CSFB Web site (http://www.csfb.com/equity/presentations/pension_forecast_model.xls) so that you can apply your own set of assumptions or examine companies that are outside the S&P 500.

A word of caution when using the model: It is an extremely simple approach to forecasting pension results; an entire profession, the actuary, is devoted to calculating and forecasting this information with extremely powerful, intricate models. The model has its limitations; for example, we use the aggregated data for each company in the S&P 500 that is provided in the pension footnotes. In the real world, companies perform the calculations on each and every pension plan that they make available to their employees. Our model also does not factor in the various other assumptions that companies make; for example, mortality, time to retirement, etc. In addition, we assume the same mix of assets for all the plans and we forecast the same returns on those assets for each company in the S&P 500.

In addition, this is just one of countless methodologies that companies could use to calculate their pension results. For example, to calculate the expected return on plan assets, companies can multiply the expected rate of return by something called the “market-related value” of plan assets; the market-related value can be either the fair value of the pension plan assets or a smoothed, calculated value. The calculated value can be derived in a number of different ways; think five-year moving average of the plan
assets fair value. The expected return on plan assets will be much more volatile for a company that has decided to use fair value.

With plan assets dropping so dramatically over the last few years, companies have been approaching the SEC about switching from fair value to the calculated value method, and we understand that the SEC has turned them down. For a company to make a change in accounting method, it must justify that it is making a change to a preferable method. It appears as if the SEC did not accept the argument that calculated value was a preferable method simply because it reduced earnings volatility.

Our model chooses from two of the many methods used to calculate the expected return—either the fair value of plan assets or a smoothed, moving average of plan assets (described in FAS No. 87). According to the July 2001 “Survey of Asset Valuation Methods for Defined Benefit Pension Plans,” submitted by The Society of Actuaries’ Committee on Retirement Systems Research, 42.1% of pension plans with assets over $100 million use the fair value of plan assets to calculate the expected return for accounting purposes and the remaining 57.9% use a calculated value.

Our model also calculates the impact of changes in discount rate on the projected benefit obligation using a simple duration approach. We back into the portion of the obligation associated with retirees and assign an actuarial rule-of-thumb 8-year duration; we assume the remaining obligation is related to active employees and we assign a longer 15-year duration. For each 100-basis-point change in rates, we simply assume the obligation will change between 8% and 15%, depending upon the proportion of retirees and actives in the plan. Clearly, there can be a significant difference in the sensitivity to discount rates from one plan to the next; age of workforce and number of retirees will have an impact on the duration of the PBO. Clients can adjust the model we make available for different duration levels.

In addition, our model does not factor in the impact of forecast, mergers and acquisitions, terminations, spinoffs, reductions in workforce, amendments, early retirement windows, etc. We recommend using our model and our S&P 500 forecast to perform sensitivity analysis. It should be the starting point for further investigation and analysis. Due to all the simplifying assumptions that we make in the model, actual pension results may vary considerably from our forecasts. We describe the model in more detail in Appendix H.

Our S&P 500 Forecast
For our base case forecast for the S&P 500, we assume plan assets decline 9.45% for 2002 based on a 65% equity/35% fixed income mix of plan assets. We arrived at our plan asset mix based on a Greenwich Associates survey of 1,445 U.S.-based corporate pension funds, public pension funds, and endowments, conducted in August and September 2001. According to the survey, U.S. pension plan portfolios held 66.7% equity (49.5% domestic stocks, 11.2% international stocks, 3.0% equity real estate, and 3.0% private equity) and 26.3% fixed income. The remaining 7% was invested in cash and other asset classes. To keep things simple, we split the portfolio 65/35. We assume that the equity component declines 18.85% in 2002 after factoring in the year-to-date returns for the S&P 500 and EAFE Index. With the average bond fund up 8% year to date in 2002, we view an 8% return for the fixed income component of our mock...
portfolio as appropriate. For 2003 and 2004, we use the historical (back to 1926) equity (10%) and fixed income (5.50%) rates of return according to Ibbotson.

We arrive at the 50-basis-point decline in discount rates for 2002 by comparing the average yield for the Moody’s Aa corporate bond index from the end of 2001, 7.19%, to the yield on September 20, 2002, 6.59%. We use the Moody’s Aa as a proxy, as the discount rates used to calculate the PBO are based on high-grade corporate bonds. (For further discussion, refer to “Discount Rate” section on page 88.) We assume discount rates will rise 25 basis points in 2003 and 25 basis points in 2004 from the current historically low levels. We keep the expected rate of return and salary inflation rate assumptions at 2001 levels. Exhibit 9 summarizes the key assumptions and aggregate findings for our base case. This is just one of the endless scenarios that can be run through the model.

Exhibit 9: Summary of Base Case Assumptions and Aggregate Findings

US$ in billions, unless otherwise stated

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BASE CASE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Plan Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equities—65%</td>
<td>(18.85%)</td>
<td>10.00%</td>
<td>10.00%</td>
<td></td>
</tr>
<tr>
<td>Fixed Income—35%</td>
<td>8.00%</td>
<td>5.50%</td>
<td>5.50%</td>
<td></td>
</tr>
<tr>
<td>Actual Return</td>
<td>(7.50%)</td>
<td>(9.45%)</td>
<td>8.43%</td>
<td>8.43%</td>
</tr>
<tr>
<td>Projected Discount Rate Change (bps)</td>
<td>(50)</td>
<td>25</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td><strong>Aggregate Findings S&amp;P 500</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent Funded</td>
<td>100%</td>
<td>79%</td>
<td>82%</td>
<td>86%</td>
</tr>
<tr>
<td>Funded Status $</td>
<td>$4</td>
<td>($243)</td>
<td>($206)</td>
<td>($154)</td>
</tr>
<tr>
<td>Accounting Pension Income/(Expense)</td>
<td>$7</td>
<td>($1)</td>
<td>($15)</td>
<td>($19)</td>
</tr>
<tr>
<td>Real Pension Income/(Expense)</td>
<td>($224)</td>
<td>($259)</td>
<td>$7</td>
<td>$7</td>
</tr>
<tr>
<td>Cash Contributions</td>
<td>$15</td>
<td>$10</td>
<td>$29</td>
<td>$44</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Impact on Earnings

As pension plans become more and more underfunded, we estimate that the aggregate benefit to earnings for the S&P 500 from the pension plan will dry up in 2002. In the aggregate, we estimate a decline in net pension cost from $7 billion of income in 2001 to $1 billion of expense in 2002, generating net pension expense for the first time since 1998. For 2003, we estimate that the S&P 500 will report net pension expense of $15 billion.

As 2002 is almost over, we focus our attention on 2003. We estimate that 337 companies will experience an increase in pension cost, reducing earnings, between 2002 and 2003. Pension cost may decline for 22 companies. We estimate that the 9 companies in Exhibit 10 will experience increases in pension cost between 2002 and 2003 of at least $250 million.
Exhibit 10: Estimated Pension Cost Increase of at Least $250 Million between 2002 and 2003

*US$ in millions*

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2002E Pension (Income)/ Expense</th>
<th>2003E Pension (Income)/ Expense</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>$2,767</td>
<td>$4,990</td>
<td>$2,223</td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>(1,759)</td>
<td>(1,337)</td>
<td>423</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>358</td>
<td>710</td>
<td>352</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>(1,010)</td>
<td>(659)</td>
<td>351</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>(1,253)</td>
<td>(946)</td>
<td>307</td>
</tr>
<tr>
<td>Bank Of America Corp</td>
<td>BAC</td>
<td>84</td>
<td>382</td>
<td>298</td>
</tr>
<tr>
<td>Du Pont (E I) De Nemours</td>
<td>DD</td>
<td>(237)</td>
<td>42</td>
<td>279</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>187</td>
<td>441</td>
<td>254</td>
</tr>
<tr>
<td>Dow Chemical</td>
<td>DOW</td>
<td>26</td>
<td>278</td>
<td>252</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

To measure whether a change in pension cost is meaningful to a particular company's future earnings, we compare our estimated per share (using a constant share count) change in pension cost between 2002 and 2003 to the First Call consensus earnings estimate for 2003. The increase in pension cost represents at least 10% of the consensus earnings estimate for the 27 companies in Exhibit 11. The key question is whether the consensus estimate has taken into account the potential increase in pension cost; we are not sure whether or not it has.
### Exhibit 11: Significance of Increases in Pension Cost per Share between 2002E and 2003E as a Percentage of 2003E First Call Consensus Earnings Estimates

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Pension Cost/Share Increase between 2002E and 2003E</th>
<th>B 2003E First Call Consensus</th>
<th>A/B Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avaya Inc</td>
<td>AV</td>
<td>$0.30</td>
<td>$0.01</td>
<td>2,966%</td>
</tr>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>0.58</td>
<td>0.39</td>
<td>150%</td>
</tr>
<tr>
<td>Navistar International</td>
<td>NAV</td>
<td>0.63</td>
<td>0.84</td>
<td>75%</td>
</tr>
<tr>
<td>Goodyear Tire &amp; Rubber Co</td>
<td>GT</td>
<td>0.53</td>
<td>0.74</td>
<td>72%</td>
</tr>
<tr>
<td>Citizens Communications Co</td>
<td>CZN</td>
<td>0.03</td>
<td>0.06</td>
<td>72%</td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>2.60</td>
<td>6.30</td>
<td>41%</td>
</tr>
<tr>
<td>Georgia-Pacific Corp</td>
<td>GP</td>
<td>0.76</td>
<td>2.97</td>
<td>25%</td>
</tr>
<tr>
<td>Boise Cascade Corp</td>
<td>BCC</td>
<td>0.44</td>
<td>2.04</td>
<td>22%</td>
</tr>
<tr>
<td>Fedex Corp</td>
<td>FDX</td>
<td>0.54</td>
<td>3.12</td>
<td>17%</td>
</tr>
<tr>
<td>Agilent Technologies Inc</td>
<td>A</td>
<td>0.05</td>
<td>0.28</td>
<td>17%</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>1.04</td>
<td>6.63</td>
<td>16%</td>
</tr>
<tr>
<td>Ryder System Inc</td>
<td>R</td>
<td>0.33</td>
<td>2.16</td>
<td>15%</td>
</tr>
<tr>
<td>Visteon Corp</td>
<td>VC</td>
<td>0.12</td>
<td>0.76</td>
<td>15%</td>
</tr>
<tr>
<td>TRW Inc</td>
<td>TRW</td>
<td>0.59</td>
<td>4.06</td>
<td>14%</td>
</tr>
<tr>
<td>McDermott Intl Inc</td>
<td>MDR</td>
<td>0.10</td>
<td>0.78</td>
<td>13%</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>0.09</td>
<td>0.72</td>
<td>13%</td>
</tr>
<tr>
<td>PG&amp;E Corp</td>
<td>PCG</td>
<td>0.26</td>
<td>2.03</td>
<td>13%</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>0.26</td>
<td>2.09</td>
<td>12%</td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>0.26</td>
<td>2.32</td>
<td>11%</td>
</tr>
<tr>
<td>Cooper Tire &amp; Rubber</td>
<td>CTB</td>
<td>0.21</td>
<td>1.93</td>
<td>11%</td>
</tr>
<tr>
<td>Brunswick Corp</td>
<td>BC</td>
<td>0.19</td>
<td>1.76</td>
<td>11%</td>
</tr>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>0.15</td>
<td>1.44</td>
<td>10%</td>
</tr>
<tr>
<td>Delphi Corp</td>
<td>DPH</td>
<td>0.12</td>
<td>1.14</td>
<td>10%</td>
</tr>
<tr>
<td>Hercules Inc</td>
<td>HPC</td>
<td>0.09</td>
<td>0.92</td>
<td>10%</td>
</tr>
<tr>
<td>PPG Industries Inc</td>
<td>PPG</td>
<td>0.36</td>
<td>3.59</td>
<td>10%</td>
</tr>
<tr>
<td>Cummins Inc</td>
<td>CUM</td>
<td>0.23</td>
<td>2.33</td>
<td>10%</td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>0.19</td>
<td>1.95</td>
<td>10%</td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*

### Impact on Funded Status

The continued decline in equity markets and interest rates at record lows could drive the aggregate defined benefit pension plan for the S&P 500 to as much as $243 billion underfunded at the end of 2002; the first time it will be underfunded since 1993, as depicted in Exhibit 12.
The number of companies with underfunded pension plans in the S&P 500 jumped to 240 at the end of 2001, the highest level in the last 10 years. We estimate that as many as 325 companies could have underfunded plans at the end of 2002. We estimate that the 10 companies on the left hand side of Exhibit 13 will experience the most significant deterioration in the funded status of their pension plan in terms of the percentage of the PBO that is funded and the 10 companies on the right hand side will experience the largest dollar decline in funded status.

### Minimum Pension Liability

The smoothing mechanisms in FAS No. 87 prevent the funded status of a defined benefit pension plan from being reported on the sponsoring company’s balance sheet. However, as the health of a defined benefit pension plan deteriorates, some companies

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**Exhibit 12: Funded Status of Defined Benefit Pension Plans for the S&P 500**

Source: Company data, CSFB estimates.

**Exhibit 13: Most Significant Deterioration in Funded Status**

Source: Company data, CSFB estimates.
might have to adjust their balance sheets to reflect the minimum pension liability. That adjustment could result in a charge to shareholders’ equity, depending upon the status of the pension plan at the end of 2002. Standard & Poor’s is evaluating the potential impact that this charge to equity could have on debt and loan covenants as it assesses the credit-rating implications of the deteriorating health of defined benefit pension plans.

The FASB came up with the concept of the minimum pension liability, establishing a floor on the pension liability reported on the balance sheet. (See Appendix B for more detail on this adjustment.) To ensure that the balance sheet was not totally misleading as a result of all the smoothing mechanisms in FAS No 87, that floor is calculated as the excess of the accumulated benefit obligation (ABO) over the fair value of the plan assets. For example, if the ABO is $10 million and the fair value of the plan assets is $3 million, the pension liability reported on the balance sheet must be at least $7 million.

The difference between the ABO and PBO is that the ABO does not take salary inflation into account.

Using a few actuarial rules of thumb (see Appendix H for our methodology), we estimate the ABO at the end of 2002 (in general we reduce the PBO by approximately 25%) for each company in the S&P 500, then compare it with our estimate of the plan assets to arrive at the minimum pension liability. Taking into account the minimum liability adjustments from prior years, prior service cost, any remaining transition obligation, and assuming a 35% tax rate, we arrive at an estimate of the after-tax charge to equity that companies might have to make at the end of 2002. Based on these assumptions, we estimate that 48 companies will have to take a charge to equity over $500 million in 2002; the 26 companies in Exhibit 14 might have to record a charge to equity that would be 25% or more of their total equity at the end of 2001.
**Exhibit 14: Estimated 2002 Minimum Pension Liability Charge to Equity**

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2002E Charge to Equity</th>
<th>2001 Equity</th>
<th>% of Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maytag Corp</td>
<td>MYG</td>
<td>$93</td>
<td>$24</td>
<td>397%</td>
</tr>
<tr>
<td>TRW Inc</td>
<td>TRW</td>
<td>2,244</td>
<td>2,186</td>
<td>103%</td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>1,612</td>
<td>2,506</td>
<td>64%</td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>10,894</td>
<td>19,707</td>
<td>55%</td>
</tr>
<tr>
<td>Hercules Inc</td>
<td>HPC</td>
<td>383</td>
<td>712</td>
<td>54%</td>
</tr>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>837</td>
<td>1,689</td>
<td>50%</td>
</tr>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>452</td>
<td>945</td>
<td>48%</td>
</tr>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>983</td>
<td>2,113</td>
<td>47%</td>
</tr>
<tr>
<td>Xerox Corp</td>
<td>XRX</td>
<td>1,034</td>
<td>2,290</td>
<td>45%</td>
</tr>
<tr>
<td>Cummins Inc</td>
<td>CUM</td>
<td>437</td>
<td>1,025</td>
<td>43%</td>
</tr>
<tr>
<td>Navistar International</td>
<td>NAV</td>
<td>473</td>
<td>1,127</td>
<td>42%</td>
</tr>
<tr>
<td>Kellogg Co</td>
<td>K</td>
<td>356</td>
<td>872</td>
<td>41%</td>
</tr>
<tr>
<td>Black &amp; Decker Corp</td>
<td>BDK</td>
<td>299</td>
<td>751</td>
<td>40%</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>3,005</td>
<td>7,786</td>
<td>39%</td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>738</td>
<td>2,027</td>
<td>36%</td>
</tr>
<tr>
<td>Eastman Kodak Co</td>
<td>EK</td>
<td>1,039</td>
<td>2,894</td>
<td>36%</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>1,388</td>
<td>4,024</td>
<td>34%</td>
</tr>
<tr>
<td>ITT Industries Inc</td>
<td>ITT</td>
<td>474</td>
<td>1,376</td>
<td>34%</td>
</tr>
<tr>
<td>Equifax Inc</td>
<td>EFX</td>
<td>83</td>
<td>244</td>
<td>34%</td>
</tr>
<tr>
<td>Yum Brands Inc</td>
<td>YUM</td>
<td>35</td>
<td>104</td>
<td>34%</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>7,806</td>
<td>23,614</td>
<td>33%</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>3,351</td>
<td>10,825</td>
<td>31%</td>
</tr>
<tr>
<td>Colgate-Palmolive Co</td>
<td>CL</td>
<td>255</td>
<td>846</td>
<td>30%</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>1,850</td>
<td>6,443</td>
<td>29%</td>
</tr>
<tr>
<td>Ball Corp</td>
<td>BLL</td>
<td>132</td>
<td>504</td>
<td>26%</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>2,795</td>
<td>11,290</td>
<td>25%</td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*

**Sensitivity Analysis**

We expect companies to begin announcing that they will be reducing their expected return assumptions for 2003. As the median rate falls from the current 9.2%, the illusory earnings shield created by the magic of pension accounting should become evident. If we were to take the expected return assumptions down 50 basis points for 2003, which we view as a likely scenario, aggregate pension cost would increase by about $5 billion.

We recommend using our model to perform what-if scenarios to gauge the potential exposure of a company to its defined benefit pension plan. The model is available on our Web site (http://www.csfb.com/equity/presentations/pension_forecast_model.xls), and we leave it in your capable hands to come up with a variety of scenarios. However, we want to take you through one what-if scenario that has been a hot topic for some time: the impact on earnings of a reduction in the expected rate of return assumption. Specifically, what would happen to pension cost in 2003 if all the companies in the S&P 500 were to follow Warren Buffet’s lead and drop their expected return to 6.5%? We also look at the impact of taking the expected rate of return down 100 basis points.

Before we get into the application of the model to this question, here is a back-of-the-envelope approach to estimating the impact on earnings of changing the expected return assumption. Simply multiply the change in the assumption by the fair value of the...
pension plan assets. Then, tax effect the answer and that should get you in the ballpark. For example, a 100-basis-point decline in the expected rate of return for a pension plan with $1 billion in plan assets would increase pension cost by approximately $10 million. If we take into account income taxes, assuming a 35% tax rate, earnings would decline by about $6.5 million.

Our base case scenario for 2003 keeps the expected rate of return assumption at each company’s 2001 level. If we drop the expected rate by 100 basis points, and then all the way to 6.5%, the aggregate pension cost for the S&P 500 would increase from $15 billion in the base case to $25 billion at down 100 basis points, and to $44 billion at 6.5%.

The companies that experience the largest increases in pension expense or decline in pension income from changing the expected rate of return would be the companies with the largest pension plans. We calculate this impact on a per share basis to get a better idea of the relative impact for each company. We assume a 35% tax rate for all companies and keep the share counts at 2001 levels.

Exhibit 15: Companies Experiencing Highest Increase in 2003E Pension Cost Per Share from Drop in Expected Rate of Return

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2003E—Base Case</th>
<th>2003E—Down 100 Basis Points</th>
<th>2003E—Assuming 6.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>$ (2.52)</td>
<td>$ (1.34)</td>
<td>$ 1.03</td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>5.83</td>
<td>6.51</td>
<td>7.83</td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>(0.57)</td>
<td>0.05</td>
<td>0.91</td>
</tr>
<tr>
<td>TRW Inc</td>
<td>TRW</td>
<td>0.04</td>
<td>0.47</td>
<td>1.10</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>3.75</td>
<td>4.12</td>
<td>5.04</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>0.02</td>
<td>0.35</td>
<td>1.01</td>
</tr>
<tr>
<td>Cummins Inc</td>
<td>CUM</td>
<td>0.74</td>
<td>1.05</td>
<td>1.82</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>(0.18)</td>
<td>0.11</td>
<td>0.61</td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>(0.36)</td>
<td>(0.08)</td>
<td>0.54</td>
</tr>
<tr>
<td>Navistar International</td>
<td>NAV</td>
<td>1.24</td>
<td>1.49</td>
<td>2.08</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.
Funding Requirements

The funded status of a defined benefit pension plan is the key driver in determining whether or not a company will have to make a contribution to its pension plan. That is why the deterioration in the funded status has sparked a number of concerns; leading the list are potential real cash flow consequences, including:

- Will some companies have difficulty meeting their funding requirements, in a worst-case scenario, forcing some into bankruptcy?
- To meet funding requirements, will companies have to take the cash they have set aside to grow the business, buy back stock, pay down debt or pay dividends and pour it into the pension plan? How would this impact valuation?
- At what point will companies have to increase the contributions that they make to their pension plans?

Investors want to know how much cash companies will have to fork over to their pension plans in upcoming years. The funded status will determine the contribution to the pension plan. As we have the funded status in the pension footnote, it should be easy to calculate the required contribution, but it is not. If it were, we would not be issuing this report, you would not be reading about this topic, and many actuaries would be out of a job.

Analyzing the Funding Status

Companies do not have to meet their funding requirements with cash contributions; they can fund with other assets (common stock, debt investments, gold, etc.) as long as the assets are considered prudent investments. For example, a company can contribute its own stock to the pension plan as long as the stock does not account for more than 10% of the total pension plan assets.

Companies are required by law to fund their defined benefit pension plans and pay premiums to the Pension Benefit Guaranty Corporation (PBGC). The funding requirements for U.S. pension plans are laid out in Section 412 of the tax code. If you think that pension accounting is complicated, try reading Section 412 of the tax code. Determining the funded status under Section 412 involves an entirely separate set of calculations and assumptions, different from those used for financial reporting. Therefore, the funded status for funding purposes may differ dramatically from the funded status calculated for accounting. The information needed to perform those calculations with certainty is not in the pension footnote. Exhibit 16 compares a few of the key differences in funded status as calculated for accounting purposes with those used for funding purposes.
Exhibit 16: Key Differences in Funded Status

<table>
<thead>
<tr>
<th>Accounting FAS No. 87</th>
<th>Minimum Contribution</th>
<th>Additional Contribution</th>
<th>PBGC Variable Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan Assets</td>
<td>Fair Value</td>
<td>Fair Value or Calculated Value</td>
<td>Fair Value or Calculated Value</td>
</tr>
<tr>
<td>Pension Obligation</td>
<td>Projected Benefit Obligation (PBO)</td>
<td>Projected Benefit Obligation (PBO)</td>
<td>Accumulated Benefit Obligation (ABO)</td>
</tr>
<tr>
<td>Discount Rate</td>
<td>High Grade Expected Return on Assets</td>
<td>30-Year U.S. Long Bond – (4-year weighted average)</td>
<td>30 Year U.S. Long Bond (yield set monthly by PBGC)</td>
</tr>
<tr>
<td>Discount Rate Factor</td>
<td>105% - 120%</td>
<td>85% - 100%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

One example of how the funded status can differ is that different discount rates are used to compute the various obligations. For example, the yield on high-grade corporate bonds is used to determine the PBO for accounting purposes, compared with the additional funding requirements where the 4-year weighted average 30-year Treasury yield is used; that amount is then multiplied by a factor. For the next two years, the factor is 120%; in 2004, it will most likely revert back to 105%. Another example: The obligation is calculated differently for each funding requirement; for the minimum contribution, it is a PBO; for the additional contribution, it is an accumulated benefit obligation (ABO); and to compute the PBGC variable premium, it is a vested benefit obligation (VBO).

The Funding Four-Step

To determine the annual pension funding requirements, each company will walk through a four-step process:

**Step 1—Minimum funding requirement.** Companies with overfunded pension plans do not have to make a contribution. Companies with underfunded pension plans contribute the normal cost (think compensation cost) plus the unfunded obligation amortized over five to 30 years.

**Step 2—Additional funding requirement.** Companies with pension plans that are less than 90% funded must make an additional contribution to the plan. The unfunded liability has to be made up over a shorter period, between 3 to 5 years. The greater of the additional contribution or the minimum from Step 1 is the company’s required contribution for the year. Congress is currently looking at potential changes in the additional funding requirement.

**Step 3—PBGC variable premium.** The fixed PBGC premium is $19 per employee. The PBGC variable premium is not paid if the company did not have to make a contribution in Steps 1 or 2. If a contribution is required, the variable premium is $9 per $1,000 underfunded. Companies will often contribute more than the contribution required in Steps 1 and 2 to avoid having to pay the PBGC variable premium.

**Step 4—Maximum contribution.** The maximum contribution requirement was put in place to limit the tax break that companies get from funding their pension plans. Companies can deduct allowable contributions that they make to their pension plans as an ordinary business expense on their tax returns, reducing taxable income and the tax bill. Companies with overfunded pension plans can’t deduct contributions to the plans. The maximum contribution for an underfunded pension plan is the amount that will
make the plan fully funded. Any contributions that exceed the maximum get hit with a 10% excise tax.

Why Is 90% Important?
The 90% threshold determines whether or not a company will have to make an additional contribution to the pension plan. The additional contribution, if required, forces the company to make up the amount of the obligation that is unfunded over a shorter time frame, generally 3 to 5 years. Therefore, it can dramatically increase the required contribution. As with most rules, there is an exception. Section 412 provides a grace period: If a plan is over 80% funded and was more than 90% funded for the past two years, then no additional contribution is required.

Our S&P 500 Forecast
To provide investors with an estimate of the potential contributions to the pension plan, we take the information in the pension footnote and transform it into the funded status according to the funding requirements, using a few rules of thumb and some back of the envelope calculations in our pension-forecasting model. (For more on the model and how it works see Appendix H.)

We expect our result will differ from the company’s actual funding requirement, due to a number of simplifying assumptions that we make. For example, we use the fair value of pension plan assets; the funding requirements allow for a variety of different methods to calculate asset values. We start with a projected benefit obligation that uses a different discount rate and adjust to the various pension obligations for funding purposes. We also do not factor in the credit balance that the company may have accumulated to offset any contribution requirements. The largest discrepancy will result from our combining both U.S. and non-U.S. plans to determine the contributions. The contribution requirements that we described earlier only apply to U.S. plans. The funding requirements overseas can be very different. We also include nonqualified plans that would not be subject to these rules.

With all those caveats you may be asking yourself, Why should I use this model? Good question. We recommend using our model as a screen: The estimated required cash contribution is an educated guess; it gets you in the ballpark. For example, if the model indicates a large potential cash outflow for a company relative to the cash that its business is generating, you may want to do some more digging, including getting your hands on the publicly available form 5500 filing, which is the annual report for the pension plan filed with the IRS. (You can find these filings at www.freeerisa.com.)

We estimate that the contributions to the pension plan for the S&P 500 will rise from $15 billion in 2001 to $29 billion in 2003. We estimate that the required contribution for 38 companies in 2003 will exceed the actual 2001 contribution by more than $100 million. We estimate that the 10 companies in Exhibit 17 will have the largest increases over their 2001 contributions to their pension plans.
Exhibit 17: Largest Estimated Increase over 2001 Contributions to Pension Plans

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2001 Contribution</th>
<th>2003E Contribution</th>
<th>$ Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>$191</td>
<td>$5,106</td>
<td>$4,915</td>
</tr>
<tr>
<td>Exxon Mobil Corp</td>
<td>XOM</td>
<td>299</td>
<td>1,643</td>
<td>1,344</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>50</td>
<td>947</td>
<td>897</td>
</tr>
<tr>
<td>United Technologies Corp</td>
<td>UTX</td>
<td>51</td>
<td>875</td>
<td>824</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>47</td>
<td>645</td>
<td>598</td>
</tr>
<tr>
<td>AMR Corp</td>
<td>AMR</td>
<td>121</td>
<td>703</td>
<td>582</td>
</tr>
<tr>
<td>Delphi Corp</td>
<td>DPH</td>
<td>-</td>
<td>514</td>
<td>514</td>
</tr>
<tr>
<td>ChevronTexaco Corp</td>
<td>CVX</td>
<td>28</td>
<td>537</td>
<td>509</td>
</tr>
<tr>
<td>Exelon Corp</td>
<td>EXC</td>
<td>38</td>
<td>459</td>
<td>421</td>
</tr>
<tr>
<td>Pharmacia Corp</td>
<td>PHA</td>
<td>76</td>
<td>443</td>
<td>367</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Companies contribute to their pension plans to meet ERISA requirements and to avoid having to pay the PBGC variable premiums. We forecast those premiums for each company in the S&P 500. We estimate that the PBGC variable premium could exceed $20 million in 2003 for the 7 companies in Exhibit 18. This may provide an incentive for these companies to fund their pension plans, raising the level of funding to avoid paying the PBGC variable premiums. Instead of giving the money to the PBGC, never to see it again, we think the companies would rather keep the cash in house and drop it into the pension plan.

Exhibit 18: PBGC Variable Premiums Exceeding $20 million in 2003E

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2003E Contribution</th>
<th>PBGC Variable Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>$5,106</td>
<td>$190</td>
</tr>
<tr>
<td>Exxon Mobil Corp</td>
<td>XOM</td>
<td>1,643</td>
<td>55</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>947</td>
<td>32</td>
</tr>
<tr>
<td>United Technologies Corp</td>
<td>UTX</td>
<td>875</td>
<td>31</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>645</td>
<td>24</td>
</tr>
<tr>
<td>AMR Corp</td>
<td>AMR</td>
<td>703</td>
<td>24</td>
</tr>
<tr>
<td>Delphi Corp</td>
<td>DPH</td>
<td>514</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

In the past, some companies faced an interesting capital allocation decision: fund the pension plan or invest in the business. To the extent that a company could fund its pension plan, it would get a tax deduction on its tax return, reducing its tax bill. And it would earn a guaranteed return in the income statement; the amount contributed to the plan would garner the expected return on plan assets. A company contributing $100 million to a defined benefit pension plan at the beginning of the year, with an expected return of 10%, would automatically increase its pretax income by $10 million. Now compare that with investing in the business, where the return is unknown and in many cases less than the expected return on plan assets. The deterioration in the funded status of defined benefit pension plans may leave many companies with no choice; they may be required to fund their pension plans.
Pension Accounting Should Be Simple

Pension accounting is where the worlds of the actuary and the accountant collide. Most investors head for the hills when the topic is mentioned (or fall fast asleep). The accounting is extremely complicated and confusing, leaving the avid reader of pension footnotes with a headache. The accounting for a defined benefit pension plan, along with any analysis of the results, would be much less painful if the financial statements simply reflected the economic reality of the pension plan. Instead we have FAS No. 87, “Employer’s Accounting for Pensions,” which was designed to protect the balance sheet and minimize earnings volatility while ignoring certain economic aspects of the pension commitment.

However, once past the intricate calculations, there are only two components to a defined benefit pension plan: plan assets and an obligation. Think of a defined benefit pension plan as an investment subsidiary with a collection of assets (equity, fixed income, real estate, private equity, venture capital, etc.) and an obligation (the promise to pay retirement benefits to the employees in the future, similar to a series of zero coupon bonds). The most relevant information about this investment subsidiary is the fair value of the assets (the market value of the stocks, bonds, real estate, and other assets that are in the portfolio) and the fair value (present value) of the projected benefit obligation (PBO). We have reasonable estimates of each. If the assets are greater than the obligation, the pension plan is overfunded. If the obligation is larger than the assets, then the pension plan is underfunded.

Exhibit 19: The Funded Status of Defined Benefit Pension Plans

- Pension Plan Assets > Projected Benefit Obligation = Overfunded
- Pension Plan Assets < Projected Benefit Obligation = Underfunded

From an analytical perspective, and if we were able to rewrite the accounting rules, we would first report the pension plan assets as an asset on the balance sheet and the projected benefit obligation as a liability. We would then report the changes in plan assets (including actual returns) and the projected benefit obligation in the appropriate place on the income statement. In “Three Steps to Strip Out Accounting Magic,” on page 40, we lay out the simple, three-step framework we use to identify the underlying economics of a defined benefit plan.

Pension Accounting History

To put all of the twists and turns of pension accounting into perspective, we have to go back to 1974. The Employee Retirement Income Security Act (ERISA) became the law of the land on Labor Day, September 2, 1974, and all of a sudden companies were legally required to fund their defined benefit pension plans. Songs like *Kung Fu Fighting* and *My Coo Ca Choo* topped the charts, the Oakland A’s won their third consecutive world series, and the FASB added pension accounting to its active agenda. Eleven years later, the FASB issued FAS No. 87.
In 1978, only 25% of large defined benefit pension plans were fully funded; over half were less than 75% funded, according to the Watson Wyatt 1983 Survey of Actuarial Assumptions and Funding. These low levels of funding provide the backdrop for why FAS No. 87 became the ultimate compromise. Throughout the standard, the FASB maintained that an employer with an underfunded pension plan has a liability, while one with an overfunded plan has an asset, stating that the most relevant and reliable information about that liability or asset is based on the fair value of the plan assets and the benefit obligation. Corporate America thought otherwise, leading the FASB to conclude that the recognition of those amounts in the financial statements would be too great a change from past practice. Each one of the compromises that we describe below moved the economic reality of the pension plan further and farther away from the financial statements.

Compromise #1—Transition Asset or Liability
Initially, the FASB approached the project thinking that an unfunded pension obligation is a liability and an overfunded obligation is an asset; assets and liabilities should be reported on the balance sheet. Corporate America did not like that idea, as it was not funding its pension plan until ERISA came into effect. The amount underfunded would have been enormous for some companies; reporting the unfunded obligation would have wiped out shareholders' equity for many companies. The FASB came up with its first compromise: Instead of reporting the initial obligation or asset, take it off the balance sheet and amortize it over time as income if an asset, or as expense if an obligation.

Compromise #2—Prior Service Cost
Next, the FASB determined that if a company were to provide prior service benefits to its employees, the PBO would increase and that should be reflected in the balance sheet as an increased liability and as a loss in earnings. Corporate America did not like that idea either and threatened that it would not provide many more prior service benefits to its employees if they entailed such a drastic impact on earnings and the balance sheet. The FASB arrived at its next compromise: Take the prior service cost off balance sheet and amortize it over time.

Compromise #3—Unrecognized Gains and Losses
The FASB thought that the fair value of the plan assets and the PBO were relevant; therefore, changes in both should be part of earnings. Corporate America said no way, as it has no control over the value of the plan assets or obligations and marking those to market through the income statement would result in too much earnings volatility. “How will I be able to explain that volatility to the shareholders?”, cried the companies. The FASB arrived at its most significant compromise: Instead of reporting actual gains and losses on the plan assets, report the expected return on plan assets. Any difference between the actual return and expected return and gains and losses in the PBO due to changes in assumption can be pushed off balance sheet and amortized only when they get huge. Corporate America then asked, “How do you define huge?” The response: When the unrecognized gain or loss grows larger than 10% of the plan assets or PBO, whichever is greater.
The FASB realized that after deferring all of this stuff, the balance sheet might be a bit misleading. The legal liability that arose under ERISA may have been wiped off the balance sheet with all the smoothing mechanisms. To ensure that the balance sheet is not totally misleading, the FASB came up with the concept of the minimum pension liability, establishing a floor on the pension liability that is reported in the balance sheet. For more on this adjustment, see Appendix B.

The delayed recognition allowed by FAS No. 87 excludes the most current and relevant information from the balance sheet. That information, however, is included in the footnotes. The FASB believed that footnote disclosure would significantly assist users in understanding the economic events that occurred. Remember, good disclosure never makes up for bad accounting. The FASB believed it was taking a significant step, but not the final step, in the evolution of good pension accounting.

The FASB initially thought that it might be a good idea if companies reported the funded status on the balance sheet, as we propose in our methodology. Unacceptable volatility and too great a change from past practice kept it from instituting the accounting that it believed in. The FASB identified two major problems with pension accounting going into the project: Annual pension costs were inappropriately measured, and significant assets and liabilities were omitted from the balance sheet. One could argue that neither problem was fixed by FAS No. 87.

We are mired in a crisis in confidence. Investors demand more transparency in financial reporting to better determine the real risks and rewards that flow from the companies that they invest in. As equity markets decline and interest rates fall, concern is rising that the smoothing mechanisms of FAS No. 87, originally designed to reduce reported earnings volatility, have led to misleading financial statements that paint a rosy picture as the health of defined benefit pension plans deteriorates. It would not surprise us if the FASB were to take another look at pension accounting, and take that final step toward reflecting what is actually going on with the pension plan in the financial statements.
Three Steps to Strip Out Accounting Magic

To eliminate pension accounting magic and reflect the underlying economics of a defined benefit pension plan in the financial statements, we treat the pension plan as an investment subsidiary and replace the amounts reported under FAS No. 87 with what we refer to as the “real” pension asset or liability and the “real” pension expense or income. We applied our three-step process to each of the 360 companies in the S&P 500 with defined benefit pension plans.

Step 1. Put the plan assets on the asset side of the balance sheet and the projected benefit obligation on the liability side. (In Appendix G, we present an alternative method that places the funded status on the balance sheet by reporting a pension asset if the plan is overfunded and a liability if it is underfunded.)

Step 2. Take the expected return on plan assets and amortization amounts and throw them out the window. (That’s one way to eliminate the debate surrounding the expected rates of return.) Replace them with the actual return on plan assets and gains and losses on the pension obligation. Continue to record interest cost and service cost to arrive at the “real” pension expense or income.

Step 3. Divide pension cost into three buckets: (1) compensation, (2) financing, and (3) investing; only the compensation component (service cost) remains in operating income.

Step 1—Report the Pension Plan Assets and Obligation on the Balance Sheet

The fair value of the plan assets and the projected benefit obligation for a defined benefit pension plan are available in the footnotes; however, that is not what companies report on the balance sheet. Instead, the amount reported on the balance sheet as a prepaid pension asset or accrued pension liability represents the cumulative difference between the contributions made to the pension plan and the pension cost reported to date, adjusted if necessary to reflect the minimum pension liability. Not an especially useful number to investors, or to anyone else for that matter.

One of many areas debated within pension accounting is the presentation of either net or gross amounts in the financial statements. The accounting standard requires a net presentation for both the pension cost and the asset or liability on the balance sheet. If we view the pension plan as similar to an investment subsidiary, then the plan assets should be reported on the balance sheet as assets and the PBO as a liability.

Nowhere else on the balance sheet are assets and liabilities combined and presented as either a net asset or net liability. When FAS No. 87 was crafted, companies argued that presenting the pension plan assets as separate assets and the PBO as a separate liability would distort the balance sheet, as the assets of the pension plan can’t be put to use in the business other than in support of the pension obligation. We ask a simple question: Do the pension plan assets and PBO separately meet the definition of assets and liabilities? The accounting definitions for each follow:

Assets. Probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.
**Liabilities.** Probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

The PBO passes the test with flying colors; it is an obligation of the company to provide future retirement benefits to its employees. The probable future economic benefit provided by the plan assets is that they can be used to settle the company’s obligation to its retirees. Another benefit, capital that would have been allocated to the pension plan, can now be put to other uses: reinvestment, dividends, share repurchases, debt paydown, etc.

Putting the plan assets and the projected benefit obligation on each side of the balance sheet better reflects the company’s exposure to the pension plan. For example, take two identical companies with identical balance sheets. Let’s assume that both have defined benefit pension plans that are fully funded. The only difference between the two is that the plan assets and projected benefit obligation for Company A are $1 million and for Company B they are $10 billion. If only the funded status is reported, both balance sheets will look exactly the same. Clearly, the exposure and leverage to the pension plan for Company B is significantly greater than for Company A. This extreme example shows how a net approach could potentially mislead the user of the financial statements, masking the true exposure to the pension plan.

**Off-Balance-Sheet Pension Assets and Liabilities**

If the plan assets are assets and the projected benefit obligation is a liability and they are both not reported on the balance sheet, it sounds like we have off-balance-sheet assets and off-balance-sheet liabilities. We calculate the off-balance-sheet asset as the difference between what companies currently report on the balance sheet as a prepaid pension asset and the plan assets. The off-balance-sheet liability is the difference between the accrued pension liability on the balance sheet and the PBO. We have included some observations regarding the off-balance-sheet pension asset and liability for the companies in the S&P 500.

- We estimate the off-balance-sheet pension liability for the S&P 500 was $992 billion at the end of 2001 and $920 billion for 2000. The off-balance-sheet pension asset for the S&P 500 was $900 billion and $1,038 billion for 2001 and 2000, respectively.

- The 11 companies in Exhibit 20 had an off-balance-sheet pension asset in excess of $15 billion at the end of 2001.
Exhibit 20: Off-Balance-Sheet Pension Asset Greater Than $15 Billion

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Pension Plan Assets</th>
<th>On-Balance-Sheet Asset</th>
<th>Off-Balance-Sheet Asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>$73,662</td>
<td>$13,758</td>
<td>$59,904</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>61,096</td>
<td>8,404</td>
<td>52,692</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>48,754</td>
<td>4,782</td>
<td>43,972</td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>48,558</td>
<td>9,846</td>
<td>38,712</td>
</tr>
<tr>
<td>General Electric Co</td>
<td>GE</td>
<td>45,006</td>
<td>13,740</td>
<td>31,266</td>
</tr>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>35,539</td>
<td>5,085</td>
<td>30,454</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>33,810</td>
<td>6,226</td>
<td>27,584</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>32,715</td>
<td>7,337</td>
<td>25,378</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>20,300</td>
<td>2,101</td>
<td>18,199</td>
</tr>
<tr>
<td>Du Pont (E I) De Nemours</td>
<td>DD</td>
<td>17,923</td>
<td>1,818</td>
<td>16,105</td>
</tr>
<tr>
<td>AT&amp;T Corp</td>
<td>T</td>
<td>18,485</td>
<td>3,387</td>
<td>15,098</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

- The 10 companies in Exhibit 21 had an off-balance-sheet pension liability in excess of $15 billion at the end of 2001, accounting for over one-third of the total off-balance-sheet pension liability for the S&P 500. All the companies on this list also have an off-balance-sheet pension asset in excess of $15 billion.

Exhibit 21: Off-Balance-Sheet Pension Liability Greater Than $15 Billion

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>PBO</th>
<th>On-Balance-Sheet Liability</th>
<th>Off-Balance-Sheet Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>$86,333</td>
<td>$10,822</td>
<td>$75,511</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>60,410</td>
<td>462</td>
<td>59,948</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>51,214</td>
<td>4,135</td>
<td>47,079</td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>36,391</td>
<td>1,601</td>
<td>34,790</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>32,693</td>
<td>1,300</td>
<td>31,393</td>
</tr>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>29,850</td>
<td>75</td>
<td>29,775</td>
</tr>
<tr>
<td>General Electric Co</td>
<td>GE</td>
<td>30,423</td>
<td>1,325</td>
<td>29,098</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>25,060</td>
<td>0</td>
<td>25,060</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>19,713</td>
<td>0</td>
<td>19,713</td>
</tr>
<tr>
<td>Du Pont (E I) De Nemours</td>
<td>DD</td>
<td>18,769</td>
<td>437</td>
<td>18,332</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Adjusting the Balance Sheet

For each of the companies in the S&P 500, we removed the prepaid pension asset or accrued pension liability from the balance sheet. Then we reported the pension plan assets as an asset and the PBO as a liability on the balance sheet. To balance the balance sheet, the other side of each adjustment was reported in shareholders’ equity. (See Appendix E where we walk through these adjustments using Phillip Morris as an example.) We made these same adjustments to all the companies in the S&P 500 with defined benefit pension plans, using a 35% tax rate to adjust for deferred taxes.

Many companies have more than one defined benefit pension plan. For example, they may have a different plan for each overseas subsidiary. Each pension plan is accounted for separately. However, the information provided in the pension footnote is for all of the company’s pension plans combined. (Some companies do provide a breakdown of the data between domestic and overseas plans.) To simplify our analysis, we treat the
information in the pension footnote as if it were all one pension plan. The results could be very different if we applied our methodology to each individual pension plan.

In the aggregate, placing the pension plan assets on the balance sheet would increase total assets for the S&P 500 by 5% and 7%, respectively, for 2001 and 2000; treating the PBO as debt would increase aggregate debt for the S&P 500 by 16% and 17%. The difference between the increase in assets and the increase in liabilities would reduce total equity for the S&P 500 by $60 billion or 2% at the end of 2001. Some specific impacts include:

- Using 2001 data, total assets would increase by over 10% for 152 companies, by over 25% for 46 companies, and by over 50% for the 17 companies in Exhibit 22. On an asset basis, some of these companies look like equal part operating company and pension plan.

### Exhibit 22: Over 50% Increase in Total Assets by Adding Pension Plan Assets

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Total Assets</th>
<th>Adjustment</th>
<th>Adjusted Assets</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>$33,664</td>
<td>$30,454</td>
<td>$64,118</td>
<td>90%</td>
</tr>
<tr>
<td>McDermott Intl Inc</td>
<td>MDR</td>
<td>2,104</td>
<td>1,703</td>
<td>3,807</td>
<td>81%</td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>8,337</td>
<td>6,376</td>
<td>14,713</td>
<td>76%</td>
</tr>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>5,769</td>
<td>4,278</td>
<td>10,047</td>
<td>74%</td>
</tr>
<tr>
<td>ITT Industries Inc</td>
<td>ITT</td>
<td>4,508</td>
<td>3,292</td>
<td>7,800</td>
<td>73%</td>
</tr>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>4,060</td>
<td>2,792</td>
<td>6,852</td>
<td>69%</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>27,654</td>
<td>18,729</td>
<td>46,383</td>
<td>68%</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>88,313</td>
<td>55,232</td>
<td>143,545</td>
<td>63%</td>
</tr>
<tr>
<td>Rockwell Collins Inc</td>
<td>COL</td>
<td>2,628</td>
<td>1,628</td>
<td>4,256</td>
<td>62%</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>48,343</td>
<td>28,917</td>
<td>77,260</td>
<td>60%</td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>4,855</td>
<td>2,882</td>
<td>7,737</td>
<td>59%</td>
</tr>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>2,643</td>
<td>1,520</td>
<td>4,163</td>
<td>57%</td>
</tr>
<tr>
<td>Eastman Kodak Co</td>
<td>EK</td>
<td>13,362</td>
<td>7,330</td>
<td>20,692</td>
<td>55%</td>
</tr>
<tr>
<td>Avaya Inc</td>
<td>AV</td>
<td>4,648</td>
<td>2,541</td>
<td>7,189</td>
<td>55%</td>
</tr>
<tr>
<td>3m Co</td>
<td>MMM</td>
<td>14,606</td>
<td>7,840</td>
<td>22,446</td>
<td>54%</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>20,886</td>
<td>11,193</td>
<td>32,079</td>
<td>54%</td>
</tr>
<tr>
<td>General Dynamics Corp</td>
<td>GD</td>
<td>11,069</td>
<td>5,604</td>
<td>16,673</td>
<td>51%</td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*

- If the PBO is considered the equivalent of debt, debt increases by 10% or more for 279 companies. Debt would more than double for 71 companies, and more than triple for 36 companies, including the 16 companies in Exhibit 23 that had over $1 billion in debt outstanding.
Exhibit 23: Over 200% Increase in Total Debt by Adding PBO (>1 Billion of Debt)

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Total Debt</th>
<th>Adjustment</th>
<th>Adjusted Debt</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>$4,438</td>
<td>$29,850</td>
<td>$34,288</td>
<td>673%</td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>$1,466</td>
<td>$7,358</td>
<td>$8,824</td>
<td>502%</td>
</tr>
<tr>
<td>Fedex Corp</td>
<td>FDX</td>
<td>$1,806</td>
<td>$6,227</td>
<td>$8,033</td>
<td>345%</td>
</tr>
<tr>
<td>3m Co</td>
<td>MMM</td>
<td>$2,893</td>
<td>$8,998</td>
<td>$11,891</td>
<td>311%</td>
</tr>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>$1,218</td>
<td>$3,390</td>
<td>$4,608</td>
<td>278%</td>
</tr>
<tr>
<td>Du Pont (E I) De Nemours</td>
<td>DD</td>
<td>$6,814</td>
<td>$18,769</td>
<td>$25,583</td>
<td>275%</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>$12,265</td>
<td>$32,693</td>
<td>$44,958</td>
<td>267%</td>
</tr>
<tr>
<td>General Dynamics Corp</td>
<td>GD</td>
<td>$1,935</td>
<td>$5,162</td>
<td>$7,097</td>
<td>267%</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>$7,511</td>
<td>$19,713</td>
<td>$27,224</td>
<td>262%</td>
</tr>
<tr>
<td>Delphi Corp</td>
<td>DPH</td>
<td>$3,353</td>
<td>$8,444</td>
<td>$11,797</td>
<td>252%</td>
</tr>
<tr>
<td>United Technologies Corp</td>
<td>UTX</td>
<td>$4,959</td>
<td>$12,354</td>
<td>$17,313</td>
<td>249%</td>
</tr>
<tr>
<td>Eastman Kodak Co</td>
<td>EK</td>
<td>$3,200</td>
<td>$7,439</td>
<td>$10,639</td>
<td>232%</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>$5,491</td>
<td>$12,404</td>
<td>$17,895</td>
<td>226%</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>$27,151</td>
<td>$60,410</td>
<td>$87,561</td>
<td>222%</td>
</tr>
<tr>
<td>Aetna Inc</td>
<td>AET</td>
<td>$1,701</td>
<td>$3,581</td>
<td>$5,282</td>
<td>210%</td>
</tr>
<tr>
<td>Honeywell International Inc</td>
<td>HON</td>
<td>$5,270</td>
<td>$10,952</td>
<td>$16,222</td>
<td>208%</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

- If the funded status were reported on the balance sheet, equity would increase by 5% or more for 10 companies. Equity would decline by 5% or more for 83 companies, including the 15 companies in Exhibit 24 where equity would drop by 25% or more.

Exhibit 24: Reporting Funded Status Reduces Equity by 25% or More

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Total Equity</th>
<th>Reduction</th>
<th>Adjusted Equity</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maytag Corp</td>
<td>MYG</td>
<td>$24</td>
<td>$(132)</td>
<td>$(109)</td>
<td>(561%)</td>
</tr>
<tr>
<td>Dow Jones &amp; Co Inc</td>
<td>DJ</td>
<td>42</td>
<td>$(115)</td>
<td>$(74)</td>
<td>(276%)</td>
</tr>
<tr>
<td>TRW Inc</td>
<td>TRW</td>
<td>2,186</td>
<td>$(1,427)</td>
<td>759</td>
<td>(65%)</td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>19,707</td>
<td>$(10,145)</td>
<td>9,562</td>
<td>(51%)</td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>2,506</td>
<td>$(950)</td>
<td>1,556</td>
<td>(38%)</td>
</tr>
<tr>
<td>Hercules Inc</td>
<td>HPC</td>
<td>712</td>
<td>$(265)</td>
<td>447</td>
<td>(37%)</td>
</tr>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>1,689</td>
<td>$(562)</td>
<td>1,127</td>
<td>(33%)</td>
</tr>
<tr>
<td>Yum Brands Inc</td>
<td>YUM</td>
<td>104</td>
<td>$(34)</td>
<td>70</td>
<td>(33%)</td>
</tr>
<tr>
<td>Delphi Corp</td>
<td>DPH</td>
<td>2,312</td>
<td>$(746)</td>
<td>1,566</td>
<td>(32%)</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>4,024</td>
<td>$(1,257)</td>
<td>2,767</td>
<td>(31%)</td>
</tr>
<tr>
<td>Black &amp; Decker Corp</td>
<td>BDK</td>
<td>751</td>
<td>$(219)</td>
<td>532</td>
<td>(29%)</td>
</tr>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>945</td>
<td>$(261)</td>
<td>684</td>
<td>(28%)</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>7,786</td>
<td>$(2,020)</td>
<td>5,766</td>
<td>(26%)</td>
</tr>
<tr>
<td>Kellogg Co</td>
<td>K</td>
<td>872</td>
<td>$(225)</td>
<td>647</td>
<td>(26%)</td>
</tr>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>2,113</td>
<td>$(528)</td>
<td>1,585</td>
<td>(25%)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

- Note that equity would fall by more than half for General Motors and TRW and would be wiped out for Maytag and Dow Jones.

Reported Debt-to-Equity Versus Adjusted Debt-to-Equity Ratios

- The aggregate debt-to-equity ratio for the companies in the S&P 500 was 212% at the end of 2001 and 207% at the close of 2000. Calculating an adjusted debt-to-equity
ratio after factoring in the projected benefit obligation and the funded status of the pension plan would take the ratio up to 251% for 2001 and 236% for 2000.

- The debt-to-equity ratio would increase by over 1,000 basis points for 276 companies. We isolate the 12 companies in Exhibit 25 that appear to have little leverage on a reported basis, with reported debt-to-equity ratios that are 50% or less. After adjusting the balance sheet to reflect the economics of their pension plans, their debt-to-equity ratios climb to over 100%.

Exhibit 25: Low Debt-to-Equity Ratio, Climbs Over 100%

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Debt-to-Equity Ratio</th>
<th>Adj. Debt-to-Equity Ratio</th>
<th>Difference (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>39%</td>
<td>356%</td>
<td>31,687</td>
</tr>
<tr>
<td>McDermott Intl Inc</td>
<td>MDR</td>
<td>40%</td>
<td>304%</td>
<td>26,349</td>
</tr>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>35%</td>
<td>258%</td>
<td>22,332</td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>7%</td>
<td>231%</td>
<td>22,385</td>
</tr>
<tr>
<td>3m Co</td>
<td>MMM</td>
<td>48%</td>
<td>220%</td>
<td>17,263</td>
</tr>
<tr>
<td>Rockwell Collins Inc</td>
<td>COL</td>
<td>18%</td>
<td>200%</td>
<td>18,196</td>
</tr>
<tr>
<td>Du Pont (E I) De Nemours</td>
<td>DD</td>
<td>47%</td>
<td>197%</td>
<td>14,958</td>
</tr>
<tr>
<td>General Dynamics Corp</td>
<td>GD</td>
<td>43%</td>
<td>147%</td>
<td>10,465</td>
</tr>
<tr>
<td>Fedex Corp</td>
<td>FDX</td>
<td>28%</td>
<td>135%</td>
<td>10,778</td>
</tr>
<tr>
<td>Lilly (Eli) &amp; Co</td>
<td>LLY</td>
<td>48%</td>
<td>110%</td>
<td>6,225</td>
</tr>
<tr>
<td>United Parcel Service</td>
<td>UPS</td>
<td>50%</td>
<td>107%</td>
<td>5,691</td>
</tr>
<tr>
<td>Crane Co</td>
<td>CR</td>
<td>47%</td>
<td>102%</td>
<td>5,486</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Step 2—Calculate “Real” Pension Expense or Income: Show Me the Volatility

The values of the pension plan assets and the projected benefit obligation are both volatile; that volatility is smoothed over by FAS No. 87. After extensive lobbying by Corporate America, arguing that investors could not handle the volatility in earnings, FAS No. 87 wrote the book on smoothing. Actual gains and losses on both the pension plan assets and the projected benefit obligation are smoothed over long periods of time, under the premise that the pension plan is a long-term obligation, which it is.

Volatility is not necessarily a bad thing, unless it’s hidden. Pension accounting removes the volatility in the pension plan from the financial statements, distorting both the balance sheet and the income statement. The volatility that is inherent in the pension plan is left for investors to discover when they read the pension footnotes. This makes the process of understanding the economic status of the pension plan and the company’s exposure to the plan that much more difficult. Volatility is a fact of doing business; financial statements that don’t reflect that volatility are misleading.

Investors, market pundits, accountants, and Corporate America are all obsessed with earnings and have strived to make earnings the ultimate measure of performance; clearly businesses are too complicated for that and so is the accounting. In particular, some assets and liabilities are reported on the balance sheet at fair value, while the changes in fair value are flowing through the income statement into earnings. To take a mark-to-market result and place a multiple on it makes little sense, since you know the fair value of the asset or liability, it is on the balance sheet. Instead its valuation should
be taken into account separately in a valuation analysis. Then we should evaluate the assumptions that management used to validate the valuation. If we want to isolate the value of the pension plan, that value is best represented by the funded status.

Expected Returns
The actual return on pension plan assets is not recognized in accounting for pension cost; instead, it is replaced by the expected return on plan assets. The expected return on plan assets is calculated by multiplying the company’s expected rate of return assumption by something called the market-related value of plan assets. The market-related value can be either the fair value of plan assets or a calculated value of plan assets. (A five-year moving average of the fair value of the plan assets would be the best analogy.)

Using the expected return as opposed to the actual return is the equivalent of replacing revenue on the income statement with budgeted revenue. In other words, “We only sold 50 units this quarter; however, we budgeted for 100, so let’s recognize revenue as if we sold 100 units.” The difference between the actual return on plan assets and the expected return, which we like to refer to as the “unexpected return” is moved off balance sheet, along with gains and losses on the projected benefit obligation, where they are accumulated until they get so big they have to be recognized. (See Appendix B for further discussion on the amortization of unrecognized gains and losses.) We would simply report the actual return on the income statement.

Unexpected Returns
The net actual loss on defined benefit pension plan assets for the S&P 500 was $90 billion during 2001; 313 companies experienced an actual loss on plan assets and only 33 companies had a gain. However, through the magic of pension accounting, S&P 500 companies collectively recognized $104 billion of income during 2001 in the form of the expected return on plan assets. In other words, the companies expected to see their pension plan assets increase by $104 billion. Instead, they actually declined by $90 billion, creating an unexpected loss of $194 billion. In 2000, the net actual gain on plan assets was $57 billion (91 companies had a loss and 254 had a gain); however, the expected return was $99 billion, resulting in an unexpected loss of $42 billion. 1999 produced an unexpected gain of $84 billion based on an actual return of $171 billion versus an $87 billion expected return. Exhibit 26 compares the aggregate actual and expected returns for the S&P 500.
Three hundred and thirty-nine companies had an unexpected loss in 2001. In other words, their expected return on plan assets was greater than their actual return on plan assets. The unexpected loss was over $500 million for 78 companies, and over $1 billion for 36 companies. The eight companies in Exhibit 27 had an unexpected loss in excess of $5 billion during 2001. Only General Motors had an unexpected loss of over $5 billion in 2000.

Only the four companies in Exhibit 28 reported unexpected gains during 2001, compared with 113 companies in 2000 and 277 companies in 1999.
Exhibit 28: Unexpected Gains in 2001

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Actual Returns</th>
<th>Expected Returns</th>
<th>Unexpected Gain/(Loss)</th>
<th>Actual Returns</th>
<th>Expected Returns</th>
<th>Unexpected Gain/(Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merrill Lynch &amp; Co</td>
<td>MER</td>
<td>$188</td>
<td>$157</td>
<td>$31</td>
<td>$247</td>
<td>$150</td>
<td>$97</td>
</tr>
<tr>
<td>Loews Corp</td>
<td>LTR</td>
<td>214</td>
<td>195</td>
<td>19</td>
<td>310</td>
<td>172</td>
<td>138</td>
</tr>
<tr>
<td>SLM Corp</td>
<td>SLM</td>
<td>22</td>
<td>16</td>
<td>6</td>
<td>24</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Plum Creek Timber Co Inc</td>
<td>PCL</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>6</td>
<td>(6)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Calculating “Real” Pension Cost

To calculate “real” pension cost, we replace the reported pension results with what actually happened: the actual changes in the pension plan assets and PBO. We start by removing the expected return on plan assets and amortization amounts from the income statement and replace them with the actual return on plan assets and the gains and losses on the pension obligation. We continue to record interest cost and service cost to arrive at “real” pension cost. (For more on these components, see Step 3.) Exhibit 29 is a side-by-side comparison of the FAS No. 87 pension accounting cost and our “real” pension cost using Verizon as an example. (See Appendix F, where we walk through the adjustments in more detail.)

Exhibit 29: Side-by-Side Comparison, Pension Accounting Cost Versus “Real” Pension Cost—Verizon

<table>
<thead>
<tr>
<th>Pension Footnote</th>
<th>2001</th>
<th>2001E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Cost</td>
<td>$665</td>
<td>$665</td>
</tr>
<tr>
<td>Interest Cost</td>
<td>2,490</td>
<td>2,490</td>
</tr>
<tr>
<td>Expected Return on Plan Assets</td>
<td>(4,811)</td>
<td>Actual (Gain)/Loss on Plan Assets</td>
</tr>
<tr>
<td>Amortization of Transition Asset</td>
<td>(112)</td>
<td>Actuarial (Gain)/Loss on PBO</td>
</tr>
<tr>
<td>Amortization of Prior Service Cost</td>
<td>(44)</td>
<td>Actuarial gain, net</td>
</tr>
</tbody>
</table>

Net Pension Expense / (Income) $ (2,690) Net Pension Expense / (Income) $ 8,106

Source: Company data, CSFB estimates.

Applying this methodology to the companies in the S&P 500 would have cut aggregate earnings (net income from continuing operations) by approximately 69% for 2001 and 10% in 2000. The combination of declining equity markets and low interest rates captured by our adjustments would have forced the earnings for the 14 industry groups in Exhibit 30 to drop by at least 50% in 2001. Note the first nine industries where net earnings for the industry would become a net loss. Application of our methodology in 1999 would have increased aggregate earnings by roughly 26%. In contrast to 2001, only two industry groups, Airlines and Electrical Equipment, would have reported lower earnings in 1999 as a result of applying our methodology.
Exhibit 30: Reporting What Happened to the Pension Plan Cuts Net Income by Over 50% in 2001

<table>
<thead>
<tr>
<th>Industry</th>
<th>Reported Net Income</th>
<th>Adjusted Net Income</th>
<th>Difference (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified Telecommunication Services</td>
<td>$ 801</td>
<td>$(18,078)</td>
<td>(2,358%)</td>
</tr>
<tr>
<td>Metals &amp; Mining</td>
<td>630</td>
<td>(1,448)</td>
<td>(330%)</td>
</tr>
<tr>
<td>Aerospace &amp; Defense</td>
<td>6,435</td>
<td>(13,892)</td>
<td>(316%)</td>
</tr>
<tr>
<td>Leisure Equipment &amp; Products</td>
<td>532</td>
<td>(605)</td>
<td>(214%)</td>
</tr>
<tr>
<td>Construction &amp; Engineering</td>
<td>107</td>
<td>(118)</td>
<td>(210%)</td>
</tr>
<tr>
<td>Containers &amp; Packaging</td>
<td>474</td>
<td>(511)</td>
<td>(208%)</td>
</tr>
<tr>
<td>Machinery</td>
<td>2,937</td>
<td>(1,608)</td>
<td>(155%)</td>
</tr>
<tr>
<td>Chemicals</td>
<td>5,317</td>
<td>(185)</td>
<td>(103%)</td>
</tr>
<tr>
<td>Gas Utilities</td>
<td>1,539</td>
<td>(7)</td>
<td>(100%)</td>
</tr>
<tr>
<td>Computers &amp; Peripherals</td>
<td>9,430</td>
<td>481</td>
<td>(95%)</td>
</tr>
<tr>
<td>IT Consulting &amp; Services</td>
<td>1,927</td>
<td>542</td>
<td>(72%)</td>
</tr>
<tr>
<td>Air Freight &amp; Logistics</td>
<td>3,169</td>
<td>965</td>
<td>(70%)</td>
</tr>
<tr>
<td>Household Durables</td>
<td>2,166</td>
<td>1,004</td>
<td>(54%)</td>
</tr>
<tr>
<td>Insurance</td>
<td>11,165</td>
<td>5,558</td>
<td>(50%)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

- Earnings would decline by 50% or more for 82 companies. Net income would become a net loss for 41 companies, including the 10 companies in Exhibit 31 where the decline in net income is more than $1 billion in 2001.

Exhibit 31: Net Income Swings to Net Loss—Over $1 Billion Decline in 2001

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Reported Net Income</th>
<th>Adjusted Net Loss</th>
<th>Dollar Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>$ 2,826</td>
<td>$(5,891)</td>
<td>$(8,717)</td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>601</td>
<td>(7,064)</td>
<td>(7,665)</td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>590</td>
<td>(5,880)</td>
<td>(6,470)</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>5</td>
<td>(3,009)</td>
<td>(3,014)</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>79</td>
<td>(2,501)</td>
<td>(2,580)</td>
</tr>
<tr>
<td>United Technologies Corp</td>
<td>UTX</td>
<td>1,938</td>
<td>(103)</td>
<td>(2,041)</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>427</td>
<td>(1,233)</td>
<td>(1,660)</td>
</tr>
<tr>
<td>Caterpillar Inc</td>
<td>CAT</td>
<td>805</td>
<td>(298)</td>
<td>(1,103)</td>
</tr>
<tr>
<td>TRW Inc</td>
<td>TRW</td>
<td>68</td>
<td>(993)</td>
<td>(1,061)</td>
</tr>
<tr>
<td>Eastman Kodak Co</td>
<td>EK</td>
<td>76</td>
<td>(926)</td>
<td>(1,002)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

- Thirty companies would see earnings decline by over $1 billion, including the seven companies in Exhibit 32 where earnings drop more than $5 billion in 2001.
Exhibit 32: Biggest Drop in Net Income—Over $5 Billion in 2001

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Reported Net Income</th>
<th>Adjusted Net Loss</th>
<th>Dollar Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>$2,826</td>
<td>$(5,891)</td>
<td>$(8,717)</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>7,723</td>
<td>19</td>
<td>(7,704)</td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>601</td>
<td>(7,064)</td>
<td>(7,665)</td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>590</td>
<td>(5,880)</td>
<td>(6,470)</td>
</tr>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>(14,170)</td>
<td>(20,290)</td>
<td>(6,120)</td>
</tr>
<tr>
<td>General Electric Co</td>
<td>GE</td>
<td>14,128</td>
<td>8,402</td>
<td>(5,726)</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>7,260</td>
<td>1,958</td>
<td>(5,302)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

- Earnings would not be affected for 140 companies and would actually increase for 12 companies in 2001.

Reported Return on Equity Versus Adjusted Return on Equity

We extend our analysis to return on equity (ROE), comparing ROE using reported net income and equity balances to an adjusted ROE using the adjusted net income and adjusted equity if the pension plan is properly factored in. In the aggregate, for 2001, we calculate an adjusted ROE of 2% for the S&P 500 as compared with the ROE of 8% based on reported results.

- A positive ROE swings to a negative or zero ROE for 40 companies, including the companies in Exhibit 33 that had the largest basis-point declines in ROE.

Exhibit 33: Over 3,000-Basis-Point Decline in ROE Attributable to Adjustments

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Reported ROE</th>
<th>Adjusted ROE</th>
<th>Change (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dow Jones &amp; Co Inc</td>
<td>DJ</td>
<td>98%</td>
<td>(912%)</td>
<td>(100,987)</td>
</tr>
<tr>
<td>Maytag Corp</td>
<td>MYG</td>
<td>137%</td>
<td>(540%)</td>
<td>(67,665)</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>26%</td>
<td>(46%)</td>
<td>(7,228)</td>
</tr>
<tr>
<td>TRW Inc</td>
<td>TRW</td>
<td>3%</td>
<td>(66%)</td>
<td>(6,917)</td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>2%</td>
<td>(52%)</td>
<td>(5,411)</td>
</tr>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>10%</td>
<td>(37%)</td>
<td>(4,718)</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>1%</td>
<td>(35%)</td>
<td>(3,640)</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>35%</td>
<td>0%</td>
<td>(3,482)</td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>12%</td>
<td>(23%)</td>
<td>(3,440)</td>
</tr>
<tr>
<td>Black &amp; Decker Corp</td>
<td>BDK</td>
<td>15%</td>
<td>(17%)</td>
<td>(3,226)</td>
</tr>
<tr>
<td>ITT Industries Inc</td>
<td>ITT</td>
<td>17%</td>
<td>(14%)</td>
<td>(3,114)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

- ROE would either increase or stay the same for 158 companies.

Show Me the Volatility

They say a picture is worth a thousand words . . . Exhibit 34 displays the aggregate “real” pension cost for the S&P 500 from 1999 through our 2004 estimate as the dotted line. Now contrast that with the nice, smooth aggregate reported pension accounting cost for the same period.
Step 3—Divide Pension Expense/Income into Three Buckets

Now that we have the real pension assets and liabilities on the balance sheet and the proper amounts reported in the income statement, we separate the pension expense or income into three buckets: compensation, financing, and investing; only the compensation component remains in operating income. We do this to help evaluate and value the different pieces of the business, maintaining the operating business separate from the financing and investing activity. Currently, companies report net pension income or expense wherever they report labor cost in the income statement. Most likely, it is being reported in cost of goods sold or selling, general and administrative; it could be part of research and development or any other line in operating income that includes labor costs. The total pension cost is disclosed in the footnotes; however, its location among the various line items on the income statement is a mystery.

Pension Cost . . . Everything but the Kitchen Sink

Net pension cost is currently made up of four components: service cost, interest cost, expected return on plan assets, and the amortization of this, that, and the other thing. Under our methodology, “real” pension cost is also made up of four components: service cost, interest cost, actual return on plan assets, and the actuarial gain or loss on the PBO. We can divide this cost among three buckets—operating, investing, and financing—similar to the presentation on the cash flow statement.

The only item that is truly a compensation cost is service cost; it is the value of the future retirement benefits that the employees earned by working during the current year. Think of it as a form of deferred compensation. We record it wherever the company reports labor cost. It is the only item of pension cost that we report as an operating cost.
Therefore, working with either our concept of real pension cost or with net pension cost per FAS No. 87, the impact on operating income is the same.

We slice up the remaining items and put them somewhere else on the income statement. Interest cost can be thought of as a financing cost, and we record it as part of interest expense. Interest cost is the increase in the benefit obligation due to the passage of time; it is similar in concept to the accretion on a zero coupon bond. The actual return on plan assets results from changes in the market prices of the stocks, bonds, real estate, and whatever else is in the pension portfolio. The actuarial gain or loss on the PBO is also a mark-to-market concept; here the changes in value are generally due to changes in actuarial assumptions. We record them both wherever the company reports investment gains and losses (i.e., other income, etc.).

The FASB may help us here, as the board has a project on its agenda on financial performance reporting. One of the topics of discussion has been pension accounting, and the location of pension cost on the income statement could be made clear, possibly being split apart as we propose. For full disclosure, I want to mention that I am on the FASB’s financial performance reporting task force. I would be interested in hearing any feedback that you have on this issue or on the overall structure of the financial statements.

Adjusting Operating Income
We eliminate the pension cost reported in operating income (as defined by Compustat) for each of the companies in the S&P 500 and replace it with service cost. We then compare the reported operating income and margins with our modified operating income.

If we strip out all the components of pension cost and leave behind service cost, operating income for the S&P 500 would decline by 4% in 2001, 4% in 2000, and 3% in 1999. The 13 industry groups in Exhibit 35 would experience a decline in operating income of 10% or more.

Exhibit 35: Industry—Operating Income Decline of 10% or More Attributable to Adjustments in 2001

<table>
<thead>
<tr>
<th>Industry</th>
<th>Operating Income</th>
<th>Adjusted Operating Income</th>
<th>% Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace &amp; Defense</td>
<td>$17,076</td>
<td>$13,095</td>
<td>(26%)</td>
</tr>
<tr>
<td>Construction &amp; Engineering</td>
<td>154</td>
<td>71</td>
<td>(23%)</td>
</tr>
<tr>
<td>Paper &amp; Forest Products</td>
<td>6,563</td>
<td>5,946</td>
<td>(19%)</td>
</tr>
<tr>
<td>Computers &amp; Peripherals</td>
<td>24,584</td>
<td>21,988</td>
<td>(18%)</td>
</tr>
<tr>
<td>Metals &amp; Mining</td>
<td>5,090</td>
<td>4,425</td>
<td>(18%)</td>
</tr>
<tr>
<td>Chemicals</td>
<td>12,621</td>
<td>11,289</td>
<td>(16%)</td>
</tr>
<tr>
<td>Diversified Telecommunication Services</td>
<td>52,893</td>
<td>44,537</td>
<td>(14%)</td>
</tr>
<tr>
<td>Leisure Equipment &amp; Products</td>
<td>3,329</td>
<td>3,023</td>
<td>(14%)</td>
</tr>
<tr>
<td>Automobiles</td>
<td>34,262</td>
<td>33,070</td>
<td>(13%)</td>
</tr>
<tr>
<td>Containers &amp; Packaging</td>
<td>1,929</td>
<td>1,742</td>
<td>(12%)</td>
</tr>
<tr>
<td>Auto Components</td>
<td>5,961</td>
<td>5,436</td>
<td>(11%)</td>
</tr>
<tr>
<td>Industrial Conglomerates</td>
<td>29,108</td>
<td>26,198</td>
<td>(11%)</td>
</tr>
<tr>
<td>IT Consulting &amp; Services</td>
<td>3,375</td>
<td>3,048</td>
<td>(11%)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.
For 59 companies, operating income would decline by 10% or more. The nine companies in Exhibit 36 would experience a decline of over 50%; two of the companies on this list, Prudential Financial and Allegheny Technologies, would move from reporting operating income to an operating loss. Only three companies—NCR, Northrop, and Allegheny—show a decline of over 50% for each of the last three years.

Exhibit 36: Company—Over 50% Decline in Operating Income Attributable to Adjustments in 2001

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Reported Operating Inc.</th>
<th>Pension Cost/(Benefit)</th>
<th>Service Cost</th>
<th>Adjusted Operating Inc.</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prudential Financial Inc</td>
<td>PRU</td>
<td>$420</td>
<td>$(457)</td>
<td>$167</td>
<td>$(204)</td>
<td>(149%)</td>
</tr>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>67</td>
<td>(68)</td>
<td>23</td>
<td>(24)</td>
<td>(136%)</td>
</tr>
<tr>
<td>McDermott Intl Inc</td>
<td>MDR</td>
<td>50</td>
<td>(18)</td>
<td>26</td>
<td>6</td>
<td>(88%)</td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>234</td>
<td>(124)</td>
<td>77</td>
<td>33</td>
<td>(86%)</td>
</tr>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>270</td>
<td>(170)</td>
<td>58</td>
<td>43</td>
<td>(84%)</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>802</td>
<td>(286)</td>
<td>252</td>
<td>264</td>
<td>(67%)</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>1,543</td>
<td>(354)</td>
<td>523</td>
<td>666</td>
<td>(57%)</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>1,004</td>
<td>(337)</td>
<td>205</td>
<td>462</td>
<td>(54%)</td>
</tr>
<tr>
<td>Meadwestvaco Corp</td>
<td>MWV</td>
<td>330</td>
<td>(135)</td>
<td>33</td>
<td>162</td>
<td>(51%)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Operating income would increase for 24 companies in 2001. Operating income for Hershey, Navistar, DTE Energy, Newmont Mining, Visteon, and Avaya would increase by 10% or more.

We compared the five-year compound annual growth rate in operating income with the five-year CAGR for adjusted operating income. The growth rate would decline for 243 companies, including the nine companies in Exhibit 37 that would experience a decline in excess of 750 basis points. The growth rate improves for 75 companies.

Exhibit 37: CAGR Decline of Over 750 Basis Points Attributable to Adjustments

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Reported 5-Year Operating Income CAGR</th>
<th>Adjusted 5-Year Operating Income CAGR</th>
<th>Change (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>5%</td>
<td>(22%)</td>
<td>(2,663)</td>
</tr>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>(3%)</td>
<td>(29%)</td>
<td>(2,560)</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>(8%)</td>
<td>(26%)</td>
<td>(1,784)</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>(10%)</td>
<td>(22%)</td>
<td>(1,202)</td>
</tr>
<tr>
<td>Meadwestvaco Corp</td>
<td>MWV</td>
<td>(4%)</td>
<td>(14%)</td>
<td>(999)</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>28%</td>
<td>19%</td>
<td>(920)</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>7%</td>
<td>2%</td>
<td>(865)</td>
</tr>
<tr>
<td>Dana Corp</td>
<td>DCN</td>
<td>(27%)</td>
<td>(36%)</td>
<td>(834)</td>
</tr>
<tr>
<td>TRW Inc</td>
<td>TRW</td>
<td>3%</td>
<td>(5%)</td>
<td>(825)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

The impact on operating margins for the entire S&P 500 is minimal. The nine industry groups in Exhibit 38 would experience a decline in operating margin of over 100 basis points in 2001.
Exhibit 38: Operating Margin Decline of Over 100 Basis Points Attributable to Adjustments in 2001

<table>
<thead>
<tr>
<th>Industry</th>
<th>Reported Operating Margin</th>
<th>Adjusted Operating Margin</th>
<th>Difference (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified Telecommunication Services</td>
<td>19%</td>
<td>17%</td>
<td>(280)</td>
</tr>
<tr>
<td>Aerospace &amp; Defense</td>
<td>9%</td>
<td>7%</td>
<td>(238)</td>
</tr>
<tr>
<td>Industrial Conglomerates</td>
<td>17%</td>
<td>15%</td>
<td>(180)</td>
</tr>
<tr>
<td>Leisure Equipment &amp; Products</td>
<td>9%</td>
<td>8%</td>
<td>(134)</td>
</tr>
<tr>
<td>Computers &amp; Peripherals</td>
<td>7%</td>
<td>6%</td>
<td>(132)</td>
</tr>
<tr>
<td>Chemicals</td>
<td>8%</td>
<td>7%</td>
<td>(131)</td>
</tr>
<tr>
<td>Containers &amp; Packaging</td>
<td>11%</td>
<td>10%</td>
<td>(130)</td>
</tr>
<tr>
<td>Metals &amp; Mining</td>
<td>6%</td>
<td>5%</td>
<td>(113)</td>
</tr>
<tr>
<td>Paper &amp; Forest Products</td>
<td>6%</td>
<td>5%</td>
<td>(111)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

• Operating margins would drop by over 100 basis points for 62 companies. The nine companies in Exhibit 39 experience a decline of 400 basis points or more in 2001. Only three companies, Northrop, Pactiv and Allegheny, would have had a more than 400-basis-point decline for each of the past three years.

Exhibit 39: Over 400 Basis Point Declines in Operating Margin Attributable to Adjustments in 2001

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Reported Operating Margin</th>
<th>Adjusted Operating Margin</th>
<th>Change (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>14%</td>
<td>9%</td>
<td>(509)</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>24%</td>
<td>19%</td>
<td>(436)</td>
</tr>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>3%</td>
<td>-1%</td>
<td>(429)</td>
</tr>
<tr>
<td>Meadwestvaco Corp</td>
<td>MWV</td>
<td>8%</td>
<td>4%</td>
<td>(426)</td>
</tr>
<tr>
<td>Consolidated Edison Inc</td>
<td>ED</td>
<td>17%</td>
<td>12%</td>
<td>(421)</td>
</tr>
<tr>
<td>Bellsouth Corp</td>
<td>BLS</td>
<td>29%</td>
<td>24%</td>
<td>(417)</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>7%</td>
<td>3%</td>
<td>(400)</td>
</tr>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>14%</td>
<td>9%</td>
<td>(509)</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>24%</td>
<td>19%</td>
<td>(436)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

• Operating margins would improve for 69 companies, including the five companies in Exhibit 40 with improvements of more than 100 basis points in 2001.

Exhibit 40: Over 100-Basis-Point Operating Margin Increase Attributable to Adjustments in 2001

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Reported Operating Margin</th>
<th>Adjusted Operating Margin</th>
<th>Change (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newmont Mining Corp</td>
<td>NEM</td>
<td>6%</td>
<td>8%</td>
<td>128</td>
</tr>
<tr>
<td>DTE Energy Co</td>
<td>DTE</td>
<td>9%</td>
<td>10%</td>
<td>152</td>
</tr>
<tr>
<td>Hershey Foods Corp</td>
<td>HSY</td>
<td>15%</td>
<td>17%</td>
<td>220</td>
</tr>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>(36%)</td>
<td>(32%)</td>
<td>363</td>
</tr>
<tr>
<td>Avaya Inc</td>
<td>AV</td>
<td>5%</td>
<td>11%</td>
<td>556</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

EV/EBITDA Analysis

We adjust the EBITDA for the last fiscal year in a similar manner to operating income, removing pension cost and replacing it with service cost. We also increase enterprise value by treating the funded status of a defined benefit pension plan as net debt (enterprise value is as of the fiscal year end). We then compare EV/EBITDA multiples.
on a reported basis with our adjusted multiples. The multiple for the S&P 500 using 2001 historical results would rise from about 12.1 to 12.4 times, an increase of approximately 3%.

- The EV/EBITDA multiple would increase by at least 10% for the five industry groups in Exhibit 41. The implication of this adjustment is simple: Investors may not always be getting what they think they’re paying for.

Exhibit 41: Industry EV/EBITDA Multiples Rising over 10% Due to Adjustments

<table>
<thead>
<tr>
<th>Industry</th>
<th>EV / EBITDA</th>
<th>Adjusted EV / EBITDA</th>
<th>% Change in Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airlines</td>
<td>46.13x</td>
<td>86.15x</td>
<td>87%</td>
</tr>
<tr>
<td>Aerospace &amp; Defense</td>
<td>8.32x</td>
<td>10.16x</td>
<td>22%</td>
</tr>
<tr>
<td>Construction &amp; Engineering</td>
<td>7.13x</td>
<td>8.19x</td>
<td>15%</td>
</tr>
<tr>
<td>Auto Components</td>
<td>5.93x</td>
<td>6.73x</td>
<td>14%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>10.20x</td>
<td>11.22x</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

- The EV/EBITDA multiple would increase by 10% or more for 44 companies; 20% or more for 17 companies; and more than 30% for the seven companies in Exhibit 42.

Exhibit 42: Company EV/EBITDA Multiples Rising over 30% Due to Adjustments

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>EV / EBITDA</th>
<th>Adjusted EV / EBITDA</th>
<th>% Change in Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>10.97x</td>
<td>20.86x</td>
<td>90%</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>14.05x</td>
<td>23.19x</td>
<td>65%</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>10.34x</td>
<td>15.18x</td>
<td>47%</td>
</tr>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>7.51x</td>
<td>11.00x</td>
<td>47%</td>
</tr>
<tr>
<td>McDermott Intl Inc</td>
<td>MDR</td>
<td>4.31x</td>
<td>5.96x</td>
<td>38%</td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>5.24x</td>
<td>7.22x</td>
<td>38%</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>9.58x</td>
<td>12.73x</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Next we compare the EV/EBITDA multiple for each company with the multiple for its industry group. We split the companies into two camps, those with premium multiples versus the group and those with discounted multiples versus the group. We then split the companies into the same two camps using our adjusted EV/EBITDA multiple. We compare the two sets of results and find only 10 companies that switched camps.

- The EV/EBITDA multiple went from less than the industry average to greater than the industry average for 5 companies (appearing more expensive than the group after making our adjustments), and the multiple went from more than the industry average to less than the industry average for another 5 companies (appearing less expensive than the group).
Exhibit 43: Companies Trading below Group Multiple That Trade Higher after Adjustment

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Industry Group</th>
<th>Co. EV / EBITDA</th>
<th>Group Multiple</th>
<th>Adj. Co. EV / EBITDA</th>
<th>Adj. Group Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ameren Corp</td>
<td>AEE</td>
<td>Electric Utilities</td>
<td>6.90x</td>
<td>7.02x</td>
<td>7.19x</td>
<td>7.18x</td>
</tr>
<tr>
<td>Consolidated Edison Inc</td>
<td>ED</td>
<td>Electric Utilities</td>
<td>7.01x</td>
<td>7.02x</td>
<td>8.26x</td>
<td>7.18x</td>
</tr>
<tr>
<td>Black &amp; Decker Corp</td>
<td>BDK</td>
<td>Household Durables</td>
<td>7.72x</td>
<td>7.97x</td>
<td>8.36x</td>
<td>8.34x</td>
</tr>
<tr>
<td>Maytag Corp</td>
<td>MYG</td>
<td>Household Durables</td>
<td>7.93x</td>
<td>7.97x</td>
<td>8.69x</td>
<td>8.34x</td>
</tr>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>IT Consulting &amp; Services</td>
<td>7.51x</td>
<td>9.39x</td>
<td>11.00x</td>
<td>10.01x</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Exhibit 44: Companies Trading above Group Multiple That Trade below after Adjustment

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Industry Group</th>
<th>Co. EV / EBITDA</th>
<th>Group Multiple</th>
<th>Adj. Co. EV / EBITDA</th>
<th>Adj. Group Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honeywell International Inc</td>
<td>HON</td>
<td>Aerospace &amp; Defense</td>
<td>8.49x</td>
<td>8.32x</td>
<td>9.80x</td>
<td>10.16x</td>
</tr>
<tr>
<td>Hershey Foods Corp</td>
<td>HSY</td>
<td>Food Products</td>
<td>11.49x</td>
<td>10.59x</td>
<td>10.45x</td>
<td>10.77x</td>
</tr>
<tr>
<td>Centex Corp</td>
<td>CTX</td>
<td>Household Durables</td>
<td>8.10x</td>
<td>7.97x</td>
<td>8.10x</td>
<td>8.34x</td>
</tr>
<tr>
<td>MBIA Inc</td>
<td>MBI</td>
<td>Insurance</td>
<td>16.73x</td>
<td>16.32x</td>
<td>16.73x</td>
<td>17.03x</td>
</tr>
<tr>
<td>Newmont Mining Corp</td>
<td>NEM</td>
<td>Metals &amp; Mining</td>
<td>10.43x</td>
<td>9.86x</td>
<td>10.13x</td>
<td>10.49x</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Summary

Removing the smoothing mechanisms and stripping out what a company believes should have happened with the pension plan and replacing it with what actually did happen better reflects the company’s true exposure to its pension plan and the underlying volatility in the financial statements. Following this methodology for the entire S&P 500 would reduce earnings by 69% in 2001 and 10% in 2000, while increasing earnings 26% in 1999. In the aggregate, placing the pension plan assets on the balance sheet would increase total assets for the S&P 500 by 5% and 7%, respectively, in 2001 and 2000; treating the PBO as debt would increase aggregate debt for the S&P 500 by 16% and 17%. The difference between the increase in assets and the increase in liabilities would reduce total equity for the S&P 500 by $60 billion, or 2%, at the end of 2001.
Funded Status

The combination of a declining stock market and record low interest rates has had a negative impact on the funded status of defined benefit pension plans. A decline in the funded status could have negative cash flow, earnings and balance sheet implications for companies with defined benefit pension plans. The potential credit rating implications forced Standard & Poor’s to ask companies with defined benefit plans for the mix and value of their pension plan assets as of June 30, 2002. “In considering the unfunded pension liability, Standard & Poor’s focuses on the ‘funded status’ as defined under FAS No. 87 and disclosed in the pension footnote. This amount can differ dramatically from that shown on the balance sheet.”

The funded status represents the economic value of the pension plan. An overfunded pension plan is an economic asset for the sponsoring company, one that is difficult to monetize, however, still an asset. Capital that would have been allocated to the pension plan can now be put to other uses—reinvestment, share repurchases, debt paydown, dividends, etc. On the other hand, an underfunded plan can be considered an economic liability that could result in increased future contributions to the pension plan from the company, drawing capital away from other parts of the business.

The funded status indicates the health of the pension plan; an overfunded plan is clearly healthier than an underfunded plan. We start by examining the health of defined benefit pension plans on a macro level. We combine the pension plan assets and the projected benefit obligation for each company in the S&P 500 with a defined benefit pension plan. We then determine the aggregate funded status for the S&P 500 for each of the last 10 years, which is depicted in Exhibit 45.

Exhibit 45: Funded Status of the S&P 500
US$ in billions

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Source: Company data, CSFB estimates.
Key Observations

- In the aggregate, the defined benefit pension plans for the S&P 500 companies have not been underfunded since 1993, when the funded status fell to $10 billion underfunded.

- In 1994, net pretax pension expense for the S&P 500 reached its highest level in the past decade ($11.9 billion from $9.9 billion in 1993), driven partly by the underfunding that occurred in 1993.

- At the end of 2001, the S&P 500 was overfunded by just $4 billion with plan assets of $1,068 billion and a PBO of $1,064 billion. The 10 largest pension plans account for 39% of the total plan assets and 36% of the total PBO for the S&P 500.

Exhibit 46: 10 Largest Defined Benefit Pension Plans in the S&P 500 Based on 2001 Plan Assets

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Plan Assets</th>
<th>PBO</th>
<th>Funded Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>$ 73,662</td>
<td>$ 86,333</td>
<td>$ (12,671)</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>61,096</td>
<td>60,410</td>
<td>686</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>48,754</td>
<td>51,214</td>
<td>(2,460)</td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>48,558</td>
<td>36,391</td>
<td>12,167</td>
</tr>
<tr>
<td>General Electric Co</td>
<td>GE</td>
<td>45,006</td>
<td>30,423</td>
<td>14,583</td>
</tr>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>35,539</td>
<td>29,850</td>
<td>5,689</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>33,810</td>
<td>32,693</td>
<td>1,117</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>32,715</td>
<td>25,060</td>
<td>7,655</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>20,300</td>
<td>19,713</td>
<td>587</td>
</tr>
<tr>
<td>AT&amp;T Corp</td>
<td>T</td>
<td>18,485</td>
<td>14,035</td>
<td>4,450</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

- Defined benefit plans for the S&P 500 were overfunded by $252 billion in 1999 (128% funded) as compared with just $4 billion in 2001 (100% funded). An $78 billion drop in plan assets and a $170 billion rise in the projected benefit obligation caused the decline. It appears as if the change in funded status over the last two years was driven more by low interest rates than by negative equity returns.

Exhibit 47 shows the number of companies in the S&P 500 with either over- or underfunded defined benefit pension plans at the end of 2001.
Exhibit 47: Number of Companies with Over/Underfunded Defined Benefit Pension Plans

Source: Company data, CSFB estimates.

Key Observations

- Fewer companies were underfunded in 1999 than at any other time in the last 10 years. However, since 1999 the pendulum has swung in the opposite direction; the number of underfunded companies has almost tripled from 81 to 240, leaving us at the end of 2001 with the largest number of underfunded companies in the last 10 years. In other words, 67% of the companies with defined benefit pension plans were underfunded.

- We have witnessed the same dramatic swing in the number of companies that are overfunded, moving from 261 overfunded pension plans at the end of 1999, the highest in the last 10 years, to only 118 companies overfunded at the end of 2001, the lowest number in the last 10 years.

Underfunded

Of the 55 different industry groups within the S&P 500, 35 were underfunded. The total amount underfunded for these groups was $57 billion at the end of 2001. In Exhibit 48, we see that five industry groups accounted for 70% of the total underfunded amount. The only surprise appears to be Pharmaceuticals, with 10% of the total. All 10 companies in the pharmaceutical group had underfunded pension plans, led by Pfizer, which was $1.3 billion underfunded. Exhibit 48 breaks out the amount underfunded for each industry as a percentage of the $57 billion underfunded.
Exhibit 48: 2001 Breakout of Underfunded Industries as a % of $57 Billion Total

Source: Company data, CSFB estimates.

The 13 companies in Exhibit 49 were underfunded by at least $1 billion at the end of 2001, as compared with only 1 company in 2000 and 1 in 1999, Exxon Mobil, which has over 57% of its defined benefit pension plan overseas, where the funding requirements are dramatically different than in the U.S.

Exhibit 49: Companies with Defined Benefit Pension Plans Underfunded by at Least $1 Billion in 2001

US$ in millions

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2001 Underfunded</th>
<th>2000 Underfunded</th>
<th>1999 Underfunded</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>($12,671)</td>
<td>85%</td>
<td>($779)</td>
</tr>
<tr>
<td>Exxon Mobil Corp</td>
<td>XOM</td>
<td>(7,249)</td>
<td>63%</td>
<td>(4,139)</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>(2,460)</td>
<td>95%</td>
<td>4,344</td>
</tr>
<tr>
<td>Delphi Corp</td>
<td>DPH</td>
<td>(2,367)</td>
<td>72%</td>
<td>(302)</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>(2,353)</td>
<td>78%</td>
<td>1,135</td>
</tr>
<tr>
<td>United Technologies Corp</td>
<td>UTX</td>
<td>(2,329)</td>
<td>81%</td>
<td>887</td>
</tr>
<tr>
<td>AMR Corp</td>
<td>AMR</td>
<td>(1,940)</td>
<td>74%</td>
<td>(703)</td>
</tr>
<tr>
<td>Pfizer Inc</td>
<td>PFE</td>
<td>(1,308)</td>
<td>81%</td>
<td>(211)</td>
</tr>
<tr>
<td>Procter &amp; Gamble Co</td>
<td>PG</td>
<td>(1,135)</td>
<td>56%</td>
<td>(936)</td>
</tr>
<tr>
<td>ChevronTexaco Corp</td>
<td>CVX</td>
<td>(1,081)</td>
<td>85%</td>
<td>389</td>
</tr>
<tr>
<td>Pharmacia Corp</td>
<td>PHA</td>
<td>(1,063)</td>
<td>73%</td>
<td>(566)</td>
</tr>
<tr>
<td>Goodyear Tire &amp; Rubber Co</td>
<td>GT</td>
<td>(1,039)</td>
<td>80%</td>
<td>(302)</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>(1,007)</td>
<td>91%</td>
<td>3,352</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Of the 240 companies with underfunded defined benefit pension plans at the end of 2001, 61 were less than 90% funded for two consecutive years. The companies with the most underfunded pension plans in terms of percent funded are included in Exhibit 50.
**Exhibit 50: Most Underfunded Based on Plan Assets/Projected Benefit Obligation**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Ticker</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Countrywide Credit Ind Inc</td>
<td>CCR</td>
<td>49%</td>
<td>75%</td>
<td>95%</td>
</tr>
<tr>
<td>Tupperware Corp</td>
<td>TUP</td>
<td>54%</td>
<td>60%</td>
<td>67%</td>
</tr>
<tr>
<td>Cardinal Health Inc</td>
<td>CAH</td>
<td>56%</td>
<td>65%</td>
<td>56%</td>
</tr>
<tr>
<td>Franklin Resources Inc</td>
<td>BEN</td>
<td>56%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Procter &amp; Gamble Co</td>
<td>PG</td>
<td>56%</td>
<td>64%</td>
<td>63%</td>
</tr>
<tr>
<td>Molex Inc</td>
<td>MOLX</td>
<td>59%</td>
<td>59%</td>
<td>66%</td>
</tr>
<tr>
<td>Franklin Resources Inc</td>
<td>BEN</td>
<td>56%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Phillips Petroleum Co</td>
<td>P</td>
<td>60%</td>
<td>80%</td>
<td>94%</td>
</tr>
<tr>
<td>AmerisourceBergen Corp</td>
<td>ABC</td>
<td>60%</td>
<td>83%</td>
<td>82%</td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*

**Overfunded**

Of the 55 different industry groups within the S&P 500, 20 were overfunded. The total amount overfunded for these groups was $61 billion at the end of 2001. In Exhibit 51, we see that two industry groups, Diversified Telecom Services at 49% and Industrial Conglomerates at 22%, accounted for over 70% of the total overfunded amount. Two companies stand out at the top of the list for each group, Verizon at $12.1 billion overfunded and General Electric at $14.6 billion.

**Exhibit 51: 2001 Breakout of Overfunded Industries as a % of $61 Billion Total**

- Diversified Telecom Serv. 49%
- Industrial Conglomerates 22%
- Electric Utilities 7%
- Communic. Equip. 8%
- Other (<3.6%) 14%

*Source: Company data, CSFB estimates.*

The 16 companies in Exhibit 52 were overfunded by at least $1 billion at the end of 2001 (compared with 39 companies in 2000 and 46 in 1999). The funded status declined by over $10 billion between 2000 and 2001 for two companies on the list: Lucent Technologies, where the funded status dropped by $13.4 billion from $19.1 billion to $5.7 billion; and Boeing, where the funded status dropped by $12.6 billion from $13.8 billion to $1.1 billion.
Exhibit 52: Companies Overfunded by at Least $1 Billion in 2001

<table>
<thead>
<tr>
<th>US$ in millions</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Electric Co</td>
<td>GE</td>
<td>$14,583</td>
<td>148%</td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>12,167</td>
<td>133%</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>7,655</td>
<td>131%</td>
</tr>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>5,689</td>
<td>119%</td>
</tr>
<tr>
<td>BellSouth Corp</td>
<td>BLS</td>
<td>4,689</td>
<td>139%</td>
</tr>
<tr>
<td>AT&amp;T Corp</td>
<td>T</td>
<td>4,450</td>
<td>132%</td>
</tr>
<tr>
<td>Prudential Financial Inc</td>
<td>PRU</td>
<td>2,022</td>
<td>131%</td>
</tr>
<tr>
<td>Qwest Communication Intl Inc</td>
<td>Q</td>
<td>1,496</td>
<td>116%</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>1,485</td>
<td>112%</td>
</tr>
<tr>
<td>Southern Co</td>
<td>SO</td>
<td>1,349</td>
<td>136%</td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>1,225</td>
<td>117%</td>
</tr>
<tr>
<td>FPL Group Inc</td>
<td>FPL</td>
<td>1,193</td>
<td>188%</td>
</tr>
<tr>
<td>Meadwestvaco Corp</td>
<td>MWV</td>
<td>1,181</td>
<td>187%</td>
</tr>
<tr>
<td>United Parcel Service Inc</td>
<td>UPS</td>
<td>1,149</td>
<td>121%</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>1,117</td>
<td>103%</td>
</tr>
<tr>
<td>PG&amp;E Corp</td>
<td>PCG</td>
<td>1,088</td>
<td>118%</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Of the 118 companies with overfunded defined benefit pension plans at the end of 2001, 49 were over 120% funded; the top 10 most overfunded plans are included in Exhibit 53. Sherwin-Williams has the highest percentage funded status in the S&P 500.

Exhibit 53: 10 Most Overfunded Based on Plan Assets / Projected Benefit Obligation

<table>
<thead>
<tr>
<th>Industry</th>
<th>Ticker</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sherwin-Williams Co</td>
<td>SHW</td>
<td>264%</td>
<td>285%</td>
<td>307%</td>
</tr>
<tr>
<td>Bank Of New York Co Inc</td>
<td>BK</td>
<td>223%</td>
<td>401%</td>
<td>277%</td>
</tr>
<tr>
<td>Moody’s Corp</td>
<td>MCO</td>
<td>193%</td>
<td>271%</td>
<td>0%</td>
</tr>
<tr>
<td>FPL Group Inc</td>
<td>FPL</td>
<td>188%</td>
<td>228%</td>
<td>217%</td>
</tr>
<tr>
<td>Meadwestvaco Corp</td>
<td>MWV</td>
<td>187%</td>
<td>229%</td>
<td>233%</td>
</tr>
<tr>
<td>Manor Care Inc</td>
<td>HCR</td>
<td>182%</td>
<td>199%</td>
<td>183%</td>
</tr>
<tr>
<td>Mellon Financial Corp</td>
<td>MEL</td>
<td>175%</td>
<td>198%</td>
<td>218%</td>
</tr>
<tr>
<td>Nicor Inc</td>
<td>GAS</td>
<td>168%</td>
<td>225%</td>
<td>207%</td>
</tr>
<tr>
<td>McGraw-Hill Companies</td>
<td>MHP</td>
<td>155%</td>
<td>187%</td>
<td>220%</td>
</tr>
<tr>
<td>National City Corp</td>
<td>NCC</td>
<td>148%</td>
<td>157%</td>
<td>157%</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Change in Funded Status

Three hundred and forty-one companies experienced a deterioration in their funded status between 2000 and 2001; 115 of these companies went from being overfunded in 2000 to underfunded at the end of 2001. Exhibit 54 includes eight companies that experienced a deterioration in funded status of over $5 billion between 2000 and 2001.
Exhibit 54: **Companies Reporting Unfavorable Change in 2001 Funded Status over $5 Billion**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>$ 5,689</td>
<td>$ 19,149</td>
<td>$(13,460)</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>1,117</td>
<td>13,754</td>
<td>(12,637)</td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>(12,671)</td>
<td>(779)</td>
<td>(11,892)</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>686</td>
<td>10,738</td>
<td>(10,052)</td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>12,167</td>
<td>22,089</td>
<td>(9,922)</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>7,655</td>
<td>15,237</td>
<td>(7,582)</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>(2,460)</td>
<td>4,344</td>
<td>(6,804)</td>
</tr>
<tr>
<td>General Electric Co</td>
<td>GE</td>
<td>14,583</td>
<td>21,222</td>
<td>(6,639)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Four companies were either underfunded or evenly funded in 2000 before becoming overfunded in 2001. Only 16 companies, included in Exhibit 55, experienced a year-over-year improvement in the funded status of their defined benefit pension plans.

Exhibit 55: **All Companies Reporting Favorable Change in 2001 Funded Status**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>El Paso Corp</td>
<td>EP</td>
<td>$513</td>
<td>$364</td>
<td>$149</td>
</tr>
<tr>
<td>DTE Energy Co</td>
<td>DTE</td>
<td>(36)</td>
<td>(124)</td>
<td>88</td>
</tr>
<tr>
<td>Citizens Communications Co</td>
<td>CZN</td>
<td>38</td>
<td>(33)</td>
<td>71</td>
</tr>
<tr>
<td>Waste Management Inc</td>
<td>WMI</td>
<td>(6)</td>
<td>(59)</td>
<td>53</td>
</tr>
<tr>
<td>Sabre Hldgs Corp-Cl A</td>
<td>TSG</td>
<td>(57)</td>
<td>(104)</td>
<td>48</td>
</tr>
<tr>
<td>General Mills Inc</td>
<td>GIS</td>
<td>571</td>
<td>529</td>
<td>42</td>
</tr>
<tr>
<td>Loews Corp</td>
<td>LTR</td>
<td>(162)</td>
<td>(187)</td>
<td>25</td>
</tr>
<tr>
<td>Bank Of America Corp</td>
<td>BAC</td>
<td>129</td>
<td>107</td>
<td>22</td>
</tr>
<tr>
<td>Huntington Bancshares</td>
<td>HBAN</td>
<td>14</td>
<td>(3)</td>
<td>17</td>
</tr>
<tr>
<td>Jones Apparel Group Inc</td>
<td>JNY</td>
<td>7</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td>American Greetings-Cl A</td>
<td>AM</td>
<td>(4)</td>
<td>(9)</td>
<td>6</td>
</tr>
<tr>
<td>Guidant Corp</td>
<td>GDT</td>
<td>4</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>JDS Uniphase Corp</td>
<td>JDSU</td>
<td>0</td>
<td>(3)</td>
<td>3</td>
</tr>
<tr>
<td>SLM Corp</td>
<td>SLM</td>
<td>41</td>
<td>38</td>
<td>2</td>
</tr>
<tr>
<td>Mirant Corp</td>
<td>MIR</td>
<td>(73)</td>
<td>(75)</td>
<td>2</td>
</tr>
<tr>
<td>Molex Inc</td>
<td>MOLX</td>
<td>(27)</td>
<td>(28)</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

- The favorable change in the funded status for some companies was driven at least in part by a change in their assumptions. For instance, Waste Management increased its discount rate by 166 basis points to 7.19% in 2001 from 5.53% in 2000. Waste Management’s funded status improved by $53 million in 2001.

**Measuring the Pension Plan Relative to Equity Market Capitalization**

In the previous sections, we highlighted the companies that have the most over and underfunded defined benefit plans in the S&P 500 as measured by both absolute dollars and the percentage of the PBO that is funded. We now compare the PBO and funded status of the pension plan as of 2001 to the company’s equity market capitalization as of
September 24, 2002 (as defined by Compustat) to gain greater perspective on the relative importance of a pension plan to a company and its shareholders.

Exhibit 56 plots the PBO/market capitalization and plan assets/market capitalization ratios for each of the 55 S&P 500 industries against one another to highlight the relative significance of pension assets and liabilities to each sector. The automobiles sector is the most significant outlier, with a PBO/market capitalization ratio of 265% and a plan assets/market capitalization ratio of 236%. Note that 36 out of the 55 industries that we examined had PBO/market capitalization and plan asset/market capitalization ratios below 25%.

Exhibit 56: Industry PBO/Market Capitalization Versus Plan Assets/Market Capitalization

Source: Company data, CSFB estimates.

Exhibit 57 captures all 8 industries where the funded status/market capitalization ratio is either greater or less than 4%. Note that the funded status of the other 47 industries in the S&P 500 was between plus and minus 4%.
Exhibit 57: **Industry Funded Status/Market Capitalization**

![Diagram showing the funded status and market capitalization of various industries.]

Source: Company data, CSFB estimates.

We now move from the industry level to the company level. Exhibit 58 shows the degree of the PBO’s importance with respect to the market capitalization of S&P 500 companies.

Exhibit 58: **PBO/Market Capitalization**

![Graph showing the distribution of PBO/Market Capitalization across companies.]

Source: Company data, CSFB estimates.

**Key Observations**

- Roughly half of the companies in the S&P 500 had a PBO that was less than 5% of their market capitalization; we estimate that 140 of these companies do not have defined benefit pension plans.
The 29 companies in Exhibit 59 had projected benefit obligations that were greater than their market capitalization. All 29 companies also have pension plan assets that exceed their market capitalization.

Exhibit 59: PBO/Market Capitalization in Excess of 100%

US$ in millions, unless otherwise stated

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>PBO</th>
<th>Market Capitalization</th>
<th>PBO/Market Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMR Corp</td>
<td>AMR</td>
<td>$7,422</td>
<td>$560</td>
<td>1324%</td>
</tr>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>29,850</td>
<td>3,364</td>
<td>887%</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>10,657</td>
<td>1,240</td>
<td>859%</td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>7,358</td>
<td>1,170</td>
<td>629%</td>
</tr>
<tr>
<td>McDermott Intl Inc</td>
<td>MDR</td>
<td>1,833</td>
<td>333</td>
<td>551%</td>
</tr>
<tr>
<td>Avaya Inc</td>
<td>AV</td>
<td>2,518</td>
<td>485</td>
<td>519%</td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>86,333</td>
<td>21,421</td>
<td>403%</td>
</tr>
<tr>
<td>Goodyear Tire &amp; Rubber Co</td>
<td>GT</td>
<td>5,215</td>
<td>1,386</td>
<td>376%</td>
</tr>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>1,816</td>
<td>500</td>
<td>363%</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>51,214</td>
<td>17,026</td>
<td>301%</td>
</tr>
<tr>
<td>Navistar International</td>
<td>NAV</td>
<td>3,384</td>
<td>1,249</td>
<td>271%</td>
</tr>
<tr>
<td>Cummins Inc</td>
<td>CUM</td>
<td>2,064</td>
<td>902</td>
<td>229%</td>
</tr>
<tr>
<td>Qwest Communication Intl Inc</td>
<td>Q</td>
<td>9,625</td>
<td>4,372</td>
<td>220%</td>
</tr>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>4,816</td>
<td>2,230</td>
<td>216%</td>
</tr>
<tr>
<td>Delphi Corp</td>
<td>DPH</td>
<td>8,444</td>
<td>4,811</td>
<td>175%</td>
</tr>
<tr>
<td>Xerox Corp</td>
<td>XRX</td>
<td>7,606</td>
<td>4,352</td>
<td>175%</td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>3,621</td>
<td>2,110</td>
<td>172%</td>
</tr>
<tr>
<td>Hercules Inc</td>
<td>HPC</td>
<td>1,472</td>
<td>954</td>
<td>154%</td>
</tr>
<tr>
<td>PG&amp;E Corp</td>
<td>PCG</td>
<td>6,087</td>
<td>3,948</td>
<td>154%</td>
</tr>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>3,390</td>
<td>2,622</td>
<td>129%</td>
</tr>
<tr>
<td>Dana Corp</td>
<td>DSN</td>
<td>2,549</td>
<td>2,001</td>
<td>127%</td>
</tr>
<tr>
<td>Georgia-Pacific Corp</td>
<td>GP</td>
<td>3,866</td>
<td>3,235</td>
<td>119%</td>
</tr>
<tr>
<td>Dyneg Inc</td>
<td>DYN</td>
<td>524</td>
<td>443</td>
<td>118%</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>32,693</td>
<td>27,936</td>
<td>117%</td>
</tr>
<tr>
<td>CMS Energy Corp</td>
<td>CMS</td>
<td>1,268</td>
<td>1,108</td>
<td>114%</td>
</tr>
<tr>
<td>Williams Cos Inc</td>
<td>WMN</td>
<td>1,023</td>
<td>909</td>
<td>113%</td>
</tr>
<tr>
<td>Corning Inc</td>
<td>GLW</td>
<td>1,742</td>
<td>1,556</td>
<td>112%</td>
</tr>
<tr>
<td>Boise Cascade Corp</td>
<td>BCC</td>
<td>1,472</td>
<td>1,356</td>
<td>109%</td>
</tr>
<tr>
<td>Visteon Corp</td>
<td>VC</td>
<td>1,344</td>
<td>1,297</td>
<td>104%</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

We extend this analysis by comparing the funded status for each company in the S&P 500 to their equity market capitalization in Exhibit 60.
**Key Observations**

- The funded status for 360 of the companies in the S&P 500 was insignificant when compared to the market capitalization, as it falls between a positive and negative 2.5%. We estimate that 140 of these companies do not have defined benefit pension plans.

- The amount overfunded was greater than 30% of market capitalization for four companies in the S&P 500 that have defined benefit pension plans, while nine companies were underfunded by more than 30% of their market capitalization. All 13 companies are included in Exhibit 61.

**Exhibit 60: Funded Status/Market Capitalization**

![Bar chart showing the number of companies in different funded status categories relative to market capitalization.](chart)

**Source:** Company data, CSFB estimates.

**Exhibit 61: Overfunded/(Underfunded) Status Exceeding 25% of Market Capitalization**

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Funded Status</th>
<th>Market Capitalization</th>
<th>Funded Status/Market Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overfunded Status Exceeding 30%</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>$5,689</td>
<td>$3,364</td>
<td>169%</td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>1,225</td>
<td>1,170</td>
<td>105%</td>
</tr>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>196</td>
<td>500</td>
<td>39%</td>
</tr>
<tr>
<td>Qwest Communication Int Inc</td>
<td>Q</td>
<td>1,496</td>
<td>4,372</td>
<td>34%</td>
</tr>
<tr>
<td><strong>Underfunded Status Exceeding 30%</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AMR Corp</td>
<td>AMR</td>
<td>(1,940)</td>
<td>560</td>
<td>(346%)</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>(2,353)</td>
<td>1,240</td>
<td>(190%)</td>
</tr>
<tr>
<td>Goodyear Tire &amp; Rubber Co</td>
<td>GT</td>
<td>(1,039)</td>
<td>1,386</td>
<td>(75%)</td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>(12,671)</td>
<td>21,421</td>
<td>(59%)</td>
</tr>
<tr>
<td>Delphi Corp</td>
<td>DPH</td>
<td>(2,367)</td>
<td>4,811</td>
<td>(49%)</td>
</tr>
<tr>
<td>Cummins Inc</td>
<td>CUM</td>
<td>(380)</td>
<td>902</td>
<td>(42%)</td>
</tr>
<tr>
<td>Navistar International</td>
<td>NAV</td>
<td>(512)</td>
<td>1,249</td>
<td>(41%)</td>
</tr>
<tr>
<td>CMS Energy Corp</td>
<td>CMS</td>
<td>(423)</td>
<td>1,108</td>
<td>(38%)</td>
</tr>
<tr>
<td>Avaya Inc</td>
<td>AV</td>
<td>(147)</td>
<td>485</td>
<td>(30%)</td>
</tr>
</tbody>
</table>

**Source:** Company data, CSFB estimates.
Measuring the Pension Plan Relative to the Balance Sheet

We take this analysis one step further by comparing the pension plan assets to the total assets and the PBO to the total debt reported on the balance sheet at the end of 2001. We present the aggregate data for all the companies in the S&P 500 in Exhibit 62.

Exhibit 62: Magnitude of S&P 500 Pension Assets and Liabilities
US$ in billions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan Assets/Total Assets</td>
<td>11%</td>
<td>10%</td>
<td>9%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>8%</td>
<td>8%</td>
<td>7%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>PBO/Total Debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>18%</td>
<td>17%</td>
<td>16%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Key Observations

- As defined contribution plans have become more popular, the relative significance of defined benefit plans to the aggregate S&P 500 balance sheet has diminished.
- From a high of 30% in 1993, the PBO/Total debt ratio for S&P 500 companies steadily declined to 16% in 2001, while the Plan Assets/Total Assets ratio slowly dropped from 11% in 1991 to 6% in 2001.

In the aggregate for the S&P 500, the impact on the balance sheet has diminished; however, the significance of the pension plan is still substantial for some individual companies. There were 71 companies where the PBO was greater than the company’s total debt outstanding, including the 12 companies in Exhibit 63 with PBOs over $10 billion.
Exhibit 63: 2001 PBO/Total Debt > 100% (PBO > $10 Billion)

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>PBO</th>
<th>Total Debt</th>
<th>PBO / Total Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>$29,850</td>
<td>$4,438</td>
<td>673%</td>
</tr>
<tr>
<td>Du Pont (E I) De Nemours</td>
<td>DD</td>
<td>18,769</td>
<td>6,814</td>
<td>275%</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>32,693</td>
<td>12,265</td>
<td>267%</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>19,713</td>
<td>7,511</td>
<td>262%</td>
</tr>
<tr>
<td>United Technologies Corp</td>
<td>UTX</td>
<td>12,354</td>
<td>4,959</td>
<td>249%</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>12,404</td>
<td>5,491</td>
<td>226%</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>60,410</td>
<td>27,151</td>
<td>222%</td>
</tr>
<tr>
<td>Honeywell International Inc</td>
<td>HON</td>
<td>10,952</td>
<td>5,270</td>
<td>208%</td>
</tr>
<tr>
<td>Exxon Mobil Corp</td>
<td>XOM</td>
<td>19,419</td>
<td>10,802</td>
<td>180%</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>11,171</td>
<td>9,096</td>
<td>123%</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>10,657</td>
<td>9,403</td>
<td>113%</td>
</tr>
<tr>
<td>Dow Chemical</td>
<td>DOW</td>
<td>11,341</td>
<td>10,883</td>
<td>104%</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Examining the left hand side of the balance sheet, we find that the 12 companies in Exhibit 64 had defined benefit pension plan assets over $10 billion, where the ratio of plan assets to total assets was greater than 30%. For two companies in the S&P 500, Lucent Technologies and United States Steel, plan assets were greater than total assets. (Note that United States Steel is not included in Exhibit 64 because its plan assets totaled $9 billion at the end of 2001.)

Exhibit 64: Highest 2001 Plan Assets/Total Assets (Plan Assets > $10 Billion)

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Plan Assets</th>
<th>Total Assets</th>
<th>Plan Assets / Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>$35,539</td>
<td>$33,664</td>
<td>106%</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>20,300</td>
<td>27,654</td>
<td>73%</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>33,810</td>
<td>48,343</td>
<td>70%</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>61,096</td>
<td>88,313</td>
<td>69%</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>13,889</td>
<td>20,886</td>
<td>66%</td>
</tr>
<tr>
<td>Honeywell International Inc</td>
<td>HON</td>
<td>11,051</td>
<td>24,226</td>
<td>46%</td>
</tr>
<tr>
<td>Du Pont (E I) De Nemours</td>
<td>DD</td>
<td>17,923</td>
<td>40,319</td>
<td>44%</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>10,164</td>
<td>26,636</td>
<td>38%</td>
</tr>
<tr>
<td>United Technologies Corp</td>
<td>UTX</td>
<td>10,025</td>
<td>26,969</td>
<td>37%</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>32,715</td>
<td>96,322</td>
<td>34%</td>
</tr>
<tr>
<td>Dow Chemical</td>
<td>DOW</td>
<td>11,424</td>
<td>35,515</td>
<td>32%</td>
</tr>
<tr>
<td>Bellsouth Corp</td>
<td>BLS</td>
<td>16,617</td>
<td>52,046</td>
<td>32%</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Relationship between Funded Status and Earnings

Now that we have poked and prodded at funded status, we ask ourselves a simple question: So what? For example, does it matter to earnings if a company’s pension plan is over- or underfunded? We sought to identify whether there was a relationship between the amount of net pension cost that companies report and the extent to which those companies are either over- or underfunded. Exhibit 65 provides a clear picture of the relationship between funded status and pension cost for 2001.
Exhibit 65: Funded Status of Companies Reporting 2001 Pretax Net Pension Income/(Expense)

- Overfunded with Pension Income
- Underfunded with Pension Expense
- Overfunded with Pension Expense
- Underfunded with Pension Income
- Over/Underfunded with no Pension Income/(Expense)

Source: Company data, CSFB estimates.

Key Observations

- Close to 80% of the companies report pension cost that is in-line with the funded status of their defined benefit pension plans; 186 underfunded companies reported pension expense, while 98 overfunded companies reported pension income.

- Accordingly, interest cost appears to frequently dominate net pension cost for companies with defined benefit pension plans that are underfunded, resulting in net pension expense. Similarly, the expected return on plan assets appears to dominate net pension cost for companies with a pension plan that is overfunded, resulting in net pension income.

- Based on data from January 1991 through December 2001, a positive correlation appears to exist between a company’s funded status and its propensity to report either pension income or expense. That is, pension income is likely to increase as companies become more overfunded, while pension income is likely to decrease as companies become less overfunded. Stated differently, pension expense has a tendency to rise as companies become more underfunded, while pension expense declines as companies become less underfunded. The positive correlation is +0.7 (perfect positive correlation is +1.0) and can be seen in Exhibit 66, where we plot the pension income or expense on the Y-axis and the amount that the pension plan is over or underfunded on the X-axis for each company in the S&P 500 with a defined benefit pension plan.
We fit a least-squares linear regression or trend line to the data points plotted in Exhibit 66, minimizing the distance between each observed data point and the trend line itself. We found that the slope of this line is +0.0741, suggesting that a $1 increase in the S&P 500’s funded status is expected to result in $0.07 of pension income. Conversely, a $1 decrease in funded status is expected to result in $0.07 of pension expense. However, the line is not a tight fit with respect to the data points. The R-squared value of this line is 0.5, highlighting that a company’s funded status is not an ideal predictor of pension income (R-squared for a perfect predictor is equal to 1.0), and users of this data should exercise caution when considering the above regression to make predictions about future pension income/(expense) amounts. We recommend using our pension-forecasting model described earlier in our report, which can be found at: http://www.csfb.com/equity/presentations/pension_forecast_model.xls.

Exhibit 65 also highlights less typical cases where overfunded companies reported pension expense, while underfunded companies reported pension income. In 2001, 18 overfunded companies reported pension expense. Most of the 18 companies were only slightly overfunded with the exception of Lucent. In Lucent’s case, the company reported approximately $2 billion of termination benefits related to both voluntary early retirement offers and involuntary terminations, causing the company to report net pension expense in 2001.

We also note in Exhibit 65 that 51 underfunded companies reported pension income in 2001. The 10 companies in Exhibit 67 were underfunded and reported pension income in excess of $50 million. Du Pont provides a good example of how an underfunded company may recognize pension income. Du Pont was actually overfunded by $3 billion...
at the end of 2000, with plan assets of $20 billion and a projected benefit obligation of $17 billion. By the end of 2001, however, the fair value of Du Pont’s plan assets dropped to $18 billion, while its projected benefit obligation increased to $19 billion, leaving Du Pont $846 million underfunded after a negative $4 billion swing in its funded status. Nevertheless, the powerful smoothing mechanisms in pension accounting kicked in and Du Pont was able to recognize pension income of $374 million in 2001, versus pension income of $465 million in 2000.

**Exhibit 67: Underfunded and Pension Income > $50 million in 2001**

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Pension Income</th>
<th>Amount Underfunded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Du Pont (E I) De Nemours</td>
<td>DD</td>
<td>$374</td>
<td>($846)</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>286</td>
<td>(1,007)</td>
</tr>
<tr>
<td>Caterpillar Inc</td>
<td>CAT</td>
<td>163</td>
<td>(130)</td>
</tr>
<tr>
<td>Philip Morris Cos Inc</td>
<td>MO</td>
<td>138</td>
<td>(502)</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>115</td>
<td>(2,460)</td>
</tr>
<tr>
<td>Exelon Corp</td>
<td>EXC</td>
<td>74</td>
<td>(822)</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>73</td>
<td>(2,353)</td>
</tr>
<tr>
<td>U S Bancorp</td>
<td>USB</td>
<td>65</td>
<td>(45)</td>
</tr>
<tr>
<td>Eaton Corp</td>
<td>ETN</td>
<td>52</td>
<td>(20)</td>
</tr>
<tr>
<td>Keyspan Corp</td>
<td>KSE</td>
<td>51</td>
<td>(16)</td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*
Quality of Earnings

A Few Questions
Another area of concern with defined benefit pension plans is the impact that they can have on earnings. We have been inundated with questions about pension accounting and quality of earnings and attempt to answer a few of these questions by analyzing the last 10 years of defined benefit pension plan data. The questions include:

- What percentage of net income is from the pension plan?
- What percentage of operating income is from the pension plan?
- How much of the growth in earnings is from rising pension income or declining pension expense?

Net Pension Cost for the S&P 500
Another reason why pension accounting causes so much confusion is that most investors view a defined benefit pension plan as a retirement benefit provided to the employees that has a cost to the company. Therefore, they believe that cost should result in the company reporting an expense on its income statement. In the aggregate, companies in the S&P 500 reported net pension expense from 1991 through 1998. The tide shifted in 1999 as S&P 500 companies started to, in aggregate, report pension income. We estimate that after-tax net pension income was 2% of net income in both 2000 and 2001, while pretax net pension income was 1% of operating income for both years. Exhibit 68 shows the evolution of total pretax net pension cost over the past decade.

Exhibit 68: Pretax Net Pension Cost for the S&P 500

US$ in billions

Source: Company data, CSFB estimates.
Between 1999 and 2001, S&P 500 companies reported $22 billion of pretax net pension income between them.

**Breakout of Companies Reporting Pretax Net Pension Income/(Expense)**

Exhibit 69 breaks out the number of companies in the S&P 500 reporting pretax net pension income/(expense) over each of the last 10 years. As the chart shows, the number of companies reporting pretax net pension income has more than tripled from 46 in 1994 to 150 in 2001. In 2001, pretax net pension income amounted to $17 billion for 150 companies, while pretax net pension expense amounted to $10 billion for 206 companies.

**Exhibit 69: Breakout of Companies Reporting Pretax Net Pension Income/(Expense)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Companies Reporting Pension Income</th>
<th>Companies Reporting Pension Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>233</td>
<td>55</td>
</tr>
<tr>
<td>1992</td>
<td>237</td>
<td>61</td>
</tr>
<tr>
<td>1993</td>
<td>247</td>
<td>56</td>
</tr>
<tr>
<td>1994</td>
<td>262</td>
<td>46</td>
</tr>
<tr>
<td>1995</td>
<td>258</td>
<td>54</td>
</tr>
<tr>
<td>1996</td>
<td>255</td>
<td>55</td>
</tr>
<tr>
<td>1997</td>
<td>243</td>
<td>70</td>
</tr>
<tr>
<td>1998</td>
<td>230</td>
<td>96</td>
</tr>
<tr>
<td>1999</td>
<td>234</td>
<td>102</td>
</tr>
<tr>
<td>2000</td>
<td>188</td>
<td>155</td>
</tr>
<tr>
<td>2001</td>
<td>206</td>
<td>150</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

The 10 companies with the largest amounts of pension income and the 10 with the largest amounts of pension expense during 2001 are listed in Exhibit 70.

**Exhibit 70: Companies Reporting the Largest Pretax Net Pension Income or Pension Expense in 2001**

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Pension Income</th>
<th>Pension Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Electric Co</td>
<td>GE</td>
<td>$2,095</td>
<td>$1,744</td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>1,848</td>
<td>3,489</td>
</tr>
<tr>
<td>Intl Business Machines Corp</td>
<td>IBM</td>
<td>1,450</td>
<td>1,266</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>1,450</td>
<td>1,145</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>920</td>
<td>428</td>
</tr>
<tr>
<td>BellSouth Corp</td>
<td>BLS</td>
<td>797</td>
<td>693</td>
</tr>
<tr>
<td>Prudential Financial Inc</td>
<td>PRU</td>
<td>457</td>
<td>362</td>
</tr>
<tr>
<td>Du Pont (E I) De Nemours</td>
<td>DD</td>
<td>374</td>
<td>465</td>
</tr>
<tr>
<td>Qwest Communication Intl Inc</td>
<td>Q</td>
<td>360</td>
<td>319</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>354</td>
<td>302</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.
Net Income

S&P 500 Industry Groups

Impact of After-Tax Net Pension Income on the Industry’s Bottom Line

For each industry group in the S&P 500, we estimate the after-tax pension cost using a 35% tax rate for all companies. We then compare the after-tax pension cost to reported net income from continuing operations (excludes discontinued operations, extraordinary items, and the cumulative effect of a change in accounting principle). The nine industries in Exhibit 71 generated at least 5% of their net income from pension income in 2001.

Exhibit 71: Industries Deriving at Least 5% of 2001 Net Income from After-Tax Net Pension Income

<table>
<thead>
<tr>
<th>Industry</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified Telecommunication Services</td>
<td>387%</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>Aerospace &amp; Defense</td>
<td>22%</td>
<td>14%</td>
<td>4%</td>
</tr>
<tr>
<td>Leisure Equipment &amp; Products</td>
<td>21%</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Metals &amp; Mining</td>
<td>21%</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Containers &amp; Packaging</td>
<td>19%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Computers &amp; Peripherals</td>
<td>9%</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Gas Utilities</td>
<td>7%</td>
<td>7%</td>
<td>3%</td>
</tr>
<tr>
<td>Industrial Conglomerates</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>5%</td>
<td>6%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Key Observations

- After-tax net pension income accounted for at least 10% of net income in the past three years for three industries: Diversified Telecommunication Services, Metals & Mining, and Containers & Packaging.
- The 387% figure for Diversified Telecommunications Services in 2001 is largely attributable to a severe decline in net income, which fell to $801 million in 2001 from $31 billion in 2000.
- Eighteen industries reported net pension expense in 2001, including Building Products and Personal Products, where it was approximately 4% of net income for both groups.

S&P 500 Companies

Impact of After-Tax Net Pension Income on the Company’s Bottom Line

Applying the same methodology to individual companies, the 19 companies in Exhibit 72 relied on pension income for 20% or more of their net income in 2001. Also in 2001, 37 companies reported pension income representing at least 10% of their net income, while 143 companies reported pension expense.
Exhibit 72: Companies Deriving at Least 20% of 2001 Net Income from After-Tax Pension Income

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2001 % of Net Income from Pensions</th>
<th>2000 % of Net Income from Pensions</th>
<th>1999 % of Net Income from Pensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>3,718%</td>
<td>24%</td>
<td>2%</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>291%</td>
<td>NM</td>
<td>8%</td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>204%</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>TRW Inc</td>
<td>TRW</td>
<td>164%</td>
<td>26%</td>
<td>18%</td>
</tr>
<tr>
<td>Eastman Kodak Co</td>
<td>EK</td>
<td>147%</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Whirlpool Corp</td>
<td>WHR</td>
<td>134%</td>
<td>17%</td>
<td>(4%)</td>
</tr>
<tr>
<td>Meadwestvaco Corp</td>
<td>MWV</td>
<td>99%</td>
<td>28%</td>
<td>48%</td>
</tr>
<tr>
<td>El Paso Corp</td>
<td>EP</td>
<td>52%</td>
<td>5%</td>
<td>NM</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>51%</td>
<td>48%</td>
<td>48%</td>
</tr>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>45%</td>
<td>62%</td>
<td>NM</td>
</tr>
<tr>
<td>Weyerhaeuser Co</td>
<td>WY</td>
<td>43%</td>
<td>15%</td>
<td>11%</td>
</tr>
<tr>
<td>Textron Inc</td>
<td>TXT</td>
<td>38%</td>
<td>20%</td>
<td>2%</td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>36%</td>
<td>45%</td>
<td>12%</td>
</tr>
<tr>
<td>Consolidated Edison Inc</td>
<td>ED</td>
<td>29%</td>
<td>24%</td>
<td>0%</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>21%</td>
<td>13%</td>
<td>4%</td>
</tr>
<tr>
<td>Norfolk Southern Corp</td>
<td>NSC</td>
<td>21%</td>
<td>6%</td>
<td>24%</td>
</tr>
<tr>
<td>Bellsouth Corp</td>
<td>BLS</td>
<td>20%</td>
<td>11%</td>
<td>8%</td>
</tr>
<tr>
<td>Eaton Corp</td>
<td>ETN</td>
<td>20%</td>
<td>7%</td>
<td>1%</td>
</tr>
<tr>
<td>Donnelley (RR) &amp; Sons Co</td>
<td>DNY</td>
<td>20%</td>
<td>6%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Key Observations

- Six companies (Raytheon, Lockheed Martin, Verizon, TRW, Kodak, and Whirlpool) would not have reported net income in 2001 had after-tax net pension income been excluded from earnings. For example, TRW reported $112 million of after-tax net pension income in 2001 and net income of $68 million. TRW’s net income would drop 164% if we stripped after-tax net pension income out of net income.

- Verizon, Meadwestvaco Corp, and Northrop derived over 20% of their net income from their pension plans in each of the last three years.

Company Earnings Growth/(Decline) Attributable to After-Tax Net Pension Income/(Expense)

We further assess the extent to which higher pension income or lower pension expense has helped fuel the annual growth in company earnings. Between 2000 and 2001, net income for the S&P 500 decreased by $213 billion. The $3 billion estimated after-tax decline in net pension income contributed to the drop in earnings. If we look back, the S&P 500 reported $58 billion of net income growth between 1999 and 2000, which included after-tax pension income growth of $7 billion. As a result, 12% of the S&P 500’s net income growth between 1999 and 2000 was attributable to rising after-tax net pension income, representing the highest percentage benefit in the past 10 years. Exhibit 73 highlights specific companies where over 20% of the growth in net income between 2000 and 2001 can be attributed to either the rise in pension income or the decline in pension expense.
Exhibit 73: 2001 Year over Year Growth in Net Income Attributable to Decrease in Pension Cost (from a Rise in Pension Income or a Decline in Pension Expense)

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>(A) Decline in Pension Cost</th>
<th>(B) Change in Net Income</th>
<th>(A/B) Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meredith Corp</td>
<td>MDP</td>
<td>($1)</td>
<td>0</td>
<td>293%</td>
</tr>
<tr>
<td>Vulcan Materials Co</td>
<td>VMC</td>
<td>(3)</td>
<td>3</td>
<td>94%</td>
</tr>
<tr>
<td>Consolidated Edison Inc</td>
<td>ED</td>
<td>(57)</td>
<td>99</td>
<td>58%</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>(320)</td>
<td>698</td>
<td>46%</td>
</tr>
<tr>
<td>General Dynamics Corp</td>
<td>GD</td>
<td>(15)</td>
<td>42</td>
<td>36%</td>
</tr>
<tr>
<td>Norfolk Southern Corp</td>
<td>NSC</td>
<td>(64)</td>
<td>190</td>
<td>34%</td>
</tr>
<tr>
<td>Progress Energy Inc</td>
<td>PGN</td>
<td>(21)</td>
<td>63</td>
<td>33%</td>
</tr>
<tr>
<td>IMS Health Inc</td>
<td>RX</td>
<td>(6)</td>
<td>22</td>
<td>28%</td>
</tr>
<tr>
<td>Dominion Resources Inc</td>
<td>D</td>
<td>(36)</td>
<td>129</td>
<td>28%</td>
</tr>
<tr>
<td>Tyco International Ltd</td>
<td>TYC</td>
<td>(33)</td>
<td>151</td>
<td>22%</td>
</tr>
<tr>
<td>Cinergy Corp</td>
<td>CIN</td>
<td>(8)</td>
<td>42</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Key Observations

- Let’s examine the figures for General Dynamics more closely to illustrate this analysis. General Dynamics reported net pension income increased to $21 million in 2001 from $6 million in 2000. That $15 million increase in pension income accounts for approximately 36% of the $42 million year-over-year rise in net income. If pension income had remained constant at $6 million in 2001, net income would have increased by only $27 million, a 3.0% growth rate versus the 4.6% growth rate in reported earnings.

- It is not just companies that report pension income that can have a benefit to earnings from the pension plan. Companies that report pension expense can also benefit. For example, Cinergy’s net income increased by $42 million year over year. Its reported net pension expense declined by $8 million, from $23 million in 2000 to $15 million in 2001. If Cinergy’s pension expense remained at $23 million during 2001, its net income would have increased by only $34 million. In other words, the decline in pension expense accounted for 20% of the growth in Cinergy’s net income.

Operating Income

S&P 500 Industries

Impact of Pretax Net Pension Income on the Industry’s Operating Income

Pension cost is reported in operating income wherever the company reports labor cost; for example, cost of goods sold or SG&A. In this section, we further examine the impact that pension accounting has had on operating income (as defined by Compustat) for the companies in the S&P 500. Pension income accounted for 5% or more of 2001 operating income in the nine industries in Exhibit 74.
Exhibit 74: **Industries Deriving 5% or More of 2001 Operating Income from Pension Income**

<table>
<thead>
<tr>
<th>Industry</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace &amp; Defense</td>
<td>13%</td>
<td>10%</td>
<td>3%</td>
</tr>
<tr>
<td>Diversified Telecommunication Services</td>
<td>10%</td>
<td>12%</td>
<td>7%</td>
</tr>
<tr>
<td>Paper &amp; Forest Products</td>
<td>10%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Computers &amp; Peripherals</td>
<td>9%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Containers &amp; Packaging</td>
<td>8%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Leisure Equipment &amp; Products</td>
<td>7%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>Metals &amp; Mining</td>
<td>7%</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Industrial Conglomerates</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>5%</td>
<td>4%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*

**Key Observations**

- Diversified Telecommunications Services, Containers & Packaging, Metals & Mining, and Industrial Conglomerates relied on pension income for 5% or more of operating income over the past three years.

- Two industry groups stand out as somewhat surprising among the nine: Computers & Peripherals and Leisure Equipment & Products. In each case, it is one company that causes the industry group to appear on the list: IBM and Eastman Kodak, respectively.

- Twenty-one industries reported pension expense as a percentage of 2001 operating income.

**S&P 500 Companies**

**Impact of Pretax Net Pension Income on a Company’s Operating Income**

Exhibit 75 includes the 12 companies where 20% or more of operating income was pension related during 2001.

Exhibit 75: **Companies Deriving 20% or More of 2001 Operating Income from Pension Income**

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prudential Financial Inc</td>
<td>PRU</td>
<td>109%</td>
<td>30%</td>
<td>5%</td>
</tr>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>102%</td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>63%</td>
<td>25%</td>
<td>11%</td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>53%</td>
<td>46%</td>
<td>30%</td>
</tr>
<tr>
<td>Meadwestvaco Corp</td>
<td>MWV</td>
<td>41%</td>
<td>20%</td>
<td>26%</td>
</tr>
<tr>
<td>McDermott Intl Inc</td>
<td>MDR</td>
<td>36%</td>
<td>267%</td>
<td>7%</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>36%</td>
<td>11%</td>
<td>1%</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>34%</td>
<td>42%</td>
<td>36%</td>
</tr>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>28%</td>
<td>28%</td>
<td>27%</td>
</tr>
<tr>
<td>Weyerhaeuser Co</td>
<td>WY</td>
<td>26%</td>
<td>11%</td>
<td>8%</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>23%</td>
<td>19%</td>
<td>5%</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>20%</td>
<td>12%</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*
• Both Prudential Financial and Allegheny Technologies would have reported operating losses in 2001 if not for their pension income. For example, Allegheny Technologies reported 2001 operating income of $67 million and pretax net pension income of $68 million. By stripping pretax net pension income out of operating income, Allegheny Technologies is left with an operating loss of $1 million.

Summary
The difficult economic environment has certainly diminished profitability for corporations, but the smoothing mechanisms inherent in the magic of pension accounting have created an illusory shield that has softened the blow to the bottom line at many companies.
Analysis of Assumptions

Overview
With a defined benefit pension plan, the company has entered into an obligation where the future cash flows to the retirees are unknown. Therefore, the company and its actuaries must make a number of assumptions about the future, including the discount rate and salary inflation assumptions. Among the assumptions that companies employ for accounting purposes, the expected rate of return on plan assets has received special criticism. Investors have questioned whether companies are overstating their earnings by keeping the expected return assumptions to high. Many auditors may also pressure companies to drop expected return rates. Some companies have already announced plans to lower their expected return rates in 2002. Berkshire Hathaway has taken the dramatic step of decreasing its expected rate of return assumption from 8.3% to 6.5%, well below the 9.2% median expected return assumption for the S&P 500. (Note for companies that provide a range of assumptions in the pension footnote, we used the median rate.)

The Big Picture
A great deal of confusion surrounds the impact that the various pension assumptions (i.e., expected rate of return, discount rate, and salary inflation rate) can have on the components of pension cost and the funded status. Exhibit 76 highlights key pension accounting assumptions and the corresponding impact of increases or decreases in those assumptions on pension cost and the funded status.

Exhibit 76: Impact of Changes in Assumptions

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discount Rate</strong></td>
<td></td>
</tr>
<tr>
<td>Increase None</td>
<td>Projected FMV of Plan Assets None Decrease Unfavorable Increase None</td>
</tr>
<tr>
<td>Decrease None</td>
<td>Funded Benefit Obligation Increase Decrease Increase None</td>
</tr>
<tr>
<td></td>
<td>Interest Service Cost Decrease Increase None Increase Decrease</td>
</tr>
<tr>
<td></td>
<td>Expected Return ($) Decrease Increase None Increase Decrease</td>
</tr>
<tr>
<td></td>
<td>Net Pension Cost Decrease Increase None Increase Decrease</td>
</tr>
<tr>
<td><strong>Expected Rate of Return</strong></td>
<td></td>
</tr>
<tr>
<td>Increase None</td>
<td>None None None None None None Increase Decrease Increase</td>
</tr>
<tr>
<td>Decrease None</td>
<td>None None None None None None Increase Decrease Increase</td>
</tr>
<tr>
<td><strong>Salary Inflation Rate</strong></td>
<td></td>
</tr>
<tr>
<td>Increase None</td>
<td>None Increase Unfavorable Increase Decrease Decrease None</td>
</tr>
<tr>
<td>Decrease None</td>
<td>None Decrease Favorable Decrease Decrease None Decrease</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

The items discussed below highlight key points associated with Exhibit 76.

- *Fair Market Value of Plan Assets.* Note that only actual market performance affects the fair value of plan assets. *None of the assumptions listed in Exhibit 76, including the expected rate of return, will cause a change in the fair value of plan assets.*
Increases in plan asset values will have a favorable impact on a company’s funded status. Conversely, a decline in the fair value of plan assets will have a negative impact.

- **Projected Benefit Obligation (PBO).** The PBO represents the present value of the future retirement benefits that will be paid to the employees in the future. In other words, the PBO represents the amount that the employer would need to invest today at the discount rate to have sufficient funds available in the future to meet its obligation to employees. Therefore, a lower discount rate will increase the PBO and a higher discount rate will reduce the PBO, just like any other present value calculation. On the other hand, an increase in the salary inflation assumption will drive up the estimate of future retirement benefits, taking the PBO higher. The opposite will occur for a decline in the salary inflation assumption. Increases in the PBO will have an unfavorable impact on a company’s funded status, while a decline in the PBO will have a positive impact.

- **Funded Status.** A company’s funded status represents the difference between the fair market value of its plan assets and its projected benefit obligation. Changing pension assumptions will drive the funded status up or down, depending upon their impact on the PBO.

- **Interest Cost.** Interest cost is the increase in the PBO due to the passage of time. It is calculated by multiplying the discount rate (from the prior year) by the PBO at the beginning of the year. The impact of a change in the discount rate on interest cost is company specific, however, a decline in the discount rate will generally result in lower interest cost. An increase in the discount rate will generally result in higher interest cost. To the extent that the salary inflation assumption moves the PBO up or down, interest cost will move up or down.

- **Service Cost.** Service cost represents the present value of the future retirement benefits that the employees have earned by working during the current year. A change in the discount rate and salary inflation assumption will have the same directional impact as we described above for the PBO.

- **Expected Return ($).** Expected return is the surrogate for the actual return on the pension plan assets; it offsets pension cost. It represents the product of a company’s expected return rate and the market-related value of the company’s plan assets at the beginning of the period. Market-related value can either be the fair value of plan assets or a calculated value that recognizes changes in fair value over a period no greater than five years. The expected return amount does not affect a company’s funded status. An increase in the expected return amount will lower pension cost, while a decrease in the expected return amount will raise pension cost.

- **Net Pension Cost.** Service cost, interest cost, and expected return ($) are all components of net pension income/(expense). Net pension cost is either income or expense, representing the net result of the aforementioned components and some amortization items. The impact on net pension cost of a change in the salary inflation rate and the expected rate of return on plan assets is clear.
Expected Rate of Return on Plan Assets

With equity markets moving lower and fixed income yields remaining at historical lows, we expect companies to begin announcing that they will be taking down their expected return assumptions for 2003. It would not surprise us to see drops of 50 to 100 basis points. As the median rate falls from the current 9.2%, the illusory earnings shield created by the magic of pension accounting should become evident.

Several companies had announced reductions in their 2002 expected return assumptions, including General Electric, Dow Chemical, Whirlpool, and IBM. Warren Buffet decided to take Berkshire Hathaway’s rate down to 6.5%. In Exhibit 81, we list the seven companies in the S&P 500 that reduced their expected return assumptions by 100 basis points or more for 2001. Six companies in the S&P 500, listed in Exhibit 80, actually increased their expected return assumptions by 50 basis points or more for 2001.

The expected rate of return assumption is supposed to be a long-term concept (10-plus years) that will vary depending on a company’s belief about future market performance, its ability to generate rates of return either above or below those market levels, and its mix of plan assets. The median expected rate of return assumption for the S&P 500 historically has not moved: it was 9.2% in 1997 and has remained at that level ever since. The median expected rate of return was 9% from 1991 through 1996. However, the increase in pension plan assets during the 1990’s caused the expected return on plan assets to grow rather smoothly, at a rate of approximately $10 billion per year during each of the last three years (from $74.8 billion in 1998 to $104.5 billion in 2001).

Companies have a significant amount of discretion when setting their expected rates of return. The highest rate of return used for 2001 belonged to Freeport McMoran at 12%. AFLAC and National Semiconductor held the distinction of having the lowest rate at 5.75%. Exhibit 77 shows the distribution of expected rates of return across the companies in the S&P 500 during 2001.

Exhibit 77: 2001 Distribution of Expected Rates of Return across Companies

<table>
<thead>
<tr>
<th>Rate Range</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.00-5.99</td>
<td>2</td>
</tr>
<tr>
<td>6.00-6.99</td>
<td>5</td>
</tr>
<tr>
<td>7.00-7.99</td>
<td>23</td>
</tr>
<tr>
<td>8.00-8.99</td>
<td>82</td>
</tr>
<tr>
<td>9.00-9.99</td>
<td>179</td>
</tr>
<tr>
<td>10.00-10.99</td>
<td>55</td>
</tr>
<tr>
<td>11.00-11.99</td>
<td>2</td>
</tr>
<tr>
<td>12.00-12.99</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.
Key Observations

- Freeport McMoran Copper & Gold (12.00%), U.S. Bancorp (12.15%), and Weyerhaeuser (11.50%) had the highest expected rate of return in 2001, 2000, and 1999, respectively. Note that Freeport McMoran Copper & Gold has an Indonesian defined benefit pension plan covering most of its Indonesian workforce. As a result, its expected return rates are higher than those of other companies included in our analysis because its Indonesian plan has a significantly different risk profile.

- The maximum expected return rate for the universe of companies in the S&P 500 remained at 11.50% from 1995 until 1999 (applied by Weyerhaeuser each year) and ranged from 12.75% to 13.00% between 1991 and 1994. Exhibit 78 shows the 18 companies with expected rates of return over 10% in 2001.

Exhibit 78: Companies Expecting Return Rates of over 10% in 2001

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freeport McMoran Copper &amp; Gold</td>
<td>FCX</td>
<td>12.00</td>
<td>12.00</td>
<td>NA</td>
</tr>
<tr>
<td>U S Bancorp</td>
<td>USB</td>
<td>11.00</td>
<td>12.15</td>
<td>11.38</td>
</tr>
<tr>
<td>Weyerhaeuser Co</td>
<td>WY</td>
<td>11.00</td>
<td>11.50</td>
<td>11.50</td>
</tr>
<tr>
<td>Fedex Corp</td>
<td>FDX</td>
<td>10.90</td>
<td>10.90</td>
<td>10.90</td>
</tr>
<tr>
<td>PPG Industries Inc</td>
<td>PPG</td>
<td>10.90</td>
<td>10.90</td>
<td>10.90</td>
</tr>
<tr>
<td>Lehman Brothers Holdings Inc</td>
<td>LEH</td>
<td>10.81</td>
<td>10.88</td>
<td>9.19</td>
</tr>
<tr>
<td>Illinois Tool Works</td>
<td>ITW</td>
<td>10.51</td>
<td>10.55</td>
<td>9.68</td>
</tr>
<tr>
<td>Bank Of New York Co Inc</td>
<td>BK</td>
<td>10.50</td>
<td>10.50</td>
<td>10.50</td>
</tr>
<tr>
<td>Coors (Adolph)-Cl B</td>
<td>RKY</td>
<td>10.50</td>
<td>10.50</td>
<td>10.50</td>
</tr>
<tr>
<td>Guidant Corp</td>
<td>GDT</td>
<td>10.50</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Harley-Davidson Inc</td>
<td>HDI</td>
<td>10.50</td>
<td>10.50</td>
<td>10.30</td>
</tr>
<tr>
<td>Kellogg Co</td>
<td>K</td>
<td>10.50</td>
<td>10.40</td>
<td>10.40</td>
</tr>
<tr>
<td>Lilly (Eli) &amp; Co</td>
<td>LLY</td>
<td>10.50</td>
<td>10.50</td>
<td>10.50</td>
</tr>
<tr>
<td>Sysco Corp</td>
<td>SYY</td>
<td>10.50</td>
<td>10.50</td>
<td>10.50</td>
</tr>
<tr>
<td>Darden Restaurants Inc</td>
<td>DRI</td>
<td>10.40</td>
<td>10.40</td>
<td>10.40</td>
</tr>
<tr>
<td>General Mills Inc</td>
<td>GIS</td>
<td>10.40</td>
<td>10.40</td>
<td>10.40</td>
</tr>
<tr>
<td>FirstEnergy Corp</td>
<td>FE</td>
<td>10.25</td>
<td>10.25</td>
<td>10.25</td>
</tr>
<tr>
<td>Engelhard Corp</td>
<td>EC</td>
<td>10.04</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

In 2001, AFLAC and National Semiconductor employed the lowest expected rate of return, 5.75%, in the S&P 500, while AFLAC alone held this distinction in 2000, at 5.75%. Waste Management applied the lowest expected return rate in 1999, at 6.11%, but ratcheted that up to 9% for 2001. The lowest expected return rate hovered between 3% and 4% from 1996 to 1998 and between 5% and 6% from 1991 to 1995. Exhibit 79 shows the seven companies in the S&P 500 that used expected rates of return of less than 7% in 2001.
<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFLAC Inc</td>
<td>AFL</td>
<td>5.75</td>
<td>5.75</td>
<td>6.75</td>
</tr>
<tr>
<td>National Semiconductor Corp</td>
<td>NSM</td>
<td>5.75</td>
<td>6.00</td>
<td>9.00</td>
</tr>
<tr>
<td>Applera Corp Applied Biosys</td>
<td>ABI</td>
<td>6.13</td>
<td>7.56</td>
<td>NA</td>
</tr>
<tr>
<td>Parametric Technology Corp</td>
<td>PMTC</td>
<td>6.25</td>
<td>6.83</td>
<td>7.08</td>
</tr>
<tr>
<td>Nabors Industries Ltd</td>
<td>NBR</td>
<td>6.50</td>
<td>6.50</td>
<td>6.50</td>
</tr>
<tr>
<td>Stryker Corp</td>
<td>SYK</td>
<td>6.60</td>
<td>7.70</td>
<td>6.70</td>
</tr>
<tr>
<td>Merrill Lynch &amp; Co</td>
<td>MER</td>
<td>6.60</td>
<td>6.60</td>
<td>6.60</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Changes in the Expected Rate of Return
An analysis of the history of expected return rate changes reveals some interesting patterns:

• One hundred and thirteen companies changed their expected rates of return in 2001. Of these, 43 increased and 70 decreased the rate (the highest number of companies decreasing their expected rates of return in the last 10 years); this compares with 88 companies that changed the expected rate of return in 2000, with 53 increasing and 35 dropping.

• The number of companies changing their expected rates of return has increased every year since 1996, from 49 in 1996 to 113 in 2001.

• The number of companies increasing their expected return rates has grown from 10 companies in 1993 to 43 in 2001.

• Two companies have increased their expected rates of return in each of the past three years, McDermott International and Loews Corp. Seven companies have increased their expected rates of return the past two years: 3M, C.R. Bard, John Hancock Financial, Pfizer, Procter & Gamble, Unisys Corp, and Waste Management.

• Only one company, Ball Corp, has dropped its expected rate of return in each of the last three years, with 13 companies decreasing their rates the past two years.

Exhibit 80 lists the six companies that increased their expected rate of return by over 50 basis points year over year. SBC Communications explained the rationale and impact of increasing the expected return assumption by 100 basis points:

"...For each of the three years ended 2001, our actual 10-year return on investments exceeded 10%, including the effect of the negative returns in 2001; this, along with future expectations, was the rationale behind the change in our expected long-term rate of return on plan assets from 8.5% to 9.5% in 2001. A 0.25% change in the expected long-term rate of return causes a change of approximately $90 [million] in net pension benefit..."
Exhibit 80: *Increased Expected Return Rates by over 50 Basis Points in 2001*

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2001</th>
<th>2000</th>
<th>Change (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste Management Inc</td>
<td>WMI</td>
<td>9.00</td>
<td>6.30</td>
<td>270</td>
</tr>
<tr>
<td>Biogen Inc</td>
<td>BGEN</td>
<td>9.00</td>
<td>8.00</td>
<td>100</td>
</tr>
<tr>
<td>Mirant Corp</td>
<td>MIR</td>
<td>9.50</td>
<td>8.50</td>
<td>100</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>9.50</td>
<td>8.50</td>
<td>100</td>
</tr>
<tr>
<td>Consolidated Edison Inc</td>
<td>ED</td>
<td>9.20</td>
<td>8.50</td>
<td>70</td>
</tr>
<tr>
<td>Transocean Inc</td>
<td>RIG</td>
<td>9.24</td>
<td>8.69</td>
<td>55</td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*

Thirteen companies dropped their expected rates of return by over 50 basis points from 2000 to 2001, including the seven companies in Exhibit 81 that dropped their rate by over 100 basis points.

Exhibit 81: *Decreased Expected Return Rates By Over 100 Basis Points in 2001*

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2001</th>
<th>2000</th>
<th>Change (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BJ Services Co</td>
<td>BJS</td>
<td>7.25</td>
<td>9.00</td>
<td>(175)</td>
</tr>
<tr>
<td>Applera Corp Applied Biosys</td>
<td>ABI</td>
<td>6.13</td>
<td>7.56</td>
<td>(144)</td>
</tr>
<tr>
<td>Fortune Brands Inc</td>
<td>FO</td>
<td>8.30</td>
<td>9.60</td>
<td>(130)</td>
</tr>
<tr>
<td>U S Bancorp</td>
<td>USB</td>
<td>11.00</td>
<td>12.15</td>
<td>(115)</td>
</tr>
<tr>
<td>Merrill Lynch &amp; Co</td>
<td>MER</td>
<td>6.60</td>
<td>7.70</td>
<td>(110)</td>
</tr>
<tr>
<td>Bank One Corp</td>
<td>ONE</td>
<td>8.50</td>
<td>9.50</td>
<td>(100)</td>
</tr>
<tr>
<td>Mattel Inc</td>
<td>MAT</td>
<td>10.00</td>
<td>11.00</td>
<td>(100)</td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*

Are the Expected Rates of Return Reasonable?
To assess the reasonableness of the expected rate of return assumptions, we constructed the matrix in Exhibit 82, assuming a simplified portfolio allocation of 65% equity and 35% fixed income. We arrived at our plan asset mix based on a Greenwich Associates survey of 1,445 U.S.-based corporate pension funds, public pension funds, and endowments, conducted in August and September 2001. According to the survey, U.S. pension plan portfolios hold 66.7% equity (49.5% domestic stocks, 11.2% international stocks, 3.0% equity real estate, and 3.0% private equity) and 26.3% fixed income. The remaining 7% was invested in cash and other asset classes. The cells highlighted in the matrix below represent the median, high, and low expected rates of return for the entire S&P 500.
Comparing Actual Returns to Expected Returns

The actual return on plan assets for the S&P 500 was -7.50% in 2001, 4.94% in 2000 and 17.31% in 1999.

Exhibit 83 shows the top companies in terms of actual positive or negative returns for 2001. Freeport McMoran Copper & Gold, Millipore, and Occidental Petroleum are three of the companies in the S&P 500 with the highest positive spreads between actual returns and expected returns in 2001; these companies also posted higher actual returns in 2001 compared with 2000.
The vast majority of defined benefit plans lost value in 2001. Only 32 companies earned positive actual rates of return in 2001. A total of 82 companies lost more than 10% of their plan asset values in 2001. Exhibit 84 shows the distribution of actual rates of return across the companies in the S&P 500 during 2001.

Exhibit 84: 2001 Distribution of Actual Rates of Return across Companies

Exhibit 85 shows the companies that experienced the widest positive and negative differences or spreads between actual and expected returns in 2001. Only three companies earned actual rates of return on plan assets in excess of their expected return rates in 2001. Seven out of the 10 companies with the widest negative spreads in 2001 actually earned positive spreads in 2000.

Exhibit 85: Widest Positive and Negative Spreads Between Expected Return Rates and Actual Return Rates in 2001

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Expected Rate of Return</th>
<th>Actual Return</th>
<th>Company</th>
<th>Ticker</th>
<th>Expected Rate of Return</th>
<th>Actual Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>SLM Corp</td>
<td>SLM</td>
<td>10.00%</td>
<td>13.21%</td>
<td>Bank Of New York Co Inc</td>
<td>BK</td>
<td>10.50%</td>
<td>(31.63%)</td>
</tr>
<tr>
<td>Merrill Lynch &amp; Co</td>
<td>MER</td>
<td>6.60%</td>
<td>7.90%</td>
<td>Harley-Davidson Inc</td>
<td>HDI</td>
<td>10.50%</td>
<td>(25.46%)</td>
</tr>
<tr>
<td>Loews Corp</td>
<td>LTR</td>
<td>8.25%</td>
<td>8.61%</td>
<td>Allstate Corp</td>
<td>ALL</td>
<td>9.50%</td>
<td>(23.27%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Gannett Co</td>
<td>GCI</td>
<td>10.00%</td>
<td>(22.15%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>PepsiCo Inc</td>
<td>PEP</td>
<td>9.80%</td>
<td>(20.35%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Schwab (Charles) Corp</td>
<td>SCH</td>
<td>9.00%</td>
<td>(21.13%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Raytheon Co</td>
<td>RTN</td>
<td>9.50%</td>
<td>(20.54%)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.
Discount Rate

Overview

The health of a defined benefit pension plan, its funded status, is extremely sensitive to changes in the discount rate assumption. For example, depending upon the duration of the PBO, a 100-basis-point swing in the discount rate could easily move the PBO by 10% or more. The discount rate drives the value of the projected benefit obligation, which in turn affects the funded status and is used to calculate interest cost and service cost. The discount rate is also the assumption that management has the least control over, as it must represent the yield on high-quality corporate bonds. The SEC clarified this point in a 1993 letter to the EITF. Upset that discount rate assumptions were not reflecting market yields for interest rates, which at that point were at 10-year lows. The SEC made clear that the discount rate should reflect the current level of interest rates. The SEC staff specifically suggested using high-quality corporate debt yields, “... for example, a fixed-income security that receives a rating of Aa or higher from Moody’s would be considered high quality.” Ever since this letter, the median discount rate for the S&P 500 has tracked very closely with the Moody’s Aa yield as seen in Exhibit 86; with the spread between the two rates never widening more than 55 basis points over the past 10 years. The SEC was seeking to achieve consistency in the way that companies measure their pension liabilities, ensuring that pension obligation calculations not be influenced by lack of uniformity in the choice of a discount rate.

Exhibit 86: Moody's Aa Corporate Bond Rate Versus S&P 500's Median Discount Rate

Source: Company data, CSFB estimates.

Exhibit 87 shows the distribution of discount rates across companies in the S&P 500. We see some variation in the discount rates across companies for several reasons:

- Different fiscal year-ends would result in companies choosing different discount rates. In addition, the pension plan is allowed to have a different fiscal year-end than the corporation, as long as it is within the 90 days prior to the corporation’s year-end.
Ages of the workforce can differ. A company with an older workforce would generally use a lower discount rate than a company with a younger workforce due to the term of their respective obligations.

Companies with international pension plans will use different discount rates. The discount rate used in Japan, for example, will be lower than the discount rate used on the pension plan in Turkey, and that discount rate will differ from the U.S. plan.

**Exhibit 87: 2001 Distribution of Discount Rates across Companies**

<table>
<thead>
<tr>
<th>Discount Rates (%)</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.00-4.99</td>
<td>2</td>
</tr>
<tr>
<td>5.00-5.99</td>
<td>11</td>
</tr>
<tr>
<td>6.00-6.99</td>
<td>71</td>
</tr>
<tr>
<td>7.00-7.99</td>
<td>260</td>
</tr>
<tr>
<td>8.00-8.99</td>
<td>6</td>
</tr>
<tr>
<td>11.00-11.99</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

**Key Observations**

- The median discount rate for the S&P 500 was 7.3% at the end of 2001, compared with 7.5% in both 2000 and 1999. The median discount rate reached its lowest level in 1998 at 6.8%.

- Freeport McMoran Copper & Gold, at 11.00%, had the highest discount rate in 2001 and 2000. Note that Freeport McMoran Copper & Gold has an Indonesian defined benefit pension plan covering most of its Indonesian workforce. As a result, its discount rates are higher than those of other companies included in our analysis because its Indonesian plan has a significantly different risk profile.

Exhibit 88 lists the three companies that used discount rates of 8% in 2001.

**Exhibit 88: Companies Employing Discount Rates of 8% or Higher in 2001**

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freeport McMoran Copper &amp; Gold</td>
<td>FCX</td>
<td>11.00</td>
<td>11.00</td>
<td>NA</td>
</tr>
<tr>
<td>Mirant Corp</td>
<td>MIR</td>
<td>8.25</td>
<td>7.50</td>
<td>NA</td>
</tr>
<tr>
<td>Whirlpool Corp</td>
<td>WHR</td>
<td>8.15</td>
<td>8.15</td>
<td>8.15</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.
In 2001, AFLAC and National Semiconductor employed the lowest discount rate in the S&P 500 at 4.75%, while National Semiconductor alone held this distinction in 2000. Both AFLAC and National Semiconductor employed the lowest discount rate in 1999 at 5.00%. Exhibit 89 lists the 13 companies that used discount rates less than 6% in 2001.

Exhibit 89: Companies Employing Discount Rates of Less Than 6% in 2001

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFLAC Inc</td>
<td>AFL</td>
<td>4.75</td>
<td>5.00</td>
<td>5.00</td>
</tr>
<tr>
<td>National Semiconductor Corp</td>
<td>NSM</td>
<td>4.75</td>
<td>4.75</td>
<td>5.00</td>
</tr>
<tr>
<td>Applied Biosys</td>
<td>ABI</td>
<td>5.13</td>
<td>6.19</td>
<td>NA</td>
</tr>
<tr>
<td>Molex Inc</td>
<td>MOLX</td>
<td>5.63</td>
<td>6.00</td>
<td>NA</td>
</tr>
<tr>
<td>Agilent Technologies Inc</td>
<td>A</td>
<td>5.75</td>
<td>6.13</td>
<td>5.95</td>
</tr>
<tr>
<td>Hewlett-Packard Co</td>
<td>HPQ</td>
<td>5.75</td>
<td>6.13</td>
<td>5.98</td>
</tr>
<tr>
<td>Texas Instruments Inc</td>
<td>TXN</td>
<td>5.75</td>
<td>5.81</td>
<td>NA</td>
</tr>
<tr>
<td>Pitney Bowes Inc</td>
<td>PBI</td>
<td>5.88</td>
<td>6.25</td>
<td>NA</td>
</tr>
<tr>
<td>Procter &amp; Gamble Co</td>
<td>PG</td>
<td>5.90</td>
<td>6.10</td>
<td>6.00</td>
</tr>
<tr>
<td>BJ Services Co</td>
<td>BJS</td>
<td>5.94</td>
<td>7.35</td>
<td>7.25</td>
</tr>
<tr>
<td>Goldman Sachs Group Inc</td>
<td>GS</td>
<td>5.95</td>
<td>6.10</td>
<td>6.05</td>
</tr>
<tr>
<td>Tupperware Corp</td>
<td>TUP</td>
<td>5.95</td>
<td>6.10</td>
<td>NA</td>
</tr>
<tr>
<td>Exxon Mobil Corp</td>
<td>XOM</td>
<td>5.98</td>
<td>6.25</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Discount Rate Changes

We analyze the changes in the discount rate assumption in light of the changes in the Moody’s Aa yield. Changes in the discount rate that move counter to the changes in market yields should be investigated.

- Three hundred and five companies changed their discount rate assumptions in 2001. Of these, 292 decreased their discount rates. Exhibit 90 lists 13 companies that increased their discount rates in 2001, and these increases are of particular interest given the declining interest rate environment during 2001, when the Moody’s Aa rate moved from 7.48% to 7.19%.

Exhibit 90: All Companies that Increased Discount Rates in 2001

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>2001</th>
<th>2000</th>
<th>Change (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste Management Inc</td>
<td>WMI</td>
<td>7.19</td>
<td>5.53</td>
<td>166</td>
</tr>
<tr>
<td>American Greetings-Cl A</td>
<td>AM</td>
<td>7.25</td>
<td>6.25</td>
<td>100</td>
</tr>
<tr>
<td>Thermo Electron Corp</td>
<td>TMO</td>
<td>6.10</td>
<td>5.30</td>
<td>80</td>
</tr>
<tr>
<td>Conagra Foods Inc</td>
<td>CAG</td>
<td>7.50</td>
<td>6.75</td>
<td>75</td>
</tr>
<tr>
<td>Mirant Corp</td>
<td>MIR</td>
<td>8.25</td>
<td>7.50</td>
<td>75</td>
</tr>
<tr>
<td>Chiron Corp</td>
<td>CHIR</td>
<td>6.00</td>
<td>5.75</td>
<td>25</td>
</tr>
<tr>
<td>Peoples Energy Corp</td>
<td>PGL</td>
<td>8.00</td>
<td>7.75</td>
<td>25</td>
</tr>
<tr>
<td>St Paul Cos</td>
<td>SPC</td>
<td>7.00</td>
<td>6.75</td>
<td>25</td>
</tr>
<tr>
<td>Clorox Co</td>
<td>CLX</td>
<td>7.25</td>
<td>7.13</td>
<td>13</td>
</tr>
<tr>
<td>Fluor Corp</td>
<td>FLR</td>
<td>7.00</td>
<td>6.88</td>
<td>13</td>
</tr>
<tr>
<td>Halliburton Co</td>
<td>HAL</td>
<td>6.88</td>
<td>6.75</td>
<td>13</td>
</tr>
<tr>
<td>First Data Corp</td>
<td>FDC</td>
<td>6.91</td>
<td>6.79</td>
<td>12</td>
</tr>
<tr>
<td>Transocean Inc</td>
<td>RIG</td>
<td>7.45</td>
<td>7.36</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.
Exhibit 91 lists the five companies that took their discount rates down by at least 100 basis points year-over-year.

**Exhibit 91: Companies that Decreased Discount Rates by 100 Basis Points or More in 2001**

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Expected Return (%)</th>
<th>2001</th>
<th>2000</th>
<th>Change (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BJ Services Co</td>
<td>BJS</td>
<td></td>
<td>5.94</td>
<td>7.35</td>
<td>(142)</td>
</tr>
<tr>
<td>Applera Corp Applied Biosys</td>
<td>ABI</td>
<td></td>
<td>5.13</td>
<td>6.19</td>
<td>(106)</td>
</tr>
<tr>
<td>Allstate Corp</td>
<td>ALL</td>
<td></td>
<td>7.25</td>
<td>8.25</td>
<td>(100)</td>
</tr>
<tr>
<td>Bank Of New York Co Inc</td>
<td>BK</td>
<td></td>
<td>7.25</td>
<td>8.25</td>
<td>(100)</td>
</tr>
<tr>
<td>Sears Roebuck &amp; Co</td>
<td>S</td>
<td></td>
<td>7.25</td>
<td>8.25</td>
<td>(100)</td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*

**Are Assumptions Aggressive or Conservative?**

Many investors focus on the absolute level of the pension assumptions to determine whether they are aggressive or conservative. For example, a high rate of return assumption is considered aggressive. The problem with this approach is that the net pension cost that a company reports is made up of many moving parts. An alternative approach to evaluating the assumptions is to examine the spread between the discount rate and the expected rate of return on plan assets. Whether a pension plan is over- or underfunded generally determines when a company reports pension income or pension expense. If the pension plan is underfunded, then interest cost dominates, typically resulting in pension expense. If the plan is overfunded, then the expected return will take over and the result is pension income. By keeping the spread between the expected rate of return and the discount rate wide, earnings will benefit more from an overfunded plan and will be penalized less by an underfunded plan. Exhibit 92 compares the median expected rates of return and discount rates for the companies in the S&P 500 during the last decade.
Exhibit 92: S&P 500 Median Expected Return Rate and Discount Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Expected Return Rate</th>
<th>Discount Rate</th>
<th>Excess Return (Spread)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>8.5</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>8.3</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>7.3</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>7.4</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>7.3</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>7.5</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>7.3</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>7.5</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>7.5</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>7.3</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>9.2</td>
<td>0.5</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Key Observations

- Median discount rates for the S&P 500 have fluctuated between 6.8% and 8.5% over the last 10 years, reflecting the movement in market yields. Meanwhile, the expected rate of return on plan assets is very stable; from 1991-1996, it was 9% and then it moved up to 9.2% in 1997 and has remained at that level since.

- There are 162 companies in the S&P 500 where the spreads between the expected return and discount rates are more aggressive than the 200-basis-point median spread for the S&P 500, and 150 where the spreads are less aggressive. Exhibit 93 lists the companies with the widest and narrowest spreads for 2001.

Exhibit 93: Widest and Narrowest Spreads Between Expected Rates of Return and Discount Rates in 2001

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Spread Greater than 300 bps</th>
<th>1999</th>
<th>Company</th>
<th>Ticker</th>
<th>Spread of 50 bps or Lower</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lehman Brothers Holdings Inc LEH</td>
<td>LEH</td>
<td>392</td>
<td>346</td>
<td>194</td>
<td>Entergy Corp ETR</td>
<td>(25)</td>
<td>(25)</td>
</tr>
<tr>
<td>PPG Industries Inc PPG</td>
<td>PPG</td>
<td>390</td>
<td>360</td>
<td>310</td>
<td>Parametric Technology Corp PMTC</td>
<td>(25)</td>
<td>(13)</td>
</tr>
<tr>
<td>Fedex Corp FDX</td>
<td>380</td>
<td>320</td>
<td>240</td>
<td>Merrill Lynch &amp; Co MER</td>
<td>(10)</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>Weyerhaeuser Co WY</td>
<td>375</td>
<td>375</td>
<td>375</td>
<td>American Greetings-CI A AM</td>
<td>0</td>
<td>100</td>
<td>NA</td>
</tr>
<tr>
<td>Kellogg Co K</td>
<td>350</td>
<td>340</td>
<td>320</td>
<td>Nabors Industries Ltd NBR</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>U S Bancorp USB</td>
<td>350</td>
<td>440</td>
<td>480</td>
<td>Fluor Corp FLR</td>
<td>25</td>
<td>38</td>
<td>NA</td>
</tr>
<tr>
<td>Illinois Tool Works ITW</td>
<td>346</td>
<td>336</td>
<td>249</td>
<td>May Department Stores Co MAY</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Lilly (Eli) &amp; Co LLY</td>
<td>330</td>
<td>310</td>
<td>310</td>
<td>Motorola Inc MOT</td>
<td>25</td>
<td>0</td>
<td>NA</td>
</tr>
<tr>
<td>Bank Of New York Co Inc BK</td>
<td>325</td>
<td>225</td>
<td>250</td>
<td>MGIC Investment Corp MTG</td>
<td>50</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Coors (Adolph)-CI B RKY</td>
<td>325</td>
<td>275</td>
<td>250</td>
<td>Stryker Corp SYK</td>
<td>50</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Guidant Corp GDT</td>
<td>325</td>
<td>NA</td>
<td>NA</td>
<td>Whirlpool Corp WHR</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

- There are three companies with negative spreads: Parametric, Entergy, and Merrill Lynch. These companies all project that their PBOs will grow faster than their pension
plan assets. For example, Merrill Lynch reported an expected rate of return in 2001 of 6.6% compared to its discount rate of 6.7%.

### Salary Inflation Rate

The salary inflation rate assumption is used to project the growth in employee compensation when calculating the service cost component of pension cost the PBO. It is an important assumption when the benefit formula is based on future compensation levels; for example, the average of the last three years’ salary prior to retirement. A higher salary inflation rate assumption will result in a higher PBO, reducing the funded status and increasing pension cost. Exhibit 94 displays the distribution of salary inflation rate assumptions among the companies in the S&P 500.

**Exhibit 94: 2001 Distribution of Salary Inflation Rates across Companies**

![Distribution of Salary Inflation Rates](chart)

The salary inflation rate assumption is used to project the growth in employee compensation when calculating the service cost component of pension cost the PBO. It is an important assumption when the benefit formula is based on future compensation levels; for example, the average of the last three years’ salary prior to retirement. A higher salary inflation rate assumption will result in a higher PBO, reducing the funded status and increasing pension cost. Exhibit 94 displays the distribution of salary inflation rate assumptions among the companies in the S&P 500.

**Source:** Company data, CSFB estimates.

### Key Observations

- Freeport McMoran Copper & Gold (9.00%) had the highest salary inflation rate assumptions in 2001 and 2000. Wendy’s used the highest salary inflation rate assumption from 1994 to 1999 (8%).

- American Standard used the lowest salary inflation rate assumption from 1999 to 2001 (1.7%).

- The median salary inflation rate has fluctuated between 4.5% and 6.0% over the last decade.
## Exhibit 95: 140 Companies in the S&P 500 with No Pension Problems

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Company</th>
<th>Ticker</th>
<th>Company</th>
<th>Ticker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ace Limited</td>
<td>ACE</td>
<td>Equity Office Properties Tr</td>
<td>EOP</td>
<td>Oracle Corp</td>
<td>ORCL</td>
</tr>
<tr>
<td>ADC Telecommunications Inc</td>
<td>ADCT</td>
<td>Equity Residential</td>
<td>EQR</td>
<td>Palm Inc</td>
<td>PALM</td>
</tr>
<tr>
<td>Adobe Systems Inc.</td>
<td>ADBE</td>
<td>Family Dollar Stores</td>
<td>FDO</td>
<td>Paychex Inc</td>
<td>PAYX</td>
</tr>
<tr>
<td>Advanced Micro Devices</td>
<td>AMD</td>
<td>Fiserv Inc</td>
<td>FISV</td>
<td>Peoplesoft Inc</td>
<td>PSFT</td>
</tr>
<tr>
<td>Alberto-Culver Co -Cl B</td>
<td>ACV</td>
<td>Forest Laboratories -Cl A</td>
<td>FRX</td>
<td>PMC-Sierra Inc</td>
<td>PMCS</td>
</tr>
<tr>
<td>Altera Corp</td>
<td>ALTR</td>
<td>Gap Inc</td>
<td>GPS</td>
<td>Power-One Inc</td>
<td>PWER</td>
</tr>
<tr>
<td>American Pwr Cvrnsion</td>
<td>APCC</td>
<td>Gateway Inc</td>
<td>GTW</td>
<td>Price (T. Rowe) Group</td>
<td>TROW</td>
</tr>
<tr>
<td>Angen Inc</td>
<td>AMGN</td>
<td>Genzyme Corp</td>
<td>GENZ</td>
<td>Progressive Corp-Ohio</td>
<td>PGR</td>
</tr>
<tr>
<td>Andrew Corp</td>
<td>ANDW</td>
<td>Golden West Financial Corp</td>
<td>GDW</td>
<td>Providian Financial Corp</td>
<td>PNV</td>
</tr>
<tr>
<td>Apache Corp</td>
<td>APA</td>
<td>Grainger (W W) Inc</td>
<td>GWW</td>
<td>Pulte Homes Inc</td>
<td>PHM</td>
</tr>
<tr>
<td>Apollo Group Inc -Cl A</td>
<td>APOL</td>
<td>Harrahs Entertainment Inc</td>
<td>HET</td>
<td>Qlogic Corp</td>
<td>QLGC</td>
</tr>
<tr>
<td>Apple Computer Inc</td>
<td>AAPL</td>
<td>HCA Inc</td>
<td>HCA</td>
<td>Qualcomm Inc</td>
<td>QCOM</td>
</tr>
<tr>
<td>Applied Materials Inc</td>
<td>AMAT</td>
<td>Health Management Assoc</td>
<td>HMA</td>
<td>Quintiles Transnational Corp</td>
<td>QTRN</td>
</tr>
<tr>
<td>Applied Micro Circuits Corp</td>
<td>AMCC</td>
<td>Healthsouth Corp</td>
<td>HRC</td>
<td>Radioshack Corp</td>
<td>RSH</td>
</tr>
<tr>
<td>AT&amp;T Wireless Services Inc</td>
<td>AWE</td>
<td>Home Depot Corp</td>
<td>HD</td>
<td>Rational Software Corp</td>
<td>RATL</td>
</tr>
<tr>
<td>Autodesk</td>
<td>ADSK</td>
<td>Humana Inc</td>
<td>HUM</td>
<td>Reebok International Ltd</td>
<td>RBK</td>
</tr>
<tr>
<td>Bear Stearns Companies Inc</td>
<td>BSC</td>
<td>Intel Corp</td>
<td>INTC</td>
<td>Robert Half Intl Inc</td>
<td>RHI</td>
</tr>
<tr>
<td>Bed Bath &amp; Beyond Inc</td>
<td>BBBY</td>
<td>Int Game Technology</td>
<td>IGT</td>
<td>Sanmina-Sci Corp</td>
<td>SANM</td>
</tr>
<tr>
<td>Best Buy Co Inc</td>
<td>BBY</td>
<td>Intuit Inc</td>
<td>INTU</td>
<td>Siebel Systems Inc</td>
<td>SEBL</td>
</tr>
<tr>
<td>Biomet Inc</td>
<td>BMET</td>
<td>Jabil Circuit Inc</td>
<td>JBL</td>
<td>Simon Property Group Inc</td>
<td>SPG</td>
</tr>
<tr>
<td>Block H &amp; R Inc</td>
<td>HRB</td>
<td>JDS Uniphase Corp</td>
<td>JDSU</td>
<td>Socrates Corp</td>
<td>SLR</td>
</tr>
<tr>
<td>BMC Software Inc</td>
<td>BMC</td>
<td>KB Home</td>
<td>KBH</td>
<td>Southwest Airlines</td>
<td>LUV</td>
</tr>
<tr>
<td>Boston Scientific Corp</td>
<td>BSX</td>
<td>King Pharmaceuticals Inc</td>
<td>KG</td>
<td>St Jude Medical Inc</td>
<td>STJ</td>
</tr>
<tr>
<td>Broadcom Corp -Cl A</td>
<td>BRCM</td>
<td>KLA-Tencor Corp</td>
<td>KLAC</td>
<td>Staples Inc</td>
<td>SPLS</td>
</tr>
<tr>
<td>Calpine Corp</td>
<td>CPN</td>
<td>Kohls Corp</td>
<td>KSS</td>
<td>Starbucks Corp</td>
<td>SBUX</td>
</tr>
<tr>
<td>Capital One Finl Corp</td>
<td>COF</td>
<td>Limited Brands Inc</td>
<td>LTD</td>
<td>Stilwell Finl Inc</td>
<td>SV</td>
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<td>Carnival Corp</td>
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<td>Linear Technology Corp</td>
<td>LLTC</td>
<td>Sun Microsystems Inc</td>
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<td>Centex Corp</td>
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<td>LIZ</td>
<td>SunGard Data Systems Inc</td>
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<td>Charter One Finl Inc</td>
<td>CF</td>
<td>Lowes Cos</td>
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<td>Synovus Financial Cp</td>
<td>SNV</td>
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<td>Ciena Corp</td>
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<td>Tellabs Inc</td>
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<td>Cintas Corp</td>
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<td>Marriott Intl Inc</td>
<td>MAR</td>
<td>Tenet Healthcare Corp</td>
<td>THC</td>
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<td>Cisco Systems Inc</td>
<td>CSCO</td>
<td>Marshall &amp; Isley Corp</td>
<td>MI</td>
<td>TMP Worldwide Inc</td>
<td>TPMW</td>
</tr>
<tr>
<td>Citrix Systems Inc</td>
<td>CTXS</td>
<td>Maxim Integrated Products</td>
<td>MXIM</td>
<td>Toys R Us Inc</td>
<td>TOY</td>
</tr>
<tr>
<td>Clear Channel Communications</td>
<td>CCU</td>
<td>MBIA Inc</td>
<td>MBI</td>
<td>Union Planters Corp</td>
<td>UPC</td>
</tr>
<tr>
<td>Comcast Corp -Cl A Spl</td>
<td>CMCSK</td>
<td>McDonalds Corp</td>
<td>MCD</td>
<td>UnitedHealth Group Inc</td>
<td>UNH</td>
</tr>
<tr>
<td>Computer Associates Intl Inc</td>
<td>CA</td>
<td>Medimmune Inc</td>
<td>MEDI</td>
<td>Univision Communications Inc</td>
<td>UVN</td>
</tr>
<tr>
<td>Compuware Corp</td>
<td>CPWR</td>
<td>Mercury Interactive Corp</td>
<td>MERQ</td>
<td>Veritas Software Co</td>
<td>VRTS</td>
</tr>
<tr>
<td>Converse Technology Inc</td>
<td>CMVT</td>
<td>Micron Technology Inc</td>
<td>MU</td>
<td>Vitesse Semiconductor Corp</td>
<td>VTSS</td>
</tr>
<tr>
<td>Concord ECS Inc</td>
<td>CEFT</td>
<td>Microsoft Corp</td>
<td>MSFT</td>
<td>Walgreen Co</td>
<td>WAG</td>
</tr>
<tr>
<td>Costco Wholesale Corp</td>
<td>COST</td>
<td>Network Appliance Inc</td>
<td>NTAP</td>
<td>Wal-Mart Stores</td>
<td>WMT</td>
</tr>
<tr>
<td>Dell Computer Corp</td>
<td>DELL</td>
<td>Nextel Communications</td>
<td>NXTL</td>
<td>Watson Pharmaceuticals Inc</td>
<td>WPI</td>
</tr>
<tr>
<td>Deluxe Corp</td>
<td>DLX</td>
<td>Nike Inc -Cl B</td>
<td>NKE</td>
<td>Winn-Dixie Stores Inc</td>
<td>WIN</td>
</tr>
<tr>
<td>Dillard Inc -Cl A</td>
<td>DDS</td>
<td>Novell Inc</td>
<td>NOVL</td>
<td>Xilinx Inc</td>
<td>XLNX</td>
</tr>
<tr>
<td>Dollar General Corp</td>
<td>DG</td>
<td>Novellus Systems Inc</td>
<td>NVLS</td>
<td>Xi Capital Ltd</td>
<td>XL</td>
</tr>
<tr>
<td>eBay Inc</td>
<td>EBAY</td>
<td>Nucor Corp</td>
<td>NUE</td>
<td>Yahoo Inc</td>
<td>YHOO</td>
</tr>
<tr>
<td>Electronic Arts Inc</td>
<td>ERTS</td>
<td>Nvidia Corp</td>
<td>NVDA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EOG Resources Inc</td>
<td>EOG</td>
<td>Office Depot Inc</td>
<td>ODP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Omnicom Group</td>
<td>OMC</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*(NOTE: List also includes companies with defined benefit plans for which no public information is available.)*

*Source: Company data, CSFB estimates.*
Appendix B

We find that a walk through the pension footnote is an effective and relatively painless approach to explain the nuts and bolts of pension accounting. That is what we set out to do below; we use Procter & Gamble’s pension footnote disclosure, and we walk you through each line of the tables that are included in the footnote. The footnote in this Appendix is taken directly from P&G’s 10-K disclosure, while our commentary is highlighted in italics.

Procter & Gamble Company and Subsidiaries—Pension Footnote
(Footnote disclosure obtained from P&G’s 06/30/01 10-K filing. Amounts exclude other retiree benefits. All figures are stated in millions of US dollars.)

NOTE 9 POSTRETIREMENT BENEFITS
The Company offers various postretirement benefits to its employees.

DEFINED CONTRIBUTION RETIREMENT PLANS
Within the U.S., the most significant retirement benefit is the defined contribution profit sharing plan described in Note 8.

OTHER RETIREE BENEFITS
The Company also provides certain health care and life insurance benefits for substantially all U.S. employees who become eligible for these benefits when they meet minimum age and service requirements. Generally, the health care plans require contributions from retirees and pay a stated percentage of expenses, reduced by deductibles and other coverages. Retiree contributions change annually in line with health care cost trends. These benefits are partially funded by an ESOP, as well as certain other assets contributed by the Company.

Certain other employees, primarily outside the U.S., are covered by local defined benefit pension, health care and life insurance plans.

The elements of the net amount recognized for the Company’s postretirement plans are summarized below:

<table>
<thead>
<tr>
<th>Years ended June 30</th>
<th>Pension Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>CHANGE IN BENEFIT OBLIGATION</td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$2,627</td>
</tr>
<tr>
<td>Service cost</td>
<td>115</td>
</tr>
<tr>
<td>Interest cost</td>
<td>149</td>
</tr>
<tr>
<td>Participants’ contributions</td>
<td>4</td>
</tr>
<tr>
<td>Amendments</td>
<td>(10)</td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>86</td>
</tr>
<tr>
<td>Acquisitions/(Divestitures)</td>
<td>47</td>
</tr>
<tr>
<td>Curtailments and settlements</td>
<td>(22)</td>
</tr>
<tr>
<td>Currency exchange</td>
<td>(232)</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>(136)</td>
</tr>
<tr>
<td>Benefit obligation at end of year</td>
<td>2,567</td>
</tr>
</tbody>
</table>

- A word of caution: The benefit obligation totals do not add up for P&G. We arrive at an end-of-year obligation of $2,628 million in 2001, versus the $2,567 million shown in the reconciliation ($61 million difference), and an obligation of $2,575 million in 2000, compared with $2,627 million ($52 million difference).
• **Projected Benefit Obligation.** The pension obligation is the promise to pay retirement benefits to employees in the future; it is similar to a series of zero coupon bonds. It is the present value of all the future retirement benefits earned and not yet paid to date, factoring in future salary inflation.

• **Service Cost.** As employees earn their future retirement benefits each year the PBO grows larger.

• **Interest Cost.** As the sponsoring company gets closer to paying the obligation it grows larger due to the passage of time.

• **Participants Contributions.** Employee contributions to the pension plan increase both the PBO and plan assets.

• **Amendments.** An amendment is a change in the pension plan that will either increase or reduce future retirement benefits for work performed in prior periods. An amendment that increases future retirement benefits to employees for service provided in prior periods will cause the PBO to rise in value and create a prior service cost. An amendment that reduces future benefits for service previously provided will cause the PBO to fall resulting in a prior service benefit.

• **Actuarial loss (gain).** A number of assumptions go into determining the PBO, including the discount rate, salary inflation, mortality, time to retirement etc. A change in any one of those assumptions will change the value of the PBO. For example, as the PBO is a present value calculation, a decline in the discount rate will cause the PBO to rise in value; an obligation increasing in value results in an actuarial loss for the sponsoring company. The actuarial gains and losses are not recognized immediately; instead, they are accumulated as part of the unrecognized actuarial gain or loss balance.

• **Acquisitions/Divestitures.** Changes in the PBO associated with buying and selling companies that have defined benefit pension plans.

• **Curtailments.** Usually if a plant closes or employees are laid-off, a curtailment has occurs. It is an event that significantly reduces the future benefits or expected years of service for the current employees.

• **Settlements.** Generally making a lump-sum, cash payment to pension plan participants or buying an annuity contract to cover vested benefits will result in a settlement. It is an irrevocable transaction that relieves the sponsoring company from the primary responsibility for the pension obligation.

• **Currency Exchange.** Exchange rate fluctuations associated with foreign pension obligations.

• **Benefits Payments.** Retirement benefits paid by the pension plan or directly by the company.
Plan Assets—This section reconciles the change in the pension plan assets between 2000 and 2001.

<table>
<thead>
<tr>
<th>Years ended June 30</th>
<th>Pension Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>CHANGE IN PLAN ASSETS</td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at beg. of year</td>
<td>1,691</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>(88)</td>
</tr>
<tr>
<td>Acquisitions/(Divestitures)</td>
<td>(19)</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>81</td>
</tr>
<tr>
<td>Participants' contributions</td>
<td>4</td>
</tr>
<tr>
<td>Settlements</td>
<td>(3)</td>
</tr>
<tr>
<td>Currency exchange</td>
<td>(98)</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>(136)</td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>1,432</td>
</tr>
</tbody>
</table>

- **Fair Value of Plan Assets.** The market value of the stocks, bonds, real estate, and other assets that are in the pension portfolio.

- **Actual Return on Plan Assets.** The change in value of the plan assets due to market price fluctuations on the assets in the portfolio; includes dividends and interest income.

- **Employer Contribution.** Contributions made by the sponsoring company to the pension plan. Can be in the form of cash or other assets as long as they can be considered prudent investments. For example, the company stock can comprise up to 10% of the pension portfolio.

- **Benefit Payments.** Retirement benefits paid directly from the pension plan.

Funded Status—This section reconciles the pension reality, the funded status, to the pension accounting fiction, the net amount recognized on the balance sheet. The difference between the two is a series of actual changes in the value of the pension plan assets and the PBO that have not been recognized in the financial statements.

<table>
<thead>
<tr>
<th>Years ended June 30</th>
<th>Pension Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>FUNDED STATUS</td>
<td></td>
</tr>
<tr>
<td>Funded Status at end of year</td>
<td>($1,135)</td>
</tr>
<tr>
<td>Unrecognized net actuarial loss (gain)</td>
<td>243</td>
</tr>
<tr>
<td>Unrecognized transition amount</td>
<td>17</td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>20</td>
</tr>
<tr>
<td>Net amount recognized</td>
<td>(855)</td>
</tr>
</tbody>
</table>

- **Funded Status.** The economic value of the pension plan—when plan assets exceed the PBO, the plan is considered to be overfunded; if the PBO is greater than the plan assets, the plan is underfunded.

- **Unrecognized net actuarial gain loss.** Also referred to as the unrecognized gain or loss, it is the result of smoothing mechanisms in FAS No. 87—it represents actual changes in the value of the PBO and plan assets that have not yet been recognized in either the balance sheet or income statement. It is the cumulative actuarial gain or loss on the PBO, plus the cumulative difference between the expected return on plan assets and the actual return on plan assets that has not yet been recognized in the financial statements. For example, an unrecognized gain will occur when the actual return on plan assets exceeds the expected return and an unrecognized loss occurs when the actual return is less than the expected return.
• **Unrecognized transition amount.** When FAS No. 87 went into effect (1987 for calendar year companies), companies were required to determine the funded status of the pension plan. Instead of recognizing the funded status in the financial statements immediately, the FASB allowed it to be recognized over the remaining service life of the active employees or 15 years. If the pension plan were overfunded, the company had a transition asset; an underfunded plan resulted in a transition liability.

• **Unrecognized prior service cost.** The cumulative prior service costs and benefits from amendments (described above) to the pension plan that have not yet been recognized in the financial statements.

```
<table>
<thead>
<tr>
<th></th>
<th>Years ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>Prepaid benefit cost</td>
<td>$75</td>
</tr>
<tr>
<td>Accrued benefit cost</td>
<td>(1,006)</td>
</tr>
<tr>
<td>Intangible asset</td>
<td>16</td>
</tr>
<tr>
<td>Accumulated other comprehensive inc.</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>(855)</td>
</tr>
</tbody>
</table>
```

• **Prepaid Benefit Cost.** The pension asset that is recognized on the balance sheet; it will increase when pension income is recognized and the sponsoring company makes contributions to the plan, and it will decline if the company reports pension expense.

• **Accrued Benefit Cost.** The pension liability that is recognized on the balance sheet; it will increase when pension expense is recognized, and it will decline when the sponsoring company makes contributions to the plan and when the company reports pension income.

• **Intangible Asset.** This is the other side of the minimum pension liability adjustment; this has to be the lowest-quality asset on the balance sheet.

• **Accumulated Other Comprehensive Loss.** This is the other side of the minimum pension liability adjustment, resulting in a charge to shareholders’ equity.

• **Minimum Pension Liability Adjustment.** To ensure that the balance sheet was not totally misleading after applying all of its smoothing mechanisms, the FASB in FAS No. 87 established a floor on the pension liability that is reported in the balance sheet. The minimum pension liability is calculated as the excess of the accumulated benefit obligation (ABO) over the fair value of the plan assets. For example, if the ABO is $10 million and the fair value of the plan assets is $3 million, the pension liability reported on the balance sheet must be at least $7 million. The minimum liability is compared to the accrued benefit liability; if the minimum liability is greater, than an additional liability is reported on the balance sheet. The other side of the accounting entry is an intangible asset to the extent that the company has unrecognized prior service cost or an unrecognized transition obligation. If the company has neither, or if the additional liability is greater than both those amounts, then the other side of the entry is a charge to accumulated other comprehensive income, reducing shareholders’ equity. If the pension plan assets and the PBO were simply reported on the balance sheet, we would not have to deal with this.

**Balance Sheet**—Provides a breakdown of the pension related amounts recognized on the balance sheet.
• Accumulated Benefit Obligation (ABO). Difference between the PBO and the ABO is that the ABO does not take into account salary inflation.

<table>
<thead>
<tr>
<th>COMPONENTS OF NET PERIODIC BENEFIT COST</th>
<th>Years ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>Service cost</td>
<td>$115</td>
</tr>
<tr>
<td>Interest cost</td>
<td>149</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(127)</td>
</tr>
<tr>
<td>Amortization of prior service cost</td>
<td>5</td>
</tr>
<tr>
<td>Amortization of prior transition amount</td>
<td>3</td>
</tr>
<tr>
<td>Settlement loss (gain)</td>
<td>6</td>
</tr>
<tr>
<td>Curtailment gain</td>
<td>(13)</td>
</tr>
<tr>
<td>Recognized net actuarial loss (gain)</td>
<td>3</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>141</td>
</tr>
</tbody>
</table>

• Service Cost. Deferred compensation cost—it is the present value of the future retirement benefits earned by the employees for the work performed (service) during the current year.

• Interest Cost. Financing cost—the increase in the projected benefit obligation due to the passage of time. It is similar to the accretion on a zero coupon bond.

• Expected Return on Plan Assets. Investment return—an estimate of what management expects to earn on the pension plan assets; it reduces net pension cost. It is calculated by multiplying the expected rate of return on plan assets by the “market-related” value of plan assets. The market-related value can either be the fair value of plan assets or a smoothed calculated value.

• Amortization of Prior Service Cost. Amortized over the remaining service life of the active employees, typically 12-15 years. Amortizing a prior service cost will increase net pension cost, amortizing a prior service benefit will reduce net pension cost.

• Amortization of Transition Amount. Most companies have fully amortized the transition asset or obligation. Amortizing a transition obligation will increase net pension cost; amortizing a transition asset will reduce net pension cost (could represent the lowest-quality earnings in the income statement). The transition amounts are amortized over the remaining service life of active employees, or 15 years if the remaining service life is less than 15 years.

• Settlement Loss (Gain). The recognition of previously unrecognized gains and losses when the sponsoring company settles the pension obligation.

• Curtailment Loss (Gain). The recognition of previously unrecognized prior service cost and unrecognized gains and losses when the sponsoring company curtails the pension obligation.

• Recognized Net Actuarial Loss (Gain). Can be amortized in a number of different ways. However, minimum amortization must occur when the unrecognized net actuarial gain/loss exceeds 10% of the market-related value of plan assets or the projected benefit obligation, whichever is larger. The amount over this threshold is typically amortized over the remaining service life of the active employees. The
minimum amortization is commonly referred to as the corridor approach. Recognizing a gain will reduce net pension cost; recognizing a loss will increase net pension cost.

- **Net Periodic Benefit Cost.** The combination of the 8 items noted above—this net amount is reported in the income statement wherever the company reports labor costs.

The Company’s stock comprised $1,335 and $1,123 of other retiree plan assets, net of Series B ESOP debt, as of June 30, 2001 and 2000, respectively. Assumptions for the postretirement benefit calculations are as follows:

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Years ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
</tr>
<tr>
<td>WEIGHTED AVG. ASSUMPTIONS</td>
<td>Pension Benefits</td>
</tr>
<tr>
<td>Discount rate</td>
<td>5.9%</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>8.3%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

- **Discount Rate.** Should reflect the yield on high-grade corporate bonds—for example, Moody’s Aa. The rate disclosed in the current year is used to calculate the PBO and will be used to calculate the interest cost and service cost in the following year.

- **Expected Rate of Return on Plan Assets.** The expected long-term (10+ years) rate of return on the pension assets. The rate disclosed in the current year is used to calculate the expected return on plan assets for the current year.

- **Salary Inflation Assumption.** Used to calculate the PBO and service cost, when the benefit formula is based upon salary in future periods. For example, the benefit formula may promise the employees one-half of the salary paid in the final year of employment throughout each year of their retirement.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $1,414, $1,124 and $230, respectively, as of June 30, 2001, and $1,368, $1,073 and $189, respectively, as of June 30, 2000.
## Exhibit 96: Projected and Historical Funded Status for the S&P 500

**US$ in millions**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Ticker Symbol</th>
<th>2002E</th>
<th>2001A</th>
<th>2000A</th>
<th>1999A</th>
</tr>
</thead>
<tbody>
<tr>
<td>3M Co</td>
<td>MMM</td>
<td>$(3,098)</td>
<td>$(990)</td>
<td>$692</td>
<td>$1,137</td>
</tr>
<tr>
<td>Abbott Laboratories</td>
<td>ABT</td>
<td>(1,437)</td>
<td>(597)</td>
<td>257</td>
<td>840</td>
</tr>
<tr>
<td>Ace Limited</td>
<td>ACE</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ADC Telecommunications Inc</td>
<td>ADCT</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Adobe Systems Inc.</td>
<td>ADBE</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Advanced Micro Devices</td>
<td>AMD</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AES Corp. (The)</td>
<td>AES</td>
<td>(380)</td>
<td>(265)</td>
<td>(95)</td>
<td>30</td>
</tr>
<tr>
<td>Aetna Inc</td>
<td>AET</td>
<td>(1,146)</td>
<td>(279)</td>
<td>645</td>
<td>447</td>
</tr>
<tr>
<td>AFLAC Inc</td>
<td>AFL</td>
<td>(82)</td>
<td>(60)</td>
<td>(34)</td>
<td>(30)</td>
</tr>
<tr>
<td>Agilent Technologies Inc</td>
<td>A</td>
<td>(763)</td>
<td>(326)</td>
<td>56</td>
<td>(24)</td>
</tr>
<tr>
<td>Air Products &amp; Chemicals Inc</td>
<td>APD</td>
<td>(691)</td>
<td>(385)</td>
<td>(42)</td>
<td>(67)</td>
</tr>
<tr>
<td>Alberto-Culver Co-Ci B</td>
<td>ACV</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Albertsons Inc</td>
<td>ABS</td>
<td>(209)</td>
<td>(101)</td>
<td>42</td>
<td>159</td>
</tr>
<tr>
<td>Alcoa Inc</td>
<td>AA</td>
<td>(2,074)</td>
<td>(54)</td>
<td>1,520</td>
<td>737</td>
</tr>
<tr>
<td>Allegheny Energy Inc</td>
<td>AYE</td>
<td>(244)</td>
<td>(49)</td>
<td>152</td>
<td>126</td>
</tr>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>(237)</td>
<td>196</td>
<td>759</td>
<td>976</td>
</tr>
<tr>
<td>Allergan Inc</td>
<td>AGN</td>
<td>(124)</td>
<td>(65)</td>
<td>(44)</td>
<td>(41)</td>
</tr>
<tr>
<td>Allied Waste Inds Inc</td>
<td>AW</td>
<td>(59)</td>
<td>36</td>
<td>117</td>
<td>55</td>
</tr>
<tr>
<td>Allstate Corp</td>
<td>ALL</td>
<td>(1,225)</td>
<td>(693)</td>
<td>693</td>
<td>817</td>
</tr>
<tr>
<td>Alltel Corp</td>
<td>AT</td>
<td>(139)</td>
<td>40</td>
<td>204</td>
<td>275</td>
</tr>
<tr>
<td>Altera Corp</td>
<td>ALTR</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ambac Financial Gp</td>
<td>ABK</td>
<td>(6)</td>
<td>(2)</td>
<td>(1)</td>
<td>2</td>
</tr>
<tr>
<td>Amerada Hess Corp</td>
<td>AHC</td>
<td>(266)</td>
<td>(128)</td>
<td>(46)</td>
<td>32</td>
</tr>
<tr>
<td>Ameren Corp</td>
<td>AEE</td>
<td>(489)</td>
<td>(193)</td>
<td>(3)</td>
<td>170</td>
</tr>
<tr>
<td>American Electric Power</td>
<td>AEP</td>
<td>(889)</td>
<td>119</td>
<td>861</td>
<td>823</td>
</tr>
<tr>
<td>American Express</td>
<td>AXP</td>
<td>(758)</td>
<td>(351)</td>
<td>77</td>
<td>(33)</td>
</tr>
<tr>
<td>American Greetings-Ci A</td>
<td>AM</td>
<td>(20)</td>
<td>(4)</td>
<td>(9)</td>
<td>-</td>
</tr>
<tr>
<td>American International Group</td>
<td>AIG</td>
<td>(1,087)</td>
<td>(402)</td>
<td>(353)</td>
<td>(212)</td>
</tr>
<tr>
<td>American Pwr Cnvrsion</td>
<td>APC</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>American Standard Cos Inc</td>
<td>ASD</td>
<td>(516)</td>
<td>(356)</td>
<td>(181)</td>
<td>(74)</td>
</tr>
<tr>
<td>Amerisourcebergen Corp</td>
<td>ABC</td>
<td>(47)</td>
<td>(34)</td>
<td>(11)</td>
<td>(10)</td>
</tr>
<tr>
<td>Angen Inc</td>
<td>AMGN</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AMR Corp/De</td>
<td>AMR</td>
<td>(3,367)</td>
<td>(1,940)</td>
<td>(703)</td>
<td>(346)</td>
</tr>
<tr>
<td>Amsouth Bancorporation</td>
<td>ASO</td>
<td>(98)</td>
<td>43</td>
<td>171</td>
<td>174</td>
</tr>
<tr>
<td>Anadarko Petroleum Corp</td>
<td>APC</td>
<td>(165)</td>
<td>(79)</td>
<td>19</td>
<td>(19)</td>
</tr>
<tr>
<td>Analog Devices</td>
<td>ADI</td>
<td>(26)</td>
<td>(11)</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Andrew Corp</td>
<td>ANDW</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Anheuser-Busch Cos Inc</td>
<td>BUD</td>
<td>(717)</td>
<td>(217)</td>
<td>397</td>
<td>320</td>
</tr>
<tr>
<td>Anthem Inc</td>
<td>ATH</td>
<td>(207)</td>
<td>(88)</td>
<td>83</td>
<td>86</td>
</tr>
<tr>
<td>AOL Time Warner Inc</td>
<td>AOL</td>
<td>(473)</td>
<td>(262)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AON Corp</td>
<td>AOC</td>
<td>(1,082)</td>
<td>(348)</td>
<td>104</td>
<td>113</td>
</tr>
<tr>
<td>Apache Corp</td>
<td>APA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Apollo Group Inc-Ci A</td>
<td>APOL</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Apple Computer Inc</td>
<td>AAPL</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Appleria Corp Applied Biosys</td>
<td>ABI</td>
<td>(155)</td>
<td>(32)</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Applied Materials Inc</td>
<td>AMAT</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(39)</td>
</tr>
<tr>
<td>Applied Micro Circuits Corp</td>
<td>AMCC</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Archer-Daniels-Midland Co</td>
<td>ADM</td>
<td>(323)</td>
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*Source: Company data, CSFB estimates.*
## Appendix D

### Exhibit 97: Pension Cost—Income/(Expense) for the S&P 500

**US$ in millions**

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**Ticker**

- **Price**
- **Change**
- **52-Week Range**

**Company Name**

- **Symbol**
- **2004E**
- **2003E**
- **2002E**
- **2001A**
- **2000A**

**Pension Cost**

- **Income**
- **Expense**
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<td>139</td>
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<tr>
<td>United Parcel Service Inc</td>
<td>UPS</td>
<td>(30)</td>
<td>(9)</td>
<td>25</td>
<td>30</td>
<td>(71)</td>
<td></td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>7</td>
<td>78</td>
<td>114</td>
<td>120</td>
<td>273</td>
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<tr>
<td>United Technologies Corp</td>
<td>UTX</td>
<td>(190)</td>
<td>(163)</td>
<td>(79)</td>
<td>(78)</td>
<td>(40)</td>
<td></td>
</tr>
<tr>
<td>Unitedhealth Group Inc</td>
<td>UNH</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Univation Communications Inc</td>
<td>UVN</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unocal Corp</td>
<td>UCL</td>
<td>(20)</td>
<td>(22)</td>
<td>(13)</td>
<td>1</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Unumproved Corp</td>
<td>UNM</td>
<td>(12)</td>
<td>(14)</td>
<td>1</td>
<td>17</td>
<td>165</td>
<td></td>
</tr>
<tr>
<td>UST Inc</td>
<td>UST</td>
<td>(16)</td>
<td>(17)</td>
<td>(14)</td>
<td>(13)</td>
<td>(8)</td>
<td></td>
</tr>
<tr>
<td>Veritas Software Co</td>
<td>VRTS</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>1,101</td>
<td>1,337</td>
<td>1,759</td>
<td>1,848</td>
<td>3,489</td>
<td></td>
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<tr>
<td>VF Corp</td>
<td>VFC</td>
<td>(44)</td>
<td>(48)</td>
<td>(28)</td>
<td>(20)</td>
<td>(15)</td>
<td></td>
</tr>
<tr>
<td>Viaacom Inc -Cl B</td>
<td>VIA.B</td>
<td>(61)</td>
<td>(61)</td>
<td>(48)</td>
<td>(26)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Visteon Corp</td>
<td>VC</td>
<td>(78)</td>
<td>(73)</td>
<td>(49)</td>
<td>(143)</td>
<td>(134)</td>
<td></td>
</tr>
<tr>
<td>Vitesse Semiconductor Corp</td>
<td>VTSS</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Vulcan Materials Co</td>
<td>VMC</td>
<td>(6)</td>
<td>(2)</td>
<td>6</td>
<td>9</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Wachovia Corp</td>
<td>WB</td>
<td>(201)</td>
<td>(220)</td>
<td>(98)</td>
<td>(2)</td>
<td>(88)</td>
<td></td>
</tr>
<tr>
<td>Walgreen Co</td>
<td>WAG</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Wal-Mart Stores</td>
<td>WMT</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Washington Mutual Inc</td>
<td>WM</td>
<td>(85)</td>
<td>(58)</td>
<td>(25)</td>
<td>(24)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Waste Management Inc</td>
<td>WMI</td>
<td>(13)</td>
<td>(9)</td>
<td>(4)</td>
<td>(2)</td>
<td>(24)</td>
<td></td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker</td>
<td>2004E</td>
<td>2003E</td>
<td>2002E</td>
<td>2001A</td>
<td>2000A</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>--------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>Waters Corp</td>
<td>WAT</td>
<td>(4)</td>
<td>(3)</td>
<td>(3)</td>
<td>(3)</td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>Watson Pharmaceuticals Inc</td>
<td>WPI</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Wellpoint Hlth Netwrk-Cl A</td>
<td>WLP</td>
<td>(13)</td>
<td>(11)</td>
<td>(7)</td>
<td>(12)</td>
<td>(8)</td>
<td></td>
</tr>
<tr>
<td>Wells Fargo &amp; Co</td>
<td>WFC</td>
<td>223</td>
<td>238</td>
<td>135</td>
<td>49</td>
<td>(49)</td>
<td></td>
</tr>
<tr>
<td>Wendy's International Inc</td>
<td>WEN</td>
<td>(5)</td>
<td>(4)</td>
<td>(3)</td>
<td>(2)</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Weyerhaeuser Co</td>
<td>WY</td>
<td>131</td>
<td>140</td>
<td>176</td>
<td>234</td>
<td>193</td>
<td></td>
</tr>
<tr>
<td>Whirlpool Corp</td>
<td>WHR</td>
<td>(48)</td>
<td>(27)</td>
<td>17</td>
<td>70</td>
<td>98</td>
<td></td>
</tr>
<tr>
<td>Williams Cos Inc</td>
<td>WMB</td>
<td>(24)</td>
<td>(23)</td>
<td>(8)</td>
<td>(12)</td>
<td>(26)</td>
<td></td>
</tr>
<tr>
<td>Winn-Dixie Stores Inc</td>
<td>WIN</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Worthington Industries</td>
<td>WOR</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Wrigley (Wm) Jr Co</td>
<td>WWY</td>
<td>(13)</td>
<td>(13)</td>
<td>(8)</td>
<td>(9)</td>
<td>(5)</td>
<td></td>
</tr>
<tr>
<td>Wyeth</td>
<td>WYE</td>
<td>(101)</td>
<td>(99)</td>
<td>(66)</td>
<td>(75)</td>
<td>(45)</td>
<td></td>
</tr>
<tr>
<td>Xcel Energy Inc</td>
<td>XEL</td>
<td>60</td>
<td>85</td>
<td>132</td>
<td>77</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>Xerox Corp</td>
<td>XRX</td>
<td>(102)</td>
<td>(80)</td>
<td>(40)</td>
<td>(99)</td>
<td>(44)</td>
<td></td>
</tr>
<tr>
<td>Xilinx Inc</td>
<td>XLNX</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>XI Capital Ltd</td>
<td>XL</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Yahoo Inc</td>
<td>YHOO</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Yum Brands Inc</td>
<td>YUM</td>
<td>(26)</td>
<td>(27)</td>
<td>(21)</td>
<td>(21)</td>
<td>(19)</td>
<td></td>
</tr>
<tr>
<td>Zimmer Hldgs Inc</td>
<td>ZMH</td>
<td>(3)</td>
<td>(3)</td>
<td>(3)</td>
<td>(3)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Zions Bancorporation</td>
<td>ZION</td>
<td>(13)</td>
<td>(14)</td>
<td>(9)</td>
<td>(6)</td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td>(18,610)</td>
<td>(14,643)</td>
<td>(613)</td>
<td>$7,121</td>
<td>$12,619</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.
Appendix E

In this Appendix, we walk through the process of treating the pension plan as if it were an investment subsidiary by adding the pension plan assets and the PBO to the balance sheet of Philip Morris. Philip Morris has both U.S. and non-U.S. plans that we have combined for our analysis. Note that at the end of 2001, the pension plan for Philip Morris had a projected benefit obligation of $12.2 billion and plan assets of $11.7 billion, and it was $502 million underfunded. However, the balance sheet reflected a $1.3 billion pension asset, the result of $1.8 billion in losses that have not yet been recognized. In our analysis, we eliminate the $1.3 billion net pension asset and replace it with assets of $11.7 billion and liabilities of $12.2 billion.

Exhibit 98: Adjusting the Balance Sheet—Philip Morris

<table>
<thead>
<tr>
<th>US$ in millions</th>
<th>Pension Footnote 2001</th>
<th>“Real” Pension Asset/Liability 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan Assets</td>
<td>$11,720 (3)</td>
<td>Pension Asset</td>
</tr>
<tr>
<td>Projected Benefit Obligation (PBO)</td>
<td>(12,222) (4)</td>
<td>Pension Liability</td>
</tr>
<tr>
<td>Funded Status</td>
<td>(502)</td>
<td></td>
</tr>
<tr>
<td>Unrecognized actuarial loss</td>
<td>1,539</td>
<td></td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>256</td>
<td></td>
</tr>
<tr>
<td>Unrecognized transition obligation</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Total Unrecognized Loss</td>
<td>1,801</td>
<td></td>
</tr>
<tr>
<td>Prepaid Pension Asset</td>
<td>2,700 (1)</td>
<td></td>
</tr>
<tr>
<td>Accrued Pension Liability</td>
<td>(1,400) (2)</td>
<td></td>
</tr>
<tr>
<td>Net Prepaid Pension Asset</td>
<td>$1,300</td>
<td></td>
</tr>
</tbody>
</table>

Adjustments (Ignoring Taxes)

- (1) Eliminate prepaid pension asset (2,700)
- (2) Eliminate accrued pension liability (1,400) 1,400
- (3) Report pension plan assets 11,720 11,720
- (4) Report PBO 12,222 12,222

Off Balance Sheet 9,020 10,822 (1,802)

Source: Company data, CSFB estimates.

The specific adjustments (ignoring income taxes) that we make to “get the balance sheet right” are:

1. Reduce assets by $2.7 billion and equity by $2.7 billion, eliminating the prepaid pension asset.
2. Reduce liabilities by $1.4 billion and increase equity by $1.4 billion to eliminate the accrued pension liability.
3. Increase assets by $11.7 billion and equity by $11.7 billion to recognize the pension plan assets.
4. Increase liabilities by $12.2 billion and reduce equity by $11.7 billion to report the projected benefit obligation.
Appendix F

In this Appendix, we walk through the process of stripping out the smoothing mechanisms from pension accounting and reporting on the income statement what actually happened to the pension plan, using Verizon Communications as an example. Exhibit 99 compares the components of net pension income for Verizon with our calculation of Verizon’s “real” pension expense for 2001. The service cost and the interest cost remain the same; the expected return on plan assets and amortization amounts are eliminated. In their place are the actual loss on plan assets of $3.1 billion and the actuarial loss on the projected benefit obligation of $1.9 billion, both obtained from the pension footnote. The result is an $8.1 billion pension expense, compared with $2,690 million of pension income that Verizon reported in its income statement. For purposes of our analysis, we ignored settlement gains and losses and prior service cost; we generally think of these items as nonrecurring charges that we would record in the current period and ignore when evaluating the current-period results. Clearly, when forecasting future results, we would take them into account in our estimates, as they will have an impact on the future retirement benefits that the employees will earn.

Exhibit 99: Calculating the “Real” Pension Expense—Verizon

<table>
<thead>
<tr>
<th>Pension Footnote 2001</th>
<th>“Real” Pension Expense / (Income) 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Cost</td>
<td>$ 665</td>
</tr>
<tr>
<td>Interest Cost</td>
<td>2,490</td>
</tr>
<tr>
<td>Expected Return on Plan Assets</td>
<td>(4,811)</td>
</tr>
<tr>
<td>Amortization of Transition Asset</td>
<td>(112)</td>
</tr>
<tr>
<td>Amortization of Prior Service Cost</td>
<td>(44)</td>
</tr>
<tr>
<td>Net Pension Expense / (Income)</td>
<td>$ (2,690)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.
Appendix G

Reporting the Funded Status on the Balance Sheet

Since pension accounting presents information on a net basis and the argument that the
pension plan assets can only be used to support the pension obligation is a valid one,
we present a second methodology in this Appendix for adjusting the balance sheet on a
net basis.

Here we view an overfunded pension plan as an asset for the sponsoring company, one
that is difficult to monetize; however, still an asset. Capital that would have been
allocated to the pension plan can now be put to other uses: reinvestment, share
repurchases, debt paydown, etc. On the other hand, an underfunded plan can be
considered a liability that will result in increased future contributions to the pension plan
from the company, drawing capital away from other parts of the business.

The pension footnote reconciles the funded status to the prepaid pension asset or
accrued pension liability on the balance sheet. The difference between the two is either
an unrecognized gain or an unrecognized loss. These are the actual changes in the
pension plan’s funded status that have not yet been reported in the financial statements,
as a result of all the smoothing mechanisms in FAS No. 87. Therefore, the amount
reported on the balance sheet does not reflect the economic status of the pension plan.
For example, IBM’s balance sheet as of December 31, 2001, reflected a net prepaid
pension asset of approximately $8 billion; however, IBM’s pension plan was only $786
million overfunded. Unrecognized losses caused IBM’s assets to be overstated by over
$7 billion. The concept, that an unrecognized loss can create an asset, leaves many
investors dumbfounded.

Unrecognized gains are an improvement in the funded status of the pension plan that
has yet to be recognized in the financial statements. Unrecognized losses are a decline
in the funded status that has not yet made its way to the balance sheet. (A word of
cautions: Unrecognized losses can be partially recognized on the balance sheet by way
of the minimum pension liability adjustment. They are still referred to as unrecognized,
as they have not yet made their way through earnings.) Exhibit 100 displays the various
ways in which a company ends up with an unrecognized gain or loss.
Exhibit 100: How Companies End up with Unrecognized Gains or Losses

<table>
<thead>
<tr>
<th>Funded Status</th>
<th>Net Pension Asset or Liability Recognized on Balance Sheet</th>
<th>Unrecognized Gain or Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overfunded</td>
<td>Accrued Pension Liability</td>
<td>= Unrecognized Gain</td>
</tr>
<tr>
<td>Overfunded</td>
<td>&gt; Prepaid Pension Asset</td>
<td>= Unrecognized Gain</td>
</tr>
<tr>
<td>Overfunded</td>
<td>&lt; Prepaid Pension Asset</td>
<td>= Unrecognized Loss</td>
</tr>
<tr>
<td>Underfunded</td>
<td>&gt; Accrued Pension Liability</td>
<td>= Unrecognized Loss</td>
</tr>
<tr>
<td>Underfunded</td>
<td>&lt; Accrued Pension Liability</td>
<td>= Unrecognized Gain</td>
</tr>
<tr>
<td>Underfunded</td>
<td>Prepaid Pension Asset</td>
<td>= Unrecognized Loss</td>
</tr>
</tbody>
</table>

To report the funded status on the balance sheet, we simply remove the prepaid pension asset or accrued pension liability and replace it with the pension plan’s funded status. We applied this methodology to each of the 360 companies in the S&P 500 with a defined benefit pension plan (taking into account the tax impact). The impact in the aggregate on assets and liabilities is minimal. Shareholders’ equity for the S&P 500 is reduced by $60 billion or 2% at the end of 2001.

Key Observations

- Assets would decline by 5% or more for 15 companies if the funded status were reported on the balance sheet.
- There are 44 companies where assets would increase and 264 that would experience a decline in assets at the end of 2001, compared with 166 and 141 companies, respectively, at the end of 2000.
- If the underfunded amount were considered the equivalent of debt, debt would increase by 10% or more for 75 companies. Debt would increase by 25% or more for 28 companies, including the 11 companies that had over $1 billion in debt outstanding.
- The aggregate debt-to-equity ratio for the companies in the S&P 500 was 212% at the end of 2001 and 207% at the close of 2000. Calculating an adjusted to debt-to-equity ratio after factoring in the funded status of the pension plan would take the ratio up to 218% for 2001 and down to 202% for 2000.
- There are 96 companies where the debt-to-equity ratio would increase by over 1,000 basis points, compared with 8 companies where the debt-to-equity ratio would decline by over 1,000 basis points.
Appendix H

In this appendix, we briefly walk through the mechanics of our pension-forecasting model, using Lucent Technologies as an example. We have made the individual company model available on our web site (http://www.csfb.com/equity/presentations/pension_forecast_model.xls). Please do not hesitate to give us a call if you have any questions while making your way through the model. We recommend customizing the model to your own set of assumptions and using it to perform sensitivity analysis. Due to all of the simplifying assumptions that we make in the model, actual pension results may vary considerably from our forecasts. The purpose of the model is to highlight potential areas for further investigation.

Assumptions

We made the following assumptions in our base case forecast.

Exhibit 101: Model Assumptions

<table>
<thead>
<tr>
<th>Assumptions:</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>7.50%</td>
<td>7.00%</td>
<td>6.50%</td>
<td>6.75%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Expected rate of return</td>
<td>9.00%</td>
<td>9.00%</td>
<td>9.00%</td>
<td>9.00%</td>
<td>9.00%</td>
</tr>
<tr>
<td>Compensation inflation</td>
<td>4.50%</td>
<td>4.50%</td>
<td>4.50%</td>
<td>4.50%</td>
<td>4.50%</td>
</tr>
<tr>
<td>Plan Assets Mix</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity – 65%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Income – 35%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual return</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23.84% (15.09%)</td>
<td>(9.45%)</td>
<td>8.43%</td>
<td>8.43%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee contribution growth</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>Inflation assumption</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.00%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duration - actives</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duration - retirees</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.

Forecast Net Pension Cost

Our forecast of Lucent’s net pension cost for the next three years is included in Exhibit 102.

Exhibit 102: Forecasting Net Pension Cost—Lucent Technologies

<table>
<thead>
<tr>
<th>US$ in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
</tr>
<tr>
<td>2000</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Pension Cost / (Income)</td>
</tr>
<tr>
<td>Service cost</td>
</tr>
<tr>
<td>Interest cost</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
</tr>
<tr>
<td>Amortization of transition (asset) / liability</td>
</tr>
<tr>
<td>Amortization of prior service cost / (benefit)</td>
</tr>
<tr>
<td>Recognized actuarial (gain) / loss</td>
</tr>
<tr>
<td>Net pension cost / (income)</td>
</tr>
<tr>
<td>Curtailments, settlements and other</td>
</tr>
<tr>
<td>Total pension cost / (income)</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.
The Magic of Pension Accounting

The calculations for each component of our 2002 net pension cost estimate are as follows (US$ in millions, unless otherwise stated):

**Service Cost** = Prior Year Service Cost x (1 + Inflation Assumption + % Change Due to Change in Discount Rate) = $316 x (1 + 3% + 7.5%) = $349. Note that we are not using the salary inflation assumption to inflate forecasted service cost since we are assuming that the employee population remains in a steady state.

**Interest Cost** = (Beginning Projected Benefit Obligation (PBO) – (.5 x Estimated Benefits Paid)) x Prior Year Discount Rate = ($29,850 – (.5 x $2,872)) x 7% = $1,989.

**Expected Return on Plan Assets** = (Market-Related Value of Plan Assets – (.5 x Estimated Benefits Paid)) x Expected Rate of Return on Plan Assets = ($37,863 – (.5 x $2,872)) x 9% = $(3,278).

Our market-related value is either the fair value of the plan assets or a calculated value (calculated in accordance with Illustration 4 from Appendix B of FAS No. 87). The determination is based upon a comparison of the estimated market-related value from the prior two years to the fair value of plan assets. If the market-related value is within 5% of the fair value in both years we use the fair value, if not we default to the calculated value.

**Amortization of Transition (Asset)** = Min (Prior Year Transition Amortization, Unrecognized Transition Asset) = Min ($222, $103) = $(103).

**Amortization of Prior Service Cost** = (Prior Year Amortization + Amortization of Prior Service Cost Arising During Year) = $326 + $(35) = $291.

**Recognized Actuarial (Gain)** = ((Prior Year Unrecognized Gain/(Loss) – Unrecognized Market-Related Value) – Corridor) / Estimated Service Life of Active Employees = (($1,790) - $2,324) / 15 = $(22).

**Curtailments, Settlements, Other**—Not forecasted.

**Forecast Projected Benefit Obligation**

Our forecast of Lucent's projected benefit obligation for the next three years is included in Exhibit 103.

**Exhibit 103: Forecast Projected Benefit Obligation—Lucent Technologies**

<table>
<thead>
<tr>
<th>Actual in millions</th>
<th>Estimate in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2000</strong></td>
<td><strong>2001</strong></td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$ 27,401</td>
</tr>
<tr>
<td>Service cost</td>
<td>478</td>
</tr>
<tr>
<td>Interest cost</td>
<td>1,915</td>
</tr>
<tr>
<td>Employee contribution</td>
<td>-</td>
</tr>
<tr>
<td>Amendments</td>
<td>(1)</td>
</tr>
<tr>
<td>Actuarial (gain)/loss</td>
<td>370</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(2,294)</td>
</tr>
<tr>
<td>Net acquisitions / divestitures</td>
<td>(1,756)</td>
</tr>
<tr>
<td>Curtailments, settlements, terminations and other</td>
<td>-</td>
</tr>
<tr>
<td>Benefit obligation at end of year</td>
<td>$ 26,113</td>
</tr>
</tbody>
</table>

Source: Company data, CSFB estimates.
Next, we take you through the calculations to forecast the projected benefit obligation for 2002 (US$ in millions, unless otherwise stated):

**Service Cost** = Net pension cost forecast above.

**Interest Cost** = Net pension cost forecast above.

**Employee Contributions** = Prior Year Employee Contributions x (1 + Employee Contribution Growth Rate) = $0 x (1 + 3%) = $0.

**Amendments** = Not forecasted.

**Actuarial (Gain)/Loss** = (Estimated Obligation to Retirees x % Change Due to Change in Discount Rate) + (Estimated Obligation to Active Employees x % Change Due to Change in Discount Rate) = ($22,995 x 4%) + ($7,780 x 7.5%) = $1,458.

We estimate the obligation to retirees by multiplying the prior year benefits paid by the estimated duration of the obligation associated with retirees, eight years. The estimated obligation to actives is simply the total PBO less the estimated obligation to retirees. The percentage change due to changes in the discount rate is simply the change in the discount rate multiplied by the estimated duration, 8 years for retirees and 15 years for actives.

**Benefits Paid** = Prior Year Benefits Paid x (1 + Inflation Assumption) = $(2,788) x (1 + 3%) = $(2,872).

**Net Acquisitions/Divestitures** = Not forecasted.

**Curtailments/Settlements/Terminations/Other** = Not forecasted.

**Forecast Plan Assets**

Our forecast of Lucent’s pension plan assets for the next three years is included in Exhibit 104.

**Exhibit 104: Forecast Plan Assets—Lucent Technologies**

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2000</td>
<td>2001</td>
</tr>
<tr>
<td><strong>Change in Plan Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>$ 41,067</td>
<td>$ 45,262</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>9,791</td>
<td>(6,830)</td>
</tr>
<tr>
<td>Company contribution</td>
<td>19</td>
<td>25</td>
</tr>
<tr>
<td>Employee contribution</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(2,294)</td>
<td>(2,788)</td>
</tr>
<tr>
<td>Net acquisitions / divestitures</td>
<td>(2,984)</td>
<td>259</td>
</tr>
<tr>
<td>Settlements and other</td>
<td>(337)</td>
<td>(389)</td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>$ 45,262</td>
<td>$ 35,539</td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*

Next, we take you through the calculations to forecast the plan assets at the end of 2002 (US$ in millions, unless otherwise stated):

**Actual Return on Plan Assets** = Beginning Plan Assets x (Estimated Actual Rate of Return on Plan Assets) = $35,539 x (9.45%) = $(3,359).
Company Contributions = Forecasted in next section.

Employee Contributions = Prior Year Employee Contributions $0 x (1 + Employee Contribution Growth Rate) = $0.

Benefits Paid = Prior Year Benefits Paid $(2,788) x (1 + Inflation Assumption) = $(2,872).

Net Acquisitions/Divestitures = Not forecasted.

Settlements and Other = Not forecasted.

Forecast Contribution Requirements

We expect that our result will differ from the company’s actual funding requirement due to a number of simplifying assumptions that we make. For example, we use the fair value of pension plan assets; the funding requirements allow for a variety of different methods to calculate asset values. We start with a projected benefit obligation that uses a different discount rate and adjust to the various pension obligations for funding purposes. We also do not factor in the credit balance that the company may have accumulated to offset any contribution requirements. The largest discrepancy will result from our combining both U.S. and non-U.S. plans to determine the contributions. The contribution requirements that we described earlier only apply to U.S. plans. The funding requirements overseas can be very different. We also include nonqualified plans that would not be subject to these rules.

Minimum Contribution Requirement

Step 1—Estimate PBO for Minimum Funding Purposes = (Estimated Obligation to Retirees $22,995 x (1 + (20%))) + (Estimated Obligation to Active Employees $7,780 x (1 + (37.5%))) = $23,258.

Change in the discount rate is the result of using the expected return on assets as the discount rate to calculate the PBO for the minimum funding requirement.

Step 2—Determine Funded Status Using Funding PBO = Estimated Fair Value of Plan Assets – Funding PBO = $29,308 - $23,258 = $6,050 overfunded.

Step 3—If overfunded, stop; no minimum contribution required. If underfunded proceed to Step 4

Step 4—Estimate Minimum Funding Requirement = (Unfunded PBO / Amortization Period) + Service Cost = To simplify for the various amortization periods available we assume a 10-year straight-line amortization period.

Additional Funding Requirement

Step 1—Estimate Accumulated Benefit Obligation (ABO) for Additional Funding Purposes = (Estimated ABO to Retirees $22,995 x (1 + (0.80%))) + (Estimated ABO to Active Employees $5,865 x (1 + (1.50%))) = $28,587

We walk through our estimate of the accounting ABO in the minimum pension liability section below. The change in discount rate is the result of using the four year weighted
average yield on the 30-year U.S. long bond multiplied by 120% as the discount rate to calculate the ABO for the additional funding requirement.

**Step 2—Calculate Percentage of ABO Funded** = \( \text{Estimated Fair Value of Plan Assets / Funding ABO} = \$29,308 / \$28,587 = 103\% \) overfunded.

**Step 3**—If over 90% funded, stop; no additional contribution required. If less than 90% funded, proceed to Step 4.

**Step 4**—If over 80% funded, then determine whether over 90% funded in either of two previous years. If yes, then no additional contribution required; if no, then proceed to Step 5.

**Step 5—Determine Funded Status Using Funding ABO** = \( \text{Estimated Fair Value of Plan Assets – Funding ABO} = \$29,308 - \$28,587 = \$721 \) overfunded.

**Step 6—Estimate Additional Funding Requirement** = \( \text{Unfunded ABO x Amortization \%} \)

Amortization \% = 30\% – (\%(of ABO Funded – 60\%) x 40\%). Note if percentage of ABO funded is less than 60\%, then use 30\% for the amortization \%. We did not make this part up; it comes to us courtesy of Section 412 from the tax code.

**Total Required Contribution** = \( \text{Max} (\text{Minimum Contribution Requirement, Additional Funding Requirement}) = \text{Max} (0,0) = \text{We estimate no contribution required for Lucent in 2002.} \)

**Forecast PBGC Variable Premium**

If no contribution is required, then the company does not have to pay a variable premium to the PBGC. We take you through the steps that we use to estimate the potential PBGC variable premium in our model.

**Step 1—Estimate ABO for PBGC Variable Premium** = \( \text{(Estimated ABO to Retirees x (1 + \% Change Due to Change in Discount Rate)) + (Estimated ABO to Active Employees x (1 + \% Change Due to Change in Discount Rate)) = ($22,995 x (1 + 8\%)) + ($5,865 x (1 + 15\%) = $31,579.} \)

We walk through our estimate of the accounting ABO in the minimum pension liability section below. The change in discount rate is the result of using the yield on the 30-year U.S. long bond multiplied by 100\% as the discount rate to calculate the ABO when forecasting the PBGC variable premium.

**Step 2—Estimate Vested Benefit Obligation (VBO) for PBGC Variable Premium** = \( \text{Estimated PBGC ABO x 90\%} = \$31,579 x 90\% = \$28,421. \)

We use 90\% as an actuarial rule of thumb to get us from our estimated ABO to an estimate of the vested benefit obligation.

**Step 3—Determine Funded Status Using PBGC VBO** = \( \text{Estimated Fair Value of Plan Assets – PBGC VBO} = \$29,308 - \$28,421 = \$887 \) overfunded.

**Step 4**—If overfunded, stop; no PBGC variable premium required. If underfunded, proceed to Step 4.

**Step 5—Estimate PBGC Variable Premium** = \( \text{Amount Underfunded x 0.9\%} = \text{The variable premium is $9 per each $1,000 that the plan is underfunded.} \)
Forecast Minimum Pension Liability
(US$ in millions, unless otherwise stated)

Using a few actuarial rules of thumb, we estimate the ABO at the end of 2002 (in general we reduce the PBO by approximately 25%) for each company in the S&P 500, then compare it with our estimate of the plan assets to arrive at the minimum pension liability. Taking into account the minimum liability adjustments from prior years, prior service cost, and any remaining transition obligation, we arrive at an estimate of the after-tax charge to equity that companies might have to make at the end of 2002 based on the assumptions that we described above.

**Step 1—Estimate the Accumulated Benefit Obligation (ABO)**
\[
\text{ABO} = \text{Obligation to Actives} \times (1 - \text{Actuarial Rule of Thumb\%}) + \text{Obligation to Retirees} = 7,780 \times (1 - 25\%) + 22,995 = 28,859.
\]

**Step 2—Determine Funded Status Using ABO**
\[
\text{Funded Status} = \text{Estimated Fair Value of Plan Assets} - \text{ABO} = 29,308 - 28,859 = 449 \text{ overfunded}.
\]

**Step 3—Calculate Minimum Pension Liability.** If overfunded, stop; no additional adjustment necessary. If underfunded, the amount underfunded is the minimum pension liability (MPL); proceed to Step 4.

**Step 4—Compare MPL to net prepaid (accrued) on balance sheet.** If net accrued is greater than MPL, stop; no additional adjustment is necessary. If net prepaid, or if net accrued, is less than MPL, proceed to Step 5.

**Step 5—Calculate Additional Pension Liability Adjustment.** Difference between MPL and net prepaid/(accrued) is the additional pension liability (APL) adjustment.

**Step 6—If APL is less than unrecognized prior service cost and the transition obligation, report the additional liability and an intangible asset.** Otherwise proceed to Step 7.

**Step 7—APL in excess of unrecognized prior service cost and the transition obligation is reported as a liability, and we tax effect that amount using a 35% tax rate to arrive at an estimate of the charge to shareholders’ equity in accumulated other comprehensive income.**
## Exhibit 105: Off-Balance-Sheet Assets and Liabilities for the S&P 500

**US$ in millions**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Ticker Symbol</th>
<th>Pension Plan Assets</th>
<th>On-Balance-Sheet Asset</th>
<th>Off-Balance Sheet Asset</th>
<th>PBO</th>
<th>Off-Balance Sheet Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>3m Co</td>
<td>MMM</td>
<td>$8,008</td>
<td>$537</td>
<td>$7,471</td>
<td>$8,998</td>
<td>$473</td>
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<td>2,644</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<td>0</td>
<td>0</td>
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<td>Advanced Micro Devices</td>
<td>AMD</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>AES Corp. (The)</td>
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<td>604</td>
<td>0</td>
<td>604</td>
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<td>210</td>
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<td>201</td>
<td>3,101</td>
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<td>88</td>
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<td>Agilent Technologies Inc</td>
<td>A</td>
<td>1,197</td>
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<td>1,090</td>
<td>1,523</td>
<td>114</td>
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<tr>
<td>Air Products &amp; Chemicals Inc</td>
<td>APD</td>
<td>1,091</td>
<td>117</td>
<td>973</td>
<td>1,476</td>
<td>293</td>
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<tr>
<td>Alberto-Culver Co-CI B</td>
<td>ACV</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>Albertsons Inc</td>
<td>ABS</td>
<td>466</td>
<td>92</td>
<td>374</td>
<td>567</td>
<td>166</td>
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<tr>
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<td>8,434</td>
<td>552</td>
<td>7,882</td>
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<td>Allegheny Energy Inc</td>
<td>AYE</td>
<td>762</td>
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<td>AT</td>
<td>711</td>
<td>95</td>
<td>616</td>
<td>672</td>
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<tr>
<td>Altra Corp</td>
<td>ALTR</td>
<td>0</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Ambac Financial Gp</td>
<td>ABK</td>
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<td>495</td>
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<td>47</td>
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<td>1,225</td>
<td>1,418</td>
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<td>4,239</td>
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<td>18</td>
<td>1,172</td>
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<td>11</td>
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<td>American International Group</td>
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<td>616</td>
<td>1,769</td>
<td>2,787</td>
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<td>American Pwr Cnrsvn</td>
<td>APCC</td>
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<td>American Standard Cos Inc</td>
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<td>712</td>
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<td>5,196</td>
<td>7,422</td>
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<td>564</td>
<td>122</td>
<td>441</td>
<td>521</td>
<td>21</td>
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<tr>
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<td>APC</td>
<td>338</td>
<td>54</td>
<td>284</td>
<td>417</td>
<td>51</td>
</tr>
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<td>Analog Devices</td>
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<td>2</td>
<td>56</td>
<td>69</td>
<td>8</td>
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<td>Andrew Corp</td>
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<td>0</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<td>Anheuser-Busch Cos Inc</td>
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<td>Apollo Group Inc-CI A</td>
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<td>532</td>
<td>784</td>
<td>113</td>
</tr>
</tbody>
</table>

1 Includes prepaid pension asset and intangible asset.

2 Includes accrued liability and minimum pension liability.
## 2001 Off-Balance-Sheet Amounts

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Ticker Symbol</th>
<th>Pension Plan Assets</th>
<th>On-Balance-Sheet Asset</th>
<th>Off-Balance Sheet Asset</th>
<th>PBO</th>
<th>On-Balance Sheet Liability</th>
<th>Off-Balance-Sheet Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ashland Inc</td>
<td>ASH</td>
<td>518</td>
<td>6</td>
<td>512</td>
<td>818</td>
<td>144</td>
<td>674</td>
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<td>AT&amp;T Corp</td>
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2 Includes accrued liability and minimum pension liability.
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¹ Includes prepaid pension asset and intangible asset.
² Includes accrued liability and minimum pension liability.
## 2001 Off-Balance-Sheet Amounts

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<th>Company Name</th>
<th>Ticker Symbol</th>
<th>Pension Plan Assets</th>
<th>On-Balance-Sheet Asset ¹</th>
<th>Off-Balance-Sheet Asset</th>
<th>PBO</th>
<th>On-Balance-Sheet Liability ²</th>
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¹ Includes prepaid pension asset and intangible asset.
² Includes accrued liability and minimum pension liability.
### 2001 Off-Balance-Sheet Amounts

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<th>Company Name</th>
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1 Includes prepaid pension asset and intangible asset.  
2 Includes accrued liability and minimum pension liability.
### 2001 Off-Balance-Sheet Amounts

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<th>Company Name</th>
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<th>Pension Plan Assets</th>
<th>On-Balance-Sheet Asset</th>
<th>Off-Balance-Sheet Asset</th>
<th>PBO</th>
<th>On-Balance-Sheet Liability</th>
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1 Includes prepaid pension asset and intangible asset.
2 Includes accrued liability and minimum pension liability.
### 2001 Off-Balance-Sheet Amounts

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¹ Includes prepaid pension asset and intangible asset.
² Includes accrued liability and minimum pension liability.
### 2001 Off-Balance-Sheet Amounts

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1 Includes prepaid pension asset and intangible asset.
2 Includes accrued liability and minimum pension liability.
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Totals                           |               | 1,071,547           | 171,344                  | 900,203                       | 1,067,370 | 74,915 | 992,455

1 Includes prepaid pension asset and intangible asset.
2 Includes accrued liability and minimum pension liability.

Source: Company data, CSFB estimates.
## Exhibit 106: Adjusted Net Income/(Loss) for the S&P 500

US$ in millions

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**Note:** The % Difference is calculated as [(Adjusted Income of 2001 - Adjusted Income of 2000) / Adjusted Income of 2000] * 100. The Net Income (Loss) is adjusted for unusual items or extraordinary events.
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<th>2000 Adjusted Net Income (Loss)</th>
<th>% Difference</th>
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<td>149 121 (19%)</td>
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<td>Citizens Communications Co</td>
<td>CZN</td>
<td>(64) (113) NM</td>
<td>(40) (63) NM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Citrix Systems Inc</td>
<td>CTXS</td>
<td>105 105 (0%)</td>
<td>95 95 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clear Channel Communications</td>
<td>C CO</td>
<td>(1,144) (1,144)</td>
<td>249 249 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clorox Co/De</td>
<td>CLX</td>
<td>325 274 (16%)</td>
<td>394 388 (2%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CMS Energy Corp</td>
<td>CMS</td>
<td>(329) (532) NM</td>
<td>43 (48) (212%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coca-Cola Co</td>
<td>KO</td>
<td>3,979 3,802 (4%)</td>
<td>2,177 2,042 (6%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coca-Cola Enterprises</td>
<td>CCE</td>
<td>(19) (257) NM</td>
<td>236 233 (1%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colgate-Palmolive Co</td>
<td>CL</td>
<td>1,147 991 (14%)</td>
<td>1,064 946 (11%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comcast Corp-Cl A Spl</td>
<td>CMCSK</td>
<td>226 226 (0%)</td>
<td>2,045 2,045 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comerica Inc.</td>
<td>CMA</td>
<td>710 604 (15%)</td>
<td>749 695 (7%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer Associates Intl Inc</td>
<td>CA</td>
<td>(1,102) (1,102) NM</td>
<td>(591) (591) NM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer Sciences Corp</td>
<td>CSC</td>
<td>344 235 (32%)</td>
<td>233 144 (38%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compouware Corp</td>
<td>CPWR</td>
<td>(245) (245) NM</td>
<td>119 119 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Converse Technology Inc</td>
<td>CMVT</td>
<td>55 55 (0%)</td>
<td>249 249 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conagra Foods Inc</td>
<td>CAG</td>
<td>683 641 (6%)</td>
<td>382 538 (41%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concord Efs Inc</td>
<td>CEFT</td>
<td>216 216 (0%)</td>
<td>187 187 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conoco Inc</td>
<td>COC</td>
<td>1,596 1,428 (11%)</td>
<td>1,902 1,836 (3%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated Edison Inc</td>
<td>ED</td>
<td>696 (128) (18%)</td>
<td>596 (11) (102%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constellation Energy Grp Inc</td>
<td>CEG</td>
<td>96 (12) (113%)</td>
<td>359 310 (14%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convergys Corp</td>
<td>CVG</td>
<td>139 100 (28%)</td>
<td>195 175 (10%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cooper Industries Ltd</td>
<td>CBE</td>
<td>261 213 (18%)</td>
<td>357 331 (7%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cooper Tire &amp; Rubber</td>
<td>CTB</td>
<td>18 (37) (306%)</td>
<td>97 83 (14%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coors (Adolph)-Cl B</td>
<td>RKY</td>
<td>123 66 (46%)</td>
<td>110 41 (63%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coming Inc</td>
<td>GLW</td>
<td>(5,498) (5,714) NM</td>
<td>410 414 (1%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costco Wholesale Corp</td>
<td>COST</td>
<td>602 602 (0%)</td>
<td>631 631 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Countrywide Credit Ind Inc</td>
<td>CCR</td>
<td>486 480 (1%)</td>
<td>374 369 (1%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crane Co</td>
<td>CR</td>
<td>89 54 (39%)</td>
<td>124 113 (9%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CSX Corp</td>
<td>CSX</td>
<td>293 153 (48%)</td>
<td>186 159 (15%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cummins Inc</td>
<td>CUM</td>
<td>(102) (411) NM</td>
<td>8 (28) (447%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CVS Corp</td>
<td>CVS</td>
<td>413 383 (7%)</td>
<td>746 726 (3%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dana Corp</td>
<td>DCN</td>
<td>(298) (658) NM</td>
<td>334 210 (37%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Danaher Corp</td>
<td>DHR</td>
<td>298 240 (19%)</td>
<td>324 320 (1%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Darden Restaurants Inc</td>
<td>DRI</td>
<td>197 188 (4%)</td>
<td>177 185 (5%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deere &amp; Co</td>
<td>DE</td>
<td>(64) (1,393) NM</td>
<td>486 1,136 (134%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dell Computer Corp</td>
<td>DELL</td>
<td>1,246 1,246 (0%)</td>
<td>2,236 2,236 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delphi Corp</td>
<td>DPH</td>
<td>(370) (1,417) NM</td>
<td>1,062 695 (35%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>(1,216) (3,253) NM</td>
<td>928 1,972 (112%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deluxe Corp</td>
<td>DLX</td>
<td>186 186 (0%)</td>
<td>169 169 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Devon Energy Corp</td>
<td>DVN</td>
<td>54 30 (45%)</td>
<td>730 726 (1%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dillard's Inc-Cl A</td>
<td>DDS</td>
<td>66 66 (0%)</td>
<td>97 97 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disney (Walt) Co</td>
<td>DIS</td>
<td>120 (291) (343%)</td>
<td>920 1,272 (38%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dollar General Corp</td>
<td>DG</td>
<td>208 208 (0%)</td>
<td>71 71 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominion Resources Inc</td>
<td>D</td>
<td>544 212 (61%)</td>
<td>415 233 (44%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donnelley (R R) &amp; Sons Co</td>
<td>DNY</td>
<td>25 (148) (693%)</td>
<td>267 267 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Net Income (Loss)</td>
<td>2000 Adjusted Net Income (Loss)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------</td>
<td>---------------</td>
<td>---------------------------------</td>
<td>---------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dover Corp</td>
<td>DOV</td>
<td>167</td>
<td>106 (36%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dow Chemical</td>
<td>DOW</td>
<td>(417)</td>
<td>(1,879)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dow Jones &amp; Co Inc</td>
<td>DJ</td>
<td>98</td>
<td>98 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DTE Energy Co</td>
<td>DTE</td>
<td>329</td>
<td>225 (32%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Du Pont (E I) De Nemours</td>
<td>DD</td>
<td>4,328</td>
<td>1,734 (60%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duke Energy Corp</td>
<td>DUK</td>
<td>1,994</td>
<td>1,657 (17%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dynegy Inc</td>
<td>DYN</td>
<td>646</td>
<td>576 (11%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastman Chemical Co</td>
<td>EMN</td>
<td>(179)</td>
<td>(380) NM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastman Kodak Co</td>
<td>EK</td>
<td>76</td>
<td>(926) (1319%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eaton Corp</td>
<td>ETN</td>
<td>169</td>
<td>(187) (211%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ebay Inc</td>
<td>EBAY</td>
<td>90</td>
<td>90 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ecolab Inc</td>
<td>ECL</td>
<td>188</td>
<td>147 (22%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Edison International</td>
<td>EIX</td>
<td>2,424</td>
<td>2,122 (12%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>El Paso Corp</td>
<td>EP</td>
<td>67</td>
<td>(543) (911%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electronic Arts Inc</td>
<td>ERTS</td>
<td>102</td>
<td>102 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electronic Data Systems Corp</td>
<td>EDS</td>
<td>1,387</td>
<td>921 (34%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMC Corp/Ma</td>
<td>EMC</td>
<td>(508)</td>
<td>(538) NM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emerson Electric Co</td>
<td>EMR</td>
<td>1,032</td>
<td>803 (22%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engelhard Corp</td>
<td>EC</td>
<td>226</td>
<td>136 (40%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entergy Corp</td>
<td>ETR</td>
<td>727</td>
<td>556 (23%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EOG Resources Inc</td>
<td>EOG</td>
<td>399</td>
<td>399 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equifax Inc</td>
<td>EFX</td>
<td>117</td>
<td>37 (69%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Office Properties Tr</td>
<td>EOP</td>
<td>630</td>
<td>630 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Residential</td>
<td>EQR</td>
<td>456</td>
<td>456 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exelon Corp</td>
<td>EXC</td>
<td>1,416</td>
<td>646 (54%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exxon Mobil Corp</td>
<td>XOM</td>
<td>15,105</td>
<td>12,890 (15%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Dollar Stores</td>
<td>FDO</td>
<td>190</td>
<td>190 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fannie Mae</td>
<td>FNM</td>
<td>6,067</td>
<td>6,076 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Home Loan Mortg Corp</td>
<td>FRE</td>
<td>4,373</td>
<td>4,354 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federated Dept Stores</td>
<td>FD</td>
<td>518</td>
<td>343 (34%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fedex Corp</td>
<td>FDX</td>
<td>725</td>
<td>96 (87%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fifth Third Bancorp</td>
<td>FITB</td>
<td>1,101</td>
<td>1,047 (5%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Data Corp</td>
<td>FDC</td>
<td>875</td>
<td>784 (10%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Tennessee Natl Corp</td>
<td>FTN</td>
<td>330</td>
<td>291 (12%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FirstEnergy Corp</td>
<td>FE</td>
<td>727</td>
<td>527 (27%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiserv Inc</td>
<td>FISV</td>
<td>208</td>
<td>208 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fleetboston Financial Corp</td>
<td>FBF</td>
<td>931</td>
<td>606 (35%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fluor Corp</td>
<td>FLR</td>
<td>128</td>
<td>56 (57%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>(5,453)</td>
<td>(10,050) NM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forest Laboratories -Cl A</td>
<td>FRX</td>
<td>338</td>
<td>338 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fortune Brands Inc</td>
<td>FO</td>
<td>386</td>
<td>318 (18%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FPL</td>
<td>FPL</td>
<td>796</td>
<td>528 (34%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Franklin Resources Inc</td>
<td>BEN</td>
<td>485</td>
<td>486 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freeprt Mcmor Cop&amp;Gld -Cl B</td>
<td>FCX</td>
<td>113</td>
<td>112 (1%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gannett Co</td>
<td>GCI</td>
<td>831</td>
<td>324 (61%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gap Inc</td>
<td>GPS</td>
<td>(8)</td>
<td>(8) NM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gateway Inc</td>
<td>GTW</td>
<td>(1,014)</td>
<td>(1,014) NM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Dynamics Corp</td>
<td>GD</td>
<td>943</td>
<td>566 (40%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Electric Co</td>
<td>GE</td>
<td>14,128</td>
<td>8,402 (41%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Mills Inc</td>
<td>GIS</td>
<td>461</td>
<td>313 (32%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>601</td>
<td>(7,064) (1275%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Genuine Parts Co</td>
<td>GPC</td>
<td>297</td>
<td>237 (20%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Genzyme Corp</td>
<td>GENZ</td>
<td>40</td>
<td>40 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Net Income (Loss)</td>
<td>2000 Adjusted Net Income (Loss)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------</td>
<td>--------------</td>
<td>--------------------------------</td>
<td>---------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Georgia-Pacific Corp</td>
<td>GP</td>
<td>(476) (1,088)</td>
<td>343</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gillette Co</td>
<td>G</td>
<td>910 744 (18%)</td>
<td>821</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Golden West Financial Corp</td>
<td>GDW</td>
<td>819 819 0%</td>
<td>546</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goldman Sachs Group Inc</td>
<td>GS</td>
<td>2,310 2,280 (1%)</td>
<td>3,067 3,054 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodrich Corp</td>
<td>GR</td>
<td>177 22 (87%)</td>
<td>286</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodyear Tire &amp; Rubber Co</td>
<td>GT</td>
<td>(204) (683)</td>
<td>40 (201) (600%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grainger (W W) Inc</td>
<td>GWW</td>
<td>175 175 0%</td>
<td>193</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Great Lakes Chemical Corp</td>
<td>GLK</td>
<td>(290) (335)</td>
<td>NM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guidant Corp</td>
<td>GDT</td>
<td>484 475 (2%)</td>
<td>374</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Halliburton Co</td>
<td>HAL</td>
<td>551 89 (84%)</td>
<td>188</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hancock John Finl Svcs Inc</td>
<td>JHF</td>
<td>612 357 (42%)</td>
<td>839</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Harley-Davidson Inc</td>
<td>HDI</td>
<td>438 352 (20%)</td>
<td>348</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Harrahs Entertainment Inc</td>
<td>HET</td>
<td>209 209 0%</td>
<td>(11)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hartford Finl Svcs Grp Inc</td>
<td>HIG</td>
<td>549 296 (46%)</td>
<td>974</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hasbro Inc</td>
<td>HAS</td>
<td>61 7 (88%)</td>
<td>(145)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hca Inc</td>
<td>HCA</td>
<td>903 903 0%</td>
<td>219</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Management Assoc</td>
<td>HMA</td>
<td>195 195 0%</td>
<td>168</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Healthsouth Corp</td>
<td>HRC</td>
<td>202 202 0%</td>
<td>278</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heinz (H J) Co</td>
<td>HNZ</td>
<td>834 720 (14%)</td>
<td>495</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hercules Inc</td>
<td>HPC</td>
<td>(58) (265)</td>
<td>98 (36) (137%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hershey Foods Corp</td>
<td>HSY</td>
<td>207 186 (10%)</td>
<td>335</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hewlett-Packard Co</td>
<td>HPO</td>
<td>624 119 (81%)</td>
<td>3,561 3,601 1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hilton Hotels Corp</td>
<td>HLT</td>
<td>166 166 0%</td>
<td>272</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Home Depot Inc</td>
<td>HD</td>
<td>3,044 3,044 0%</td>
<td>2,581 2,581 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Honeywell International Inc</td>
<td>HON</td>
<td>(99) (1,659)</td>
<td>1,659 716 (57%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household International Inc</td>
<td>HI</td>
<td>1,924 1,695 (12%)</td>
<td>1,701 1,760 3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Humana Inc</td>
<td>HUM</td>
<td>117 117 0%</td>
<td>90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Huntington Bancshares</td>
<td>HBAN</td>
<td>179 163 (9%)</td>
<td>328</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Illinois Tool Works</td>
<td>ITW</td>
<td>802 521 (35%)</td>
<td>958</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IMS Health Inc</td>
<td>RX</td>
<td>138 118 (15%)</td>
<td>116</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ingersoll-Rand Co Ltd</td>
<td>IR</td>
<td>246 50 (80%)</td>
<td>546</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intel Corp</td>
<td>INTC</td>
<td>1,291 1,291 0%</td>
<td>10,535 10,535 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intermpublic Group Of Cos</td>
<td>IPG</td>
<td>(505) (515)</td>
<td>359</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Int Business Machines Corp</td>
<td>IBM</td>
<td>7,723 19 (100%)</td>
<td>8,093 3,651 (55%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Int Flavors &amp; Fragrances</td>
<td>IFF</td>
<td>116 57 (51%)</td>
<td>123</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Int Game Technology</td>
<td>IGT</td>
<td>214 214 0%</td>
<td>157</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Int Paper Co</td>
<td>IP</td>
<td>(1,142) (1,777)</td>
<td>368 (199) (154%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intuit Inc</td>
<td>INTU</td>
<td>(97) (97)</td>
<td>306</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ITT Industries Inc</td>
<td>ITT</td>
<td>217 (173) (180%)</td>
<td>265 (118) (145%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>J P Morgan Chase &amp; Co</td>
<td>JPM</td>
<td>1,719 1,825 6%</td>
<td>5,727 5,806 1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jabil Circuit Inc</td>
<td>JBL</td>
<td>119 119 0%</td>
<td>146</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JDS Uniphase Corp</td>
<td>JDSU</td>
<td>(56,122) (56,122)</td>
<td>(905) (905) NM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jefferson-Pilot Corp</td>
<td>JP</td>
<td>512 477 (7%)</td>
<td>512</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td>JNJ</td>
<td>5,668 5,047 (11%)</td>
<td>4,800 4,293 (11%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johnson Controls Inc</td>
<td>JCI</td>
<td>478 389 (19%)</td>
<td>472</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jones Apparel Group Inc</td>
<td>JNY</td>
<td>236 236 0%</td>
<td>302</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KB Home</td>
<td>KBH</td>
<td>214 214 0%</td>
<td>210</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kellogg Co</td>
<td>K</td>
<td>482 348 (28%)</td>
<td>588</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kerr-Mcgee Corp</td>
<td>KMG</td>
<td>506 333 (34%)</td>
<td>842</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Keycorp</td>
<td>KEY</td>
<td>157 (20) (113%)</td>
<td>1,002 1,036 3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Keyspan Corp</td>
<td>KSE</td>
<td>244 12 (95%)</td>
<td>301</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kimberly-Clark Corp</td>
<td>KMB</td>
<td>1,610 1,241 (23%)</td>
<td>1,801 1,384 (23%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kinder Morgan Inc</td>
<td>KMI</td>
<td>239 219 (8%)</td>
<td>184</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Net Income (Loss)</td>
<td>2000 Adjusted Net Income (Loss)</td>
<td>%Difference</td>
<td>Adjusted Net Income (Loss)</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>---------------</td>
<td>--------------------------------</td>
<td>--------------------------------</td>
<td>-------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>King Pharmaceuticals Inc</td>
<td>KG</td>
<td>233</td>
<td>233</td>
<td>0%</td>
<td>105</td>
</tr>
<tr>
<td>Kla-Tencor Corp</td>
<td>KLAC</td>
<td>373</td>
<td>373</td>
<td>0%</td>
<td>254</td>
</tr>
<tr>
<td>Knight-Ridder Inc</td>
<td>KRI</td>
<td>185</td>
<td>84</td>
<td>(55%)</td>
<td>314</td>
</tr>
<tr>
<td>Kohls Corp</td>
<td>KSS</td>
<td>496</td>
<td>496</td>
<td>0%</td>
<td>372</td>
</tr>
<tr>
<td>Kroger Co</td>
<td>KR</td>
<td>1,043</td>
<td>828</td>
<td>(21%)</td>
<td>880</td>
</tr>
<tr>
<td>Leggett &amp; Platt Inc</td>
<td>LEG</td>
<td>188</td>
<td>163</td>
<td>(13%)</td>
<td>264</td>
</tr>
<tr>
<td>Lehman Brothers Holdings Inc</td>
<td>LEH</td>
<td>1,255</td>
<td>1,092</td>
<td>(13%)</td>
<td>1,775</td>
</tr>
<tr>
<td>Lexmark Intl Inc-Cl A</td>
<td>LXX</td>
<td>274</td>
<td>198</td>
<td>(28%)</td>
<td>285</td>
</tr>
<tr>
<td>Lilly (Eli) &amp; Co</td>
<td>LLY</td>
<td>2,809</td>
<td>2,274</td>
<td>(19%)</td>
<td>3,058</td>
</tr>
<tr>
<td>Limited Brands Inc</td>
<td>LTD</td>
<td>519</td>
<td>519</td>
<td>0%</td>
<td>428</td>
</tr>
<tr>
<td>Lincoln National Corp</td>
<td>LNC</td>
<td>606</td>
<td>560</td>
<td>(8%)</td>
<td>621</td>
</tr>
<tr>
<td>Linear Technology Corp</td>
<td>LLTC</td>
<td>427</td>
<td>427</td>
<td>0%</td>
<td>288</td>
</tr>
<tr>
<td>Liz Claiborne Inc</td>
<td>LIZ</td>
<td>192</td>
<td>192</td>
<td>0%</td>
<td>185</td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>79 (2,501)</td>
<td>(3266%)</td>
<td>(2)</td>
<td>(424)</td>
</tr>
<tr>
<td>Loews Corp</td>
<td>LTR</td>
<td>(536)</td>
<td>(615)</td>
<td>NM</td>
<td>1,877</td>
</tr>
<tr>
<td>Louisiana-Pacific Corp</td>
<td>LPX</td>
<td>(172)</td>
<td>(198)</td>
<td>NM</td>
<td>(14)</td>
</tr>
<tr>
<td>Lowes Cos</td>
<td>LOW</td>
<td>1,023</td>
<td>1,023</td>
<td>0%</td>
<td>810</td>
</tr>
<tr>
<td>LSI Logic Corp</td>
<td>LSI</td>
<td>(992)</td>
<td>(992)</td>
<td>NM</td>
<td>237</td>
</tr>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>(14,170)</td>
<td>(20,290)</td>
<td>NM</td>
<td>1,681</td>
</tr>
<tr>
<td>Manor Care Inc</td>
<td>HCR</td>
<td>68</td>
<td>63</td>
<td>(8%)</td>
<td>39</td>
</tr>
<tr>
<td>Marathon Oil Corp</td>
<td>MRO</td>
<td>1,318</td>
<td>1,104</td>
<td>(16%)</td>
<td>432</td>
</tr>
<tr>
<td>Marriott Intl Inc</td>
<td>MAR</td>
<td>236</td>
<td>236</td>
<td>0%</td>
<td>479</td>
</tr>
<tr>
<td>Marsh &amp; McLennan Cos</td>
<td>MMC</td>
<td>974</td>
<td>210</td>
<td>(78%)</td>
<td>1,181</td>
</tr>
<tr>
<td>Marshall &amp; Isley Corp</td>
<td>MI</td>
<td>338</td>
<td>338</td>
<td>0%</td>
<td>317</td>
</tr>
<tr>
<td>Masco Corp</td>
<td>MAS</td>
<td>199</td>
<td>188</td>
<td>(5%)</td>
<td>592</td>
</tr>
<tr>
<td>Mattel Inc</td>
<td>MAT</td>
<td>311</td>
<td>295</td>
<td>(5%)</td>
<td>170</td>
</tr>
<tr>
<td>Maxim Integrated Products</td>
<td>MXIM</td>
<td>335</td>
<td>335</td>
<td>0%</td>
<td>281</td>
</tr>
<tr>
<td>May Department Stores Co</td>
<td>MAY</td>
<td>706</td>
<td>651</td>
<td>(8%)</td>
<td>858</td>
</tr>
<tr>
<td>Maytag Corp</td>
<td>MYG</td>
<td>168</td>
<td>(35)</td>
<td>(121%)</td>
<td>201</td>
</tr>
<tr>
<td>MBIA Inc</td>
<td>MBI</td>
<td>583</td>
<td>583</td>
<td>0%</td>
<td>529</td>
</tr>
<tr>
<td>MBNA Corp</td>
<td>KRB</td>
<td>1,694</td>
<td>1,619</td>
<td>(4%)</td>
<td>1,313</td>
</tr>
<tr>
<td>McDermott Intl Inc</td>
<td>MDR</td>
<td>(21)</td>
<td>(173)</td>
<td>NM</td>
<td>(22)</td>
</tr>
<tr>
<td>McDonalds Corp</td>
<td>MCD</td>
<td>1,637</td>
<td>1,637</td>
<td>0%</td>
<td>1,977</td>
</tr>
<tr>
<td>McGraw-Hill Companies</td>
<td>MHP</td>
<td>377</td>
<td>233</td>
<td>(38%)</td>
<td>472</td>
</tr>
<tr>
<td>McKesson Corp</td>
<td>MCK</td>
<td>419</td>
<td>389</td>
<td>(7%)</td>
<td>(43)</td>
</tr>
<tr>
<td>Meadwestvaco Corp</td>
<td>MWV</td>
<td>88</td>
<td>(221)</td>
<td>(350%)</td>
<td>255</td>
</tr>
<tr>
<td>Medimmune Inc</td>
<td>MEDI</td>
<td>149</td>
<td>149</td>
<td>0%</td>
<td>145</td>
</tr>
<tr>
<td>Medtronic Inc</td>
<td>MDT</td>
<td>984</td>
<td>917</td>
<td>(7%)</td>
<td>1,046</td>
</tr>
<tr>
<td>Mellon Financial Corp</td>
<td>MEL</td>
<td>436</td>
<td>212</td>
<td>(51%)</td>
<td>1,007</td>
</tr>
<tr>
<td>Merck &amp; Co</td>
<td>MRK</td>
<td>7,282</td>
<td>6,761</td>
<td>(7%)</td>
<td>6,822</td>
</tr>
<tr>
<td>Mercury Interactive Corp</td>
<td>MERO</td>
<td>18</td>
<td>18</td>
<td>0%</td>
<td>65</td>
</tr>
<tr>
<td>Meredith Corp</td>
<td>MDP</td>
<td>71</td>
<td>59</td>
<td>(18%)</td>
<td>71</td>
</tr>
<tr>
<td>Merrill Lynch &amp; Co</td>
<td>MER</td>
<td>573</td>
<td>517</td>
<td>(10%)</td>
<td>3,784</td>
</tr>
<tr>
<td>Metlife Inc</td>
<td>MET</td>
<td>473</td>
<td>(16)</td>
<td>(103%)</td>
<td>953</td>
</tr>
<tr>
<td>MGIC Investment Corp/Wi</td>
<td>MTG</td>
<td>639</td>
<td>628</td>
<td>(2%)</td>
<td>542</td>
</tr>
<tr>
<td>Micron Technology Inc</td>
<td>MUI</td>
<td>(521)</td>
<td>(521)</td>
<td>NM</td>
<td>1,504</td>
</tr>
<tr>
<td>Microsoft Corp</td>
<td>MSFT</td>
<td>7,721</td>
<td>7,721</td>
<td>0%</td>
<td>9,421</td>
</tr>
<tr>
<td>Millipore Corp</td>
<td>MIL</td>
<td>63</td>
<td>63</td>
<td>(1%)</td>
<td>119</td>
</tr>
<tr>
<td>Mirant Corp</td>
<td>MIR</td>
<td>563</td>
<td>570</td>
<td>1%</td>
<td>332</td>
</tr>
<tr>
<td>Molex Inc</td>
<td>MOLX</td>
<td>204</td>
<td>202</td>
<td>(1%)</td>
<td>222</td>
</tr>
<tr>
<td>Moodys Corp</td>
<td>MCO</td>
<td>212</td>
<td>203</td>
<td>(5%)</td>
<td>159</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>MWD</td>
<td>3,610</td>
<td>3,526</td>
<td>(2%)</td>
<td>5,456</td>
</tr>
<tr>
<td>Motorola Inc</td>
<td>MOT</td>
<td>(3,937)</td>
<td>(4,289)</td>
<td>NM</td>
<td>1,318</td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Net Income (Loss)</td>
<td>2000 Adjusted Net Income (Loss)</td>
<td>%Difference</td>
<td></td>
</tr>
<tr>
<td>------------------------------</td>
<td>---------------</td>
<td>---------------------------------</td>
<td>---------------------------------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>Nabors Industries Ltd</td>
<td>NBR</td>
<td>348</td>
<td>347</td>
<td>(0%)</td>
<td></td>
</tr>
<tr>
<td>National City Corp</td>
<td>NCC</td>
<td>1,388</td>
<td>1,315</td>
<td>(5%)</td>
<td></td>
</tr>
<tr>
<td>National Semiconductor Corp</td>
<td>NSM</td>
<td>246</td>
<td>232</td>
<td>(5%)</td>
<td></td>
</tr>
<tr>
<td>Navistar International</td>
<td>NAV</td>
<td>(23)</td>
<td>(278)</td>
<td>NM</td>
<td></td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>221</td>
<td>(413)</td>
<td>(287%)</td>
<td></td>
</tr>
<tr>
<td>Network Appliance Inc</td>
<td>NTAP</td>
<td>3</td>
<td>3</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>New York Times Co-Cl A</td>
<td>NYT</td>
<td>202</td>
<td>107</td>
<td>(47%)</td>
<td></td>
</tr>
<tr>
<td>Newell Rubbermaid Inc</td>
<td>NWL</td>
<td>265</td>
<td>102</td>
<td>(61%)</td>
<td></td>
</tr>
<tr>
<td>Newport Mining Corp</td>
<td>NEM</td>
<td>(23)</td>
<td>(26)</td>
<td>NM</td>
<td></td>
</tr>
<tr>
<td>Nextel Communications</td>
<td>NXTL</td>
<td>(3,094)</td>
<td>(3,094)</td>
<td>NM</td>
<td></td>
</tr>
<tr>
<td>Nicor Inc</td>
<td>GAS</td>
<td>144</td>
<td>55</td>
<td>(62%)</td>
<td></td>
</tr>
<tr>
<td>Nike Inc-Cl B</td>
<td>NKE</td>
<td>668</td>
<td>668</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Nisource Inc</td>
<td>NI</td>
<td>220</td>
<td>(34)</td>
<td>(116%)</td>
<td></td>
</tr>
<tr>
<td>Noble Corp</td>
<td>NE</td>
<td>264</td>
<td>259</td>
<td>(2%)</td>
<td></td>
</tr>
<tr>
<td>Nordstrom Inc</td>
<td>JWN</td>
<td>125</td>
<td>126</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Norfolk Southern Corp</td>
<td>NSC</td>
<td>362</td>
<td>144</td>
<td>(60%)</td>
<td></td>
</tr>
<tr>
<td>North Fork Bancorporation</td>
<td>NFB</td>
<td>331</td>
<td>320</td>
<td>(3%)</td>
<td></td>
</tr>
<tr>
<td>Northern Trust Corp</td>
<td>NTRS</td>
<td>488</td>
<td>418</td>
<td>(14%)</td>
<td></td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>427</td>
<td>(1,233)</td>
<td>(389%)</td>
<td></td>
</tr>
<tr>
<td>Novell Inc</td>
<td>NOVL</td>
<td>(262)</td>
<td>(262)</td>
<td>NM</td>
<td></td>
</tr>
<tr>
<td>Novellus Systems Inc</td>
<td>NVLS</td>
<td>144</td>
<td>144</td>
<td>0%</td>
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<tr>
<td>Nucor Corp</td>
<td>NUE</td>
<td>113</td>
<td>113</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Nvidia Corp</td>
<td>NVDA</td>
<td>177</td>
<td>177</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Occidental Petroleum Corp</td>
<td>OXY</td>
<td>1,186</td>
<td>1,164</td>
<td>(2%)</td>
<td></td>
</tr>
<tr>
<td>Office Depot Inc</td>
<td>ODP</td>
<td>201</td>
<td>201</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Omnicom Group</td>
<td>OMC</td>
<td>503</td>
<td>503</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Oracle Corp</td>
<td>ORCL</td>
<td>2,224</td>
<td>2,224</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Pacc Inc</td>
<td>PCAR</td>
<td>174</td>
<td>142</td>
<td>(18%)</td>
<td></td>
</tr>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>165</td>
<td>(539)</td>
<td>(427%)</td>
<td></td>
</tr>
<tr>
<td>Pall Corp</td>
<td>PLL</td>
<td>118</td>
<td>88</td>
<td>(26%)</td>
<td></td>
</tr>
<tr>
<td>Palm Inc</td>
<td>PALM</td>
<td>(82)</td>
<td>(82)</td>
<td>NM</td>
<td></td>
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<tr>
<td>Parametric Technology Corp</td>
<td>PMTC</td>
<td>(8)</td>
<td>(19)</td>
<td>NM</td>
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<tr>
<td>Parker-Hannifin Corp</td>
<td>PH</td>
<td>130</td>
<td>(13)</td>
<td>(110%)</td>
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<tr>
<td>Paychex Inc</td>
<td>PAYX</td>
<td>275</td>
<td>275</td>
<td>0%</td>
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<tr>
<td>Penney (J C) Co</td>
<td>JCP</td>
<td>114</td>
<td>(264)</td>
<td>(331%)</td>
<td></td>
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<tr>
<td>Peoples Energy Corp</td>
<td>PGL</td>
<td>97</td>
<td>52</td>
<td>(47%)</td>
<td></td>
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<tr>
<td>Peoplesoft Inc</td>
<td>PSFT</td>
<td>192</td>
<td>192</td>
<td>0%</td>
<td></td>
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<tr>
<td>Pepsi Bottling Group Inc</td>
<td>PBG</td>
<td>305</td>
<td>161</td>
<td>(47%)</td>
<td></td>
</tr>
<tr>
<td>PepsiCo Inc</td>
<td>PEP</td>
<td>2,662</td>
<td>2,123</td>
<td>(20%)</td>
<td></td>
</tr>
<tr>
<td>PerkinElmer Inc</td>
<td>PKI</td>
<td>(1)</td>
<td>(22)</td>
<td>NM</td>
<td></td>
</tr>
<tr>
<td>Pfizer Inc</td>
<td>PFE</td>
<td>7,752</td>
<td>6,752</td>
<td>(13%)</td>
<td></td>
</tr>
<tr>
<td>PG&amp;E Corp</td>
<td>PCG</td>
<td>1,115</td>
<td>176</td>
<td>(84%)</td>
<td></td>
</tr>
<tr>
<td>PharmaCia Corp</td>
<td>PHA</td>
<td>1,291</td>
<td>896</td>
<td>(31%)</td>
<td></td>
</tr>
<tr>
<td>Phelps Dodge Corp</td>
<td>PD</td>
<td>(273)</td>
<td>(378)</td>
<td>NM</td>
<td></td>
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<tr>
<td>Philip Morris Cos Inc</td>
<td>MO</td>
<td>8,566</td>
<td>6,538</td>
<td>(24%)</td>
<td></td>
</tr>
<tr>
<td>Phillips Petroleum Co</td>
<td>P</td>
<td>1,643</td>
<td>1,406</td>
<td>(14%)</td>
<td></td>
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<tr>
<td>Pinnacle West Capital</td>
<td>PNW</td>
<td>327</td>
<td>250</td>
<td>(24%)</td>
<td></td>
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<tr>
<td>Pitney Bowes Inc</td>
<td>PBI</td>
<td>514</td>
<td>331</td>
<td>(36%)</td>
<td></td>
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<tr>
<td>Plum Creek Timber Co Inc</td>
<td>PCL</td>
<td>338</td>
<td>341</td>
<td>1%</td>
<td></td>
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<tr>
<td>PMC-Sierra Inc</td>
<td>PMCS</td>
<td>(639)</td>
<td>(639)</td>
<td>NM</td>
<td></td>
</tr>
<tr>
<td>PNC Financial Svcs Group Inc</td>
<td>PNC</td>
<td>377</td>
<td>230</td>
<td>(39%)</td>
<td></td>
</tr>
<tr>
<td>Power-One Inc</td>
<td>POWER</td>
<td>(186)</td>
<td>(186)</td>
<td>NM</td>
<td></td>
</tr>
<tr>
<td>PPG Industries Inc</td>
<td>PPG</td>
<td>387</td>
<td>99</td>
<td>(74%)</td>
<td></td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Net Income (Loss)</td>
<td>2000 Adjusted Net Income (Loss)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>---------------</td>
<td>---------------------------------</td>
<td>---------------------------------</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Net Income/ (Loss)</td>
<td>Adjusted</td>
<td>%Difference</td>
<td>Net Income/ (Loss)</td>
</tr>
<tr>
<td>PPL Corp</td>
<td>PPL</td>
<td>221                18</td>
<td>(92%)</td>
<td>513</td>
<td>391</td>
</tr>
<tr>
<td>Praxair Inc</td>
<td>PX</td>
<td>432                351</td>
<td>(19%)</td>
<td>363</td>
<td>309</td>
</tr>
<tr>
<td>Price (T. Rowe) Group</td>
<td>TROW</td>
<td>196                196</td>
<td>0%</td>
<td>269</td>
<td>269</td>
</tr>
<tr>
<td>Principal Financial Grp Inc</td>
<td>PFG</td>
<td>370                252</td>
<td>(32%)</td>
<td>620</td>
<td>600</td>
</tr>
<tr>
<td>Procter &amp; Gamble Co</td>
<td>PG</td>
<td>2,922              2,729</td>
<td>(7%)</td>
<td>3,542</td>
<td>3,573</td>
</tr>
<tr>
<td>Progress Energy Inc</td>
<td>PGN</td>
<td>542                364</td>
<td>(33%)</td>
<td>478</td>
<td>407</td>
</tr>
<tr>
<td>Progressive Corp-Ohio</td>
<td>PGR</td>
<td>411                411</td>
<td>0%</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>Providian Financial Corp</td>
<td>PVN</td>
<td>141                141</td>
<td>0%</td>
<td>652</td>
<td>652</td>
</tr>
<tr>
<td>Prudential Financial Inc</td>
<td>PRU</td>
<td>(170)              (1,911)</td>
<td>NM</td>
<td>321</td>
<td>565</td>
</tr>
<tr>
<td>Public Service Entrp</td>
<td>PEG</td>
<td>763                528</td>
<td>(31%)</td>
<td>773</td>
<td>641</td>
</tr>
<tr>
<td>Pulte Homes Inc</td>
<td>PHM</td>
<td>302                302</td>
<td>0%</td>
<td>218</td>
<td>218</td>
</tr>
<tr>
<td>Qlogic Corp</td>
<td>QLGC</td>
<td>71                 71</td>
<td>0%</td>
<td>69</td>
<td>69</td>
</tr>
<tr>
<td>Qualcomm Inc</td>
<td>QCOM</td>
<td>(531)              (531)</td>
<td>NM</td>
<td>670</td>
<td>670</td>
</tr>
<tr>
<td>Quintiles Transnational Corp</td>
<td>QTRN</td>
<td>(176)              (176)</td>
<td>NM</td>
<td>(34)</td>
<td>(34)</td>
</tr>
<tr>
<td>Qwest Communication Intl Inc</td>
<td>Q</td>
<td>(3,958)            (5,736)</td>
<td>NM</td>
<td>(81)</td>
<td>(1,247)</td>
</tr>
<tr>
<td>Radioshack Corp</td>
<td>RSH</td>
<td>167                167</td>
<td>0%</td>
<td>368</td>
<td>368</td>
</tr>
<tr>
<td>Rational Software Corp</td>
<td>RATL</td>
<td>(76)               (76)</td>
<td>NM</td>
<td>72</td>
<td>72</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>5                  (3,009)</td>
<td>(60281%)</td>
<td>498</td>
<td>598</td>
</tr>
<tr>
<td>Reebok International Ltd</td>
<td>RBK</td>
<td>103                103</td>
<td>0%</td>
<td>81</td>
<td>81</td>
</tr>
<tr>
<td>Regions Finl Corp</td>
<td>RF</td>
<td>509                463</td>
<td>(9%)</td>
<td>528</td>
<td>530</td>
</tr>
<tr>
<td>Reliant Energy Inc</td>
<td>REI</td>
<td>919                775</td>
<td>(16%)</td>
<td>771</td>
<td>624</td>
</tr>
<tr>
<td>Robert Half Intl Inc</td>
<td>RHI</td>
<td>121                121</td>
<td>0%</td>
<td>186</td>
<td>186</td>
</tr>
<tr>
<td>Rockwell Automation</td>
<td>ROK</td>
<td>125                (23)</td>
<td>(119%)</td>
<td>636</td>
<td>585</td>
</tr>
<tr>
<td>Rockwell Collins Inc</td>
<td>COL</td>
<td>139                (87)</td>
<td>(163%)</td>
<td>269</td>
<td>353</td>
</tr>
<tr>
<td>Rohm &amp; Haas Co</td>
<td>ROH</td>
<td>(70)               (285)</td>
<td>NM</td>
<td>354</td>
<td>295</td>
</tr>
<tr>
<td>Rowan Cos Inc</td>
<td>RDC</td>
<td>77                 45</td>
<td>(41%)</td>
<td>70</td>
<td>58</td>
</tr>
<tr>
<td>Ryder System Inc</td>
<td>R</td>
<td>19                 (128)</td>
<td>(786%)</td>
<td>89</td>
<td>(56)</td>
</tr>
<tr>
<td>Sabre Hldgs Corp-Cl A</td>
<td>TSG</td>
<td>(47)               (67)</td>
<td>NM</td>
<td>144</td>
<td>124</td>
</tr>
<tr>
<td>Safeco Corp</td>
<td>SAFC</td>
<td>(1,045)            (1,041)</td>
<td>NM</td>
<td>115</td>
<td>116</td>
</tr>
<tr>
<td>Safeway Inc</td>
<td>SWY</td>
<td>1,254              1,079</td>
<td>(14%)</td>
<td>1,092</td>
<td>898</td>
</tr>
<tr>
<td>Sanmina-Sci Corp</td>
<td>SANN</td>
<td>40                 40</td>
<td>0%</td>
<td>197</td>
<td>197</td>
</tr>
<tr>
<td>Sara Lee Corp</td>
<td>SLE</td>
<td>1,603              1,396</td>
<td>(13%)</td>
<td>1,158</td>
<td>1,237</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>7,260              1,958</td>
<td>(73%)</td>
<td>7,967</td>
<td>5,080</td>
</tr>
<tr>
<td>Schering-Plough</td>
<td>SGP</td>
<td>1,943              1,757</td>
<td>(10%)</td>
<td>2,423</td>
<td>2,344</td>
</tr>
<tr>
<td>Schlumberger Ltd</td>
<td>SLB</td>
<td>522                238</td>
<td>(54%)</td>
<td>735</td>
<td>599</td>
</tr>
<tr>
<td>Schwab (Charles) Corp</td>
<td>SCH</td>
<td>78                 (8)</td>
<td>(110%)</td>
<td>718</td>
<td>706</td>
</tr>
<tr>
<td>Scientific-Atlanta Inc</td>
<td>SFA</td>
<td>334                324</td>
<td>(3%)</td>
<td>156</td>
<td>160</td>
</tr>
<tr>
<td>Sealed Air Corp</td>
<td>SEE</td>
<td>157                151</td>
<td>(4%)</td>
<td>225</td>
<td>227</td>
</tr>
<tr>
<td>Sears Roebuck &amp; Co</td>
<td>S</td>
<td>735                249</td>
<td>(66%)</td>
<td>1,343</td>
<td>1,472</td>
</tr>
<tr>
<td>Sempra Energy</td>
<td>SRE</td>
<td>529                233</td>
<td>(56%)</td>
<td>440</td>
<td>47</td>
</tr>
<tr>
<td>Sherwin-Williams Co</td>
<td>SHW</td>
<td>263                240</td>
<td>(9%)</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td>Siebel Systems Inc</td>
<td>SEBL</td>
<td>255                255</td>
<td>0%</td>
<td>222</td>
<td>222</td>
</tr>
<tr>
<td>Sigma-Aldrich</td>
<td>SIAl</td>
<td>141                129</td>
<td>(8%)</td>
<td>139</td>
<td>129</td>
</tr>
<tr>
<td>Simon Property Group Inc</td>
<td>SPG</td>
<td>201                201</td>
<td>0%</td>
<td>236</td>
<td>236</td>
</tr>
<tr>
<td>SLM Corp</td>
<td>SLM</td>
<td>384                387</td>
<td>1%</td>
<td>465</td>
<td>475</td>
</tr>
<tr>
<td>Snap-On Inc</td>
<td>SNA</td>
<td>22                 (39)</td>
<td>(284%)</td>
<td>123</td>
<td>127</td>
</tr>
<tr>
<td>Soleciton Corp</td>
<td>SLR</td>
<td>(124)              (124)</td>
<td>NM</td>
<td>501</td>
<td>501</td>
</tr>
<tr>
<td>Southern Co</td>
<td>SO</td>
<td>1,137              241</td>
<td>(79%)</td>
<td>1,013</td>
<td>1,410</td>
</tr>
<tr>
<td>Southtrust Corp</td>
<td>SOTR</td>
<td>554                546</td>
<td>(2%)</td>
<td>482</td>
<td>475</td>
</tr>
<tr>
<td>Southwest Airlines</td>
<td>LUV</td>
<td>511                511</td>
<td>0%</td>
<td>625</td>
<td>625</td>
</tr>
<tr>
<td>Sprint Fon Group</td>
<td>FON</td>
<td>(146)              (643)</td>
<td>NM</td>
<td>1,292</td>
<td>876</td>
</tr>
<tr>
<td>Sprint Pcs Group</td>
<td>PCS</td>
<td>(1,249)            (1,237)</td>
<td>NM</td>
<td>(1,868)</td>
<td>(1,868)</td>
</tr>
<tr>
<td>St Jude Medical Inc</td>
<td>STJ</td>
<td>173                173</td>
<td>0%</td>
<td>129</td>
<td>129</td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Net Income (Loss)</td>
<td>2000 Adjusted Net Income (Loss)</td>
<td>%Difference</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>---------------</td>
<td>---------------------------------</td>
<td>---------------------------------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>St Paul Cos</td>
<td>SPC</td>
<td>(1,009)</td>
<td>1,013</td>
<td>850</td>
<td>(16%)</td>
</tr>
<tr>
<td>Stanley Works</td>
<td>SWK</td>
<td>158</td>
<td>194</td>
<td>191</td>
<td>(2%)</td>
</tr>
<tr>
<td>Staples Inc</td>
<td>SPSL</td>
<td>265</td>
<td>60</td>
<td>60</td>
<td>0%</td>
</tr>
<tr>
<td>Starbucks Corp</td>
<td>SBUX</td>
<td>181</td>
<td>95</td>
<td>95</td>
<td>0%</td>
</tr>
<tr>
<td>Starwood Hotels &amp; Resorts Wrld</td>
<td>HOT</td>
<td>151</td>
<td>401</td>
<td>384</td>
<td>(4%)</td>
</tr>
<tr>
<td>State Street Corp</td>
<td>STT</td>
<td>628</td>
<td>595</td>
<td>564</td>
<td>(5%)</td>
</tr>
<tr>
<td>Stilwell Finl Inc</td>
<td>SV</td>
<td>302</td>
<td>664</td>
<td>664</td>
<td>0%</td>
</tr>
<tr>
<td>Stryker Corp</td>
<td>SY</td>
<td>272</td>
<td>221</td>
<td>220</td>
<td>(1%)</td>
</tr>
<tr>
<td>Sun Microsystems Inc</td>
<td>SUNW</td>
<td>981</td>
<td>1,854</td>
<td>1,854</td>
<td>0%</td>
</tr>
<tr>
<td>Sungard Data Systems Inc</td>
<td>SDS</td>
<td>246</td>
<td>213</td>
<td>213</td>
<td>0%</td>
</tr>
<tr>
<td>Sunoco Inc</td>
<td>SUN</td>
<td>398</td>
<td>411</td>
<td>276</td>
<td>(33%)</td>
</tr>
<tr>
<td>Suntrust Banks Inc</td>
<td>STI</td>
<td>1,369</td>
<td>1,294</td>
<td>1,250</td>
<td>(3%)</td>
</tr>
<tr>
<td>Supervalu Inc</td>
<td>SVU</td>
<td>206</td>
<td>82</td>
<td>68</td>
<td>(17%)</td>
</tr>
<tr>
<td>Symbol Technologies</td>
<td>SBL</td>
<td>(55)</td>
<td>(69)</td>
<td>(69)</td>
<td>NM</td>
</tr>
<tr>
<td>Synovus Financial Cp</td>
<td>SNV</td>
<td>312</td>
<td>263</td>
<td>263</td>
<td>0%</td>
</tr>
<tr>
<td>Sysco Corp</td>
<td>SYY</td>
<td>597</td>
<td>454</td>
<td>467</td>
<td>3%</td>
</tr>
<tr>
<td>Target Corp</td>
<td>TGT</td>
<td>1,374</td>
<td>1,264</td>
<td>1,275</td>
<td>1%</td>
</tr>
<tr>
<td>Teco Energy Inc</td>
<td>TE</td>
<td>304</td>
<td>251</td>
<td>213</td>
<td>(15%)</td>
</tr>
<tr>
<td>Tektronix Inc</td>
<td>TEK</td>
<td>30</td>
<td>140</td>
<td>83</td>
<td>(41%)</td>
</tr>
<tr>
<td>Tellabs Inc</td>
<td>TLAB</td>
<td>(182)</td>
<td>760</td>
<td>760</td>
<td>0%</td>
</tr>
<tr>
<td>Temple-Inland Inc</td>
<td>TIN</td>
<td>111</td>
<td>195</td>
<td>252</td>
<td>29%</td>
</tr>
<tr>
<td>Tenet Healthcare Corp</td>
<td>THC</td>
<td>1,025</td>
<td>678</td>
<td>678</td>
<td>0%</td>
</tr>
<tr>
<td>Teradyne Inc</td>
<td>TER</td>
<td>(202)</td>
<td>518</td>
<td>509</td>
<td>(2%)</td>
</tr>
<tr>
<td>Texas Instruments Inc</td>
<td>TXN</td>
<td>(201)</td>
<td>3,087</td>
<td>3,057</td>
<td>(1%)</td>
</tr>
<tr>
<td>Textron Inc</td>
<td>TXT</td>
<td>166</td>
<td>277</td>
<td>(17)</td>
<td>(106%)</td>
</tr>
<tr>
<td>Thermo Electron Corp</td>
<td>TMO</td>
<td>50</td>
<td>62</td>
<td>53</td>
<td>(15%)</td>
</tr>
<tr>
<td>Thomas &amp; Betts Corp</td>
<td>TBN</td>
<td>(139)</td>
<td>(193)</td>
<td>(224)</td>
<td>NM</td>
</tr>
<tr>
<td>Tiffany &amp; Co</td>
<td>TIF</td>
<td>174</td>
<td>191</td>
<td>181</td>
<td>(5%)</td>
</tr>
<tr>
<td>TJX Companies Inc</td>
<td>TJX</td>
<td>540</td>
<td>538</td>
<td>516</td>
<td>(4%)</td>
</tr>
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<td>TMP Worldwide Inc</td>
<td>TMPW</td>
<td>69</td>
<td>57</td>
<td>57</td>
<td>0%</td>
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<tr>
<td>Torchmark Corp</td>
<td>TMK</td>
<td>391</td>
<td>362</td>
<td>361</td>
<td>(0%)</td>
</tr>
<tr>
<td>Toys R Us Inc</td>
<td>TOY</td>
<td>67</td>
<td>404</td>
<td>404</td>
<td>0%</td>
</tr>
<tr>
<td>Transocean Inc</td>
<td>RIG</td>
<td>272</td>
<td>107</td>
<td>98</td>
<td>(9%)</td>
</tr>
<tr>
<td>Tribune Co</td>
<td>TRB</td>
<td>111</td>
<td>310</td>
<td>188</td>
<td>(39%)</td>
</tr>
<tr>
<td>TRW Inc</td>
<td>TRW</td>
<td>68</td>
<td>438</td>
<td>(448)</td>
<td>(202%)</td>
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<tr>
<td>Tupperware Corp</td>
<td>TUP</td>
<td>62</td>
<td>75</td>
<td>70</td>
<td>(6%)</td>
</tr>
<tr>
<td>TXU Corp</td>
<td>TXU</td>
<td>845</td>
<td>930</td>
<td>766</td>
<td>(18%)</td>
</tr>
<tr>
<td>Tyco International Ltd</td>
<td>TYC</td>
<td>4,671</td>
<td>4,520</td>
<td>4,677</td>
<td>3%</td>
</tr>
<tr>
<td>U S Bancorp</td>
<td>USB</td>
<td>1,707</td>
<td>1,284</td>
<td>1,502</td>
<td>17%</td>
</tr>
<tr>
<td>Union Pacific Corp</td>
<td>UNP</td>
<td>966</td>
<td>842</td>
<td>585</td>
<td>(30%)</td>
</tr>
<tr>
<td>Union Planters Corp</td>
<td>UPC</td>
<td>444</td>
<td>409</td>
<td>409</td>
<td>0%</td>
</tr>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>(50)</td>
<td>245</td>
<td>73</td>
<td>(70%)</td>
</tr>
<tr>
<td>United Parcel Service Inc</td>
<td>UPS</td>
<td>2,425</td>
<td>2,934</td>
<td>3,676</td>
<td>25%</td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>(218)</td>
<td>(21)</td>
<td>(765)</td>
<td>NM</td>
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<td>United Technologies Corp</td>
<td>UTX</td>
<td>1,938</td>
<td>1,808</td>
<td>2,132</td>
<td>18%</td>
</tr>
<tr>
<td>Unitedhealth Group Inc</td>
<td>UNH</td>
<td>913</td>
<td>736</td>
<td>736</td>
<td>0%</td>
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<tr>
<td>Univision Communications Inc</td>
<td>UVN</td>
<td>55</td>
<td>117</td>
<td>117</td>
<td>0%</td>
</tr>
<tr>
<td>Unocal Corp</td>
<td>UCL</td>
<td>599</td>
<td>723</td>
<td>644</td>
<td>(11%)</td>
</tr>
<tr>
<td>Unumprovident Corp</td>
<td>UNM</td>
<td>582</td>
<td>564</td>
<td>402</td>
<td>(29%)</td>
</tr>
<tr>
<td>UST Inc</td>
<td>UST</td>
<td>492</td>
<td>442</td>
<td>418</td>
<td>(5%)</td>
</tr>
<tr>
<td>Veritas Software Co</td>
<td>VRTS</td>
<td>(651)</td>
<td>(620)</td>
<td>(620)</td>
<td>NM</td>
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<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>590</td>
<td>10,810</td>
<td>6,491</td>
<td>(40%)</td>
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<tr>
<td>VF Corp</td>
<td>VFC</td>
<td>(18)</td>
<td>267</td>
<td>303</td>
<td>13%</td>
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<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Net Income/(Loss)</td>
<td>2000 Adjusted Net Income (Loss)</td>
<td>%Difference</td>
<td></td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------------</td>
<td>---------------------------------</td>
<td>---------------------------------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>Viacom Inc -Cl B</td>
<td>VIA.B</td>
<td>(220) (513) NM</td>
<td>(364) (455) NM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visteon Corp</td>
<td>VC</td>
<td>(118) (266) NM</td>
<td>270 343</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Vitesse Semiconductor Corp</td>
<td>VTSS</td>
<td>(131) (131) NM</td>
<td>28 28</td>
<td>0%</td>
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</tr>
<tr>
<td>Vulcan Materials Co</td>
<td>VMC</td>
<td>223 149 (33%)</td>
<td>220 233</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Wachovia Corp</td>
<td>WB</td>
<td>1,619 931 (43%)</td>
<td>138 296 (114%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Walgreen Co</td>
<td>WAG</td>
<td>6,671 6,671 0%</td>
<td>6,295 6,295 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wal-Mart Stores</td>
<td>WMT</td>
<td>886 886 0%</td>
<td>777 777 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Washington Mutual Inc</td>
<td>WM</td>
<td>2,732 2,657 (3%)</td>
<td>1,899 1,846 (3%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waste Management Inc</td>
<td>WMI</td>
<td>503 504 0%</td>
<td>(97) (70) NM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waters Corp</td>
<td>WAT</td>
<td>115 111 (3%)</td>
<td>156 152 (2%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Watson Pharmaceuticals Inc</td>
<td>WPI</td>
<td>116 116 0%</td>
<td>171 171 0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wellpoint Hlth Netwrk-Cl A</td>
<td>WLP</td>
<td>415 397 (4%)</td>
<td>342 336 (2%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wells Fargo &amp; Co</td>
<td>WFC</td>
<td>3,423 2,840 (17%)</td>
<td>4,026 4,179 4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wendy's International Inc</td>
<td>WEN</td>
<td>194 188 (3%)</td>
<td>170 160 (5%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weyerhaeuser Co</td>
<td>WY</td>
<td>354 (401) (213%)</td>
<td>840 796 (5%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whirlpool Corp</td>
<td>WHR</td>
<td>34 (325) (1055%)</td>
<td>367 145 (61%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Williams Cos Inc</td>
<td>WMB</td>
<td>835 691 (17%)</td>
<td>873 723 (17%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Winn-Dixie Stores Inc</td>
<td>WIN</td>
<td>190 190 0%</td>
<td>45 45</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Worthington Industries</td>
<td>WOR</td>
<td>36 34 (4%)</td>
<td>94 95</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Wrigley (Wm) Jr Co</td>
<td>WWY</td>
<td>363 319 (12%)</td>
<td>329 304 (8%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wyeth</td>
<td>WYE</td>
<td>2,285 1,928 (16%)</td>
<td>(901) (1,091) NM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Xcel Energy Inc</td>
<td>XEL</td>
<td>785 361 (54%)</td>
<td>546 415 (24%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Xerox Corp</td>
<td>XRX</td>
<td>(109) (636) NM</td>
<td>(257) (239) NM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Xilinx Inc</td>
<td>XLNX</td>
<td>(114) (114) NM</td>
<td>35 35</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Xi Capital Ltd</td>
<td>XL</td>
<td>(576) (576) NM</td>
<td>506 506</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Yahoo Inc</td>
<td>YHOO</td>
<td>(93) (93) NM</td>
<td>71 71</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Yum Brands Inc</td>
<td>YUM</td>
<td>492 417 (15%)</td>
<td>413 412 (0%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zimmer Hldgs Inc</td>
<td>ZMH</td>
<td>150 150 0%</td>
<td>176 176</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Zions Bancorporation</td>
<td>ZION</td>
<td>290 273 (6%)</td>
<td>162 143 (11%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TOTALS**

|                |                | 219,082 | 68,660 | 69% | 431,646 | 387,882 | 10% |

*Source: Company data, CSFB estimates.*
## Appendix K

### Exhibit 107: Adjusted Operating Income/(Loss) for the S&P 500

**US$ in millions**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Ticker Symbol</th>
<th>2001 Adjusted Operating Income/(Loss)</th>
<th>2000 Adjusted Operating Income/(Loss)</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>3m Co</td>
<td>MMM</td>
<td>$2,777</td>
<td>$2,661</td>
<td>(4%)</td>
</tr>
<tr>
<td>Abbott Laboratories</td>
<td>ABT</td>
<td>3,538</td>
<td>3,475</td>
<td>(2%)</td>
</tr>
<tr>
<td>Ace Limited</td>
<td>ACE</td>
<td>(3)</td>
<td>(3)</td>
<td>NM</td>
</tr>
<tr>
<td>ADC Telecommunications Inc</td>
<td>ADCT</td>
<td>(253)</td>
<td>(253)</td>
<td>NM</td>
</tr>
<tr>
<td>Adobe Systems Inc.</td>
<td>ADBE</td>
<td>391</td>
<td>391</td>
<td>0%</td>
</tr>
<tr>
<td>Advanced Micro Devices</td>
<td>AMD</td>
<td>38</td>
<td>38</td>
<td>0%</td>
</tr>
<tr>
<td>AES Corp. (The)</td>
<td>AES</td>
<td>2,182</td>
<td>2,212</td>
<td>1%</td>
</tr>
<tr>
<td>Aetna Inc</td>
<td>AET</td>
<td>(64)</td>
<td>(183)</td>
<td>NM</td>
</tr>
<tr>
<td>AFLAC Inc</td>
<td>AFL</td>
<td>1,100</td>
<td>1,101</td>
<td>0%</td>
</tr>
<tr>
<td>Agilent Technologies Inc</td>
<td>A</td>
<td>(550)</td>
<td>(587)</td>
<td>NM</td>
</tr>
<tr>
<td>Air Products &amp; Chemicals Inc</td>
<td>APD</td>
<td>802</td>
<td>818</td>
<td>2%</td>
</tr>
<tr>
<td>Alberto-Culver Co-Ci B</td>
<td>ACV</td>
<td>189</td>
<td>189</td>
<td>0%</td>
</tr>
<tr>
<td>Albertsons Inc</td>
<td>ABS</td>
<td>1,787</td>
<td>1,767</td>
<td>(1%)</td>
</tr>
<tr>
<td>Alcoa Inc</td>
<td>AA</td>
<td>2,270</td>
<td>2,075</td>
<td>(9%)</td>
</tr>
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<td>Allegheny Energy Inc</td>
<td>AYE</td>
<td>960</td>
<td>938</td>
<td>(2%)</td>
</tr>
<tr>
<td>Allegheny Technologies Inc</td>
<td>ATI</td>
<td>67</td>
<td>(24)</td>
<td>(136%)</td>
</tr>
<tr>
<td>Allergan Inc</td>
<td>AGN</td>
<td>359</td>
<td>359</td>
<td>(0%)</td>
</tr>
<tr>
<td>Allied Waste Inds Inc</td>
<td>AW</td>
<td>1,238</td>
<td>1,220</td>
<td>(1%)</td>
</tr>
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<td>Allstate Corp</td>
<td>ALL</td>
<td>1,725</td>
<td>1,629</td>
<td>(6%)</td>
</tr>
<tr>
<td>Alltel Corp</td>
<td>AT</td>
<td>1,757</td>
<td>1,740</td>
<td>(1%)</td>
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<td>ALTR</td>
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<td>0%</td>
</tr>
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<td>ABK</td>
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<td>608</td>
<td>(0%)</td>
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<td>Amerada Hess Corp</td>
<td>AHC</td>
<td>1,479</td>
<td>1,473</td>
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<td>AEE</td>
<td>965</td>
<td>937</td>
<td>(3%)</td>
</tr>
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<td>American Electric Power</td>
<td>AEP</td>
<td>2,395</td>
<td>2,249</td>
<td>(6%)</td>
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<td>AXP</td>
<td>3,333</td>
<td>3,304</td>
<td>(1%)</td>
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<td>American Greetings-Ci A</td>
<td>AM</td>
<td>211</td>
<td>211</td>
<td>(0%)</td>
</tr>
<tr>
<td>American International Group</td>
<td>AIG</td>
<td>14,834</td>
<td>14,792</td>
<td>(0%)</td>
</tr>
<tr>
<td>American Pwr Convrsion</td>
<td>APCC</td>
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<td>153</td>
<td>0%</td>
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<tr>
<td>American Standard Cos Inc</td>
<td>ASD</td>
<td>654</td>
<td>654</td>
<td>0%</td>
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<td>ABC</td>
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<td>281</td>
<td>0%</td>
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<td>1,777</td>
<td>1,777</td>
<td>0%</td>
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<td>AMR Corp/De</td>
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<td>(1,860)</td>
<td>(1,852)</td>
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<tr>
<td>Amsouth Bancorporation</td>
<td>ASO</td>
<td>1,002</td>
<td>974</td>
<td>(3%)</td>
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<td>Anadarko Petroleum Corp</td>
<td>APC</td>
<td>(318)</td>
<td>(318)</td>
<td>NM</td>
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<td>Analog Devices</td>
<td>ADI</td>
<td>464</td>
<td>463</td>
<td>0%</td>
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<tr>
<td>Andrew Corp</td>
<td>ANDW</td>
<td>98</td>
<td>98</td>
<td>0%</td>
</tr>
<tr>
<td>Anheuser-Busch Cos Inc</td>
<td>BUD</td>
<td>2,705</td>
<td>2,658</td>
<td>(2%)</td>
</tr>
<tr>
<td>Anthem Inc</td>
<td>ATH</td>
<td>587</td>
<td>569</td>
<td>(3%)</td>
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<tr>
<td>AOL Time Warner Inc</td>
<td>AOL</td>
<td>703</td>
<td>691</td>
<td>(2%)</td>
</tr>
<tr>
<td>AON Corp</td>
<td>AOC</td>
<td>812</td>
<td>717</td>
<td>(12%)</td>
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<td>Apache Corp</td>
<td>APA</td>
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<td>1,339</td>
<td>0%</td>
</tr>
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<td>Apollo Group Inc-Ci A</td>
<td>APOL</td>
<td>161</td>
<td>161</td>
<td>0%</td>
</tr>
<tr>
<td>Apple Computer Inc</td>
<td>AAPL</td>
<td>(333)</td>
<td>(333)</td>
<td>NM</td>
</tr>
<tr>
<td>Applera Corp Applied Biosys</td>
<td>ABI</td>
<td>280</td>
<td>277</td>
<td>(1%)</td>
</tr>
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<td>Applied Materials Inc</td>
<td>AMAT</td>
<td>1,151</td>
<td>1,151</td>
<td>0%</td>
</tr>
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<td>Applied Micro Circuits Corp</td>
<td>AMCC</td>
<td>(590)</td>
<td>(590)</td>
<td>NM</td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Operating Income/(Loss)</td>
<td>2000 Adjusted Operating Income/(Loss)</td>
<td>% Difference</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>---------------</td>
<td>-------------------------------------</td>
<td>--------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Archer-Daniels-Midland Co</td>
<td>ADM</td>
<td>701/698</td>
<td>598/597</td>
<td>0%</td>
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<td>Ashland Inc</td>
<td>ASH</td>
<td>97/106</td>
<td>277/290</td>
<td>9%</td>
</tr>
<tr>
<td>AT&amp;T Corp</td>
<td>T</td>
<td>6,284/5,781</td>
<td>11,306/10,291</td>
<td>8%</td>
</tr>
<tr>
<td>AT&amp;T Wireless Services Inc</td>
<td>AWE</td>
<td>598/598</td>
<td>38/38</td>
<td>0%</td>
</tr>
<tr>
<td>Autodesk Inc</td>
<td>ADSK</td>
<td>132/132</td>
<td>139/139</td>
<td>0%</td>
</tr>
<tr>
<td>Automatic Data Processing</td>
<td>ADP</td>
<td>1,617/1,601</td>
<td>1,335/1,322</td>
<td>1%</td>
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<tr>
<td>Autozone Inc</td>
<td>AZO</td>
<td>545/543</td>
<td>512/511</td>
<td>0%</td>
</tr>
<tr>
<td>Avaya Inc</td>
<td>AV</td>
<td>350/728</td>
<td>314/314</td>
<td>108%</td>
</tr>
<tr>
<td>Avery Dennison Corp</td>
<td>AVY</td>
<td>410/384</td>
<td>481/457</td>
<td>6%</td>
</tr>
<tr>
<td>Avon Products</td>
<td>APO</td>
<td>845/858</td>
<td>769/794</td>
<td>2%</td>
</tr>
<tr>
<td>Baker-Hughes Corp</td>
<td>BHI</td>
<td>732/719</td>
<td>465/454</td>
<td>2%</td>
</tr>
<tr>
<td>Ball Corp</td>
<td>BLL</td>
<td>246/237</td>
<td>286/282</td>
<td>4%</td>
</tr>
<tr>
<td>Bank Of America Corp</td>
<td>BAC</td>
<td>16,411/16,211</td>
<td>16,495/16,283</td>
<td>1%</td>
</tr>
<tr>
<td>Bank Of New York Co Inc</td>
<td>BK</td>
<td>2,564/2,447</td>
<td>2,847/2,760</td>
<td>5%</td>
</tr>
<tr>
<td>Bank One Corp</td>
<td>ONE</td>
<td>7,439/7,329</td>
<td>5,856/5,737</td>
<td>1%</td>
</tr>
<tr>
<td>Bard (C.R.) Inc</td>
<td>BCR</td>
<td>213/211</td>
<td>194/194</td>
<td>1%</td>
</tr>
<tr>
<td>Baush &amp; Lomb Corp</td>
<td>BOL</td>
<td>115/113</td>
<td>223/219</td>
<td>2%</td>
</tr>
<tr>
<td>Baxter International Inc</td>
<td>BAX</td>
<td>1,493/1,429</td>
<td>1,267/1,227</td>
<td>4%</td>
</tr>
<tr>
<td>BB&amp;T Corp</td>
<td>BBT</td>
<td>1,830/1,826</td>
<td>1,569/1,563</td>
<td>0%</td>
</tr>
<tr>
<td>Bear Stearns Companies Inc</td>
<td>BSC</td>
<td>4,863/4,863</td>
<td>5,972/5,972</td>
<td>0%</td>
</tr>
<tr>
<td>Becton Dickinson &amp; Co</td>
<td>BDX</td>
<td>646/633</td>
<td>590/571</td>
<td>2%</td>
</tr>
<tr>
<td>Bed Bath &amp; Beyond Inc</td>
<td>BBBY</td>
<td>346/346</td>
<td>273/273</td>
<td>0%</td>
</tr>
<tr>
<td>BellSouth Corp</td>
<td>BLS</td>
<td>6,914/5,908</td>
<td>7,490/6,609</td>
<td>15%</td>
</tr>
<tr>
<td>Bemis Co</td>
<td>BMS</td>
<td>260/236</td>
<td>245/224</td>
<td>9%</td>
</tr>
<tr>
<td>Best Buy Co Inc</td>
<td>BBY</td>
<td>937/937</td>
<td>619/619</td>
<td>1%</td>
</tr>
<tr>
<td>Big Lots Inc</td>
<td>BLI</td>
<td>70/71</td>
<td>185/186</td>
<td>1%</td>
</tr>
<tr>
<td>Biogen Inc</td>
<td>BGEN</td>
<td>360/361</td>
<td>328/329</td>
<td>0%</td>
</tr>
<tr>
<td>Biomet Inc</td>
<td>BMET</td>
<td>371/371</td>
<td>317/317</td>
<td>0%</td>
</tr>
<tr>
<td>BJ Services Co</td>
<td>BJS</td>
<td>536/534</td>
<td>195/192</td>
<td>0%</td>
</tr>
<tr>
<td>Black &amp; Decker Corp</td>
<td>BDK</td>
<td>348/311</td>
<td>522/489</td>
<td>11%</td>
</tr>
<tr>
<td>Block H &amp; R Inc</td>
<td>HRB</td>
<td>832/832</td>
<td>724/724</td>
<td>0%</td>
</tr>
<tr>
<td>BMC Software Inc</td>
<td>BMC</td>
<td>(157)/(157)</td>
<td>27/27</td>
<td>NM</td>
</tr>
<tr>
<td>Boeing Co</td>
<td>BA</td>
<td>4,717/3,206</td>
<td>3,613/2,549</td>
<td>32%</td>
</tr>
<tr>
<td>Boise Cascade Corp</td>
<td>BCC</td>
<td>219/195</td>
<td>358/331</td>
<td>11%</td>
</tr>
<tr>
<td>Boston Scientific Corp</td>
<td>BXS</td>
<td>517/517</td>
<td>638/638</td>
<td>0%</td>
</tr>
<tr>
<td>Bristol Myers Squibb</td>
<td>BMY</td>
<td>6,253/6,178</td>
<td>5,986/5,892</td>
<td>1%</td>
</tr>
<tr>
<td>Broadcom Corp -Cl A</td>
<td>BRCM</td>
<td>(1,462)/(1,462)</td>
<td>4/4</td>
<td>NM</td>
</tr>
<tr>
<td>Brown-Forman -Cl B</td>
<td>BF.B</td>
<td>370/344</td>
<td>374/351</td>
<td>7%</td>
</tr>
<tr>
<td>Brunswick Corp</td>
<td>BC</td>
<td>191/184</td>
<td>452/430</td>
<td>4%</td>
</tr>
<tr>
<td>Burlington Northern Santa Fe</td>
<td>BNI</td>
<td>1,789/1,786</td>
<td>2,130/2,104</td>
<td>0%</td>
</tr>
<tr>
<td>Burlington Resources Inc</td>
<td>BR</td>
<td>1,095/1,092</td>
<td>1,191/1,189</td>
<td>0%</td>
</tr>
<tr>
<td>Calpine Corp</td>
<td>CPN</td>
<td>1,130/130</td>
<td>578/578</td>
<td>0%</td>
</tr>
<tr>
<td>Campbell Soup Co</td>
<td>CPB</td>
<td>1,266/1,219</td>
<td>1,299/1,261</td>
<td>4%</td>
</tr>
<tr>
<td>Capital One Finl Corp</td>
<td>COF</td>
<td>1,566/1,566</td>
<td>1,234/1,234</td>
<td>0%</td>
</tr>
<tr>
<td>Cardinal Health Inc</td>
<td>CAH</td>
<td>1,612/1,614</td>
<td>1,260/1,261</td>
<td>0%</td>
</tr>
<tr>
<td>Carnival Corp</td>
<td>CCL</td>
<td>1,076/1,076</td>
<td>945/945</td>
<td>0%</td>
</tr>
<tr>
<td>Caterpillar Inc</td>
<td>CAT</td>
<td>2,121/1,824</td>
<td>2,425/2,114</td>
<td>14%</td>
</tr>
<tr>
<td>Cendant Corp</td>
<td>CD</td>
<td>1,703/1,703</td>
<td>1,373/1,373</td>
<td>0%</td>
</tr>
<tr>
<td>Centex Corp</td>
<td>CTX</td>
<td>914/914</td>
<td>656/656</td>
<td>0%</td>
</tr>
<tr>
<td>CenturyTel Inc</td>
<td>CTL</td>
<td>560/544</td>
<td>525/501</td>
<td>(3%)</td>
</tr>
<tr>
<td>Charter One Finl Inc</td>
<td>CF</td>
<td>974/974</td>
<td>869/869</td>
<td>0%</td>
</tr>
<tr>
<td>Chevrontexaco Corp</td>
<td>CVX</td>
<td>8,972/9,000</td>
<td>8,193/7,975</td>
<td>0%</td>
</tr>
<tr>
<td>Chiron Corp</td>
<td>CHIR</td>
<td>116/116</td>
<td>116/117</td>
<td>0%</td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Operating Income/Loss</td>
<td>2000 Adjusted Operating Income/Loss</td>
<td>% Difference</td>
</tr>
<tr>
<td>------------------------------</td>
<td>---------------</td>
<td>-------------------------------------</td>
<td>-------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Chubb Corp</td>
<td>CB</td>
<td>(11)</td>
<td>904</td>
<td>(2%)</td>
</tr>
<tr>
<td>Ciena Corp</td>
<td>CIEN</td>
<td>41</td>
<td>99</td>
<td>0%</td>
</tr>
<tr>
<td>Cigna Corp</td>
<td>CI</td>
<td>1,550</td>
<td>1,601</td>
<td>(3%)</td>
</tr>
<tr>
<td>Cincinnati Financial Corp</td>
<td>CINF</td>
<td>260</td>
<td>185</td>
<td>(4%)</td>
</tr>
<tr>
<td>Cinergy Corp</td>
<td>CIN</td>
<td>942</td>
<td>862</td>
<td>1%</td>
</tr>
<tr>
<td>Cintas Corp</td>
<td>CTAS</td>
<td>367</td>
<td>324</td>
<td>0%</td>
</tr>
<tr>
<td>Circuit City Str Crt Cty Gp</td>
<td>CC</td>
<td>237</td>
<td>323</td>
<td>1%</td>
</tr>
<tr>
<td>Cisco Systems Inc</td>
<td>CS CO</td>
<td>21</td>
<td>4,608</td>
<td>0%</td>
</tr>
<tr>
<td>Citigroup Inc</td>
<td>C</td>
<td>55,018</td>
<td>58,540</td>
<td>(6%)</td>
</tr>
<tr>
<td>Citizens Communications Co</td>
<td>CZN</td>
<td>295</td>
<td>162</td>
<td>(40%)</td>
</tr>
<tr>
<td>Citrix Systems Inc</td>
<td>CTXS</td>
<td>136</td>
<td>121</td>
<td>0%</td>
</tr>
<tr>
<td>Clear Channel Communications</td>
<td>CCU</td>
<td>(494)</td>
<td>305</td>
<td>(35%)</td>
</tr>
<tr>
<td>Clorox Co</td>
<td>CL</td>
<td>1,550</td>
<td>1,601</td>
<td>(3%)</td>
</tr>
<tr>
<td>CMS Energy Corp</td>
<td>CMS</td>
<td>301</td>
<td>727</td>
<td>(15%)</td>
</tr>
<tr>
<td>Coca-Cola Co</td>
<td>KO</td>
<td>5,650</td>
<td>5,134</td>
<td>(8%)</td>
</tr>
<tr>
<td>Coca-Cola Enterprises</td>
<td>CCE</td>
<td>679</td>
<td>1,118</td>
<td>(63%)</td>
</tr>
<tr>
<td>Colgate-Palmolive Co</td>
<td>CL</td>
<td>1,861</td>
<td>1,721</td>
<td>(8%)</td>
</tr>
<tr>
<td>Comcast Corp-Cl A Spl</td>
<td>CMCSK</td>
<td>(746)</td>
<td>(161)</td>
<td>(75%)</td>
</tr>
<tr>
<td>Comerica Inc.</td>
<td>CMA</td>
<td>1,541</td>
<td>1,386</td>
<td>(10%)</td>
</tr>
<tr>
<td>Computer Associates Intl Inc</td>
<td>CA</td>
<td>(1,099)</td>
<td>(475)</td>
<td>(35%)</td>
</tr>
<tr>
<td>Computer Sciences Corp</td>
<td>CSC</td>
<td>639</td>
<td>653</td>
<td>(2%)</td>
</tr>
<tr>
<td>Compuware Corp</td>
<td>CPWR</td>
<td>162</td>
<td>193</td>
<td>(20%)</td>
</tr>
<tr>
<td>Converse Technology Inc</td>
<td>CMVT</td>
<td>128</td>
<td>251</td>
<td>(50%)</td>
</tr>
<tr>
<td>Conagra Foods Inc</td>
<td>CAG</td>
<td>1,527</td>
<td>1,543</td>
<td>(2%)</td>
</tr>
<tr>
<td>Concord Efs Inc</td>
<td>CEFT</td>
<td>413</td>
<td>268</td>
<td>(35%)</td>
</tr>
<tr>
<td>Conoco Inc</td>
<td>COC</td>
<td>2,822</td>
<td>3,282</td>
<td>(15%)</td>
</tr>
<tr>
<td>Consolidated Edison Inc</td>
<td>ED</td>
<td>1,592</td>
<td>1,334</td>
<td>(10%)</td>
</tr>
<tr>
<td>Constellation Energy Gp Inc</td>
<td>CEG</td>
<td>358</td>
<td>840</td>
<td>(144%)</td>
</tr>
<tr>
<td>Convergys Corp</td>
<td>CVG</td>
<td>366</td>
<td>328</td>
<td>(13%)</td>
</tr>
<tr>
<td>Cooper Industries Ltd</td>
<td>CBE</td>
<td>475</td>
<td>650</td>
<td>(35%)</td>
</tr>
<tr>
<td>Cooper Tire &amp; Rubber</td>
<td>CTB</td>
<td>187</td>
<td>291</td>
<td>(56%)</td>
</tr>
<tr>
<td>Coors (Adolph)-Cl B</td>
<td>RKY</td>
<td>175</td>
<td>166</td>
<td>(6%)</td>
</tr>
<tr>
<td>Coming Inc</td>
<td>GLW</td>
<td>(275)</td>
<td>1,198</td>
<td>(105%)</td>
</tr>
<tr>
<td>Costco Wholesale Corp</td>
<td>COST</td>
<td>1,011</td>
<td>1,037</td>
<td>(2%)</td>
</tr>
<tr>
<td>Countrywide Credit Ind Inc</td>
<td>CCR</td>
<td>2,263</td>
<td>1,934</td>
<td>(15%)</td>
</tr>
<tr>
<td>Crane Co</td>
<td>CR</td>
<td>178</td>
<td>184</td>
<td>(4%)</td>
</tr>
<tr>
<td>CSX Corp</td>
<td>CSX</td>
<td>1,017</td>
<td>805</td>
<td>(24%)</td>
</tr>
<tr>
<td>Cummins Inc</td>
<td>CUM</td>
<td>73</td>
<td>226</td>
<td>(35%)</td>
</tr>
<tr>
<td>CVS Corp</td>
<td>CVS</td>
<td>1,120</td>
<td>1,304</td>
<td>(16%)</td>
</tr>
<tr>
<td>Dana Corp</td>
<td>DCN</td>
<td>133</td>
<td>74</td>
<td>(50%)</td>
</tr>
<tr>
<td>Danaher Corp</td>
<td>DHR</td>
<td>572</td>
<td>552</td>
<td>(4%)</td>
</tr>
<tr>
<td>Darden Restaurants Inc</td>
<td>DRI</td>
<td>332</td>
<td>290</td>
<td>(48%)</td>
</tr>
<tr>
<td>Deere &amp; Co</td>
<td>DE</td>
<td>907</td>
<td>1,296</td>
<td>(42%)</td>
</tr>
<tr>
<td>Dell Computer Corp</td>
<td>DELL</td>
<td>2,271</td>
<td>2,768</td>
<td>(22%)</td>
</tr>
<tr>
<td>Delphi Corp</td>
<td>DPH</td>
<td>518</td>
<td>1,744</td>
<td>(65%)</td>
</tr>
<tr>
<td>Delta Air Lines Inc</td>
<td>DAL</td>
<td>(1,117)</td>
<td>1,745</td>
<td>(55%)</td>
</tr>
<tr>
<td>Deluxe Corp</td>
<td>DLX</td>
<td>308</td>
<td>285</td>
<td>(7%)</td>
</tr>
<tr>
<td>Devon Energy Corp</td>
<td>DVN</td>
<td>290</td>
<td>1,359</td>
<td>(94%)</td>
</tr>
<tr>
<td>Dillard Inc-Cl A</td>
<td>DDS</td>
<td>306</td>
<td>417</td>
<td>(34%)</td>
</tr>
<tr>
<td>Disney (Walt) Co</td>
<td>DIS</td>
<td>2,832</td>
<td>2,743</td>
<td>(3%)</td>
</tr>
<tr>
<td>Dollar General Corp</td>
<td>DG</td>
<td>402</td>
<td>341</td>
<td>(6%)</td>
</tr>
<tr>
<td>Dominion Resources Inc</td>
<td>D</td>
<td>1,785</td>
<td>1,529</td>
<td>(16%)</td>
</tr>
<tr>
<td>Donnelley (R R) &amp; Sons Co</td>
<td>DNY</td>
<td>343</td>
<td>501</td>
<td>(47%)</td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker</td>
<td>2001 Adjusted Operating Income (Loss)</td>
<td>2000 Adjusted Operating Income (Loss)</td>
<td></td>
</tr>
<tr>
<td>------------------------------</td>
<td>--------</td>
<td>-------------------------------------</td>
<td>-------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Dover Corp</td>
<td>DOV</td>
<td>299</td>
<td>291</td>
<td>(3%)</td>
</tr>
<tr>
<td>Dow Chemical</td>
<td>DOW</td>
<td>1,138</td>
<td>837</td>
<td>(26%)</td>
</tr>
<tr>
<td>Dow Jones &amp; Co Inc</td>
<td>DJ</td>
<td>183</td>
<td>183</td>
<td>0%</td>
</tr>
<tr>
<td>DTE Energy Co</td>
<td>DTE</td>
<td>696</td>
<td>815</td>
<td>17%</td>
</tr>
<tr>
<td>Du Pont (E I) De Nemours</td>
<td>DD</td>
<td>2,301</td>
<td>1,592</td>
<td>(31%)</td>
</tr>
<tr>
<td>Duke Energy Corp</td>
<td>DUK</td>
<td>4,100</td>
<td>4,017</td>
<td>(2%)</td>
</tr>
<tr>
<td>Dynegy Inc</td>
<td>DYN</td>
<td>1,063</td>
<td>1,049</td>
<td>(1%)</td>
</tr>
<tr>
<td>Eastman Chemical Co</td>
<td>EMN</td>
<td>320</td>
<td>308</td>
<td>(4%)</td>
</tr>
<tr>
<td>Eastman Kodak Co</td>
<td>EK</td>
<td>1,233</td>
<td>934</td>
<td>(24%)</td>
</tr>
<tr>
<td>Eaton Corp</td>
<td>ETN</td>
<td>477</td>
<td>364</td>
<td>(24%)</td>
</tr>
<tr>
<td>Ebay Inc</td>
<td>EBAY</td>
<td>140</td>
<td>140</td>
<td>0%</td>
</tr>
<tr>
<td>Ecolab Inc</td>
<td>ECL</td>
<td>318</td>
<td>317</td>
<td>(1%)</td>
</tr>
<tr>
<td>Edison International</td>
<td>EIX</td>
<td>5,456</td>
<td>5,403</td>
<td>(1%)</td>
</tr>
<tr>
<td>El Paso Corp</td>
<td>EP</td>
<td>833</td>
<td>744</td>
<td>(11%)</td>
</tr>
<tr>
<td>Electronic Arts Inc</td>
<td>ERTS</td>
<td>156</td>
<td>156</td>
<td>0%</td>
</tr>
<tr>
<td>Electronic Data Systems Corp</td>
<td>EDS</td>
<td>2,225</td>
<td>2,094</td>
<td>(6%)</td>
</tr>
<tr>
<td>EMC Corp/Ma</td>
<td>EMC</td>
<td>21</td>
<td>19</td>
<td>(9%)</td>
</tr>
<tr>
<td>Emerson Electric Co</td>
<td>EMR</td>
<td>2,419</td>
<td>2,352</td>
<td>(3%)</td>
</tr>
<tr>
<td>Engelhard Corp</td>
<td>EC</td>
<td>327</td>
<td>321</td>
<td>(2%)</td>
</tr>
<tr>
<td>Entergy Corp</td>
<td>ETR</td>
<td>1,573</td>
<td>1,526</td>
<td>(3%)</td>
</tr>
<tr>
<td>EOG Resources Inc</td>
<td>EOG</td>
<td>693</td>
<td>693</td>
<td>0%</td>
</tr>
<tr>
<td>Equifax Inc</td>
<td>EFX</td>
<td>314</td>
<td>298</td>
<td>(5%)</td>
</tr>
<tr>
<td>Equity Office Properties Tr</td>
<td>EOP</td>
<td>1,511</td>
<td>1,511</td>
<td>0%</td>
</tr>
<tr>
<td>Equity Residential</td>
<td>EQR</td>
<td>793</td>
<td>793</td>
<td>0%</td>
</tr>
<tr>
<td>Exelon Corp</td>
<td>EXC</td>
<td>3,362</td>
<td>3,194</td>
<td>(5%)</td>
</tr>
<tr>
<td>Exxon Mobil Corp</td>
<td>XOM</td>
<td>21,658</td>
<td>21,677</td>
<td>0%</td>
</tr>
<tr>
<td>Family Dollar Stores</td>
<td>FDO</td>
<td>298</td>
<td>298</td>
<td>0%</td>
</tr>
<tr>
<td>Fannie Mae</td>
<td>FNM</td>
<td>49,708</td>
<td>49,722</td>
<td>0%</td>
</tr>
<tr>
<td>Federal Home Loan Mortg Corp</td>
<td>FRE</td>
<td>35,108</td>
<td>35,106</td>
<td>0%</td>
</tr>
<tr>
<td>Federated Dept Stores</td>
<td>FD</td>
<td>1,319</td>
<td>1,280</td>
<td>(3%)</td>
</tr>
<tr>
<td>Fedex Corp</td>
<td>FDX</td>
<td>1,202</td>
<td>1,003</td>
<td>(17%)</td>
</tr>
<tr>
<td>Fifth Third Bancorp</td>
<td>FITB</td>
<td>2,715</td>
<td>2,705</td>
<td>(0%)</td>
</tr>
<tr>
<td>First Data Corp</td>
<td>FDC</td>
<td>1,516</td>
<td>1,502</td>
<td>(1%)</td>
</tr>
<tr>
<td>First Tennessee Natl Corp</td>
<td>FTN</td>
<td>539</td>
<td>526</td>
<td>(2%)</td>
</tr>
<tr>
<td>Firstenergy Corp</td>
<td>FE</td>
<td>1,685</td>
<td>1,626</td>
<td>(3%)</td>
</tr>
<tr>
<td>Fiserv Inc</td>
<td>FISV</td>
<td>366</td>
<td>366</td>
<td>0%</td>
</tr>
<tr>
<td>Fleetboston Financial Corp</td>
<td>FBF</td>
<td>3,809</td>
<td>3,711</td>
<td>(3%)</td>
</tr>
<tr>
<td>Fluor Corp</td>
<td>FLR</td>
<td>186</td>
<td>175</td>
<td>(6%)</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>F</td>
<td>3,354</td>
<td>2,312</td>
<td>(31%)</td>
</tr>
<tr>
<td>Forest Laboratories -Cl A</td>
<td>FRX</td>
<td>435</td>
<td>435</td>
<td>0%</td>
</tr>
<tr>
<td>Fortune Brands Inc</td>
<td>FO</td>
<td>704</td>
<td>684</td>
<td>(3%)</td>
</tr>
<tr>
<td>FPL Group Inc</td>
<td>FPL</td>
<td>1,397</td>
<td>1,239</td>
<td>(11%)</td>
</tr>
<tr>
<td>Franklin Resources Inc</td>
<td>BEN</td>
<td>607</td>
<td>609</td>
<td>0%</td>
</tr>
<tr>
<td>Freeprt Mcmor Cop&amp;Gld -Cl B</td>
<td>FCX</td>
<td>545</td>
<td>546</td>
<td>0%</td>
</tr>
<tr>
<td>Gannett Co</td>
<td>GCI</td>
<td>1,590</td>
<td>1,505</td>
<td>(5%)</td>
</tr>
<tr>
<td>Gap Inc</td>
<td>GPS</td>
<td>426</td>
<td>426</td>
<td>0%</td>
</tr>
<tr>
<td>Gateway Inc</td>
<td>GTW</td>
<td>(208)</td>
<td>(208)</td>
<td>NM</td>
</tr>
<tr>
<td>General Dynamics Corp</td>
<td>GD</td>
<td>1,485</td>
<td>1,322</td>
<td>(11%)</td>
</tr>
<tr>
<td>General Electric Co</td>
<td>GE</td>
<td>20,632</td>
<td>17,653</td>
<td>(14%)</td>
</tr>
<tr>
<td>General Mills Inc</td>
<td>GIS</td>
<td>1,273</td>
<td>1,154</td>
<td>(9%)</td>
</tr>
<tr>
<td>General Motors Corp</td>
<td>GM</td>
<td>8,201</td>
<td>7,674</td>
<td>(6%)</td>
</tr>
<tr>
<td>Genuine Parts Co</td>
<td>GPC</td>
<td>666</td>
<td>637</td>
<td>(4%)</td>
</tr>
<tr>
<td>Genzyme Corp</td>
<td>GENZ</td>
<td>215</td>
<td>215</td>
<td>0%</td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Operating Income/Loss</td>
<td>2000 Adjusted Operating Income/Loss</td>
<td></td>
</tr>
<tr>
<td>------------------------------------</td>
<td>---------------</td>
<td>-------------------------------------</td>
<td>-------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Georgia-Pacific Corp</td>
<td>GP</td>
<td>1,782</td>
<td>1,636</td>
<td>(8%)</td>
</tr>
<tr>
<td>Gillette Co</td>
<td>G</td>
<td>1,670</td>
<td>1,655</td>
<td>(1%)</td>
</tr>
<tr>
<td>Golden West Financial Corp</td>
<td>GDW</td>
<td>1,433</td>
<td>1,433</td>
<td>0%</td>
</tr>
<tr>
<td>Goldman Sachs Group Inc</td>
<td>GS</td>
<td>19,023</td>
<td>19,016</td>
<td>(0%)</td>
</tr>
<tr>
<td>Goodrich Corp</td>
<td>GR</td>
<td>586</td>
<td>565</td>
<td>(4%)</td>
</tr>
<tr>
<td>Goodyear Tire &amp; Rubber Co</td>
<td>GT</td>
<td>309</td>
<td>337</td>
<td>(9%)</td>
</tr>
<tr>
<td>Grainger (W W) Inc</td>
<td>GWW</td>
<td>378</td>
<td>378</td>
<td>0%</td>
</tr>
<tr>
<td>Great Lakes Chemical Corp</td>
<td>GLK</td>
<td>44</td>
<td>39</td>
<td>(12%)</td>
</tr>
<tr>
<td>Guidant Corp</td>
<td>GDT</td>
<td>785</td>
<td>781</td>
<td>0%</td>
</tr>
<tr>
<td>Halliburton Co</td>
<td>HAL</td>
<td>977</td>
<td>962</td>
<td>(2%)</td>
</tr>
<tr>
<td>Hancock John Finl Svcs Inc</td>
<td>JHF</td>
<td>913</td>
<td>804</td>
<td>(12%)</td>
</tr>
<tr>
<td>Harley-Davidson Inc</td>
<td>HMA</td>
<td>358</td>
<td>358</td>
<td>0%</td>
</tr>
<tr>
<td>Harrahs Entertainment Inc</td>
<td>HET</td>
<td>606</td>
<td>606</td>
<td>0%</td>
</tr>
<tr>
<td>Hartford Finl Svcs Grp Inc</td>
<td>HIG</td>
<td>665</td>
<td>652</td>
<td>(2%)</td>
</tr>
<tr>
<td>Hasbro Inc</td>
<td>HAS</td>
<td>210</td>
<td>200</td>
<td>(5%)</td>
</tr>
<tr>
<td>Hca Inc</td>
<td>HCA</td>
<td>2,152</td>
<td>2,152</td>
<td>0%</td>
</tr>
<tr>
<td>Health Management Assoc</td>
<td>HMA</td>
<td>358</td>
<td>358</td>
<td>0%</td>
</tr>
<tr>
<td>Healthsouth Corp</td>
<td>HRC</td>
<td>844</td>
<td>844</td>
<td>0%</td>
</tr>
<tr>
<td>Heinz (H J) Co</td>
<td>HNZ</td>
<td>1,608</td>
<td>1,576</td>
<td>(2%)</td>
</tr>
<tr>
<td>Hercules Inc</td>
<td>HPC</td>
<td>270</td>
<td>242</td>
<td>(10%)</td>
</tr>
<tr>
<td>Hershey Foods Corp</td>
<td>HSY</td>
<td>672</td>
<td>772</td>
<td>15%</td>
</tr>
<tr>
<td>Hewlett-Packard Co</td>
<td>HPQ</td>
<td>2,030</td>
<td>1,965</td>
<td>(3%)</td>
</tr>
<tr>
<td>Hilton Hotels Corp</td>
<td>HLT</td>
<td>632</td>
<td>632</td>
<td>0%</td>
</tr>
<tr>
<td>Home Depot Inc</td>
<td>HD</td>
<td>4,932</td>
<td>4,932</td>
<td>0%</td>
</tr>
<tr>
<td>Honeywell International Inc</td>
<td>HON</td>
<td>2,748</td>
<td>2,244</td>
<td>(18%)</td>
</tr>
<tr>
<td>Household International Inc</td>
<td>HU</td>
<td>7,112</td>
<td>7,047</td>
<td>(1%)</td>
</tr>
<tr>
<td>Humana Inc</td>
<td>HUM</td>
<td>208</td>
<td>208</td>
<td>0%</td>
</tr>
<tr>
<td>Huntington Bancshares</td>
<td>HBAN</td>
<td>459</td>
<td>450</td>
<td>(2%)</td>
</tr>
<tr>
<td>Illinois Tool Works</td>
<td>ITW</td>
<td>1,306</td>
<td>1,234</td>
<td>(6%)</td>
</tr>
<tr>
<td>IMS Health Inc</td>
<td>RX</td>
<td>425</td>
<td>422</td>
<td>(1%)</td>
</tr>
<tr>
<td>Ingersoll-Rand Co Ltd</td>
<td>IR</td>
<td>740</td>
<td>697</td>
<td>(6%)</td>
</tr>
<tr>
<td>Intel Corp</td>
<td>INTC</td>
<td>2,578</td>
<td>2,578</td>
<td>0%</td>
</tr>
<tr>
<td>Interpublic Group Of Cos</td>
<td>IPG</td>
<td>776</td>
<td>778</td>
<td>0%</td>
</tr>
<tr>
<td>Int Business Machines Corp</td>
<td>IBM</td>
<td>9,295</td>
<td>6,803</td>
<td>(27%)</td>
</tr>
<tr>
<td>Intl Flavors &amp; Fragrances</td>
<td>IFF</td>
<td>386</td>
<td>277</td>
<td>(3%)</td>
</tr>
<tr>
<td>Intl Game Technology</td>
<td>IGT</td>
<td>252</td>
<td>252</td>
<td>0%</td>
</tr>
<tr>
<td>Intl Paper Co</td>
<td>IP</td>
<td>1,435</td>
<td>1,193</td>
<td>(17%)</td>
</tr>
<tr>
<td>Intuit Inc</td>
<td>INTU</td>
<td>40</td>
<td>40</td>
<td>0%</td>
</tr>
<tr>
<td>ITT Industries Inc</td>
<td>ITT</td>
<td>495</td>
<td>427</td>
<td>(14%)</td>
</tr>
<tr>
<td>J P Morgan Chase &amp; Co</td>
<td>JPM</td>
<td>9,682</td>
<td>9,845</td>
<td>2%</td>
</tr>
<tr>
<td>Jabil Circuit Inc</td>
<td>JBL</td>
<td>198</td>
<td>198</td>
<td>0%</td>
</tr>
<tr>
<td>JDS Uniphase Corp</td>
<td>JDSU</td>
<td>(4,711)</td>
<td>(4,711)</td>
<td>NM</td>
</tr>
<tr>
<td>Jefferson-Pilot Corp</td>
<td>JP</td>
<td>844</td>
<td>828</td>
<td>(2%)</td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td>JNJ</td>
<td>7,885</td>
<td>7,740</td>
<td>(2%)</td>
</tr>
<tr>
<td>Johnson Controls Inc</td>
<td>JCI</td>
<td>961</td>
<td>932</td>
<td>(3%)</td>
</tr>
<tr>
<td>Jones Apparel Group Inc</td>
<td>JNY</td>
<td>584</td>
<td>584</td>
<td>0%</td>
</tr>
<tr>
<td>KB Home</td>
<td>KBI</td>
<td>405</td>
<td>405</td>
<td>0%</td>
</tr>
<tr>
<td>Kellogg Co</td>
<td>K</td>
<td>1,201</td>
<td>1,143</td>
<td>(5%)</td>
</tr>
<tr>
<td>Kerr-Mcgee Corp</td>
<td>KMG</td>
<td>759</td>
<td>693</td>
<td>(9%)</td>
</tr>
<tr>
<td>Keycorp</td>
<td>KEY</td>
<td>1,438</td>
<td>1,396</td>
<td>(3%)</td>
</tr>
<tr>
<td>Keyspan Corp</td>
<td>KSE</td>
<td>801</td>
<td>709</td>
<td>(11%)</td>
</tr>
<tr>
<td>Kimberly-Clark Corp</td>
<td>KMB</td>
<td>2,518</td>
<td>2,433</td>
<td>(3%)</td>
</tr>
<tr>
<td>Kinder Morgan Inc</td>
<td>KMI</td>
<td>384</td>
<td>377</td>
<td>(2%)</td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Operating Income(Loss)</td>
<td>2000 Adjusted Operating Income(Loss)</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>---------------</td>
<td>--------------------------------------</td>
<td>--------------------------------------</td>
<td></td>
</tr>
<tr>
<td>King Pharmaceuticals Inc</td>
<td>KG</td>
<td>378 378 0%</td>
<td>284 284 0%</td>
<td></td>
</tr>
<tr>
<td>Kla-Tencor Corp</td>
<td>KLAC</td>
<td>456 456 0%</td>
<td>307 307 0%</td>
<td></td>
</tr>
<tr>
<td>Knight-Ridder Inc</td>
<td>KRI</td>
<td>540 506 6%</td>
<td>686 652 5%</td>
<td></td>
</tr>
<tr>
<td>Kohs Corp</td>
<td>KSS</td>
<td>850 830 0%</td>
<td>651 651 0%</td>
<td></td>
</tr>
<tr>
<td>Kroger Co</td>
<td>KR</td>
<td>2,643 2,607 1%</td>
<td>2,534 2,497 1%</td>
<td></td>
</tr>
<tr>
<td>Leggett &amp; Platt Inc</td>
<td>LEG</td>
<td>362 352 0%</td>
<td>487 479 2%</td>
<td></td>
</tr>
<tr>
<td>Lehman Brothers Holdings Inc</td>
<td>LEH</td>
<td>17,531 17,484 0%</td>
<td>21,319 21,271 0%</td>
<td></td>
</tr>
<tr>
<td>Lexmark Int'l Inc-Cl A</td>
<td>LKX</td>
<td>399 383 4%</td>
<td>457 437 4%</td>
<td></td>
</tr>
<tr>
<td>Lilly (Eli) &amp; Co</td>
<td>LLY</td>
<td>3,730 3,619 3%</td>
<td>3,560 3,461 3%</td>
<td></td>
</tr>
<tr>
<td>Limited Brands Inc</td>
<td>LTD</td>
<td>748 748 0%</td>
<td>876 876 0%</td>
<td></td>
</tr>
<tr>
<td>Lincoln National Corp</td>
<td>LNC</td>
<td>905 905 0%</td>
<td>1,017 1,013 0%</td>
<td></td>
</tr>
<tr>
<td>Linear Technology Corp</td>
<td>LLTC</td>
<td>546 546 0%</td>
<td>374 374 0%</td>
<td></td>
</tr>
<tr>
<td>Liz Claiborne Inc</td>
<td>LIZ</td>
<td>347 347 0%</td>
<td>325 325 0%</td>
<td></td>
</tr>
<tr>
<td>Lockheed Martin Corp</td>
<td>LMT</td>
<td>1,543 666 57%</td>
<td>1,614 795 51%</td>
<td></td>
</tr>
<tr>
<td>Loews Corp</td>
<td>LTR</td>
<td>(230) (214) NM</td>
<td>4,639 4,683 1%</td>
<td></td>
</tr>
<tr>
<td>Louisiana-Pacific Corp</td>
<td>LPX</td>
<td>(122) (121) NM</td>
<td>100 101 1%</td>
<td></td>
</tr>
<tr>
<td>Lowes Cos</td>
<td>LOW</td>
<td>1,798 1,798 0%</td>
<td>1,402 1,402 0%</td>
<td></td>
</tr>
<tr>
<td>LSI Logic Corp</td>
<td>LSI</td>
<td>(479) (479) NM</td>
<td>370 370 0%</td>
<td></td>
</tr>
<tr>
<td>Lucent Technologies Inc</td>
<td>LU</td>
<td>(7,613) (6,839) NM</td>
<td>4,051 2,602 36%</td>
<td></td>
</tr>
<tr>
<td>Manor Care Inc</td>
<td>HCR</td>
<td>203 199 2%</td>
<td>139 136 2%</td>
<td></td>
</tr>
<tr>
<td>Marathon Oil Corp</td>
<td>MRO</td>
<td>2,907 2,877 1%</td>
<td>2,276 2,254 1%</td>
<td></td>
</tr>
<tr>
<td>Marriott Intl Corp</td>
<td>MAR</td>
<td>591 591 0%</td>
<td>817 817 0%</td>
<td></td>
</tr>
<tr>
<td>Marsh &amp; McLennan Cos</td>
<td>MMC</td>
<td>2,159 1,954 9%</td>
<td>2,177 1,986 9%</td>
<td></td>
</tr>
<tr>
<td>Marshall &amp; Ilsley Corp</td>
<td>MI</td>
<td>846 846 0%</td>
<td>760 760 0%</td>
<td></td>
</tr>
<tr>
<td>Masco Corp</td>
<td>MAS</td>
<td>1,040 1,043 0%</td>
<td>1,057 1,060 0%</td>
<td></td>
</tr>
<tr>
<td>Mattel Inc</td>
<td>MAT</td>
<td>648 639 1%</td>
<td>538 527 2%</td>
<td></td>
</tr>
<tr>
<td>Maxim Integrated Products</td>
<td>MXIM</td>
<td>673 673 0%</td>
<td>385 385 0%</td>
<td></td>
</tr>
<tr>
<td>May Department Stores Co</td>
<td>MAY</td>
<td>1,493 1,516 2%</td>
<td>1,747 1,754 0%</td>
<td></td>
</tr>
<tr>
<td>Maytag Corp</td>
<td>MYG</td>
<td>299 311 4%</td>
<td>467 479 2%</td>
<td></td>
</tr>
<tr>
<td>MBIA Inc</td>
<td>MBI</td>
<td>851 851 0%</td>
<td>769 769 0%</td>
<td></td>
</tr>
<tr>
<td>MBNA Corp</td>
<td>KRB</td>
<td>4,989 4,987 0%</td>
<td>3,917 3,920 0%</td>
<td></td>
</tr>
<tr>
<td>McDermott Intl Inc</td>
<td>MDR</td>
<td>50 6 88%</td>
<td>15 (50) 437%</td>
<td></td>
</tr>
<tr>
<td>McDonalds Corp</td>
<td>MCD</td>
<td>2,954 2,954 0%</td>
<td>3,133 3,133 0%</td>
<td></td>
</tr>
<tr>
<td>McGraw-Hill Companies</td>
<td>MHP</td>
<td>783 711 9%</td>
<td>766 707 8%</td>
<td></td>
</tr>
<tr>
<td>McKesson Corp</td>
<td>MCK</td>
<td>769 757 2%</td>
<td>208 200 4%</td>
<td></td>
</tr>
<tr>
<td>Medwestvaco Corp</td>
<td>MWV</td>
<td>330 162 51%</td>
<td>555 418 25%</td>
<td></td>
</tr>
<tr>
<td>Medimmune Inc</td>
<td>MEDI</td>
<td>206 206 0%</td>
<td>184 184 0%</td>
<td></td>
</tr>
<tr>
<td>Medtronic Inc</td>
<td>MDT</td>
<td>2,149 2,137 1%</td>
<td>1,878 1,869 1%</td>
<td></td>
</tr>
<tr>
<td>Mellon Financial Corp</td>
<td>MEL</td>
<td>1,160 1,005 13%</td>
<td>2,217 2,079 6%</td>
<td></td>
</tr>
<tr>
<td>Merck &amp; Co</td>
<td>MRK</td>
<td>9,728 9,686 0%</td>
<td>9,089 9,034 1%</td>
<td></td>
</tr>
<tr>
<td>Mercury Interactive Corp</td>
<td>MERQ</td>
<td>26 26 0%</td>
<td>63 63 0%</td>
<td></td>
</tr>
<tr>
<td>Meredith Corp</td>
<td>MDP</td>
<td>152 150 1%</td>
<td>184 183 1%</td>
<td></td>
</tr>
<tr>
<td>Merrill Lynch &amp; Co</td>
<td>MER</td>
<td>20,420 20,383 0%</td>
<td>23,802 23,765 0%</td>
<td></td>
</tr>
<tr>
<td>Metlife Inc</td>
<td>MET</td>
<td>1,820 1,745 4%</td>
<td>1,840 1,689 8%</td>
<td></td>
</tr>
<tr>
<td>MGIC Investment Corp/Wi</td>
<td>MTG</td>
<td>963 962 0%</td>
<td>841 839 0%</td>
<td></td>
</tr>
<tr>
<td>Micron Technology Inc</td>
<td>MU</td>
<td>(82) (82) NM</td>
<td>2,310 2,310 0%</td>
<td></td>
</tr>
<tr>
<td>Microsoft Corp</td>
<td>MSFT</td>
<td>11,720 11,720 0%</td>
<td>11,029 11,029 0%</td>
<td></td>
</tr>
<tr>
<td>Millipore Corp</td>
<td>MIL</td>
<td>119 119 0%</td>
<td>173 173 0%</td>
<td></td>
</tr>
<tr>
<td>Mirant Corp</td>
<td>MIR</td>
<td>1,019 1,024 0%</td>
<td>664 666 0%</td>
<td></td>
</tr>
<tr>
<td>Molex Inc</td>
<td>MOLX</td>
<td>323 323 0%</td>
<td>316 316 0%</td>
<td></td>
</tr>
<tr>
<td>Moodys Corp</td>
<td>MCO</td>
<td>402 396 1%</td>
<td>289 287 1%</td>
<td></td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>MWD</td>
<td>26,550 26,618 0%</td>
<td>26,667 26,741 0%</td>
<td></td>
</tr>
<tr>
<td>Motorola Inc</td>
<td>MOT</td>
<td>(613) (629) NM</td>
<td>2,960 2,929 1%</td>
<td></td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Operating Income/(Loss)</td>
<td>2000 Adjusted Operating Income/(Loss)</td>
<td>% Difference</td>
</tr>
<tr>
<td>------------------------------</td>
<td>--------------</td>
<td>-------------------------------------</td>
<td>--------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Nabors Industries Ltd</td>
<td>NBR</td>
<td>499/499/0%</td>
<td>180/180/0%</td>
<td>0%</td>
</tr>
<tr>
<td>National City Corp</td>
<td>NCC</td>
<td>2,884/2,776/(4%)</td>
<td>2,604/2,509/(4%)</td>
<td></td>
</tr>
<tr>
<td>National Semiconductor Corp</td>
<td>NSM</td>
<td>273/274/0%</td>
<td>287/288/0%</td>
<td>0%</td>
</tr>
<tr>
<td>Navistar International</td>
<td>NAV</td>
<td>108/126/17%</td>
<td>719/739/3%</td>
<td></td>
</tr>
<tr>
<td>NCR Corp</td>
<td>NCR</td>
<td>234/33/(86%)</td>
<td>270/68/(75%)</td>
<td></td>
</tr>
<tr>
<td>Network Appliance Inc</td>
<td>NTAP</td>
<td>11/11/0%</td>
<td>136/136/0%</td>
<td>0%</td>
</tr>
<tr>
<td>New York Times Co-Cl A</td>
<td>NYT</td>
<td>465/476/2%</td>
<td>664/660(1%)</td>
<td></td>
</tr>
<tr>
<td>Newell Rubbermaid Inc</td>
<td>NWL</td>
<td>657/621/(6%)</td>
<td>891/854/(4%)</td>
<td></td>
</tr>
<tr>
<td>Newport Mining Corp</td>
<td>NEM</td>
<td>105/127/20%</td>
<td>235/234/0%</td>
<td>0%</td>
</tr>
<tr>
<td>Nextel Communications</td>
<td>NXTL</td>
<td>54/54/0%</td>
<td>1/(1) NM</td>
<td></td>
</tr>
<tr>
<td>Nicor Inc</td>
<td>GAS</td>
<td>244/215/(12%)</td>
<td>94/61/(35%)</td>
<td></td>
</tr>
<tr>
<td>Nike Inc-Cl B</td>
<td>NKE</td>
<td>1,068/1,068/0%</td>
<td>999/999/0%</td>
<td>0%</td>
</tr>
<tr>
<td>Nisource Inc</td>
<td>NI</td>
<td>1,009/954/(5%)</td>
<td>568/544/(4%)</td>
<td></td>
</tr>
<tr>
<td>Noble Corp</td>
<td>NE</td>
<td>386/386/(0%)</td>
<td>270/269/(0%)</td>
<td>0%</td>
</tr>
<tr>
<td>Nordstrom Inc</td>
<td>JWN</td>
<td>281/286/2%</td>
<td>286/286/0%</td>
<td>0%</td>
</tr>
<tr>
<td>Norfolk Southern Corp</td>
<td>NSC</td>
<td>1,007/876/(13%)</td>
<td>798/763/(4%)</td>
<td></td>
</tr>
<tr>
<td>North Fork Bancorporation</td>
<td>NFB</td>
<td>566/561/(1%)</td>
<td>479/473/(1%)</td>
<td></td>
</tr>
<tr>
<td>Northern Trust Corp</td>
<td>NTRS</td>
<td>941/936/(1%)</td>
<td>974/970/(0%)</td>
<td>0%</td>
</tr>
<tr>
<td>Northrop Grumman Corp</td>
<td>NOC</td>
<td>1,004/462/(54%)</td>
<td>1,098/463/(58%)</td>
<td></td>
</tr>
<tr>
<td>Novell Inc</td>
<td>NOVL</td>
<td>(32)/(32) NM</td>
<td>16/16/0%</td>
<td></td>
</tr>
<tr>
<td>Novellus Systems Inc</td>
<td>NVLS</td>
<td>228/228/0%</td>
<td>288/288/0%</td>
<td>0%</td>
</tr>
<tr>
<td>NuCor Corp</td>
<td>NUE</td>
<td>160/160/0%</td>
<td>477/477/0%</td>
<td>0%</td>
</tr>
<tr>
<td>Nvidia Corp</td>
<td>NVDA</td>
<td>255/255/0%</td>
<td>130/130/0%</td>
<td>0%</td>
</tr>
<tr>
<td>Occidental Petroleum Corp</td>
<td>OXY</td>
<td>2,558/2,563/0%</td>
<td>2,925/2,920/(0%)</td>
<td></td>
</tr>
<tr>
<td>Office Depot Inc</td>
<td>ODP</td>
<td>394/394/0%</td>
<td>349/349/0%</td>
<td>0%</td>
</tr>
<tr>
<td>Omnicon Group</td>
<td>OMC</td>
<td>968/968/0%</td>
<td>878/878/0%</td>
<td>0%</td>
</tr>
<tr>
<td>Oracle Corp</td>
<td>ORCL</td>
<td>3,571/3,571/0%</td>
<td>3,777/3,777/0%</td>
<td>0%</td>
</tr>
<tr>
<td>Paccar Inc</td>
<td>PCAR</td>
<td>492/494/0%</td>
<td>925/923/(0%)</td>
<td></td>
</tr>
<tr>
<td>Pactiv Corp</td>
<td>PTV</td>
<td>397/254/(36%)</td>
<td>385/247/(36%)</td>
<td></td>
</tr>
<tr>
<td>Pall Corp</td>
<td>PLL</td>
<td>184/182/(1%)</td>
<td>214/213/(1%)</td>
<td></td>
</tr>
<tr>
<td>Palm Inc</td>
<td>PALM</td>
<td>(163)/(163) NM</td>
<td>(392)/(392) NM</td>
<td></td>
</tr>
<tr>
<td>Parametric Technology Corp</td>
<td>PMTC</td>
<td>40/41/5%</td>
<td>13/15/13%</td>
<td></td>
</tr>
<tr>
<td>Parker-Hannifin Corp</td>
<td>PH</td>
<td>379/349/(8%)</td>
<td>590/530/(10%)</td>
<td></td>
</tr>
<tr>
<td>Paychex Inc</td>
<td>PAYX</td>
<td>364/364/0%</td>
<td>337/337/0%</td>
<td>0%</td>
</tr>
<tr>
<td>Penney (J C) Co</td>
<td>JCP</td>
<td>635/635/0%</td>
<td>56/56/0%</td>
<td>0%</td>
</tr>
<tr>
<td>Peoples Energy Corp</td>
<td>PGL</td>
<td>162/130/(20%)</td>
<td>159/109/(31%)</td>
<td></td>
</tr>
<tr>
<td>Peoplesoft Inc</td>
<td>PSFT</td>
<td>252/252/0%</td>
<td>104/104/0%</td>
<td>0%</td>
</tr>
<tr>
<td>Pepsi Bottling Group Inc</td>
<td>PBG</td>
<td>676/670/(1%)</td>
<td>590/588/(0%)</td>
<td></td>
</tr>
<tr>
<td>Pepsico Inc</td>
<td>PEP</td>
<td>4,408/4,364/(1%)</td>
<td>3,225/3,222/(0%)</td>
<td></td>
</tr>
<tr>
<td>Perkinler Inc</td>
<td>PKI</td>
<td>151/146/(3%)</td>
<td>184/183/(1%)</td>
<td></td>
</tr>
<tr>
<td>Pfizer Inc</td>
<td>PFE</td>
<td>10,801/10,717/(1%)</td>
<td>8,670/8,609/(1%)</td>
<td></td>
</tr>
<tr>
<td>PG&amp;E Corp</td>
<td>PCG</td>
<td>2,736/2,483/(9%)</td>
<td>(4,807)/(5,234) NM</td>
<td></td>
</tr>
<tr>
<td>Pharmacia Corp</td>
<td>PHA</td>
<td>2,701/2,661/(1%)</td>
<td>2,822/2,797/(1%)</td>
<td></td>
</tr>
<tr>
<td>Phelps Dodge Corp</td>
<td>PD</td>
<td>(77)/(108) NM</td>
<td>294/271/(8%)</td>
<td></td>
</tr>
<tr>
<td>Philip Morris Cos Inc</td>
<td>MO</td>
<td>16,295/15,868/(3%)</td>
<td>14,567/14,119/(3%)</td>
<td></td>
</tr>
<tr>
<td>Phillips Petroleum Co</td>
<td>P</td>
<td>3,579/3,603/1%</td>
<td>3,857/3,840/(0%)</td>
<td></td>
</tr>
<tr>
<td>Pinecone West Capital</td>
<td>PWK</td>
<td>675/660/(2%)</td>
<td>676/654/(3%)</td>
<td></td>
</tr>
<tr>
<td>Pitney Bowes Inc</td>
<td>PBI</td>
<td>997/962/(3%)</td>
<td>995/963/(3%)</td>
<td></td>
</tr>
<tr>
<td>Plum Creek Timber Co Inc</td>
<td>PCL</td>
<td>256/258/1%</td>
<td>133/130/(2%)</td>
<td></td>
</tr>
<tr>
<td>PMC-Sierra Inc</td>
<td>PMCS</td>
<td>(170)/(170) NM</td>
<td>176/176/0%</td>
<td>0%</td>
</tr>
<tr>
<td>PNC Financial Svcs Group Inc</td>
<td>PNC</td>
<td>1,793/1,763/(2%)</td>
<td>2,536/2,510/(1%)</td>
<td></td>
</tr>
<tr>
<td>Power-One Inc</td>
<td>POWER</td>
<td>(10)/(10) NM</td>
<td>89/89/0%</td>
<td></td>
</tr>
<tr>
<td>PPG Industries Inc</td>
<td>PPG</td>
<td>924/823/(11%)</td>
<td>1,202/1,073/(11%)</td>
<td></td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Operating Income/(Loss)</td>
<td>2000 Adjusted Operating Income/(Loss)</td>
<td>% Difference</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>---------------</td>
<td>--------------------------------------</td>
<td>--------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>PPL Corp</td>
<td>PPL</td>
<td>855</td>
<td>760</td>
<td>(11%)</td>
</tr>
<tr>
<td>Praxair Inc</td>
<td>PX</td>
<td>846</td>
<td>829</td>
<td>(2%)</td>
</tr>
<tr>
<td>Price (T. Rowe) Group</td>
<td>TROW</td>
<td>343</td>
<td>343</td>
<td>0%</td>
</tr>
<tr>
<td>Principal Financial Grp Inc</td>
<td>PFG</td>
<td>420</td>
<td>356</td>
<td>(15%)</td>
</tr>
<tr>
<td>Procter &amp; Gamble Co</td>
<td>PG</td>
<td>6,459</td>
<td>6,485</td>
<td>0%</td>
</tr>
<tr>
<td>Progress Energy Inc</td>
<td>PGN</td>
<td>1,244</td>
<td>1,164</td>
<td>(6%)</td>
</tr>
<tr>
<td>Progressive Corp-Ohio</td>
<td>PGR</td>
<td>642</td>
<td>642</td>
<td>0%</td>
</tr>
<tr>
<td>Providian Financial Corp</td>
<td>PVN</td>
<td>1,621</td>
<td>1,621</td>
<td>0%</td>
</tr>
<tr>
<td>Prudential Financial Inc</td>
<td>PRU</td>
<td>420</td>
<td>(204)</td>
<td>(149%)</td>
</tr>
<tr>
<td>Public Service Entrp</td>
<td>PEG</td>
<td>1,892</td>
<td>1,887</td>
<td>(0%)</td>
</tr>
<tr>
<td>Pulte Homes Inc</td>
<td>PHM</td>
<td>568</td>
<td>568</td>
<td>0%</td>
</tr>
<tr>
<td>Qlogic Corp</td>
<td>QLGC</td>
<td>87</td>
<td>87</td>
<td>0%</td>
</tr>
<tr>
<td>Qualcomm Inc</td>
<td>QCOM</td>
<td>611</td>
<td>611</td>
<td>0%</td>
</tr>
<tr>
<td>Quintiles Transnational Corp</td>
<td>QTRN</td>
<td>46</td>
<td>46</td>
<td>0%</td>
</tr>
<tr>
<td>Qwest Communication Intl Inc</td>
<td>Q</td>
<td>2,240</td>
<td>1,693</td>
<td>(24%)</td>
</tr>
<tr>
<td>Radioshack Corp</td>
<td>RSH</td>
<td>508</td>
<td>508</td>
<td>0%</td>
</tr>
<tr>
<td>Rational Software Corp</td>
<td>RATL</td>
<td>(97)</td>
<td>(97)</td>
<td>NM</td>
</tr>
<tr>
<td>Raytheon Co</td>
<td>RTN</td>
<td>802</td>
<td>264</td>
<td>(67%)</td>
</tr>
<tr>
<td>Reebok International Ltd</td>
<td>RKB</td>
<td>184</td>
<td>184</td>
<td>0%</td>
</tr>
<tr>
<td>Regions Fin Corp</td>
<td>RF</td>
<td>1,118</td>
<td>1,109</td>
<td>(1%)</td>
</tr>
<tr>
<td>Reliant Energy Inc</td>
<td>REI</td>
<td>1,993</td>
<td>1,997</td>
<td>0%</td>
</tr>
<tr>
<td>Robert Half Intl Inc</td>
<td>RHI</td>
<td>188</td>
<td>188</td>
<td>0%</td>
</tr>
<tr>
<td>Rockwell Automation</td>
<td>ROK</td>
<td>298</td>
<td>264</td>
<td>(11%)</td>
</tr>
<tr>
<td>Rockwell Collins Inc</td>
<td>COL</td>
<td>395</td>
<td>358</td>
<td>(9%)</td>
</tr>
<tr>
<td>Rohm &amp; Haas Co</td>
<td>ROH</td>
<td>456</td>
<td>352</td>
<td>(23%)</td>
</tr>
<tr>
<td>Rowan Cos Inc</td>
<td>RDC</td>
<td>125</td>
<td>123</td>
<td>(2%)</td>
</tr>
<tr>
<td>Ryder System Inc</td>
<td>R</td>
<td>253</td>
<td>223</td>
<td>(12%)</td>
</tr>
<tr>
<td>Sabre Hldgs Corp-Cl A</td>
<td>TSG</td>
<td>(9)</td>
<td>(6)</td>
<td>NM</td>
</tr>
<tr>
<td>Safeco Corp</td>
<td>SAFC</td>
<td>(89)</td>
<td>(84)</td>
<td>NM</td>
</tr>
<tr>
<td>Safeway Inc</td>
<td>SWY</td>
<td>2,632</td>
<td>2,546</td>
<td>(3%)</td>
</tr>
<tr>
<td>Sammin-Sci Corp</td>
<td>SANN</td>
<td>275</td>
<td>275</td>
<td>0%</td>
</tr>
<tr>
<td>Sara Lee Corp</td>
<td>SLE</td>
<td>1,618</td>
<td>1,570</td>
<td>(3%)</td>
</tr>
<tr>
<td>SBC Communications Inc</td>
<td>SBC</td>
<td>10,923</td>
<td>8,923</td>
<td>(18%)</td>
</tr>
<tr>
<td>Schering-Plough</td>
<td>SGP</td>
<td>2,928</td>
<td>2,879</td>
<td>(2%)</td>
</tr>
<tr>
<td>Schlumberger Ltd</td>
<td>SLB</td>
<td>1,413</td>
<td>1,372</td>
<td>(3%)</td>
</tr>
<tr>
<td>Schwab (Charles) Corp</td>
<td>SCH</td>
<td>734</td>
<td>713</td>
<td>(3%)</td>
</tr>
<tr>
<td>Scientific-Atlanta Inc</td>
<td>SFA</td>
<td>417</td>
<td>415</td>
<td>(1%)</td>
</tr>
<tr>
<td>Sealed Air Corp</td>
<td>SEE</td>
<td>420</td>
<td>422</td>
<td>0%</td>
</tr>
<tr>
<td>Sears Roebuck &amp; Co</td>
<td>S</td>
<td>3,657</td>
<td>3,657</td>
<td>0%</td>
</tr>
<tr>
<td>Sempra Energy</td>
<td>SRE</td>
<td>993</td>
<td>929</td>
<td>(6%)</td>
</tr>
<tr>
<td>Sherwin-Williams Co</td>
<td>SHW</td>
<td>490</td>
<td>460</td>
<td>(6%)</td>
</tr>
<tr>
<td>Siebel Systems Inc</td>
<td>SEBL</td>
<td>358</td>
<td>358</td>
<td>0%</td>
</tr>
<tr>
<td>Sigma-Aldrich</td>
<td>SIAL</td>
<td>219</td>
<td>217</td>
<td>(1%)</td>
</tr>
<tr>
<td>Simon Property Group Inc</td>
<td>SPG</td>
<td>965</td>
<td>965</td>
<td>0%</td>
</tr>
<tr>
<td>SLM Corp</td>
<td>SLM</td>
<td>3,194</td>
<td>3,185</td>
<td>(0%)</td>
</tr>
<tr>
<td>Snap-On Inc</td>
<td>SNA</td>
<td>207</td>
<td>185</td>
<td>(11%)</td>
</tr>
<tr>
<td>Solecron Corp</td>
<td>SLR</td>
<td>448</td>
<td>448</td>
<td>0%</td>
</tr>
<tr>
<td>Southern Co</td>
<td>SO</td>
<td>2,391</td>
<td>2,163</td>
<td>(10%)</td>
</tr>
<tr>
<td>Southtrust Corp</td>
<td>SOTR</td>
<td>1,060</td>
<td>1,061</td>
<td>0%</td>
</tr>
<tr>
<td>Southwest Airlines</td>
<td>LUV</td>
<td>631</td>
<td>631</td>
<td>0%</td>
</tr>
<tr>
<td>Sprint Fon Group</td>
<td>FON</td>
<td>1,813</td>
<td>1,655</td>
<td>(9%)</td>
</tr>
<tr>
<td>Sprint Pcs Group</td>
<td>PCS</td>
<td>(637)</td>
<td>(619)</td>
<td>NM</td>
</tr>
<tr>
<td>St Jude Medical Inc</td>
<td>STJ</td>
<td>279</td>
<td>279</td>
<td>0%</td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker Symbol</td>
<td>2001 Adjusted Operating Income/(Loss)</td>
<td>2000 Adjusted Operating Income/(Loss)</td>
<td>% Difference Adjusted</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------------</td>
<td>--------------------------------------------</td>
<td>--------------------------------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>St Paul Cos</td>
<td>SPC</td>
<td>(1,186) / (1,227)</td>
<td>1,568 / 1,499</td>
<td>(4%)</td>
</tr>
<tr>
<td>Stanley Works</td>
<td>SWK</td>
<td>350 / 300</td>
<td>341 / 315</td>
<td>(8%)</td>
</tr>
<tr>
<td>Staples Inc</td>
<td>SPLS</td>
<td>526 / 526</td>
<td>488 / 488</td>
<td>0%</td>
</tr>
<tr>
<td>Starbucks Corp</td>
<td>SBUX</td>
<td>252 / 252</td>
<td>192 / 192</td>
<td>0%</td>
</tr>
<tr>
<td>Starwood Hotels &amp; Resorts Wrl</td>
<td>HOT</td>
<td>651 / 634</td>
<td>1,028 / 1,018</td>
<td>(1%)</td>
</tr>
<tr>
<td>State Street Corp</td>
<td>STT</td>
<td>1,955 / 1,959</td>
<td>1,825 / 1,826</td>
<td>0%</td>
</tr>
<tr>
<td>Stilwell Finl Inc</td>
<td>SV</td>
<td>613 / 613</td>
<td>1,036 / 1,036</td>
<td>0%</td>
</tr>
<tr>
<td>Stryker Corp</td>
<td>SYK</td>
<td>473 / 474</td>
<td>432 / 432</td>
<td>0%</td>
</tr>
<tr>
<td>Sun Microsystems Inc</td>
<td>SUNW</td>
<td>1,845 / 1,845</td>
<td>2,405 / 2,405</td>
<td>0%</td>
</tr>
<tr>
<td>Sungard Data Systems Inc</td>
<td>SDS</td>
<td>406 / 406</td>
<td>348 / 348</td>
<td>0%</td>
</tr>
<tr>
<td>Sunoco Inc</td>
<td>SUN</td>
<td>633 / 606</td>
<td>650 / 636</td>
<td>(2%)</td>
</tr>
<tr>
<td>Suntrust Banks Inc</td>
<td>STI</td>
<td>2,952 / 2,919</td>
<td>2,708 / 2,667</td>
<td>(2%)</td>
</tr>
<tr>
<td>Supervaul Inc</td>
<td>SVU</td>
<td>575 / 565</td>
<td>585 / 575</td>
<td>(2%)</td>
</tr>
<tr>
<td>Symbol Technologies</td>
<td>SBL</td>
<td>107 / 109</td>
<td>206 / 207</td>
<td>1%</td>
</tr>
<tr>
<td>Synovus Financial Cp</td>
<td>SNV</td>
<td>714 / 714</td>
<td>548 / 548</td>
<td>0%</td>
</tr>
<tr>
<td>Sysco Corp</td>
<td>SYY</td>
<td>1,039 / 1,033</td>
<td>810 / 804</td>
<td>(1%)</td>
</tr>
<tr>
<td>Target Corp</td>
<td>TGT</td>
<td>2,747 / 2,729</td>
<td>2,478 / 2,469</td>
<td>(0%)</td>
</tr>
<tr>
<td>Teco Energy Inc</td>
<td>TE</td>
<td>423 / 402</td>
<td>414 / 395</td>
<td>(4%)</td>
</tr>
<tr>
<td>Tektronix Inc</td>
<td>TEK</td>
<td>63 / 48</td>
<td>175 / 155</td>
<td>(11%)</td>
</tr>
<tr>
<td>Tellabs Inc</td>
<td>TLAB</td>
<td>169 / 169</td>
<td>1,001 / 1,001</td>
<td>0%</td>
</tr>
<tr>
<td>Temple-Inland Inc</td>
<td>TIN</td>
<td>456 / 422</td>
<td>546 / 522</td>
<td>(4%)</td>
</tr>
<tr>
<td>Tenet Healthcare Corp</td>
<td>THC</td>
<td>2,193 / 2,193</td>
<td>1,690 / 1,690</td>
<td>0%</td>
</tr>
<tr>
<td>Teradyne Inc</td>
<td>TER</td>
<td>(107) / (103)</td>
<td>711 / 712</td>
<td>0%</td>
</tr>
<tr>
<td>Texas Instruments Inc</td>
<td>TXN</td>
<td>(224) / (221)</td>
<td>2,554 / 2,554</td>
<td>0%</td>
</tr>
<tr>
<td>Textron Inc</td>
<td>TXT</td>
<td>947 / 742</td>
<td>1,580 / 1,395</td>
<td>(12%)</td>
</tr>
<tr>
<td>Thermo Electric Corp</td>
<td>TMO</td>
<td>167 / 166</td>
<td>198 / 196</td>
<td>(1%)</td>
</tr>
<tr>
<td>Thomas &amp; Betts Corp</td>
<td>TNB</td>
<td>(8) / (8)</td>
<td>(218) / (227)</td>
<td>NM</td>
</tr>
<tr>
<td>Tiffany &amp; Co</td>
<td>TIF</td>
<td>310 / 310</td>
<td>331 / 331</td>
<td>0%</td>
</tr>
<tr>
<td>TJX Companies Inc</td>
<td>TJX</td>
<td>900 / 902</td>
<td>888 / 886</td>
<td>(0%)</td>
</tr>
<tr>
<td>TMP Worldwide Inc</td>
<td>TMPW</td>
<td>186 / 186</td>
<td>159 / 159</td>
<td>0%</td>
</tr>
<tr>
<td>Torchmark Corp</td>
<td>TMK</td>
<td>646 / 643</td>
<td>617 / 615</td>
<td>0%</td>
</tr>
<tr>
<td>Toys R Us Inc</td>
<td>TOY</td>
<td>384 / 384</td>
<td>395 / 395</td>
<td>0%</td>
</tr>
<tr>
<td>Transocean Inc</td>
<td>RIG</td>
<td>523 / 521</td>
<td>115 / 115</td>
<td>(1%)</td>
</tr>
<tr>
<td>Tribune Co</td>
<td>TRB</td>
<td>802 / 781</td>
<td>1,033 / 955</td>
<td>(8%)</td>
</tr>
<tr>
<td>TRW Inc</td>
<td>TRW</td>
<td>922 / 586</td>
<td>1,011 / 670</td>
<td>(34%)</td>
</tr>
<tr>
<td>Tupperware Corp</td>
<td>TUP</td>
<td>134 / 135</td>
<td>144 / 146</td>
<td>1%</td>
</tr>
<tr>
<td>TXU Corp</td>
<td>TXU</td>
<td>2,285 / 2,210</td>
<td>2,477 / 2,394</td>
<td>(3%)</td>
</tr>
<tr>
<td>Tyco International Ltd</td>
<td>TYC</td>
<td>7,958 / 7,834</td>
<td>5,750 / 5,701</td>
<td>(1%)</td>
</tr>
<tr>
<td>U S Bancorp</td>
<td>USB</td>
<td>4,927 / 4,801</td>
<td>2,597 / 2,540</td>
<td>(2%)</td>
</tr>
<tr>
<td>Union Pacific Corp</td>
<td>UNP</td>
<td>2,072 / 2,002</td>
<td>2,018 / 1,953</td>
<td>(3%)</td>
</tr>
<tr>
<td>Union Planters Corp</td>
<td>UPC</td>
<td>936 / 936</td>
<td>846 / 846</td>
<td>0%</td>
</tr>
<tr>
<td>Unisys Corp</td>
<td>UIS</td>
<td>270 / 43</td>
<td>553 / 358</td>
<td>(35%)</td>
</tr>
<tr>
<td>United Parcel Service Inc</td>
<td>UPS</td>
<td>3,888 / 3,666</td>
<td>4,522 / 4,412</td>
<td>(2%)</td>
</tr>
<tr>
<td>United States Steel Corp</td>
<td>X</td>
<td>(285) / (494)</td>
<td>62 / (287)</td>
<td>(563%)</td>
</tr>
<tr>
<td>United Technologies Corp</td>
<td>UTX</td>
<td>3,581 / 3,409</td>
<td>3,140 / 2,942</td>
<td>(6%)</td>
</tr>
<tr>
<td>Unitedhealth Group Inc</td>
<td>UNH</td>
<td>1,572 / 1,572</td>
<td>1,200 / 1,200</td>
<td>0%</td>
</tr>
<tr>
<td>Univision Communications Inc</td>
<td>UVN</td>
<td>228 / 228</td>
<td>263 / 263</td>
<td>0%</td>
</tr>
<tr>
<td>Unocal Corp</td>
<td>UCL</td>
<td>1,085 / 1,064</td>
<td>1,057 / 1,014</td>
<td>(4%)</td>
</tr>
<tr>
<td>Unumprovident Corp</td>
<td>UNM</td>
<td>1,000 / 971</td>
<td>1,047 / 871</td>
<td>(17%)</td>
</tr>
<tr>
<td>UST Inc</td>
<td>UST</td>
<td>833 / 836</td>
<td>753 / 751</td>
<td>(0%)</td>
</tr>
<tr>
<td>Veritas Software Co</td>
<td>VRTS</td>
<td>(567) / (567)</td>
<td>(558) / (558)</td>
<td>NM</td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>15,408 / 12,895</td>
<td>14,565 / 10,464</td>
<td>(28%)</td>
</tr>
<tr>
<td>VF Corp</td>
<td>VFC</td>
<td>559 / 560</td>
<td>610 / 604</td>
<td>(1%)</td>
</tr>
<tr>
<td>Company Name</td>
<td>Ticker</td>
<td>Symbol</td>
<td>2001 Adjusted Operating Income(Loss)</td>
<td>2000 Adjusted Operating Income(Loss)</td>
</tr>
<tr>
<td>------------------------------</td>
<td>--------</td>
<td>--------</td>
<td>-------------------------------------</td>
<td>-------------------------------------</td>
</tr>
<tr>
<td>Viacom Inc -Cl B</td>
<td>VIA.B</td>
<td></td>
<td>1,580</td>
<td>2,019</td>
</tr>
<tr>
<td>Visteon Corp</td>
<td>VC</td>
<td></td>
<td>75</td>
<td>661</td>
</tr>
<tr>
<td>Vitesse Semiconductor Corp</td>
<td>VTSS</td>
<td>(97)</td>
<td>(97)</td>
<td>154</td>
</tr>
<tr>
<td>Vulcan Materials Co</td>
<td>VMC</td>
<td></td>
<td>370</td>
<td>340</td>
</tr>
<tr>
<td>Wachovia Corp</td>
<td>WB</td>
<td></td>
<td>3,243</td>
<td>2,644</td>
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<tr>
<td>Walgreen Co</td>
<td>WAG</td>
<td></td>
<td>1,398</td>
<td>1,224</td>
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<tr>
<td>Wal-Mart Stores</td>
<td>WMT</td>
<td></td>
<td>10,064</td>
<td>9,524</td>
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<tr>
<td>Washington Mutual Inc</td>
<td>WM</td>
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<td>4,610</td>
<td>3,619</td>
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<tr>
<td>Waste Management Inc</td>
<td>WMI</td>
<td></td>
<td>1,663</td>
<td>1,787</td>
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<tr>
<td>Waters Corp</td>
<td>WAT</td>
<td></td>
<td>225</td>
<td>211</td>
</tr>
<tr>
<td>Watson Pharmaceuticals Inc</td>
<td>WPI</td>
<td></td>
<td>303</td>
<td>178</td>
</tr>
<tr>
<td>Wellpoint Hlth Netwrk-Cl A</td>
<td>WLP</td>
<td></td>
<td>823</td>
<td>634</td>
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<tr>
<td>Wells Fargo &amp; Co</td>
<td>WFC</td>
<td></td>
<td>8,827</td>
<td>9,201</td>
</tr>
<tr>
<td>Wendy's International Inc</td>
<td>WEN</td>
<td></td>
<td>330</td>
<td>310</td>
</tr>
<tr>
<td>Weyerhaeuser Co</td>
<td>WY</td>
<td></td>
<td>906</td>
<td>1,690</td>
</tr>
<tr>
<td>Whirlpool Corp</td>
<td>WHR</td>
<td></td>
<td>813</td>
<td>807</td>
</tr>
<tr>
<td>Williams Cos Inc</td>
<td>WMB</td>
<td></td>
<td>2,591</td>
<td>1,841</td>
</tr>
<tr>
<td>Winn-Dixie Stores Inc</td>
<td>WIN</td>
<td></td>
<td>366</td>
<td>274</td>
</tr>
<tr>
<td>Worthington Industries</td>
<td>WOR</td>
<td></td>
<td>72</td>
<td>169</td>
</tr>
<tr>
<td>Wrigley (Wm) Jr Co</td>
<td>WWY</td>
<td></td>
<td>513</td>
<td>463</td>
</tr>
<tr>
<td>Wyeth</td>
<td>WYE</td>
<td></td>
<td>3,691</td>
<td>3,273</td>
</tr>
<tr>
<td>Xcel Energy Inc</td>
<td>XEL</td>
<td></td>
<td>1,726</td>
<td>1,388</td>
</tr>
<tr>
<td>Xerox Corp</td>
<td>XRX</td>
<td></td>
<td>1,181</td>
<td>998</td>
</tr>
<tr>
<td>Xilinx Inc</td>
<td>XLNX</td>
<td>(19)</td>
<td>(19)</td>
<td>475</td>
</tr>
<tr>
<td>Xi Capital Ltd</td>
<td>XL</td>
<td>(760)</td>
<td>(760)</td>
<td>409</td>
</tr>
<tr>
<td>Yahoo Inc</td>
<td>YHOO</td>
<td>(96)</td>
<td>(96)</td>
<td>321</td>
</tr>
<tr>
<td>Yum Brands Inc</td>
<td>YUM</td>
<td></td>
<td>866</td>
<td>863</td>
</tr>
<tr>
<td>Zimmer Hldgs Inc</td>
<td>ZMH</td>
<td></td>
<td>318</td>
<td>285</td>
</tr>
<tr>
<td>Zions Bancorporation</td>
<td>ZION</td>
<td></td>
<td>609</td>
<td>493</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td></td>
<td></td>
<td>895,099</td>
<td>991,384</td>
</tr>
</tbody>
</table>

*Source: Company data, CSFB estimates.*
Glossary

Accumulated benefit obligation—often referred to as ABO. Represents the current obligation that an employer has to an employee for services rendered to date. Unlike the projected benefit obligation, the ABO does not take future salary increases into consideration. In the absence of salary increases, the ABO and PBO would be identical.

Accrued benefit pension cost. The excess of the cumulative pension expense recognized by an employer on its financial statements and the actual cumulative contributions that the employer has made to a defined benefit pension plan. An accrued or prepaid pension benefit may arise in cases where a company’s cumulative contributions exceed its cumulative pension expense.

Actual return on plan assets. Represents actual change in the fair value of pension plan assets. This amount is not subject to any smoothing and is more volatile than expected return, which could be significantly different. Unlike the expected return on plan assets, the actual return on plan assets is not recognized in income.

Actuarial gains and losses. Gains and losses associated with differences between an actuary’s assumptions and actual experience.

Actuarial present value. An amount that reflects (a) the time value of money and (b) the probability of payment (probabilities reflect likelihood of death, disability, withdrawal, or retirement).

Benefit payments. Amounts paid to retirees for work performed or services rendered to the plan sponsor.

Compensation inflation rate. See “Salary inflation rate.”

Contributions. Payments made usually by an employer or a pension plan participant to a pension plan to increase the plan’s assets.

Corridor. The trigger that is used to determine whether a company’s unrecognized gains and losses have grown to a point where they will begin to require amortization and therefore included in pension cost. Unrecognized gains and losses must be amortized when they exceed the corridor, which is set at 10% of the larger of (a) the PBO or (b) the market-related asset value as of the beginning of the period in question.

Curtailment. An event that significantly reduces or completely eliminates the plan benefits to which employees will be entitled in the future.

Defined benefit plan. A pension plan that clearly defines the benefits to which employees will be entitled for work performed for the plan sponsor. May be based on a number of factors, including years of service or salary. The precise amount of an employer’s liability under a defined benefit plan is unknown, given the uncertainty inherent in arriving at the present value of the obligation.

Defined contribution plan. A pension plan that entitles employees to periodic contribution payments made by an employer (and by the employee in many cases) to an employee’s retirement account. Unlike a defined benefit pension plan, this type of plan limits an employer’s liability to amounts actually contributed to an employee’s retirement account. All risk surrounding future performance is borne by the employee.
**Discount rate.** The rate applied to future benefit payments to determine their present value and ultimately used to arrive at the PBO.

**ERISA.** Acronym for the Employee Retirement Income Security Act of 1974. The Act created the PBGC (see below) and established guidelines for defined benefit pension plan management.

**Expected return on plan assets.** Represents the long-term return that a plan sponsor expects to earn on assets invested in the pension plan. Also an amount that reduces pension expense, thereby effectively acting as an enhancement to net income.

**Funded status.** The difference between (a) the fair value of pension plan assets and (b) the projected benefit obligation. A pension plan with an excess of (a) over (b) is referred to as overfunded, while a plan with an excess of (b) over (a) is referred to as underfunded.

**Interest cost.** The increase in the PBO due to the passage of time, calculated by multiplying the discount rate from prior year by beginning of year PBO.

**Market-related value.** An amount representing either fair value or some other systematic valuation method that recognizes changes in the fair value of plan assets over a period no greater than five years.

**Minimum pension liability.** The excess of the accumulated benefit obligation over the fair value of plan assets. Represents the smallest liability amount that a plan sponsor can report in its financial statements.

**Participant.** An individual who has rendered services to a pension plan sponsor and is entitled to plan benefits.

**PBGC.** Acronym for the Pension Benefit Guaranty Corporation, a U.S. governmental entity created by the ERISA. PBGC collects revenues in the form of insurance premiums from private defined benefit pension plan sponsors, protecting the retirement income of American workers if their employers go into bankruptcy.

**Plan assets.** The assets that an employer has committed to a trust solely for the purpose of satisfying its future obligation to an employee for services rendered to the employer. Plan assets increase with employer contributions to the pension plan, and the actual earnings on those assets, and decrease with benefit payments made to retirees from the plan.

**Prepaid pension cost/(benefit).** Represents the excess of a sponsor’s cumulative contributions to a plan over the cumulative amount of pension expense recognized in income to date.

**Prior service cost.** The cost of benefits granted to employees in the current period for work or services rendered in the past.

**Projected benefit obligation—often referred to as PBO.** Represents the current obligation that an employer has to an employee for services rendered to date. Unlike the accumulated benefit obligation, the PBO takes future salary increases into consideration. In the absence of salary increases, the PBO and ABO would be identical.

**Salary inflation rate.** The rate at which actuaries assume employee salaries will grow.
**Service cost.** Represents the liability to the company arising during the current period for work performed or services rendered in the same period.

**Settlement.** An action that relieves the pension plan from further obligation to a participant (i.e., a lump-sum, cash payment to a retired employee).

**Sponsor.** The name of the party who establishes a plan.

**Transition cost.** The excess of a company’s PBO over the fair value of plan assets on the date that the company transitioned to FAS No. 87 (some time between January 1, 1985 and January 1, 1987). The excess is to be amortized to expense over the remaining service life of active employees. To the extent that a company’s PBO was less than the fair value of its plan assets on the date that the company transitioned to FAS No. 87, the company had a transition benefit. This benefit is amortized into income over the remaining service life of active employees.

**Unrecognized gains and losses.** The cumulative difference between actual and expected plan asset returns. We refer to these amounts as “unexpected” gains and losses.

**Vested benefit obligation—often referred to as the VBO.** Represents the value of benefits to which a plan participant is entitled as of the measurement date. Unlike the ABO and PBO, the VBO increases on the date when an employee becomes entitled to benefits and not on the date in which the benefits are earned.
AMSTERDAM........... 31 20 5754 890
ATLANTA............... 1 404 897 2800
Baltimore.............. 1 410 659 8800
BANGKOK.............. 62 614 6000
BEIJING................. 86 10 6410 6611
BOSTON.................. 1 617 556 5500
BUDEPEST................ 36 1 202 2188
BUENOS AIRES........... 54 11 4394 3100
CHICAGO................ 1 312 750 3000
FRANKFURT............. 49 69 75 38 0
HOUSTON............... 1 713 890 6700
HONG KONG.............. 852 2101 6000
JOHANNESBURG........... 27 11 343 2200
KUALA LUMPUR.......... 603 2143 0366
LONDON................. 44 20 7888 8888
MADRID............... 34 91 423 16 00
MELBOURNE............. 61 3 9280 1888
MEXICO CITY........... 52 5 283 89 00
MILAN.................. 39 072 021 700
MOSCOW.................. 7 501 967 8200
MUMBAI.................. 91 22 230 6333
NEW YORK............... 1 212 325 2000
PALO ALTO.............. 1 650 614 5000
PARIS.................... 33 1 53 75 85 00
PHILADELPHIA.......... 1 215 851 1000
SAN FRANCISCO......... 1 415 836 7600
SÃO PAULO.............. 55 11 3841 6000
SEOUL.................. 82 2 3707 3700
SHANGHAI.............. 86 21 6881 8418
SINGAPORE............. 65 6212 2000
SYDNEY.................. 61 2 8205 4433
TAIPEI.................. 886 2 2715 6388
TOKYO................... 81 3 5404 9000
TORONTO............... 1 416 352 4500
WASHINGTON............. 1 202 354 2600
WARSAW............... 46 22 695 0050
ZHANGHAI.............. 86 21 6881 8418

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