

Bianco Research L.L.C.

An Arbor Research & Trading Affiliated Company

Independent · Objective · Original

Volume 14, No. 1

1113 West Armitage, Chicago IL 60614

www.biancoresearch.com

Commentary

Accounting For Pensions: The “Real” Problem

By Scott D. Mikkelsen (847) 304-1506
& James A. Bianco, CMT (847) 304-1511
January 8, 2003

Now, the higher the expectation rate that a company uses for pensions, the higher its reported earnings will be. That's just the way that pension accounting works—and I hope, for the sake of relative brevity, that you'll just take my word for it. Warren Buffet, Forbes, December 6, 2001

Forgive us Mr. Buffet. We have not been able to take anyone's word on the pension problem. To be fair, our interest was piqued by the recent rage over pension funding and the “beating” pension earning assumptions have taken. However, before we get ahead of ourselves, let's look at the basics of pensions, pension accounting, and what really matters in this issue.

Defined Benefits vs. Defined Obligations

Let's start with the basic question: Which companies are exposed to the pension accounting problem? To answer this we begin by looking at what type of pension plan a company offers its employees. There are two basic types: **defined benefit plans** and **defined contribution plans**. The difference lies in what the employer has promised to its employees.

Defined contribution plans generally promise that the employer will make contributions on behalf of the employee and the future benefits will depend upon the investment returns in the employee's retirement account. **Hence, all the investment risk lies with the employee and the employer has no obligation beyond the contributions made each period.** A common example of this is a 401(k) plan offered by many employers.

Defined benefit plans, however, are an altogether different beast and the focus of this report. A defined benefit plan promises a future retirement benefit determined by a benefit formula. Regardless of the benefit formula, the employer is obligated to pay a certain benefit at some point in the future. **The ultimate cost of this benefit is unknown, but all the investment risk falls on the employer.**

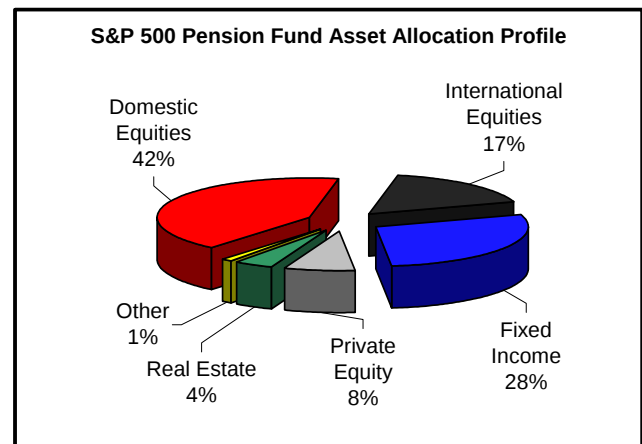
Because of this, a company sponsoring a defined benefit plan has entered into an obligation where the exact cash flows are unknown. Nearly 360

companies in the S&P 500 have varying degrees of exposure to defined benefit pension plans. We include this list in Appendix 1.

Funded Status of Defined Benefit Plans

At the most basic level, a defined benefit plan has two components: **plan assets** and a **future obligation**.

The **plan assets** are funds allocated across a wide spectrum of investments (equity, fixed income, real estate).



As of December 31, 2001- Data Source: UBS Warburg

The **future obligation** is the promise to pay retirement benefits to employees. The pertinent information about a pension plan is the fair value of its plan assets and the fair value of its future obligation.

The fair value of the plan assets is the market value of its investments. The fair value of the future obligation is the net present value of the projected, or anticipated, obligation. In pension speak, this is called the **projected benefit obligation** or “PBO.”

The difference between the market value of the plan assets and the PBO is the “funded status” of a pension plan. When the fair value of the plan assets is **greater than** the fair value of the pbo, the plan is said to be **over-funded**. Likewise, when the fair value of the plan assets is **less than** the fair value of the pbo, the plan is said to be **under-funded**.

The funded status of a defined benefit plan is the key driver in determining whether or not a company will have to make a contribution to its pension plan. This is why the deterioration in the funded status of many companies has received so much attention recently.

What “Really Matters” To The Funded Status

Two things not being discussed about this issue are very important. **First, the variable in the pension accounting funding status of the greatest importance is not the performance of the stock market or the expected return assumption used in pension models. The most important variable affecting the funded status of pension plans (which ultimately could affect the stability of some companies) is the level of interest rates used in calculating the funding status.** This interest rate is known as the discount rate.

The discount rate companies must use is tied to the yield of Aa corporate bonds, as clarified by the SEC in 1993. Since 1993, the median discount rate for the S&P 500 has tracked very closely with the Moody's Aa yield. In fact, the spread between the two has never widened more than 55 basis points. So the market level of interest rates is very important

to pension plans. Further, low interest rates, all else being equal, will increase the PBO and hurt the funded status of a plan. So, low interest rates, like we currently have, are actually bad for a pension plan.

Second, the hype surrounding the funding status of pension plans is somewhat unwarranted. While the funding status does give a general idea about the health of a company's pension plan, it is actually nothing more than an educated guess about the well being of the plan.

In fact, being under-funded will not necessarily send a company to its earnings or cash flow in a desperate attempt to close the “gap” and become fully or over-funded. Looking at a company's over or under-funded status will only give you half the picture.

In order to find companies that will actually be forced to contribute cash to their pension funds, it is necessary to look at something called the “*funding ratio*”. This ratio is simply the pension assets divided by the pbo.

The significance of the funding ratio cannot be overstated because it **can** send a company with an unacceptable ratio to its earnings, stock, or cash flow to close the gap. The acceptable and unacceptable ratio levels are very clear. In fact, they were set in 1974 by ERISA (and included in the Table below).

Summary of ERISA Deficit Reduction Contribution Requirements			
Funding Ratio (FR)	Contribution Factor (% of Deficit)	Additional Constraints	Comments
Less than 100%	None	None	
Less than 90%	None	None	
Between 80% and 90%	None	AND FR>90% for both of the prior two years	If one prior period's FR < 90%, check an additional third year prior to current period for FR > 90%, otherwise calculate contribution
87%	19%	AND FR>90% for the prior two years	
84%	20%	AND FR>90% for the prior two years	
80%	22%	AND FR>90% for the prior two years	
79%	22%	None	
72%	25%	None	
65% and Below	30%	None	

Data Source: Credit Suisse First Boston

If you are interested in distinguishing which companies are truly at risk of having pension problems, it is best to use the funding ratio in conjunction with the table above as an initial screen to find companies in violation of pension rules.

Pension accounting is tricky business (and boring), but the reason the above points have been missed is because of one material fact. **There are two different methods of accounting for pensions**

and the assumptions and numbers used in both have been clouded together. The pension assets and liabilities reported on the balance sheet and the net pension costs reported on the income statement differ from the “economic amounts” used to determine the funding status shown in the footnotes.

To be exact, there are accounting methods used to derive an “economic value” found in the footnotes to the annual report. This “economic value”

determines whether a company is over or under funded. When this economic value reaches funding ratios below those set by ERISA, a company will be required to contribute cash to close the gap. Separately, there are accounting methods used to determine reported income numbers as dictated by the smoothing mechanisms in GAAP. So with that said, let's look at the differences.

(Note: On the ERISA table on the prior page the column titled "Contribution Factor" shows that when a company is forced to contribute cash to their pension by ERISA rules, the contribution can be less than 100% of the deficit. In other words, they are not forced to bring the fund back to 100% funded. For example, if a company had a funding ratio of 65% they would be forced to contribute cash to their pension fund equaling only 30% of their current funding deficit. This would bring their funding ratio to 76%.)

Pension Accounting

Those that state that the unrealistic return rates used in pension accounting create hugely underfunded pensions are incorrect. Why you ask? **The answer is quite simple. Expected returns play no part in the determination of over or under funded status of pension plans.**

Below are two tables detailing how net pension benefits (or costs) are derived. Table 1 illustrates how the net pension benefits or cost on the **income statement** is calculated. Table 2 illustrates how the pension plan's assets and projected benefit obligations are calculated (this is how the economic surplus or deficit value required for determining cash funding needs is calculated).

Table 1: Forecasting Net Pension Benefits (Costs)

Add

Service Cost:

Current Service Cost x (1 + projected salary increase)
subject to changes in the number of active employees in current defined benefit plan

Interest Cost:

[Beginning PBO - 50% of Benefits Paid] x discount rate

Amortization of Prior Period Service Cost:

Assumed to remain same as previous year if there is an unamortized balance unless changes in post employment benefits are expected

Actuarial Change in Pension Cost:

Tough to project so used only in determining changes in service and interest costs estimates due to changes in the discount rate as noted in most footnotes

Less

Expected Return:

[Beginning Fair Value of Plan Assets + 50% of Expected Contributions - 50% of Benefits Paid]
x Expected Rate of Return

Transit Asset Ammortization:

Assumed constant and recurring, if reported and there is an unamortized balance

= Net Pension Benefit (Cost) before non recurring items

Source: Morgan Stanley

Table 2: Forecast Pension Assets and Obligations

Estimates of Projected Benefit Obligations (PBO's)

Beginning Period PBO
plus Estimated Service Cost
plus Estimated Interest Cost
minus Benefits Paid Out
plus/minus Actuarial Losses (Gains)

= Ending Period PBO

Estimate of Plan Assets (Fair Value)

Beginning Period Plan Assets (Fair Value)
plus Actual Returns on plan assets
Minimum cash contributions
less Benefits Paid Out

= Ending Period Plan Assets (Fair Value)

Source: Morgan Stanley

The Assumptions: The Expected Return & The Discount Rate.

With both pension accounting methods laid out, let's tackle the "actuarial" assumptions used in pension accounting.

Table 3 below details each of the major assumptions used to calculate the Net Pension Cost (the income

statement number), and the off-balance sheet values (the economic values used to determine the over or under funded status of a pension and the funding ratio). **Notice the expected return assumption does not affect the companies' funding status or the companies' funding ratio.**

Table 3: Impact of Changes in Assumptions							
Assumption	Impact			Net Pension Cost Components			
	Off-Balance Sheet items						
	FMV of Plan Assets	Projected Benefit Obligation	Funded Status	Service Cost	Interest Cost	Expected Return	Net Pension Cost
Discount Rate							
Increase	None	Decrease	Favorable	Decrease	Increase	None	Decrease
Decrease	None	Increase	Unfavorable	Increase	Decrease	None	Increase
Expected Rate of Return							
Increase	None	None	None	None	None	Increase	Decrease
Decrease	None	None	None	None	None	Decrease	Increase
Salary Inflation Rate							
Increase	None	Increase	Unfavorable	Increase	None	None	Increase
Decrease	None	Decrease	Favorable	Decrease	None	None	Decrease

Source: Credit Suisse First Boston

What the expected return assumption does affect is the net pension cost (the income statement number), so let's address this assumption and how it affects the **income statement** briefly.

When deciding whether the expected return assumption used in pension plans is accurate, ask yourself a simple question; "Does it seem reasonable that a pension fund invested in a balanced portfolio of stocks, bonds, and real-estate should assume it will generate an annual return of 7% - 9% (this is the average expected return assumption of 99% of the companies in the S&P 500) over a span of 15 - 20 years (the average life of the liabilities held in a corporate pension plan)."

Remember, if inflation is running at 2% - 3%, these companies are assuming their portfolio will have a real return of 4% - 7% over a long horizon. Don't forget, most of these companies earned returns on these portfolios in the neighborhood of 15% to 18% only two years ago. We are not implying there is a right or wrong answer to what assumption of expected returns you may feel is accurate over a long-term investment horizon, **but regardless, the expected return assumption used in the models should be relatively stable. It should not be tied to the performance of the market over a two or**

three year time span, unless, of course, all the liabilities in the pension plan are due in two to three years.

Recently, there have been a few individuals in the press claiming to be part of a small majority using accurate expected return assumptions in their pension accounting plans.

While this may be true, the results can be very misleading. Look at the Net Pension Cost Components data on the right hand side of the table above. When an expected return assumption is decreased (presumably to reflect the current market situation) the result is an increase in net pension cost and a hit to the income statement. But take a look at the discount rate. If the discount rate is raised, the net pension cost decreases and benefits the income statement. **So it is absolutely critical to look at both assumptions together when deciding if a company is accurately estimating pension costs.**

For example, in Berkshire Hathway's most recent annual statement Warren Buffet touts its realistic long-term expected return assumption of 6.5%. However, he neglects to point out its discount rate assumption is higher, at 6.6%. **While its low (but "realistic") expected return assumption**

increases the net pension cost on its income statement (see the table above) the higher discount rate offsets these increased costs (note the effect of an increase in the discount rate on net pension cost in the table above). Simply, the effect of the low expected return assumption is negated by the offsetting effect of the higher discount rate assumption. This would imply Berkshire's long-term outlook is Aa rated corporate bonds will outperform a balanced portfolio of equity, bonds, and real estate.

After reviewing Berkshire's pension return assumptions the only conclusion we can draw is the following: if Mr. Buffet truly believes bonds will have greater long-term returns than all other asset classes combined, perhaps it's time for him to switch the holdings of his company. Otherwise, since he assumes his pension plan liabilities will grow faster (discount rate) than his pension plan assets (expected return), it seems his pension plan is on a one-way ticket to bankruptcy in the long run. The only way to avoid such a calamity would be to make sure the pension plan is more than 100% funded. But Mr. Buffet's pension was around 94% funded as of 2001.

Do we think Berkshire's plan is going bankrupt? No, but there are many moving parts to consider when looking at pension accounting. Focusing on only one is misleading and inaccurate.

While the expected return assumption does deserve some critical attention, it can't be the only area of focus in pension accounting because it only covers the asset side of the pension fund equation. In order to understand the pension issue fully, it is necessary to look at the liability side of the equation. As we have stated, the liability calculation for future pension payments (over or under funded status) has nothing to do with equity market performance.

The Real Driving Force – Interest Rates

Under ERISA rules, corporations must calculate their pension liabilities by taking the expected number of employees that will qualify for a defined benefit plan and multiply this number by the years each employee is expected to be alive in retirement. That value is then multiplied by the dollar benefit each will be due per year. This actuarial dollar result is then discounted back to a present value over the average life of the plan.

This is where the discount rate assumption comes into play, and ERISA and SEC mandate this assumption must be tied to that of high-

grade debt (Aa or better). Herein lies the problem. Given the simple mathematics of present value discounting, the absolute level of calculated pension liabilities rises when interest rates fall. Interest rates have been falling like dead weight in recent years (you can thank the Fed for continuing to cut rates). Even CSFB acknowledges that it appears falling interest rates have driven the change in the funded status of companies' pension plans over the last two years.

This is the culprit producing problems in the funded status of companies. As interest rates fall, the discount rate follows, and hence, the level of pension liabilities rises. The expected return assumption makes no difference in the funding status of the pension plan. This simple fact has altogether escaped the recent coverage on the issue of pension accounting.

Conclusion

When analyzing pension accounting it is imperative to distinguish between the two different methods of pension accounting and the actuarial assumptions used in each. **Further, although the over/under funded status is an "educated guess" about which companies may have pension problems, the funding ratio is the critical variable that distinguishes which companies will be forced to contribute cash to their pension plans. Finally, the current funding problems of pension plans are primarily a by-product of historically low interest rates (although the falling stock market has been a factor, it has not been the primary force).** The discount rate is the variable that affects the funding status and funding ratios of companies' pension plans.

Due to funding ratio calculations we have run internally, it has become clear there are companies currently in violation of the ERISA funding rules. When the 2002 annual numbers are released there presumably will be more, and these companies will be forced to use their assets to meet their funding requirements. Look for our next commentary on pensions sometime after the new annual pension numbers are released. Our report will detail which companies are in violation of ERISA's funding ratio, and how much these companies will be forced to contribute to their plans in this coming year.

Appendix 1

All S&P 500 Companies with Defined Benefit Plans

TICKER	COMPANY	TICKER	COMPANY	TICKER	COMPANY
A	AGILENT TECHNOLOGIES INC	BOL	BAUSCH & LOMB INC	ETN	EATON CORP
AA	ALCOA INC	BR	BURLINGTON RESOURCES INC	ETR	ENTERGY CORP
ABC	AMERISOURCEBERGEN CORP	BUD	ANHEUSER-BUSCH COS INC	EXC	EXELON CORP
ABI	APPLERA CORP APPLIED BIOSYS	C	CITIGROUP INC	F	FORD MOTOR CO
ABK	AMBAC FINANCIAL GP	CAG	CONAGRA FOODS INC	FBF	FLEETBOSTON FINANCIAL CORP
ABS	ALBERTSONS INC	CAH	CARDINAL HEALTH INC	FCX	FREEMT MCMOR COP&GLD -CL B
ABT	ABBOTT LABORATORIES	CAT	CATERPILLAR INC	FD	FEDERATED DEPT STORES
ADI	ANALOG DEVICES	CB	CHUBB CORP	FDC	FIRST DATA CORP
ADM	ARCHER-DANIELS-MIDLAND CO	CBE	COOPER INDUSTRIES LTD	FDX	FEDEX CORP
ADP	AUTOMATIC DATA PROCESSING	CC	CIRCUIT CITY STR CRCT CTY GP	FE	FIRSTENERGY CORP
AEE	AMEREN CORP	CCE	COCA-COLA ENTERPRISES	FITB	FIFTH THIRD BANCORP
AEP	AMERICAN ELECTRIC POWER	CCR	COUNTRYWIDE CREDIT IND INC	FLR	FLUOR CORP
AES	AES CORP. (THE)	CD	CENDANT CORP	FNM	FANNIE MAE
AET	AETNA INC	CEG	CONSTELLATION ENERGY GRP INC	FO	FORTUNE BRANDS INC
AFL	AFLAC INC	CHIR	CHIRON CORP	FPL	FPL GROUP INC
AGN	ALLERGAN INC	CI	CIGNA CORP	FRE	FEDERAL HOME LOAN MORTG CORP
AHC	AMERADA HESS CORP	CIN	CINERGY CORP	FTN	FIRST TENNESSEE NATL CORP
AIG	AMERICAN INTERNATIONAL GROUP	CINF	CINCINNATI FINANCIAL CORP	G	GILLETTE CO
ALL	ALLSTATE CORP	CL	COLGATE-PALMOLIVE CO	GAS	NICOR INC
AM	AMERICAN GREETINGS	CLX	CLOROX CO/DE	GCI	GANNETT CO
AMR	AMR CORP/DE	CMA	COMERICA INC.	GD	GENERAL DYNAMICS CORP
AOC	AON CORP	CMS	CMS ENERGY CORP	GDT	GUIDANT CORP
AOL	AOL TIME WARNER INC	COC	CONOCO INC	GE	GENERAL ELECTRIC CO
APC	ANADARKO PETROLEUM CORP	COL	ROCKWELL COLLINS INC	GIS	GENERAL MILLS INC
APD	AIR PRODUCTS & CHEMICALS INC	CPB	CAMPBELL SOUP CO	GLK	GREAT LAKES CHEMICAL CORP
ASD	AMERICAN STANDARD COS INC	CR	CRANE CO	GLW	CORNING INC
ASH	ASHLAND INC	CSC	COMPUTER SCIENCES CORP	GM	GENERAL MOTORS CORP
ASO	AMSOUTH BANCORPORATION	CSX	CSX CORP	GP	GEORGIA-PACIFIC CORP
AT	ALLTEL CORP	CTB	COOPER TIRE & RUBBER	GPC	GENUINE PARTS CO
ATH	ANTHEM INC	CTL	CENTURYTEL INC	GR	GOODRICH CORP
ATI	ALLEGHENY TECHNOLOGIES INC	CUM	CUMMINS INC	GS	GOLDMAN SACHS GROUP INC
AV	AVAYA INC	CVG	CONVERGYS CORP	GT	GOODYEAR TIRE & RUBBER
AVP	AVON PRODUCTS	CVS	CVS CORP	HAL	HALLIBURTON CO
AVY	AVERY DENNISON CORP	CVX	CHEVRONTXACO CORP	HAS	HASBRO INC
AW	ALLIED WASTE INDS INC	CZN	CITIZENS COMMUNICATIONS CO	HBAN	HUNTINGTON BANCSHARES
AXP	AMERICAN EXPRESS	D	DOMINION RESOURCES INC	HCR	MANOR CARE INC
AYE	ALLEGHENY ENERGY INC	DAL	DELTA AIR LINES INC	HDI	HARLEY-DAVIDSON INC
AZO	AUTOZONE INC	DCN	DANA CORP	HI	HOUSEHOLD INTERNATIONAL INC
BA	BOEING CO	DD	DU PONT (E I) DE NEMOURS	HIG	HARTFORD FINL SVCS GRP INC
BAC	BANK OF AMERICA CORP	DE	DEERE & CO	HLT	HILTON HOTELS CORP
BAX	BAXTER INTERNATIONAL INC	DHR	DANAHER CORP	HNZ	HEINZ (H J) CO
BBT	BB&T CORP	DIS	DISNEY (WALT) CO	HON	HONEYWELL INTERNATIONAL INC
BC	BRUNSWICK CORP	DNY	DONNELLEY (R R) & SONS CO	HOT	STARWOOD HOTELS&RESORTS WRLL
BCC	BOISE CASCADE CORP	DOV	DOVER CORP	HPC	HERCULES INC
BCR	BARD (C.R.) INC	DOW	DOW CHEMICAL	HPQ	HEWLETT-PACKARD CO
BDK	BLACK & DECKER CORP	DPH	DELPHI CORP	HSY	HERSHEY FOODS CORP
BDX	BECTON DICKINSON & CO	DRI	DARDEN RESTAURANTS INC	IBM	INTL BUSINESS MACHINES CORP
BEN	FRANKLIN RESOURCES INC	DTE	DTE ENERGY CO	IFF	INTL FLAVORS & FRAGRANCES
BF.B	BROWN-FORMAN -CL B	DUK	DUKE ENERGY CORP	IP	INTL PAPER CO
BGEN	BIOGEN INC	DVN	DEVON ENERGY CORP	IPG	INTERPUBLIC GROUP OF COS
BHI	BAKER-HUGHES INC	DYN	DYNEGY INC	IR	INGERSOLL-RAND CO LTD
BJS	BJ SERVICES CO	EC	ENGELHARD CORP	ITT	ITT INDUSTRIES INC
BK	BANK OF NEW YORK CO INC	ECL	ECOLAB INC	ITW	ILLINOIS TOOL WORKS
BLI	BIG LOTS INC	ED	CONSOLIDATED EDISON INC	JCI	JOHNSON CONTROLS INC
BLL	BALL CORP	EDS	ELECTRONIC DATA SYSTEMS CORP	JCP	PENNEY (J C) CO
BLS	BELLSOUTH CORP	EFX	EQUIFAX INC	JHF	HANCOCK JOHN FINL SVCS INC
BMC	BMC SOFTWARE INC	EIX	EDISON INTERNATIONAL	JNJ	JOHNSON & JOHNSON
BMS	BEMIS CO	EK	EASTMAN KODAK CO	JNY	JONES APPAREL GROUP INC
BMJ	BRISTOL MYERS SQUIBB	EMC	EMC CORP/MA	JP	JEFFERSON-PILOT CORP
BNI	BURLINGTON NORTHERN SANTA FE	EMN	EASTMAN CHEMICAL CO	JPM	J P MORGAN CHASE & CO
BOL	BAUSCH & LOMB INC	EMR	EMERSON ELECTRIC CO	JWN	NORDSTROM INC
BR	BURLINGTON RESOURCES INC	EP	EL PASO CORP	K	KELLOGG CO

All S&P 500 Companies with Defined Benefit Plans (Continued)

COMPANY	TICKER	COMPANY	TICKER	COMPANY
KEYCORP	PEP	PEPSICO INC	TEK	TEKTRONIX INC
KIMBERLY-CLARK CORP	PFE	PFIZER INC	TER	TERADYNE INC
KERR-MCGEE CORP	PFG	PRINCIPAL FINANCIAL GRP INC	TGT	TARGET CORP
KINDER MORGAN INC	PG	PROCTER & GAMBLE CO	TIF	TIFFANY & CO
COCA-COLA CO	PGL	PEOPLES ENERGY CORP	TIN	TEMPLE-INLAND INC
KROGER CO	PGN	PROGRESS ENERGY INC	TJX	TJX COMPANIES INC
MBNA CORP	PH	PARKER-HANNIFIN CORP	TMK	TORCHMARK CORP
KNIGHT-RIDDER INC	PHA	PHARMACIA CORP	TMO	THERMO ELECTRON CORP
KEYSPAN CORP	PKI	PERKINELMER INC	TNB	THOMAS & BETTS CORP
LEGGETT & PLATT INC	PLL	PALL CORP	TRB	TRIBUNE CO
LEHMAN BROTHERS HOLDINGS INC	PMTG	PARAMETRIC TECHNOLOGY CORP	TRW	TRW INC
LILLY (ELI) & CO	PNC	PNC FINANCIAL SVCS GROUP INC	TSG	SABRE HLDGS CORP -CL A
LOCKHEED MARTIN CORP	PNW	PINNACLE WEST CAPITAL	TUP	TUPPERWARE CORP
LINCOLN NATIONAL CORP	PPG	PPG INDUSTRIES INC	TXN	TEXAS INSTRUMENTS INC
LOUISIANA-PACIFIC CORP	PPL	PPL CORP	TXT	TEXTRON INC
LOEWS CORP	PRU	PRUDENTIAL FINANCIAL INC	TXU	TXU CORP
LUCENT TECHNOLOGIES INC	PTV	PACTIV CORP	TYC	TYCO INTERNATIONAL LTD
LEXMARK INTL INC -CL A	PX	PRAXAIR INC	UCL	UNOCAL CORP
MASCO CORP	Q	QWEST COMMUNICATION INTL INC	UIS	UNISYS CORP
MATTEL INC	R	RYDER SYSTEM INC	UNM	UNUMPROVIDENT CORP
MAY DEPARTMENT STORES CO	RDC	ROWAN COS INC	UNP	UNION PACIFIC CORP
MCKESSON CORP	REI	RELIANT ENERGY INC	UPS	UNITED PARCEL SERVICE INC
MOODYS CORP	RF	REGIONS FINL CORP	USB	U S BANCORP
MEREDITH CORP	RIG	TRANSOCEAN INC	UST	UST INC
MCDERMOTT INTL INC	RKY	COORS (ADOLPH) -CL B	UTX	UNITED TECHNOLOGIES CORP
MEDTRONIC INC	ROH	ROHM & HAAS CO	VC	VISTEON CORP
MELLON FINANCIAL CORP	ROK	ROCKWELL AUTOMATION	VFC	VF CORP
MERRILL LYNCH & CO	RTN	RAYTHEON CO	VIA.B	VIACOM INC -CL B
MERCURY INTERACTIVE CORP	RX	IMS HEALTH INC	VZ	VERIZON COMMUNICATIONS
METLIFE INC	S	SEARS ROEBUCK & CO	WAT	WATERS CORP
MCGRAW-HILL COMPANIES	SAFC	SAFECO CORP	WB	WACHOVIA CORP
MILLIPORE CORP	SBC	SBC COMMUNICATIONS INC	WEN	WENDY'S INTERNATIONAL INC
MIRANT CORP	SCH	SCHWAB (CHARLES) CORP	WFC	WELLS FARGO & CO
MARSH & MCLENNAN COS	SDS	SUNGARD DATA SYSTEMS INC	WHR	WHIRLPOOL CORP
3M CO	SFA	SCIENTIFIC-ATLANTA INC	WLP	WELLPOINT HLTH NETWRK -CL A
PHILIP MORRIS COS INC	SGP	SCHERING-PLOUGH	WM	WASHINGTON MUTUAL INC
MOLEX INC	SHW	SHERWIN-WILLIAMS CO	WMB	WILLIAMS COS INC
MONSANTO CO	SIAL	SIGMA-ALDRICH	WMI	WASTE MANAGEMENT INC
MOTOROLA INC	SLB	SCHLUMBERGER LTD	WOR	WORTHINGTON INDUSTRIES
MERCK & CO	SLE	SARA LEE CORP	WWY	WRIGLEY (WM) JR CO
MARATHON OIL CORP	SLM	SLM CORP	WY	WEYERHAEUSER CO
MGIC INVESTMENT CORP/WI	SNA	SNAP-ON INC	WYE	WYETH
MORGAN STANLEY	SO	SOUTHERN CO	X	UNITED STATES STEEL CORP
MEADWESTVACO CORP	SOTR	SOUTHTRUST CORP	XEL	XCEL ENERGY INC
MAYTAG CORP	SPC	ST PAUL COS	XOM	EXXON MOBIL CORP
NAVISTAR INTERNATIONL	SRE	SEMPRA ENERGY	XXR	XEROX CORP
NABORS INDUSTRIES LTD	STI	SUNTRUST BANKS INC	YUM	YUM BRANDS INC
NATIONAL CITY CORP	STT	STATE STREET CORP	ZION	ZIONS BANCORPORATION
NCR CORP	SUN	SUNOCO INC	ZMH	ZIMMER HLDGS INC
NOBLE CORP	SVU	SUPERVALU INC		
NEWMONT MINING CORP	SWK	STANLEY WORKS		
NORTH FORK BANCORPORATION	SWY	SAFEWAY INC		
NISOURCE INC	SYK	STRYKER CORP		
NORTHROP GRUMMAN CORP	SYI	SYSCO CORP		
NORFOLK SOUTHERN CORP	T	AT&T CORP		
NATIONAL SEMICONDUCTOR CORP	TE	TECO ENERGY INC		
NORTHERN TRUST CORP	SWK	STANLEY WORKS		
NEWELL RUBBERMAID INC	SWY	SAFEWAY INC		
NEW YORK TIMES CO -CL A	SYK	STRYKER CORP		
BANK ONE CORP	SYI	SYSCO CORP		
OCCIDENTAL PETROLEUM CORP	T	AT&T CORP		
CONOCOPHILLIPS	TE	TECO ENERGY INC		

Bianco Research L.L.C.

1113 West Armitage, Suite 4
Chicago IL 60614

Phone: (847) 304-1511 Fax (847) 304-1749

e-mail: research@biancoresearch.com

<http://www.biancoresearch.com>

For more information about the contents/ opinions contained in these reports:

President (847) 304-1511

James A. Bianco jbianco@biancoresearch.com

Research Analysts (847) 304-1506/1534

John J. Kosar jkosar@biancoresearch.com

Greg Blaha gblaha@biancoresearch.com

Scott Mikkelsen smikkelsen@biancoresearch.com

For subscription/service Information:

Arbor Research & Trading, Inc.

Director of Sales & Marketing (800) 876-1825

Fritz Handler fritz.handler@arborresearch.com

Patrick Lovett pat.lovett@arborresearch.com

Peter Forbes peter.forbes@arborresearch.com

Arbor Research & Trading, Inc.

1000 Hart Road, Suite 260
Barrington IL 60010

Phone (847) 304-1560 Fax (847) 304-1595

e-mail inforequest@arborresearch.com

<http://www.arborresearch.com>

For more information about Arbor Research & Trading and its services:

Director of Fixed-Income Sales (800) 876-1825

Daniel Lustig dan.lustig@arborresearch.com

Director of International Sales (847) 304-1560

James L. Perry james.perry@arborresearch.com

Anne Schultz anne.schultz@arborresearch.com

Arbor Research & Trading (UK) LTD

75 Cannon Street London England EC4N 5BN

Phone 44-207-556-7309 Fax 44-207-896-1887

For more information:

Director of Arbor (UK) 44-207-556-7309

Neil Tritton neil.tritton@arborresearch.com

Sean Fletcher sean.fletcher@arborresearch.com

Ben Gibson ben.gibson@arborresearch.com