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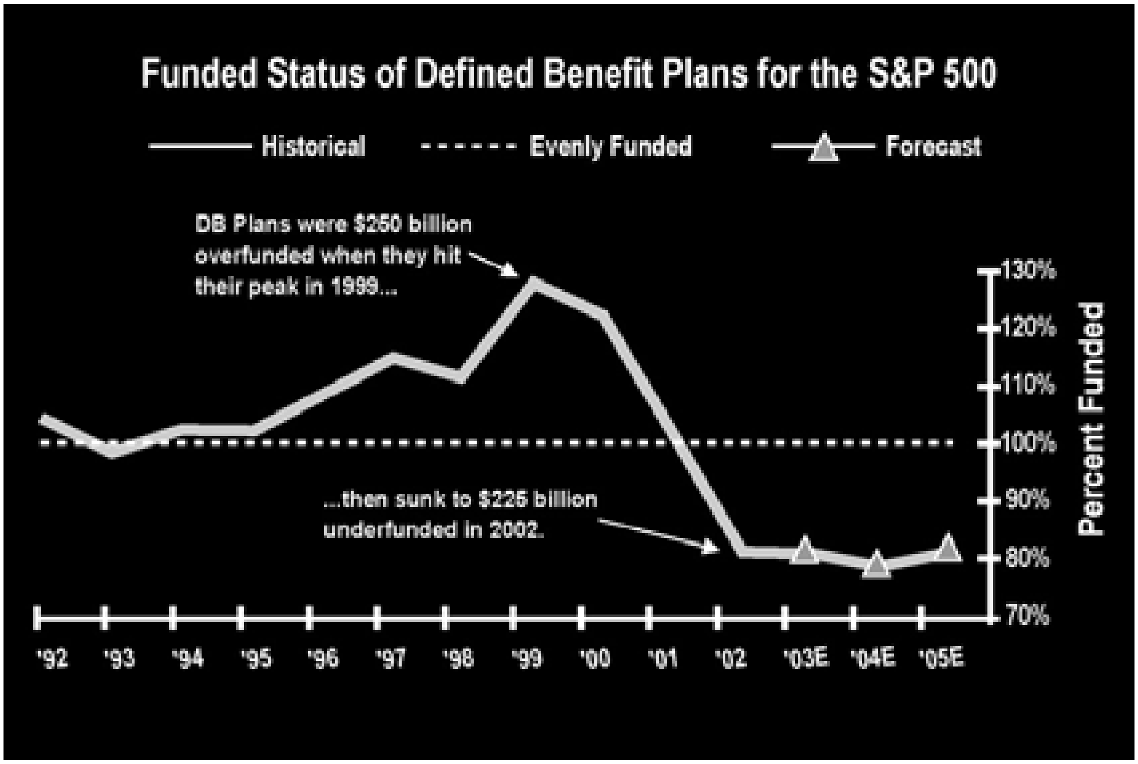
The Magic of Pension Accounting, Part II



- **Contrary to popular opinion, we estimate that defined benefit pension plans are not getting healthier in 2003—they are getting weaker.**
- **Potential pension funding relief from the U.S. Congress could save the companies in the S&P 500 over $18 billion in 2004 if the relief is put in place by the end of this year.**
- **The combination of deteriorating pension plans and the very powerful smoothing mechanisms in pension accounting could result in another earnings headwind for companies with defined benefit pension plans in 2004.**
- **We introduce our new and improved pension-forecasting model.**

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Executive Summary

Contrary to popular opinion, we estimate that defined benefit pension plans are not getting healthier in 2003—they are actually getting weaker. The strong performance in the pension plan assets driven by the recent bull market and significant contributions to the pension plans are not enough to overcome the growth in the pension obligation being fueled by lower interest rates.

The combination of deteriorating pension plans and the very powerful smoothing mechanisms in pension accounting could result in a bit of déjà vu. Remember when companies announced third quarter results around this time last year? It seemed as if every company was talking about its pension plan and most of the talk centered on the negative impact that the plan would have on earnings, the balance sheet, and cash flows for 2003. As companies get a clearer picture of the health of their pension plans this year, we would not be surprised to hear them discussing another earnings headwind from the pension plan when they provide guidance for 2004.

However, the guidance from companies on their cash contributions to the pension plan may be limited. Why? They are waiting for the U.S. Congress to temporarily bail them out with another two years of pension funding relief. We estimate the companies in the S&P 500 could save over $18 billion in 2004 if the relief is put in place by the end of this year. Pension funding relief is a two-year Hail-Mary pass that Congress is getting ready to throw to companies with unhealthy pension plans and unhealthy businesses, hoping and praying that the stock market and higher interest rates will step in and bail these plans out later. Otherwise, companies may get hit with required pension contributions in 2006, which many can't afford.

It has been a little over a year since we released *The Magic of Pension Accounting*. We enjoy the topic so much that we thought it was about time for a sequel; here it is, *The Magic of Pension Accounting, Part II.* Yes, you read correctly, we enjoy working on defined benefit pension plans; we are among a very small group of people—including three Tibetan Monks and a handful of actuaries—who can say that with a straight face.

Once again, we set out to answer the simple question: Which companies and industries have the most exposure to defined benefit pension plans? Over the next few pages, we guide you through the report, highlighting some of the new bells and whistles that we have added since Part I, like our revised, easier-to-use, handy-dandy pension forecast model.

Who Has Exposure?

We first divide the companies in the S&P 500 into two camps: those that have defined benefit plans and those that don't. We estimate that approximately 369 companies (74%) have defined benefit pension plans in the S&P 500. In other words, the 131 companies (26%) that don't have such plans have no pension issues at all; they are listed in Appendix A.

Next, we determine the defined benefit pension plans that could have the largest claims on shareholders' stakes in companies. To do this we simply compare the economic value of a pension plan, its funded status, with the value of the shareholders' stake in the sponsoring company, the equity market capitalization. We estimate that the 30 companies in Exhibit 5 may have defined benefit pension plans at the end of 2003 that are underfunded by more than 25% of their equity market capitalization as of September 30, 2003. In other words, the pension plan may have a claim on over one-quarter of the shareholders' stake in these companies.

On the other hand, we estimate that 153 companies in the S&P 500 may have defined benefit pension plans at the end of 2003 that are underfunded by less than 5% of their current equity market capitalization. We estimate that only 27 companies may have overfunded pension plans at the end of 2003.

Forecasting

Using the information from pension footnotes and a number of simplifying assumptions, our pension forecast model estimates pension cost, funded status, and required contributions for each of the next three years. We applied the model to each company in the S&P 500.

With the *Magic of Pension Accounting, Part II,* we are releasing a new version of the model. We have made some enhancements to make the new model more user-friendly and flexible. For example, the old model required that all the information from the pension footnote be input by you to generate a forecast. In the new model, if the company is in the S&P 500, all you have to do is type in the ticker symbol and the historical data will update automatically. The only data entry required is that you input your assumptions about the future. The new model is available to clients on the CSFB Web site (http://www.csfb.com/equity/presentations/pension_forecast_model/). For those of you interested in analyzing companies outside the S&P 500, give us a call; we have another version of the model that we can make available to you. We describe the new model and its limitations in Appendix C and demonstrate its flexibility in Appendix D.

For our base case forecast for the S&P 500, we assume plan assets increase 11.5% and discount rates drop 50 basis points in 2003, along with a bunch of other simplifying assumptions. For funding purposes, we assume that pension-funding relief is put in place for 2004 and 2005, shifting the discount rate from U.S. government bonds to corporate bonds. Exhibit 9 summarizes the key assumptions and aggregate findings for our base case. This is just one of countless scenarios that can be run through the model.

We estimate that the contributions to the pension plan for the S&P 500 will drop from $49 billion in 2002 to $39 billion in 2003 (that includes $15 billion for General Motors [GM, $42.79, RESTRICTED, MARKET WEIGHT] alone). With pension funding relief in place, we expect the companies in the S&P 500 to contribute only $21 billion to their pension plans in 2004 and $23 billion in 2005. Even with the pension funding relief, we estimate that the 32 companies in Exhibit 10 will be required to contribute over $200 million to their pension plans in 2004 or in 2005.

On an industry level, we estimate the companies in the 13 industry groups in Exhibit 11 will contribute at least 5% of their trailing five-year average cash flow from operations to their pension plans in 2004. The 18 companies in Exhibit 12 may have to make contributions that are greater than 25% of their trailing cash flow from operations.

As pension plans have become weaker, the aggregate benefit to earnings from the pension plan dried up in 2002, with the companies in the S&P 500 reporting $4 billion of pension expense. We estimate that the pension plan will continue to be an earnings headwind for the foreseeable future, as the smoothing mechanisms begin to work their magic. We estimate that aggregate pension costs will rise to $19 billion in 2003, $26 billion in 2004, and $37 billion in 2005. We include our estimate of pension cost for the next three years for each company in the S&P 500 in Appendix F.

Looking at the earnings headwind from another angle, we focus on the potential increase in pension cost on a per share basis. We estimate that the 33 companies in Exhibit 14 will have an earnings headwind from their pension plan in either 2004 or 2005 that is greater than $0.10 per share.

In the aggregate, we estimate defined benefit pension plans for the companies in the S&P 500 move from $225 billion underfunded at the end of 2002 to $247 billion underfunded at the end of 2003. We include our estimate of the pension plan's funded status for the next three years for each company in the S&P 500 in Appendix E.

With the market performing so well this year—the Dow up 11%, the S&P 500 up 13%, and the Nasdaq up 34% as of September 30—the pension plan assets must have increased in value and the pension plans are getting healthier. Tack on the strong performance by the fixed income piece of the portfolio, and the pension issue becomes less of an issue. Then why do we keep saying that the pension plan has probably gotten weaker in 2003? To help defend our case, we present the key drivers behind the change in plan assets in Exhibit 1 and the change in pension obligation in Exhibit 2.

The smoothing mechanisms in FAS 87 prevent the funded status of a defined benefit pension plan from being reported on the sponsoring company's balance sheet. However, with the health of pension plans deteriorating, companies may be required to adjust their balance sheets to reflect the minimum pension liability. We estimate the 18 companies in Exhibit 23 may have to record a charge to equity to reflect a minimum pension liability that would be 25% or more of their total equity at the end of 2002.

We provide you with a high-level sensitivity analysis, which was generated using our new and improved model, to give an indication of how sensitive the aggregate funded status, pension cost, and pension contributions are to changes in the actual return on plan assets and the discount rate.

Pension Funding Relief

Our guess, when all is said and done—and what we have worked into our base case forecast—is that by the end of this year, Congress will provide companies with another two years of pension funding relief by temporarily replacing the yield on the 30-year Treasury bond with a discount rate that is tied to a 4-year weighted-average yield on long-term high-grade corporate bonds. That would result in a higher discount rate, smaller pension obligations, and reduced funding requirements. It would not change the retirement benefits that will eventually be paid to employees; it would, however, delay the timing of when those benefits must be funded.

Under this scenario, we estimate the companies in the S&P 500 will have to contribute $21 billion to their pension plans in 2004, versus $39 billion if the funding requirements were to revert back to the old funding rules (no relief), saving the companies in the S&P 500 from making an additional $18 billion in pension contributions.

There are certain industry groups where the pension funding relief could alleviate a large cash outflow, including the six industries in Exhibit 30 that would save over $1 billion in 2004. Some companies would benefit more than others from pension funding relief. The 17 companies in Exhibit 31 could cut their pension contributions in 2004 by over $200 million if the corporate bond scenario is enacted.

Another way that we examine the significance of the potential savings from pension funding relief is to compare the expected cash savings in 2004 to cash flow from operations. We estimate that the 11 industries in Exhibit 32 could save more than 5% of their trailing five-year average cash flow from operations as a direct result of pension funding relief. The 29 companies in Exhibit 33 could experience savings in excess of 15% of the trailing five-year average of cash flow from operations.

So what happens in two years when this next round of pension funding relief expires? It could be the yield curve approach backed by the Bush Administration and the PBGC. The yield curve approach requires that the pension obligation be determined using discount rates that are derived from current rates on high-quality corporate bonds, not a smoothed four-year average on long-term corporate bonds. We think the yield curve approach is the economically correct way to price the obligation. The only problem with this approach is that it would hurt the companies that the funding relief is designed to help the most—those with the largest pension problems, the old-line companies with lots of retirees.

Fixing Pension Accounting—A Small Step

The FASB took a small step toward fixing pension accounting on September 12, 2003, when it issued an exposure draft, *Employers' Disclosure about Pensions and Other Postretirement Benefits*, containing the FASB's proposed changes to pension and other postretirement disclosures. The board expects to have this project wrapped up by the end of the year so that companies will be required to provide new pension disclosures in their 2003 10-Ks. We walk through the proposal, what we like and don't like.

Pension Pressure on the Stock Market

With current asset allocations generally around 65% equities and 35% fixed income, several trends lead us to believe that the 65% equity asset allocation could shrink over time, shifting toward fixed income, all of which would bode well for the bond market and poorly for the stock market.

Additional Analysis

As much of the focus in this report has been forward looking, we decided to use this section of the report to quickly pull together some analysis of the historical results, updated to include 2002 data, as such an analysis generated a high level of investor interest when we put out *The Magic of Pension Accounting* in September 2002.

Conclusion

Our revised report card, which grades the exposure to defined benefit pension plans for each industry group in the S&P 500, indicates that many of the 369 companies in the S&P 500 with defined benefit pension plans have either low or moderate exposure to their pension plans; however, for a select group of companies, the exposure is significant.

We focus on the companies with underfunded pension plans, as those plans have claims on future cash flows, potentially reducing a company's valuation from a shareholder's perspective. This group of generally old-line, heavily unionized companies is led by the Airlines, Autos, Auto Components, and Office Electronics industries.

These companies may get a break for the next two years if Congress provides pension funding relief. They must then hope that the stock market goes up and interest rates rise to bail out their plans. Otherwise, some companies may be hit with required pension contributions in 2006, which they can't afford. Remember the relief does not change the retirement benefits that will eventually be paid to employees; it does, however, delay the timing of when those benefits must be funded.

Our Key Findings

- We estimate that the aggregate pension plan for the companies in the S&P 500 moves from $225 billion underfunded at the end of 2002 to $247 billion underfunded at the end of 2003. The number of companies with underfunded pension plans in the S&P 500 jumped to 334 at the end of 2002, the highest level in the last 10 years. We estimate that as many as 340 companies could have underfunded plans at the end of 2003.
- We thought it would be helpful to show you how we arrive at a weaker pension plan in 2003, by reconciling the year-over-year change in plan assets and the pension obligation for the companies in the S&P 500 using our base case forecast. We present the key drivers behind the change in plan assets in Exhibit 1 and the change in pension obligation in Exhibit 2.

Exhibit 1: Reconciliation of Plan Assets for S&P 500
US$ in millions

Plan Assets Rollforward	Amount	% Change
Plan Assets at Beginning of Year, 2002A	$965,568	
Actual Return - Gain/(Loss)	111,040	11.5%
Company Contributions	38,780	4.0%
Participant Contributions	1,387	0.1%
Benefits Paid	(84,396)	(8.7%)
Plan Assets at End of Year, 2003E	$1,032,379	6.9%

Source: Company data, CSFB estimates.

Exhibit 2: Reconciliation of PBO for S&P 500
US$ in millions

PBO Rollforward	Amount	% Change
PBO at Beginning of Year, 2002A	$1,190,847	
Service Cost	30,417	2.6%
Interest Cost	75,448	6.3%
Actuarial Loss/(Gain)	66,721	5.6%
Benefits Paid	(85,332)	(7.2%)
Participant Contributions	918	N/M
PBO at End of Year, 2003E	$1,279,019	7.4%

Source: Company data, CSFB estimates.

- With the *Magic of Pension Accounting, Part II,* we are releasing a new version of our pension forecast model. Based upon the feedback that we received on our first model, we have made some enhancements to make the new model more user-friendly and flexible. For example, the old model required that all the information from the pension footnote be input by you to generate a forecast. In the new model, if the company is in the S&P 500, all you have to do is type in the ticker symbol and the historical data will update automatically. The only data entry required is that you input your assumptions about the future. In addition, we have included a summary screen to isolate some of the key outputs from the model. The new model is available to clients on the CSFB Web site (http://www.csfb.com/equity/presentations/pension_forecast_model/). For those of you interested in analyzing companies outside the S&P 500, give us a call; we have another version of the model that we can make available to you. We describe the model and its limitations in Appendix C and discuss the model's flexibility in Appendix D.
- Our base case forecast is the result of applying our new and improved 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 increases by about 11.5% in 2003 and discount rates fall by 50 basis points, along with many other simplifying assumptions.
- We provide you with a high-level sensitivity analysis, which was generated using our new pension forecast model, to give an indication of how sensitive the aggregate funded status, pension cost, and pension contributions are to changes in the actual

return on plan assets and the discount rate. Exhibit 24 provides the sensitivity of the aggregate pension plan's funded status, Exhibit 25 provides the sensitivity of total estimated pension cost in 2004, and Exhibit 26 provides the sensitivity of total estimated pension contributions in 2004.

- Our base case forecast assumes that pension funding relief is put in place this year. Under this scenario, we estimate the companies in the S&P 500 will have to contribute $21 billion to their pension plans in 2004, versus $39 billion if the funding requirements were to revert back to the old funding rules (no relief), saving the companies in the S&P 500 from making an additional $18 billion in pension contributions. (Government estimates of the savings from pension funding relief in 2004 are around $26 billion. With the S&P 500 companies accounting for over 60% of corporate defined benefit pension plan assets, our $18 billion in savings, or 69% of the government estimate, seems to make some sense.) The savings grow to $23 billion in 2005 when we estimate $23 billion in contributions, compared with $46 billion under the old rules.
- For certain industry groups, the corporate bond-based pension funding relief could alleviate a large cash outflow, including the six industries in Exhibit 30 that would save over $1 billion in 2004. Some companies would benefit more than others from pension funding relief. The 17 companies in Exhibit 31 could cut their pension contributions in 2004 by over $200 million if the corporate bond scenario is enacted.
- We estimate that the contributions to the pension plans for the companies in the S&P 500 will drop from $49 billion in 2002 to $39 billion in 2003. With pension funding relief in place, we expect the companies in the S&P 500 to contribute only $21 billion to their pension plans in 2004 and $23 billion in 2005. Even with the pension funding relief, we estimate that the 32 companies in Exhibit 10 will be required to contribute over $200 million to their pension plans in 2004 or in 2005.
- To measure the significance of contributions to the pension plan, we compare them to cash flow from operations. On an industry level, we estimate the companies in the 13 industry groups in Exhibit 11 will contribute at least 5% of their trailing five-year average cash flow from operations to their pension plans in 2004. We estimate that 132 companies will have to make contributions to their pension plans in 2004 that are at least 5% of their trailing five-year average cash flow from operations, including the 18 companies in Exhibit 12 with contributions greater than 25% of their trailing cash flow from operations.
- As pension plans have become weaker, the aggregate benefit to earnings from the pension plan dried up in 2002, with the companies in the S&P 500 reporting $4 billion of pension expense. We estimate that the pension plan will continue to be an earnings headwind for the foreseeable future, as the smoothing mechanisms begin to work their magic. We estimate that pension costs will rise to $19 billion in 2003, $26 billion in 2004, and $37 billion in 2005. We include our forecast of pension cost for the next three years for each company in the S&P 500 in Appendix F.
- We estimate the increase in pension cost represents at least 10% of the consensus earnings estimate for the 16 companies in Exhibit 15. The key question is whether or not the consensus estimate has taken into account the potential increase in pension cost; we are not sure of the answer.

- One of the smoothing mechanisms in pension accounting that appears to be starting to haunt companies with defined benefit pension plans is the amortization of unrecognized losses. Poor stock market performance and rising interest rates caused what was once a cumulative unrecognized gain of $144 billion at the end of 2000 for the companies in the S&P 500 to turn into a cumulative unrecognized loss of $357 billion at the end of 2002. In Exhibit 16, we show the 10 companies in the S&P 500 with the largest cumulative unrecognized losses at the end of 2002, and how that amount has changed over the last few years.
- For the companies in the S&P 500 the amortization has swung from a $7 billion gain in 2001 to our projection of a $9 billion loss in 2004. The nine companies in Exhibit 17 appear to have the largest earnings headwind in 2004 as a result of amortizing unrecognized losses or amortizing smaller gains.
- With the health of pension plans deteriorating, companies may be required to adjust their balance sheets to reflect the minimum pension liability. We estimate that 28 companies will have to take a charge to equity over $500 million in 2003; the 18 companies in Exhibit 23 might have to record a charge to equity that would exceed 10% of their total equity at the end of 2002.
- We estimate that the 30 companies in Exhibit 5 may have defined benefit pension plans at the end of 2003 that are underfunded by more than 25% of their equity market capitalization as of September 30, 2003. In other words, the pension plan may have a claim on over one-quarter of the shareholders' stake in these companies. On the other hand, we estimate that 153 companies in the S&P 500 may have defined benefit pension plans at the end of 2003 that are underfunded by less than 5% of their current equity market capitalization. We estimate that only 27 companies may have overfunded pension plans at the end of 2003.
- We list the 131 companies in the S&P 500 that don't have defined benefit pension plans, and therefore appear to have no pension problem, in Appendix A. That leaves us with 369 companies in the S&P 500 that have varying degrees of exposure to defined benefit pension plans. Defined benefit pension plans are more common with old-line, industrialized, unionized types of companies; they are generally not found at newer companies.
- From a macro perspective, there are potential trends faced by defined benefit pension plans that could exert downward pressure on the stock market. With current asset allocations generally around 65% equities and 35% fixed income, several potential trends lead us to believe that the 65% equity asset allocation could shrink over time, shifting toward fixed income, which would bode well for the bond market but poorly for the stock market.
- The FASB issued an exposure draft, *Employers' Disclosure about Pensions and Other Postretirement Benefits*, containing proposed changes to pension and other postretirement disclosures. The board expects to have this project wrapped up by the end of the year so that companies will be required to provide new pension disclosures in their 2003 10-Ks. The proposed new disclosures include pension plan asset allocation, a schedule of estimated benefit payments, expected contributions to the pension plan by the sponsoring company, and pension information on a quarterly basis. We also review what we like and don't like about the FASB's proposal.

- As much of the focus in this report has been forward looking, we decided to use the "Additional Analysis" section of the report to quickly pull together some analysis of historical results, updated to include 2002 data. The exhibits in that section generated a high level of investor interest when we put out *The Magic of Pension Accounting* back in September 2002, including a look at the pension assumptions. The key pension assumptions for 2002 and 2001 for each company in the S&P 500 are included in Appendix G.
- We base our analysis on the companies in the S&P 500 index, reflecting changes to the index through January 1, 2003.
- In addition, we analyze the defined benefit pension plan data from a number of different angles, including our simple Pension Report Card. (See Exhibit 3 for some interesting summary statistics.)

Exhibit 3: Some Interesting Summary Statistics for the S&P 500

US$ in billions

Pension Plan Stats	1999	2000	2001	2002	2003E	2004E	2005E
Number of Companies Overfunded	263	227	115	34	28	24	29
Number of Companies Underfunded	81	126	252	334	340	344	339
Plan Assets (US$ in billions)	$1,143	$1,194	$1,067	$966	$1,032	$1,055	$1,078
Projected Benefit Obligation (PBO) (US$ in billions)	$894	$976	$1,065	$1,191	$1,279	$1,337	$1,320
Funded Status $ (US$ in billions) (Under) Over	$250	$218	$2	($225)	($247)	($282)	($242)
Funded Status %	128%	122%	100%	81%	81%	79%	82%
Contributions (US $ in billions)	NA	$16	$15	$49	$39	$21	$23
Benefits Paid (US$ in billions)	NA	$70	$76	$83	$85	$88	$91
Number of Companies—Pretax Pension Income	101	156	151	88	57	34	22
Number of Companies—Pretax Pension Expense	235	187	206	278	311	334	346
Pre-Tax Pension Cost—(Income)/Expense (US$ in billions)	$(2)	$(13)	$(7)	$4	$19	$26	$37
After-Tax Pension (Income)/Expense—% of Net Income	0%	2%	2%	1%	2%	3%	NA
Median Expected Rate of Return on Plan Assets	9.30%	9.36%	9.20%	8.75%			
Median Actual Return	17.17%	4.88%	(7.43%)	(8.84%)			
Median Discount Rate	7.65%	7.50%	7.25%	6.75%			
Median Salary Inflation Rate	4.50%	4.50%	4.50%	4.10%			

Source: Company data, CSFB estimates.

Who Has Exposure?

We first divide the companies in the S&P 500 into two camps: those that have defined benefit plans and those that don't. We estimate that approximately 369 companies (74%) have defined benefit pension plans in the S&P 500. In other words, the 131 companies (26%) that don't have such plans face no pension issues at all; they are listed in Appendix A.

Defined benefit pension plans are an issue that 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 369 companies in the S&P 500 have varying degrees of exposure to defined benefit pension plans. Defined benefit pension plans are more common with old-line, industrialized, unionized types of companies; they are generally not found at newer companies, especially those established post ERISA, or after 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

Industry	%	Industry	%	Industry	%
Aerospace & Defense	100%	Machinery	100%	IT Services	64%
Air Freight & Logistics	100%	Office Electronics	100%	Consumer Finance	60%
Auto Components	100%	Paper & Forest Products	100%	Food & Staples Retailing	60%
Automobiles	100%	Road & Rail	100%	Multiline Retail	55%
Beverages	100%	Tobacco	100%	Commercial Services & Supplies	54%
Building Products	100%	Insurance	88%	Health Care Providers & Services	53%
Chemicals	100%	Metals & Mining	88%	Biotechnology	50%
Construction & Engineering	100%	Multi-Utilities & Unregulated Power	88%	Computers & Peripherals	50%
Construction Materials	100%	Oil & Gas	87%	Hotels Restaurants & Leisure	45%
Containers & Packaging	100%	Commercial Banks	83%	Textiles Apparel & Luxury Goods	40%
Distributors	100%	Electrical Equipment	83%	Communications Equipment	36%
Diversified Financial Services	100%	Thrifts & Mortgage Finance	83%	Specialty Retail	33%
Diversified Telecom Services	100%	Media	80%	Semiconductors & Semiconductor Equip.	32%
Electric Utilities	100%	Capital Markets	79%	Real Estate	25%
Energy Equipment & Services	100%	Household Durables	77%	Software	6%
Food Products	100%	Pharmaceuticals	77%	Internet & Catalog Retail	0%
Gas Utilities	100%	Health Care Equipment & Supplies	75%	Internet Software & Services	0%
Household Products	100%	Electronic Equipment & Instruments	70%	Trading Companies & Distributors	0%
Industrial Conglomerates	100%	Airlines	67%	Wireless Telecommunication Services	0%
Leisure Equipment & Products	100%	Personal Products	67%		

Source: Company data, CSFB estimates.

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 for which the ultimate cash flows are unknown.

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 (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.

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 but 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 2003 that are underfunded by more than 25% of their equity market capitalization as of September 30, 2003. In other words, the pension plan may have a claim on over one-quarter of the shareholders' stake in these companies.

When we ran a similar analysis in *The Magic of Pension Accounting* in September 2002, we estimated that 30 companies had defined benefit pension plans at the end of 2002 that were underfunded by more than 25% of their market cap. Twenty-three of those companies repeat on this year's list. The seven new companies added are Mirant (MIR, $9.00, NOT RATED), Coors (RKY, $57.42, NEUTRAL, Target $56, MARKET WEIGHT), Allegheny Energy (AYE, $9.59, NOT RATED), RJ Reynolds Tobacco (RJR, $42.32, NEUTRAL, Target $42, MARKET WEIGHT), Lockheed Martin (LMT, $46.2, OUTPERFORM, Target $64, OVERWEIGHT), ITT Industries (ITT, $60.71, NEUTRAL, Target $65, MARKET WEIGHT), and Northrop Grumman (NOC, $85.57, OUTPERFORM, Target $130.00, OVERWEIGHT). They replace Avaya (AV, $13.48, NOT RATED), Lucent Technologies (LU, $2.36, NEUTRAL [V], Target $1.80, UNDERWEIGHT), Williams (WMB, $10.3, NEUTRAL [V], Target $8, MARKET

WEIGHT), Georgia-Pacific (GP, $26.17, NEUTRAL, Target $14, MARKET WEIGHT), Corning (GLW, $10.95, UNDERPERFORM [V], Target $6.5, UNDERWEIGHT), Goodrich (GR, $25.73, NEUTRAL, Target $17, MARKET WEIGHT), and Electronic Data Systems (EDS, $21.56, NEUTRAL [V], Target $18, MARKET WEIGHT).

Exhibit 5: **Companies with Pension Plans Estimated Underfunded at the end of 2003 by More than 25% of Equity Market Capitalization**
US$ in millions

Company	Ticker	2003E Underfunded Amount	Current Market Capitalization	2003E Underfunded/ Market Capitalization
Delta Air Lines Inc	DAL	$ 4,555	$ 1,646	277%
AMR Corp/De	AMR	3,726	1,854	201%
Goodyear Tire & Rubber Co	GT	2,207	1,150	192%
McDermott Intl Inc	MDR	532	394	135%
Visteon Corp	VC	785	889	88%
Ford Motor Co	F	17,553	20,335	86%
Delphi Corp	DPH	4,410	5,216	85%
General Motors Corp	GM	14,801	22,743	65%
Allegheny Technologies Inc	ATI	337	559	60%
CMS Energy Corp	CMS	649	1,110	58%
Mirant Corp	MIR	107	251	43%
Boise Cascade Corp	BCC	635	1,626	39%
Cummins Inc	CUM	643	1,779	36%
Coors (Adolph) -Cl B	RKY	717	1,986	36%
Navistar International	NAV	905	2,645	34%
Hercules Inc	HPC	419	1,281	33%
Dana Corp	DCN	733	2,296	32%
Boeing Co	BA	8,947	28,275	32%
Maytag Corp	MYG	606	2,009	30%
NCR Corp	NCR	928	3,109	30%
Allegheny Energy Inc	AYE	329	1,184	28%
RJ Reynolds Tobacco Hldgs	RJR	919	3,399	27%
Lockheed Martin Corp	LMT	5,581	20,894	27%
Raytheon Co	RTN	3,122	11,803	26%
Xerox Corp	XRX	2,140	8,197	26%
United States Steel Corp	X	503	1,940	26%
ITT Industries Inc	ITT	1,463	5,648	26%
AES Corp. (The)	AES	1,187	4,698	25%
Northrop Grumman Corp	NOC	3,971	15,969	25%
Unisys Corp	UIS	1,094	4,444	25%

Source: Company data, CSFB estimates.

On the other hand, we estimate that 153 companies in the S&P 500 may have defined benefit pension plans at the end of 2003 that are underfunded by less than 5% of their current equity market capitalization. We estimate that 27 companies may have overfunded pension plans at the end of 2003; we estimate that only three companies, included in Exhibit 6, will have pension plans that are overfunded by more than 5% of current (September 30) equity market capitalization.

Exhibit 6: Plans Estimated Overfunded at End of 2003 by 5% or More of Equity Market Capitalization

US$ in millions

Company	Ticker	2003E Overfunded Amount	Current Market Capitalization	2003E Overfunded/ Market Capitalization
FPL Group Inc	FPL	$ 1,037	$ 11,688	9%
Sherwin-Williams Co	SHW	268	4,357	6%
Nicor Inc	GAS	88	1,570	6%

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 28 companies in Exhibit 7 may have projected benefit obligations at the end of 2003 that exceed their current equity market capitalization. For 117 companies with defined benefit plans, the estimated PBOs at the end of 2003 could represent less than 5% of their current equity market capitalization.

Exhibit 7: Projected Benefit Obligation as a % of Equity Market Capitalization

US$ in millions

Company	Ticker	2003E PBO	Current Market Capitalization	2003E PBO/ Market Capitalization
Delta Air Lines Inc	DAL	$ 12,485	$ 1,646	759%
McDermott Intl Inc	MDR	2,219	394	564%
Goodyear Tire & Rubber Co	GT	6,317	1,150	549%
AMR Corp/De	AMR	9,877	1,854	533%
General Motors Corp	GM	97,021	22,743	427%
United States Steel Corp	X	7,874	1,940	406%
Allegheny Technologies Inc	ATI	2,070	559	371%
Lucent Technologies Inc	LU	30,252	8,865	341%
Ford Motor Co	F	62,037	20,335	305%
Visteon Corp	VC	1,973	889	222%
Delphi Corp	DPH	10,992	5,216	211%
Eastman Kodak Co	EK	9,033	5,997	151%
Northrop Grumman Corp	NOC	23,866	15,969	149%
NCR Corp	NCR	4,421	3,109	142%
Navistar International	NAV	3,717	2,645	141%
Boeing Co	BA	39,012	28,275	138%
Cummins Inc	CUM	2,341	1,779	132%
Unisys Corp	UIS	5,808	4,444	131%
Dana Corp	DCN	2,973	2,296	129%
Hercules Inc	HPC	1,626	1,281	127%
CMS Energy Corp	CMS	1,391	1,110	125%
Coors (Adolph) -Cl B	RKY	2,419	1,986	122%
Pactiv Corp	PTV	3,881	3,259	119%
Lockheed Martin Corp	LMT	23,989	20,894	115%
Raytheon Co	RTN	12,849	11,803	109%
Boise Cascade Corp	BCC	1,765	1,626	109%
Mirant Corp	MIR	266	251	106%
Xerox Corp	XRX	8,254	8,197	101%

Source: Company data, CSFB estimates.

Pension Report Card

Throughout this report, we analyze defined benefit pension plan data 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 in Exhibit 8, grading the exposure to defined benefit pension plans for each industry group in the S&P 500 on the basis of key historical and forward-looking metrics that we focus on in this report.

1. *Plan assets/projected benefit obligation—focuses on funded status as of 2003E, 2002, and 2001*, applying a score based on how overfunded or underfunded the pension plans in a particular industry are with respect to its peers.
2. *Contributions/cash flow from operations—focuses on the expected cash burden that companies could face*, comparing estimated 2004 pension contributions to trailing average five-year cash flows from operations. Note that 2004E contributions assume that pension funding relief is enacted. (See the Funding Relief section of this report for more detail.)
3. *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.
4. *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 of the pension plan is as a percent 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. 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 one overall score for each industry. As we consider each metric equally important, we apply equal 25% 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 receive 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. Multiline Retail and IT Services have varying degrees of exposure across each of the four metrics we've highlighted. However, their weighted-average scores are "middle-of-the-road" and, for this reason, they get a weighted-average Z-score close to zero. We interpret this by stating that, compared with other industries at the upper and lower extremes of Exhibit 8, the pension plans for the companies in Multiline Retail and IT Services are neither significantly over- nor underfunded; the companies do not have to contribute a significant portion of their operating cash flow to their pension plans, they do not report significant pension income or expense, and they do not have pension plans whose funded status is significant relative to 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, its pension plans are in relatively good shape; the companies should not have to contribute a significant portion of their operating cash flow to their pension plans, they report relatively high pension income, and they have pension plans that are relatively overfunded compared to market capitalization.

Finally, we move to the lower extreme: Auto Components and Airlines. These industries receive a very low (negative) Z-score because their pension plans are in bad shape, the companies may have to contribute a significant portion of their operating cash flow to the pension plans, they incur relatively high pension expense as a percent of operating income, and they have pension plans with relatively high underfunding as a percent of market capitalization.

As Exhibit 8 shows, scores range between plus 1.30 to minus 2.62; 34 out of 55 industries scored between plus or minus 0.4, highlighting relatively low or moderate exposure to pension plans. (We excluded four industries for which defined benefit pension plans were immaterial—Internet & Catalog Retail, Internet Software & Services, Trading Companies & Distributors, and Wireless Telecom Services.) Another 13 industries ranked on the high end of our report card. Although these industries generally don't face any funding problems or cash flow constraints with respect to their plans, they do face high exposure to earnings (Will pension income continue to decline, putting pressure on earnings?) and quality of earnings (How much of the bottom line is from the pension plan?) issues. Finally, eight industries ranked on the low end of our scale, facing a scarier set of risks, including the need to contribute cash to the pension plans, a potential deterioration in balance sheets, which could call their credit ratings into question, and a high exposure to earnings issues. (Will pension expense continue to increase, putting pressure on earnings?)

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 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

Industry[1] Name	Metrics: Plan Assets / PBO	Metrics: Contributions/ CFO	Metrics: Pension Cost/ Operating Income	Metrics: Funded Status/ Mkt. Cap	Weighted Totals: Z-Score	
Diversified Telecommunication Services	2.26	0.66	1.69	0.58	1.30	
Industrial Conglomerates	2.08	0.63	1.43	0.52	1.16	
Specialty Retail	2.52	0.63	0.07	0.55	0.94	
Construction Materials	1.36	0.70	0.21	0.41	0.67	
Communications Equipment	1.04	(0.08)	1.19	0.39	0.64	
Metals & Mining	0.66	0.50	1.38	(0.01)	0.63	
Diversified Financial Services	1.23	0.70	0.03	0.51	0.62	High Exposure with Risks Generally Limited to Earnings Quality
Computers & Peripherals	0.63	0.41	1.12	0.26	0.60	
Capital Markets	1.61	-	0.04	0.53	0.55	
Commercial Services & Supplies	0.73	0.68	0.12	0.48	0.50	
Distributors	0.57	0.70	0.38	0.29	0.48	
Paper & Forest Products	0.59	(0.06)	1.50	(0.17)	0.46	
Leisure Equipment & Products	0.47	0.55	0.81	(0.23)	0.40	
Gas Utilities	0.87	0.07	0.37	0.17	0.37	
Commercial Banks	0.90	-	0.07	0.49	0.36	
Electric Utilities	0.63	0.16	0.59	0.04	0.35	
Biotechnology	0.22	0.57	(0.06)	0.54	0.32	
Real Estate	(0.05)	0.67	0.05	0.54	0.31	
Containers & Packaging	0.08	(0.06)	1.49	(0.34)	0.29	
Thrifts & Mortgage Finance	(0.07)	0.59	0.07	0.52	0.28	
Insurance	0.36	0.30	0.04	0.39	0.27	
Food & Staples Retailing	(0.02)	0.57	0.03	0.51	0.27	
Aerospace & Defense	0.26	0.19	1.55	(1.02)	0.24	
Road & Rail	0.11	0.30	0.22	0.20	0.21	
Media	0.06	0.29	(0.03)	0.45	0.19	
Electrical Equipment	0.22	0.27	(0.18)	0.31	0.16	
Air Freight & Logistics	0.66	0.62	(0.96)	0.29	0.15	
Hotels Restaurants & Leisure	(0.55)	0.62	(0.00)	0.53	0.15	
Software	(1.16)	0.70	0.08	0.55	0.04	
Multiline Retail	(0.21)	0.24	(0.26)	0.35	0.03	
IT Services	(0.11)	0.34	(0.37)	0.22	0.02	Low/Moderate Exposure with No Significant Risks
Textiles Apparel & Luxury Goods	(0.92)	0.52	(0.09)	0.46	(0.01)	
Tobacco	(0.28)	0.02	0.03	0.14	(0.02)	
Food Products	(0.08)	0.09	(0.33)	0.20	(0.03)	
Health Care Providers & Services	(0.54)	0.16	(0.14)	0.40	(0.03)	
Consumer Finance	(1.04)	0.58	(0.14)	0.48	(0.03)	
Beverages	(0.58)	0.28	(0.36)	0.39	(0.07)	
Health Care Equipment & Supplies	(0.85)	0.25	(0.15)	0.48	(0.07)	
Chemicals	(0.25)	(0.32)	0.39	(0.30)	(0.12)	
Pharmaceuticals	(0.61)	0.10	(0.40)	0.42	(0.12)	
Multi-Utilities & Unregulated Power	(0.24)	(0.27)	(0.18)	(0.08)	(0.19)	
Personal Products	(0.49)	(0.11)	(0.62)	0.39	(0.21)	
Household Durables	(0.42)	(0.55)	(0.03)	0.12	(0.22)	
Household Products	(1.26)	0.16	(0.30)	0.38	(0.26)	
Energy Equipment & Services	(0.29)	(0.62)	(0.59)	0.35	(0.29)	
Machinery	(0.25)	(0.70)	(0.18)	(0.15)	(0.32)	
Semiconductors & Semiconductor Equipment	(2.17)	0.55	(0.29)	0.52	(0.35)	
Oil & Gas	(1.71)	0.01	(0.83)	0.21	(0.58)	
Electronic Equipment & Instruments	(1.23)	(0.35)	(1.17)	0.31	(0.61)	
Construction & Engineering	0.20	(1.55)	(0.17)	(0.92)	(0.61)	
Building Products	(1.73)	(0.36)	(0.84)	0.21	(0.68)	
Automobiles	(0.22)	0.28	(0.92)	(4.25)	(1.28)	High Exposure with Significant Risks to Earnings, Cash Flows, and Balance Sheet
Office Electronics	(0.25)	(4.58)	(0.98)	(1.68)	(1.87)	
Airlines	(1.44)	(3.31)	(1.81)	(3.47)	(2.51)	
Auto Components	(1.26)	(2.76)	(3.00)	(3.44)	(2.62)	

[1] Excludes Internet & Catalog Retail, Internet Software & Services, and Trading Companies & Distributors, and Wireless Telecom Services, which are not applicable.

NOTE: Other adjustments to this report card are as follows: (1) Analysis excludes unusual years (i.e., year where an industry reports negative operating income) and (2) Contributions/CFO metric is not applied to Commercial Banks or Capital Markets because they either do not report CFO or CFO was negative.

Source: Company data, CSFB estimates.

Forecasting

Many of the questions that we get regarding pension accounting are forward looking. For example:

- At what point will companies have to increase their contributions to the pension plans, and by what amount?
- Will earnings be negatively affected by the pension plan resulting in an earnings headwind?
- 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 have on the funded status of the pension plan, on contributions to the plan, and on pension cost?

Pension Forecasting Model, Version 2.0

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 pension-forecasting model (with the help of an actuary). Using the information from pension footnotes and a number of assumptions about the future, the model estimates pension cost, funded status, and required contributions for each of the next three years. We applied the model to each company in the S&P 500.

With the *Magic of Pension Accounting, Part II,* we are releasing a new version of our pension-forecasting model. Based upon the feedback we received on our first model, we have made some enhancements to make the new model more user-friendly and flexible. For example, the old model required that all the information from the pension footnote be input by you to generate a forecast. In the new model, if the company is in the S&P 500, all you have to do is type in the ticker symbol and the historical data will update automatically. The only data entry required is that you input your assumptions about the future. In addition, we have included a summary screen to isolate some of the key outcomes from the model. The new model is available to clients on the CSFB Web site:

(http://www.csfb.com/equity/presentations/pension_forecast_model/).

For those interested in analyzing companies outside the S&P 500, give us a call; we have another version of the model that we can make available to you. We describe the model and its limitations in Appendix C.

Why Bother?

You may be wondering, Why do I need to bother with the individual model on the Web site if this report contains pension cost and funded status forecasts for every company in the S&P 500? There are a number of reasons:

1. You can use the model to forecast contributions to a pension plan.
2. If you follow companies outside the S&P 500, the model can be used on them. (Give us a call to obtain the non-S&P 500 company version of the model.)

3. You might not like the assumptions we used and can run the model using your own assumptions.
4. You can use the model to perform sensitivity analysis.
5. You may know something we don't know. For example, a company might cut back its pension plan for new employees, terminate employees, etc., which would change its pension profile. Or you might know the asset allocation in a particular pension plan, whereas we assume all companies have the same asset allocation. Or a company might announce a future expected return assumption different from the one we used in our forecast.
6. A company could apply pension accounting differently than we have assumed in our model. For example, it might use different amortization periods or different smoothing mechanisms that can have a significant effect on the forecasts. Such differences can now be easily adjusted for in the new model. In Appendix D, we use Honeywell (HON, $27.5, NEUTRAL, Target $24, MARKET WEIGHT) as an example to demonstrate how sensitive the pension results are to the company's application of pension accounting. We also include the places to look, and some questions to ask, to determine whether a company's application of pension accounting is different than our base case.

We want to hammer home this last point with some highlights from the Honeywell example. Our base case forecast assumes that Honeywell will report $68 million of pension income in 2003. For those of you that follow Honeywell closely, you are probably thinking that our model doesn't work, since in its 2002 10-K Honeywell estimated that it would report pension expense of $174 million in 2003. Our estimate appears to be off by a whopping $242 million. Before you toss our model in the recycling bin, hear us out. Honeywell applies pension accounting differently than we have assumed in our base case. If we adjust our model to account for those differences—which can be done very easily in our new model, as demonstrated in Appendix D—we estimate pension cost of $156 million in 2003, much closer to Honeywell's estimate. Our base case is meant to get you in the ballpark; to play ball, the model can be further customized for each company.

Our S&P 500 Forecast

For our base case forecast for the S&P 500, we assume plan assets increase 11.5% for 2003, based on a 65% equity/35% fixed income mix of plan assets. We arrived at our plan asset mix based on a Pensions & Investments survey of the top 1,000 defined benefit pension plans in the U.S., published on January 20, 2003. According to the survey, U.S. pension plan portfolios held 63.3% equity (42% domestic stocks, 13.2% international stocks, 4.3% equity real estate, and 3.8% private equity) and 33.8% fixed income instruments. The remaining 2.9% was invested in cash and other asset classes. To keep things simple, we split the portfolio 65/35. We assume that the equity component increases 15% in 2003 after factoring in the year-to-date returns for the S&P 500 and foreign indices. With the average bond fund up 5% year to date in 2003, we view a 5% return for the fixed income component of our mock portfolio as appropriate. For 2004 and 2005, we use the historical (back to 1926) equity (10%) and fixed income (5.50%) rates of return as tracked by Ibbotson.

We arrive at the 50-basis-point decline in the discount rates used for accounting purposes in 2003 by comparing the yield for the Moody's Aa corporate bond index from the end of 2002, 6.52%, to the yield on September 30, 2003, 5.86%. 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. After discussions with our interest rate research team, we assume discount rates will drop another 25 basis points in 2004 and then go up 25 basis points in 2005. With so many companies having announced a reduction in their expected return assumptions for 2003, we assume they drop 50 basis points across the board, and then stay at that level for 2004 and 2005. We keep the salary inflation rate assumption at 2002 levels. For funding purposes, we assume that pension funding relief is put in place for 2004 and 2005 that would shift the discount rate from U.S. government bonds to corporate bonds. (See the "Pension Funding Relief" section of this report for further details.) 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 Model Base Case Assumptions and Aggregate Findings

US$ in billions, unless otherwise stated

	2002A	2003E	2004E	2005E
Key Assumptions				
Plan Assets				
- Equities—65% of Portfolio		15.00%	10.00%	10.00%
- Fixed Income—35% of Portfolio		5.00%	5.50%	5.50%
- Actual Return / (Loss)	(8.84%)	11.50%	8.43%	8.43%
Projected Benefit Obligation				
- Discount Rate – Increase/(Decrease) in bps		(50)	(25)	25
- Inflation		3.00%	3.00%	3.00%
Pension Cost				
- Expected Rate of Return – Increase/(Decrease) in bps		(50)	-	-
Funding Requirements				
Discount Rate[1]	6.67%	6.89%	6.45%	6.30%
Aggregate Findings for S&P 500				
- Funded Status $	($225)	($247)	($282)	($242)
- Percent Funded	81%	81%	79%	82%
- Pension Cost – (Income)/Expense	$4	$19	$26	$37
- Pension Cost Per Share – Pretax	$0.38	$2.03	$2.83	$3.97
- Pension Cost Per Share – After tax	$0.25	$1.32	$1.84	$2.58
- Cash Contributions	$49	$39	$21	$23

[1]In 2002A, the discount rate is based on 120% of the four-year weighted average long-term government bond rate in 2002A (i.e., 120% x 5.56% = 6.67%). Between 2003E and 2005E, the discount rate is based on the four-year weighted average long-term corporate bond rate.

Source: Company data, CSFB estimates.

Cash Flow Exposure

The most popular question on defined benefit pension plans that we hear from investors is, "When will companies have to fund their pension plans?" With the health of pension plans deteriorating and most plans now underfunded, companies answered that question by contributing $49 billion into the plans in 2002. 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.

We expect our results will differ from the company's actual funding requirements, 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 ERISA funding credit 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 funding requirements in Section 412 of the tax code apply only 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.) The only problem with the 5500 filing is that the data typically are stale.

We estimate that the contributions to the pension plans for the companies in the S&P 500 will drop from $49 billion in 2002 to $39 billion in 2003 (that includes $15 billion for General Motors alone). With pension funding relief in place, we expect the companies in the S&P 500 to contribute only $21 billion to their pension plans in 2004 and $23 billion in 2005. Even with the pension funding relief, we estimate that the 32 companies in Exhibit 10 will be required to contribute over $200 million to their pension plans in 2004 or in 2005.

Exhibit 10: Contributions of at least $200 Million in 2004E or 2005E
US$ in millions

Company	Ticker	Contributions 2004E	Contributions 2005E
Abbott Laboratories	ABT	$ 255	$ 255
AES Corp. (The)	AES	298	253
Allstate Corp	ALL	218	226
Altria Group Inc	MO	392	-
AMR Corp/De	AMR	509	509
Bristol Myers Squibb	BMY	194	207
Caterpillar Inc	CAT	-	275
ChevronTexaco Corp	CVX	450	418
Cigna Corp	CI	218	207
Citigroup Inc	C	-	483
ConocoPhillips	COP	333	325
Deere & Co	DE	207	267
Delphi Corp	DPH	350	462
Delta Air Lines Inc	DAL	774	823
Du Pont (E I) De Nemours	DD	358	556
Exelon Corp	EXC	222	287
Exxon Mobil Corp	XOM	1,035	1,189
Ford Motor Co	F	1,281	1,245
Georgia-Pacific Corp	GP	238	240
Goodyear Tire & Rubber Co	GT	353	342
Halliburton Co	HAL	254	270
Hewlett-Packard Co	HPQ	472	465
Johnson & Johnson	JNJ	299	-
Lilly (Eli) & Co	LLY	-	219
Merck & Co	MRK	116	200
Motorola Inc	MOT	361	364
Pfizer Inc	PFE	384	404
Pharmacia Corp	PHA	176	211
Procter & Gamble Co	PG	228	222
Raytheon Co	RTN	257	395
United Technologies Corp	UTX	225	370
Xerox Corp	XRX	229	241

Source: Company data, CSFB estimates.

Pension Contributions versus Cash Flow from Operations

To measure the significance of contributions to the pension plan, we compare them to cash flow from operations. The $49 billion contribution made by the companies in the S&P 500 during 2002 was approximately 6% of total cash flow from operations. On an industry level, we estimate the companies in the 13 industry groups in Exhibit 11 will contribute at least 5% of their trailing five-year average cash flow from operations to their pension plans in 2004.

Exhibit 11: Contributions ≥ 5% of Trailing Five-Year Cash Flow from Ops by Industry
US$ in millions

Industry	Contributions 2004E	Trailing 5-Yr. Cash Flow From Ops	Percentage
Office Electronics	$ 229	$ 609	38%
Airlines	1,283	4,491	29%
Auto Components	1,030	4,171	25%
Construction & Engineering	84	521	16%
Machinery	947	9,488	10%
Energy Equipment & Services	491	5,195	9%
Household Durables	333	3,726	9%
Building Products	95	1,260	8%
Electronic Equip & Instruments	197	2,623	7%
Chemicals	938	12,924	7%
Multi-Utilities & Unreg. Power	556	7,987	7%
Personal Products	139	2,400	6%
Communications Equipment	440	7,903	6%

Source: Company data, CSFB estimates.

We estimate that 132 companies will have to make contributions to their pension plans in 2004 that are at least 5% of their trailing five-year average cash flow from operations, including the 18 companies in Exhibit 12 with contributions greater than 25% of their trailing cash flow from operations.

Exhibit 12: Contributions ≥ 25% of Trailing Five-Year Cash Flow from Ops by Company
US$ in millions

Company	Ticker	Contributions 2004E	Trailing 5-Yr. Cash Flow From Ops	Percentage
Delphi Corp	DPH	$ 350	$ 667	52%
Goodyear Tire & Rubber Co	GT	353	705	50%
McDermott Intl Inc	MDR	41	83	50%
RJ Reynolds Tobacco Hldgs	RJR	119	242	49%
Raytheon Co	RTN	257	527	49%
ITT Industries Inc	ITT	102	219	46%
Navistar International	NAV	130	299	44%
Delta Air Lines Inc	DAL	774	1,853	42%
Cummins Inc	CUM	88	217	41%
Thomas & Betts Corp	TNB	13	32	40%
Xerox Corp	XRX	229	609	38%
Motorola Inc	MOT	361	1,020	35%
AES Corp. (The)	AES	298	864	34%
Hercules Inc	HPC	27	85	32%
AMR Corp/De	AMR	509	1,600	32%
CMS Energy Corp	CMS	159	541	29%
Agilent Technologies Inc	A	168	611	28%
Monsanto Co	MON	108	397	27%

Source: Company data, CSFB estimates.

Contributing to the Pension Plan

With General Motors' decision to borrow over $17 billion and contribute a large portion of the proceeds to its pension plan, and many other companies ratcheting up their pension contributions, investors are curious about what happens when a company makes a contribution to its pension plan. Beyond a drain on cash flow and an improvement in the health of the plan, there are a few other interesting effects on a company that contributes to its pension plan.

1. *Earnings go up.* Due to the magic of pension accounting, a contribution to the pension plan earns a guaranteed return in the income statement. It will earn the expected rate of return on pension plan assets in the year following the contribution, reducing net pension cost and boosting earnings. For example, if a company contributes $1 billion to its pension plan and its expected rate of return is 10%, pretax earnings will increase approximately $100 million next year. If a company is borrowing to fund its pension plan, as long as the cost of borrowing is less than the expected rate of return, an earnings arbitrage is created. Continuing our example, if the company borrowed the $1 billion at a cost of 7%, pretax earnings would increase by about $30 million.

2. *Taxes go down.* A contribution to an underfunded pension plan is a tax-deductible expense. The contribution will reduce taxable income, reducing the company's tax bill. Further extending our example, if the $1 billion contribution was to an underfunded pension plan, the company could save $350 million in taxes, assuming a 35% tax rate.

3. *Pay less to the PBGC.* The Pension Benefit Guaranty Corporation (PBGC) is the government-sponsored agency that is responsible for insuring defined benefit pension plans in the United States. The PBGC is funded by premiums that it collects from companies with defined benefit plans, a fixed premium of $19 per each employee and a variable premium of $9 for each $1,000 the pension plan is underfunded. A contribution to the pension plan makes the pension plan better funded, reducing the variable rate premium the company must pay to the PBGC—that's a savings of 90 basis points on every $1 contributed to an underfunded pension plan (not bad in the current interest rate environment). Stretching our example a bit further, that $1 billion contribution could save the company over $9 million in PBGC premiums.
4. *Reduce hits to equity.* As the health of the pension plan deteriorates, some companies are forced to adjust their balance sheets to reflect the minimum pension liability. In many cases, that adjustment will result in a charge against shareholders' equity. A contribution to the pension plan will improve the health of the plan, potentially eliminating the need to take that charge to equity.
5. *Save for a rainy day.* Companies that contribute more than required by law to their pension plans build up a funding credit that can be used to offset future funding requirements.

Earnings Exposure

As pension plans have become weaker, the aggregate benefit to earnings from the pension plan dried up in 2002, with the companies in the S&P 500 reporting $4 billion of pension expense. We estimate that the pension plan will continue to be an earnings headwind for the foreseeable future, as the smoothing mechanisms begin to work their magic. We estimate that pension costs will rise to $19 billion in 2003, $26 billion in 2004, and $37 billion in 2005. We include our forecast of pension cost for the next three years for each company in the S&P 500 in Appendix F.

As 2003 is almost over, we focus our attention on 2004. We estimate that 312 companies will experience an increase in pension cost between 2003 and 2004, causing an earnings headwind that further reduces earnings in 2004. We estimate that the 14 companies in Exhibit 13 will experience an increase in pension cost between 2003 and 2004 of at least $100 million.

Exhibit 13: Estimated Earnings Headwind from the Pension Plan Over $100 Million

US$ in millions

Company	Ticker	2003E Pension (Income)/ Expense	2004E Pension (Income)/ Expense	Increase
Intl Business Machines Corp	IBM	$ (1,098)	$ (435)	$ 663
Boeing Co	BA	23	468	445
SBC Communications Inc	SBC	(529)	(114)	415
Ford Motor Co	F	843	1,133	289
Lockheed Martin Corp	LMT	182	438	256
Verizon Communications	VZ	(997)	(752)	245
General Electric Co	GE	(104)	133	238
Raytheon Co	RTN	121	271	149
Altria Group Inc	MO	74	200	126
United Technologies Corp	UTX	207	329	122
Honeywell International Inc	HON	(68)	50	118
3M Co	MMM	119	234	115
Fedex Corp	FDX	231	345	115
Bank Of America Corp	BAC	159	265	106

Source: Company data, CSFB estimates.

Earnings Headwind Per Share

Looking at the earnings headwind from another angle, we focus on the potential increase in pension cost on a per share basis. We estimate that the 33 companies in Exhibit 14 will have an earnings headwind from their pension plans that further reduces 2004 earnings by over $0.10 per share.

Exhibit 14: Estimated Earnings Headwind from the Pension Plan over $0.10 per Share

US$ in millions

Company	Ticker	2003E Pension (Income)/ Expense Per Share	2004E Pension (Income)/ Expense Per Share	Increase
Northrop Grumman Corp	NOC	0.07	0.54	0.47
Delta Air Lines Inc	DAL	1.60	2.06	0.47
Cummins Inc	CUM	0.80	1.19	0.39
Lockheed Martin Corp	LMT	0.26	0.63	0.37
Boeing Co	BA	0.02	0.38	0.36
NCR Corp	NCR	(0.16)	0.18	0.34
ITT Industries Inc	ITT	0.29	0.61	0.33
Intl Business Machines Corp	IBM	(0.41)	(0.16)	0.25
Fedex Corp	FDX	0.49	0.74	0.25
Raytheon Co	RTN	0.19	0.43	0.24
Pactiv Corp	PTV	(0.17)	0.05	0.22
Whirlpool Corp	WHR	0.33	0.53	0.20
Deere & Co	DE	0.13	0.33	0.20
Meadwestvaco Corp	MWV	(0.39)	(0.20)	0.19
Goodyear Tire & Rubber Co	GT	0.96	1.15	0.19
Caterpillar Inc	CAT	0.05	0.23	0.18
Eaton Corp	ETN	0.40	0.58	0.17
United Technologies Corp	UTX	0.27	0.42	0.16
Temple-Inland Inc	TIN	0.12	0.27	0.15
Boise Cascade Corp	BCC	0.64	0.79	0.15
Parker-Hannifin Corp	PH	0.52	0.67	0.15
Black & Decker Corp	BDK	0.16	0.30	0.15
Textron Inc	TXT	(0.04)	0.10	0.14
Unisys Corp	UIS	(0.14)	0.00	0.14
AON Corp	AOC	0.19	0.33	0.14
Eastman Kodak Co	EK	(0.23)	(0.10)	0.13
Kerr-McGee Corp	KMG	(0.13)	(0.00)	0.13
Cigna Corp	CI	0.54	0.66	0.12
Consolidated Edison Inc	ED	(0.27)	(0.15)	0.11
Monsanto Co	MON	(0.18)	(0.07)	0.11
Prudential Financial Inc	PRU	(0.27)	(0.16)	0.11
Knight-Ridder Inc	KRI	0.21	0.32	0.11
Donnelley (R R) & Sons Co	DNY	0.01	0.12	0.11

Source: Company data, CSFB estimates.

To measure whether or not 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 2003 and 2004 to the First Call consensus earnings estimate for 2004. The increase in pension cost represents at least 10% of the consensus earnings estimate for the 16 companies in Exhibit 15. The key question is whether or not the consensus estimate has taken into account the potential increase in pension cost; we are not sure whether or not it has.

Exhibit 15: Estimated Earnings Headwind from the Pension Plan > 10% of 2004 First Call Consensus Earnings Estimate

Company	Ticker	A Pension Cost/Share Increase between 2003E and 2004E	B 2004E First Call Consensus	A/B Percentage
Visteon Corp	VC	$ 0.05	$ 0.04	124%
Goodyear Tire & Rubber Co	GT	0.19	0.21	92%
NCR Corp	NCR	0.34	0.76	45%
Boeing Co	BA	0.36	1.82	20%
Meadwestvaco Corp	MWV	0.19	0.99	20%
Unisys Corp	UIS	0.14	0.90	15%
Lockheed Martin Corp	LMT	0.37	2.52	15%
Raytheon Co	RTN	0.24	1.68	14%
Dynegy Inc	DYN	0.02	0.12	14%
Pactiv Corp	PTV	0.22	1.62	13%
Boise Cascade Corp	BCC	0.15	1.30	12%
Avaya Inc	AV	0.03	0.29	12%
Cummins Inc	CUM	0.39	3.40	11%
Ford Motor Co	F	0.10	0.99	10%
Northrop Grumman Corp	NOC	0.47	4.91	10%
Delphi Corp	DPH	0.09	0.91	10%

Source: Company data, CSFB estimates.

Amortization of Unrecognized Losses Reduces Earnings

One of the smoothing mechanisms in pension accounting that appears to be starting to haunt companies with defined benefit pension plans is the amortization of unrecognized losses. Unrecognized gains and losses represent actual changes in the value of the PBO and plan assets that have not yet been recognized in the financial statements. For example, an unrecognized loss will occur when the actual return on plan assets is less than the expected return. That is what has happened over the last few years, reversing what was once a cumulative unrecognized gain of $144 billion at the end of 2000 for the companies in the S&P 500, turning it into a cumulative unrecognized loss of $357 billion at the end of 2002. In Exhibit 16, we show the 10 companies in the S&P 500 with the largest cumulative unrecognized losses at the end of 2002, and how that amount has changed over the last few years.

Exhibit 16: Companies with Largest Cumulative Unrecognized Losses, 2002

		Unrecognized Loss/(Gain)		
Company	**Ticker**	**2000**	**2001**	**2002**
General Motors Corp	GM	$ 9,750	$ 23,015	$ 40,014
Intl Business Machines Corp	IBM	(4,628)	7,168	21,178
Ford Motor Co	F	(8,127)	(297)	13,616
Boeing Co	BA	(10,652)	2,897	11,952
General Electric Co	GE	(12,594)	(3,541)	8,356
Verizon Communications	VZ	(15,153)	(4,547)	8,295
SBC Communications Inc	SBC	(11,395)	(1,852)	7,777
Exxon Mobil Corp	XOM	(281)	3,144	7,404
Du Pont (E I) De Nemours	DD	(1,689)	2,267	6,127
Lockheed Martin Corp	LMT	2,975	1,036	6,075

Source: Company data, CSFB estimates.

Companies can amortize the unrecognized gains and losses in a number of different ways. However, minimum amortization must occur when the cumulative unrecognized gain or loss is greater than 10% of the market-related value (either the fair value or smoothed calculated value; think five year moving average) of plan assets or the PBO, whichever is larger. The amount over this 10% threshold is typically amortized over the remaining service life of active employees. The minimum amortization is commonly referred to as the corridor approach. Amortizing a gain will reduce net pension cost, boosting earnings (this was the case during the late 1990s); amortizing a loss will increase net pension cost, reducing earnings, which is what companies are now facing. The amortization has swung from a $7 billion gain in 2001 to our projection of a $9 billion loss in 2004. The nine companies in Exhibit 17 appear to have the largest earnings headwind in 2004 as a result of amortizing unrecognized losses or amortizing smaller gains.

Exhibit 17: Largest Earnings Headwind from the Amortization of Unrecognized Loss/(Gain)

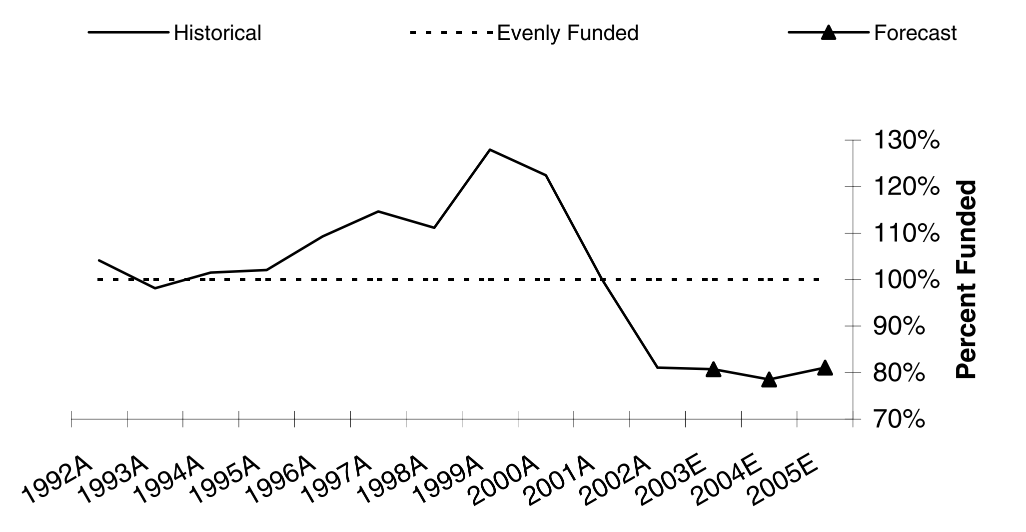
Company	**Ticker**	**Amortized Loss/(Gain) 2003E**	**Amortized Loss/(Gain) 2004E**	**Headwind**
General Motors Corp	GM	$ 1,355	$ 1,881	$ 526
Intl Business Machines Corp	IBM	-	262	262
Boeing Co	BA	-	212	212
Lockheed Martin Corp	LMT	-	106	106
Raytheon Co	RTN	46	139	93
United Technologies Corp	UTX	72	160	88
Honeywell International Inc	HON	33	109	76
Delta Air Lines Inc	DAL	-	76	76
3M Co	MMM	20	85	66

Source: Company data, CSFB estimates.

Impact on Funded Status

Even with the strong performance in equity markets over the past year and an estimated $39 billion in contributions to the plans, we estimate that the aggregate defined benefit pension plans for the companies in the S&P 500 have become weaker in 2003. The positive returns and contributions were not enough to overcome the combination of the hole that the plan started the year in, lower interest rates that have pushed the pension obligation higher, and an estimated $84 billion in pension benefits that were paid out of the plans. We estimate that the aggregate pension plan for the companies in the S&P 500 moves from $225 billion underfunded at the end of 2002 to $247 billion underfunded at the end of 2003, as depicted in Exhibit 18.

Exhibit 18: Funded Status of Defined Benefit Pension Plans for the S&P 500



Source: Company data, CSFB estimates.

The number of companies with underfunded pension plans in the S&P 500 jumped to 334 at the end of 2002, the highest level in the last 10 years. We estimate that as many as 340 companies could have underfunded plans at the end of 2003. We estimate that the 10 companies on the left hand side of Exhibit 19 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, while the 10 companies on the right hand side will experience the largest dollar decline in funded status.

Exhibit 19: Most Significant Deterioration in Funded Status, 2002–03E

US$ in millions

Largest Decline in Percent Funded

Company	Ticker	% Funded 2002	% Funded 2003E	Change
Stanley Works	SWK	72%	57%	(15%)
Moody's Corp	MCO	134%	120%	(14%)
Sherwin-Williams Co	SHW	217%	206%	(12%)
Goldman Sachs Group Inc	GS	92%	82%	(9%)
Waste Management Inc	WMI	92%	83%	(9%)
Medtronic Inc	MDT	102%	94%	(8%)
SLM Corp	SLM	106%	98%	(7%)
Wells Fargo & Co	WFC	95%	89%	(6%)
Target Corp	TGT	96%	90%	(6%)
Cincinnati Financial Corp	CINF	93%	87%	(6%)

Largest Dollar Decline in Funded Status

Company	Ticker	$ Over (Under) Funded 2002	$ Over (Under) Funded 2003E	Change
Intl Business Machines Corp	IBM	($6,435)	($8,413)	($1,978)
Ford Motor Co	F	(15,611)	(17,553)	(1,942)
Boeing Co	BA	(7,137)	(8,947)	(1,810)
Lockheed Martin Corp	LMT	(4,257)	(5,581)	(1,324)
Du Pont (E I) De Nemours	DD	(4,445)	(5,424)	(979)
Northrop Grumman Corp	NOC	(2,992)	(3,971)	(979)
General Electric Co	GE	4,545	3,621	(924)
Fedex Corp	FDX	(1,292)	(2,012)	(720)
Verizon Communications	VZ	768	77	(691)
Dow Chemical	DOW	(2,536)	(3,154)	(618)

Source: Company data, CSFB estimates.

The Key Drivers behind Estimated Pension Plan Assets and Estimated PBO

Of all the topics that we get questions about from investors, it is defined benefit pension plans that generate the most questions. However, we have noticed a drop off in the volume of pension questions in the second half of this year. Why? It's the stock market. With the market performing so well this year—the Dow up 11%, the S&P 500 up 13%, and the Nasdaq up 34% as of September 30—the pension plan assets must have increased in value and the pension plans are getting healthier. Tack on the strong performance by the fixed income piece of the portfolios, and the pension issue becomes less of an issue. Assuming a 65% equity/35% fixed income mix of plan assets, we estimate the average pension portfolio is up 11.5% year to date.

However, we keep saying that the pension plan has probably gotten weaker in 2003. We thought it would be helpful to show you how we arrive at a weaker pension plan in 2003, by reconciling the year-over-year change in aggregate plan assets and the aggregate pension obligation for the companies in the S&P 500 using our base case forecast. We present the key drivers behind the change in plan assets and the pension obligation in Exhibit 20 and Exhibit 21.

Exhibit 20: Reconciliation of Plan Assets for S&P 500

US$ in millions

Plan Assets Rollforward	Amount	% Change
Plan Assets at Beginning of Year, 2002A	$965,568	
Actual Return - Gain/(Loss)	111,040	11.5%
Company Contributions	38,780	4.0%
Participant Contributions	1,387	0.1%
Benefits Paid	(84,396)	(8.7%)
Plan Assets at End of Year, 2003E	$1,032,379	6.9%

Source: Company data, CSFB estimates.

Exhibit 21: Reconciliation of PBO for S&P 500

US$ in millions

PBO Rollforward	Amount	% Change
PBO at Beginning of Year, 2002A	$1,190,847	
Service Cost	30,417	2.6%
Interest Cost	75,448	6.3%
Actuarial Loss/(Gain)	66,721	5.6%
Benefits Paid	(85,332)	(7.2%)
Participant Contributions	918	N/M
PBO at End of Year, 2003E	$1,279,019	7.4%

Source: Company data, CSFB estimates.

We wanted to highlight a few points from Exhibit 20 and Exhibit 21; notice that, even with the strong performance in plan assets ($111 billion gain in 2003E) and significant contributions ($39 billion in 2003E) to the pension plans, we estimate the plan assets increased in value by only 6.9%, while the pension obligation grew by 7.3%. Why? For one reason the pension benefits paid are a drain on the plan assets. Think of it as you would fund flows: the inflows to the pension plan assets are contributions, the outflows are the benefits paid. Even with the recent jump in contributions, we estimate a net outflow of $44 billion in 2003 from the S&P 500 pension plan assets, as displayed in Exhibit 22.

Exhibit 22: Pension Plan Assets—Fund Flows

US$ in millions

	2000	2001	2002	2003E
Inflows				
Company Contributions	$ 16,379	$ 15,036	$ 48,467	$ 38,780
Participant Contributions	1,278	1,187	1,347	1,387
Outflows				
Benefits Paid	(70,140)	(75,121)	(81,938)	(84,396)
Net Outflows	$ (52,483)	$ (58,898)	$ (32,124)	$ (44,229)

Source: Company data, CSFB estimates.

With benefits paid outpacing the contributions to the pension plan, the plan assets must experience strong returns to continue to grow. We estimate that the benefits paid are only growing at the rate of inflation; however, the actual results over the last few years tell a different story. Benefits paid out of plan assets grew 7%, from $70 billion to $75 billion between 2000 and 2001, and 9%, from $75 billion to $82 billion between 2001 and 2002. The faster growth is most likely the result of the growing number of retirees. As the number of retirees continues to grow, benefits paid will also continue to grow; if the actual returns cannot keep pace with the benefits paid, companies will have to make up the difference by making additional contributions to their pension plans, potentially causing a drain on future cash flows.

Even in a year when the actual returns more than offset the net outflow in pension plan assets, it is still not enough to offset the growth in the pension obligation. We estimate there are three key drivers to the growth in the PBO during 2003:

1. Service cost, which increased the PBO by 3%, represents the amount of future retirement benefits the current employees have earned by working during 2003. It is deferred compensation.
2. Interest cost, which increased the PBO by 6%, is the increase in the pension obligation due to the passage of time. It is calculated by multiplying the PBO by the discount rate. Think of it as equivalent to the accretion on a zero coupon bond.
3. The actuarial loss of $67 billion, which increased the PBO by 6%, represents the change in the pension obligation due to changes in actuarial assumptions. In this case, our assumption of a 50-basis-point drop in discount rates created the actuarial loss. As interest rates fall, the discount rates used to value the pension obligation falls and the pension obligation grows.

Balance Sheet Exposure

The smoothing mechanisms in FAS 87 prevent the funded status of a defined benefit pension plan from being reported on the sponsoring company's balance sheet. However, with the health of pension plans deteriorating, companies may be required to adjust their balance sheets to reflect the minimum pension liability. That is what happened in 2002, as the companies in the S&P 500 took $90 billion in after-tax charges against shareholders equity ($139 billion pretax), reducing equity by about 3%.

The FASB came up with the concept of the minimum pension liability, establishing a floor on the pension liability reported on the balance sheet. To ensure that the balance sheet was not totally misleading as a result of all the smoothing mechanisms in FAS 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, we estimate the ABO at the end of 2003 (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 of $37 billion that the companies in the S&P 500 might have to make at the end of 2003. Based on these assumptions, we estimate that 28 companies will have to take a charge to equity of over $500 million in 2003; the 18 companies in Exhibit 23 might have to record a charge to equity that would exceed 10% of their total equity at the end of 2002.

Exhibit 23: Estimated 2003 Minimum Pension Liability Charge to Equity
US$ in millions

Company	Ticker	2003E Charge to Equity	2002 Equity	% of Equity
Colgate-Palmolive Co	CL	$ 186	$ 350	53%
American Standard Cos Inc	ASD	111	230	49%
Intl Business Machines Corp	IBM	8,787	22,782	39%
Xerox Corp	XRX	699	2,401	29%
AMR Corp/De	AMR	247	957	26%
Eastman Kodak Co	EK	696	2,777	25%
NCR Corp	NCR	323	1,325	24%
Donnelley (R R) & Sons Co	DNY	198	915	22%
Honeywell International Inc	HON	1,368	8,925	15%
Anheuser-Busch Cos Inc	BUD	444	3,052	15%
SBC Communications Inc	SBC	4,697	33,199	14%
Kellogg Co	K	119	895	13%
Fedex Corp	FDX	952	7,288	13%
Lilly (Eli) & Co	LLY	990	8,274	12%
Caterpillar Inc	CAT	648	5,472	12%
Fluor Corp	FLR	104	884	12%
Bristol Myers Squibb	BMY	993	8,967	11%
Altria Group Inc	MO	2,062	19,478	11%

Source: Company data, CSFB estimates.

Sensitivity Analysis

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/), and we leave it in your capable hands to come up with a variety of scenarios.

For now, we provide you with a high-level sensitivity analysis, which was generated using our model, to give an indication of how sensitive the aggregate funded status, pension cost and pension contributions are to changes in the actual return on plan assets and the discount rate. A couple of reference points when examining these different sensitivities:

1. The median discount rate used for accounting purposes at the end of 2002 was 6.75%; our forecast bakes in a drop of 50 basis points in the discount rates for 2003.
2. The actual return on plan assets in 2002 was a loss of 8.84%; our estimate for 2003 is that the plan assets have a positive return of 11.5%.
3. The discount rate used for funding purposes in 2002 was 6.67%; with another round of pension funding relief we assume a discount rate of 6.89% in 2003.

Funded Status Sensitivity

The matrix in Exhibit 24 provides the sensitivity of the aggregate pension plan's funded status for the companies in the S&P 500 at the end of 2003 to varying levels of discount rates and actual returns. Our base case forecast estimates that the pension plans will be $247 billion underfunded at the end of 2003. Note how much more sensitive the funded status is to changes in discount rate than it is to the return on plan assets. For example, if our assumptions on discount rates are correct (a median discount rate in 2003 of approximately 6.25%), the pension plan assets would have to generate a return greater than 13.5% to start getting healthier than they were at the end of 2002, and a return of 15.5% would still leave the plans over $208 billion underfunded. On the other hand, if the discount rates were to rise 200 basis points to 8.25% and the plan assets were to earn a return greater than 9.5%, we estimate the pension plans would be overfunded once again.

Exhibit 24: Funded Status for S&P 500—Sensitivity Analysis, 2003E
US$ in millions

2003 Discount Rate	2003 Actual Asset Returns: 7.50%	9.50%	11.50%	13.50%	15.50%
4.25%	($552,148)	($532,837)	($513,525)	($494,214)	($474,903)
5.25%	($418,705)	($399,394)	($380,082)	($360,771)	($341,460)
6.25%	($285,262)	($265,951)	($246,640)	($227,328)	($208,017)
7.25%	($151,819)	($132,508)	($113,197)	($93,885)	($74,574)
8.25%	($18,376)	$935	$20,246	$39,558	$58,869

Source: Company data, CSFB estimates.

Earnings Sensitivity

The matrix in Exhibit 25 provides the sensitivity of total estimated pension cost in 2004 for the companies in the S&P 500 to varying levels of discount rates and actual returns. We estimate aggregate pension cost of $26 billion in 2004. To maintain pension cost at its 2003 level, $19 billion, it looks like we will need at least the strong asset returns that we have had so far this year and a miracle 100-basis-point jump in the discount rate (unlikely to happen in the last couple of months of the year). Under no scenario presented would we revert back to the good ol' days of pension income.

Exhibit 25: Pension Cost for S&P 500—Sensitivity Analysis, 2004E
US$ in millions

2003 Discount Rate	2003 Actual Asset Returns: 7.50%	9.50%	11.50%	13.50%	15.50%
4.25%	$37,958	$37,116	$36,275	$35,436	$34,596
5.25%	$33,527	$32,693	$31,859	$31,026	$30,193
6.25%	$26,792	$26,003	$25,215	$24,433	$23,659
7.25%	$19,351	$18,659	$17,975	$17,295	$16,622
8.25%	$11,439	$10,780	$10,119	$9,468	$8,813

Source: Company data, CSFB estimates.

Cash Flow Sensitivity

The matrix in Exhibit 26 provides the sensitivity of total estimated pension contributions in 2004 to varying levels of discount rates and actual returns. Note that the discount rates used for this sensitivity analysis refer to the discount rates used for funding purposes. Assuming that pension funding relief is enacted by the end of this year, we estimate this discount rate using a 4-year weighted average yield on high-grade corporate bonds. We estimate aggregate pension contributions of $21 billion in 2004. Once again, there is a higher level of sensitivity to changes in discount rates. If the rates were to continue dropping, a 100-basis-point decline in discount rates from current levels would increase required contributions by over 50%.

Exhibit 26: **Contributions for S&P 500—Sensitivity Analysis, 2004E**
US$ in millions

	2003 Actual Asset Returns				
2003 Discount Rate	7.50%	9.50%	11.50%	13.50%	15.50%
4.89%	$67,128	$60,183	$54,631	$50,136	$45,558
5.89%	$39,776	$34,644	$31,599	$29,342	$26,613
6.89%	$26,124	$23,311	$20,797	$18,597	$16,501
7.89%	$22,997	$20,225	$17,681	$16,413	$14,886
8.89%	$22,760	$20,015	$17,541	$16,286	$14,766

Source: Company data, CSFB estimates.

Pension Funding Relief

With the existing pension funding relief set to expire at the end of this year (yes, there is funding relief currently in place) members of Congress are under pressure to come up with a solution quickly before companies are hit with a significant cash drain in 2004—increasing required contributions to the pension plan. In the next few weeks, we expect that companies with defined benefit pension plans may be getting some good news from Washington, as another two years of pension funding relief appears to be headed their way.

The pension funding relief would allow companies to contribute less to their pension plans just when the pension plans need contributions the most. The health of defined pension plans has deteriorated in each of the past four years (including 2003, according to our estimates) and the Pension Benefit Guaranty Corporation (PBGC) is running the largest deficit in its entire history. Pension funding relief is a two-year Hail-Mary pass that Congress is getting ready to throw to companies with unhealthy pension plans and unhealthy businesses, hoping and praying that the stock market and higher interest rates will step in and bail these plans out later. Otherwise, companies may get hit with required pension contributions in 2006, which many can't afford.

Underfunded Pension Plans Have a Claim on Cash Flows

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. Specifically, a company with a pension plan that is less than 90% funded is generally required to make an additional contribution to its 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: Some companies will have difficulty meeting their funding requirements, and in a worst-case scenario, some may be forced into bankruptcy. Others will 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 their pension plans to meet funding requirements. This issue gets so much attention from investors because it now affects cash flows, and therefore valuations. In theory, investors forecast a series of future cash flows to value the companies that they invest in. If a pension plan is underfunded, it has a claim on those future cash flows, potentially reducing a company's valuation from a shareholder's perspective.

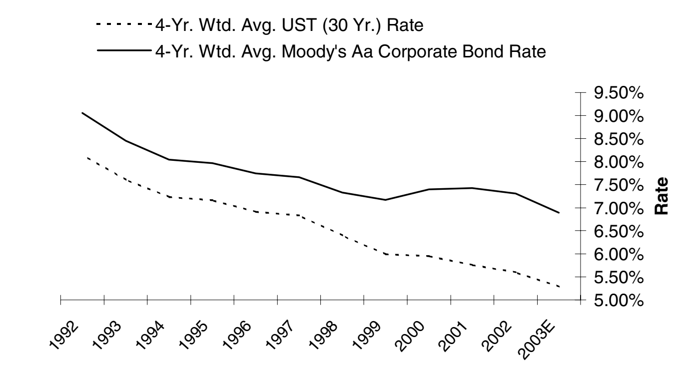
Higher Discount Rate = Funding Relief

The funding requirements for U.S. pension plans are laid out in 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. Key among those differences are that the discount rate used to determine the pension obligation for accounting purposes is different than that used for funding purposes. Specifically, the yield on high-grade corporate bonds is used as the discount rate under pension accounting, versus the four-year weighted-average yield on the 30-year U.S. government long bond that is used as the discount rate to determine whether a company is required to make an additional contribution to its pension plan. Therefore, the funded status for funding purposes may differ dramatically from the funded status according to accounting rules.

It is the discount rate used to determine the pension funding requirements, the four-year weighted-average yield on the long bond, that has been getting plenty of attention over the past few years. With interest rates at record lows, the U.S. government no longer issuing a 30-year bond (the long-bond currently used to determine the discount rate matures in February 2031—no longer a 30-year bond it is more like a 27½-year bond), and pension plans in bad shape, the U.S. Congress stepped in to provide relief. The Job Creation and Worker Assistance Act of 2002, which expires at the end of this year, provided companies with pension funding relief over the past two years. As a temporary stimulus, the Act increased the discount rate by 20% when companies determined 2002 and 2003 additional funding requirements. Companies were allowed to multiply the four-year weighted-average yield on the long bond by 120%, up from 105% previously. Remember that the pension obligation is a present value calculation; a higher discount rate will result in a smaller pension obligation, a healthier pension plan, and reduced funding requirements.

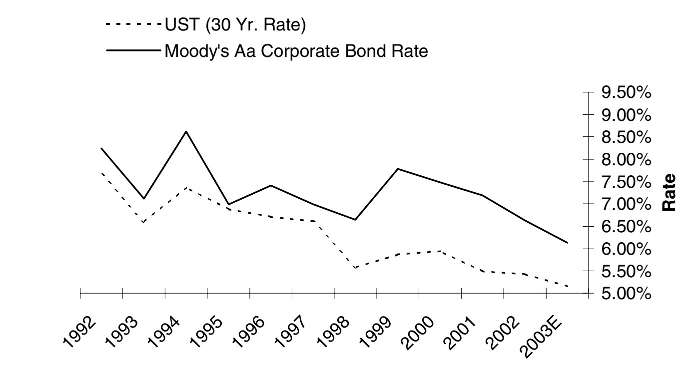
We obtained the four-year weighted-average yield on the U.S. government long bond from the IRS Web site at: http://www.irs.gov/retirement/article/0,,id=96450,00.html. We plot this rate in Exhibit 27 and it should come as no surprise that it has been trending down, resulting in larger pension obligations and more onerous funding requirements. We also include the four-year weighted-average yield on corporate bonds that we calculated using the Moody's Aa Index. As a point of reference, we plot the year-end yield on the U.S. government long bond versus the yield on the Moody's Aa index in Exhibit 28. For those who are curious about the details, we explain how a four-year weighted average yield is calculated in Appendix B.

Exhibit 27: 4-Yr. Wtd. Avg. UST (30 Yr.) Rate Versus 4-Yr. Wtd. Avg. Moody's Aa Corporate Bond Rate



Source: Company data, CSFB estimates.

Exhibit 28: UST (30 Yr.) Rate Versus Moody's Aa Corporate Bond Rate



Source: Company data, CSFB estimates.

Replacing Government Bonds with Corporate Bonds

With the 120% relief set to expire at the end of this year, a number of proposals have been floating around Washington to extend pension funding relief for a few more years, to help companies with severely underfunded pension plans and to provide an additional stimulus to the economy. (Such relief would also be a revenue generator for the government, as most contributions to pension plans are tax deductible.) Earlier this year, meetings about the Pension Preservation and Savings Expansion Act of 2003 from Representatives Rob Portman (R-Ohio) and Ben Cardin (D-Maryland) became so contentious that the capitol police were called in. More recently, Senator Chuck Grassley (R-Iowa) proposed the National Employee Savings and Trust Equity Guarantee, or NESTEG, Act, and Representative John Boehner's (R-Ohio) scaled down Pension Funding Equity Act sailed through the House by a vote of 397-2 on October 8, 2003.

The proposals all have one thing in common—change the discount rate used for funding purposes and replace the yield on the 30-year Treasury bond with a discount rate tied to long-term high-grade corporate bonds. That would result in a higher discount rate, smaller pension obligations, and reduced funding requirements. It would not change the retirement benefits that will eventually be paid to employees; it would, however, delay the timing of when those benefits must be funded.

Our guess when it is all said and done—and what we have worked into our base case forecast—is that by the end of this year, Congress will provide companies with another two years of pension funding relief by temporarily replacing the yield on the 30-year Treasury bond with a discount rate that is tied to a four-year weighted-average yield on high-grade corporate bonds. Congress is also likely to promise to spend the next two years banging their heads together with the PBGC, Treasury Department, and Department of Labor to arrive at a permanent solution. This is the clean and simple approach advocated in the Pension Funding Equity Act that passed through the House last week.

Pension Funding Relief: $18 Billion in Savings in 2004

In Exhibit 29, we compare and contrast our estimates of the contributions that the companies in the S&P 500 will be required to make to their pension plans in 2004 and 2005 under three different scenarios.

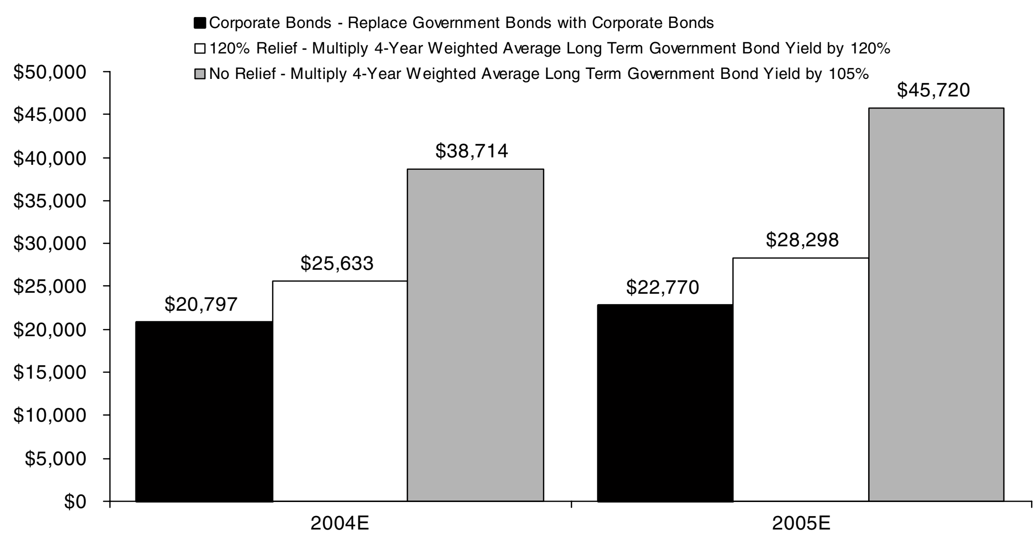
1. *Corporate bonds:* This scenario assumes that pension-funding relief will replace the yield on the U.S. government long bond with a discount rate tied to the four-year weighted-average yield on corporate bonds. In our view, this is the most likely scenario, and it is the one that we use to forecast pension results for the next three years. It would also generate the largest potential savings for companies with defined benefit pension plans. As it is not clear from the proposals exactly which corporate bond yield would be used, we used the yield on the Moody's Aa index as a proxy and calculated a four-year weighted average, which we plot in Exhibit 27.

2. *120% relief.* This scenario assumes that the existing "120%" funding relief is extended for another two years.

3. *No relief.* Our third scenario assumes that the discount rate used for funding purposes reverts back to the old rules, or to 105% of the four-year weighted-average yield on long-term government bonds. This is the most onerous of our three scenarios, as it would require companies to make the largest contributions to their pension plans. In our view, it is a highly unlikely possibility.

Our base case forecast, the corporate bond scenario, assumes that pension funding relief is put in place this year. Under this scenario, we estimate the companies in the S&P 500 will have to contribute $21 billion to their pension plans in 2004, versus $39 billion if the funding requirements were to revert back to the old funding rules (no relief), saving the companies in the S&P 500 from making an additional $18 billion in pension contributions. (Government estimates of the savings from pension funding relief in 2004 are around $26 billion; with the S&P 500 companies accounting for over 60% of corporate defined benefit pension plan assets, our $18 billion in savings or 69% of the government estimate seems to make some sense). The savings grow to $23 billion in 2005 when we estimate $23 billion in contributions, compared with $46 billion under the old rules.

Exhibit 29: S&P 500 Pension Contributions under Three Scenarios
US$ in millions



Source: Company data, CSFB estimates.

There are certain industry groups where the corporate bond based pension funding relief could alleviate a large cash outflow, including the six industries in Exhibit 30 that save over $1 billion in 2004.

Exhibit 30: Industries Estimated to Save over $1 Billion through Funding Relief Based on 2004E Pension Contributions
US$ in millions

Industry	Contribution: No Relief 2004E	Contribution: Funding Relief 2004E	Dollar Savings
Automobiles	$ 4,598	$ 1,325	$ 3,273
Oil & Gas	3,979	2,207	1,772
Machinery	2,165	947	1,218
Aerospace & Defense	1,650	529	1,121
Chemicals	2,047	938	1,109
Electric Utilities	2,247	1,181	1,066

Source: Company data, CSFB estimates.

Some companies would benefit more than others from pension funding relief. The 17 companies in Exhibit 31 could cut their pension contributions in 2004 by over $200 million if the corporate bond scenario is enacted.

Exhibit 31: Companies Estimated to Save over $200 Million through Funding Relief Based on 2004E Pension Contributions
US$ in millions

Company	Ticker	Contribution: No Relief 2004E	Contribution: Funding Relief 2004E	Dollar Savings
General Motors Corp	GM	$ 1,960	$ -	$ 1,960
Ford Motor Co	F	2,577	1,281	1,296
Exxon Mobil Corp	XOM	2,137	1,035	1,102
Du Pont (E I) De Nemours	DD	1,057	358	698
Delta Air Lines Inc	DAL	1,368	774	594
United Technologies Corp	UTX	743	225	517
Delphi Corp	DPH	848	350	498
Caterpillar Inc	CAT	475	-	475
Raytheon Co	RTN	692	257	435
Fedex Corp	FDX	383	-	383
AMR Corp/De	AMR	872	509	363
Exelon Corp	EXC	546	222	324
Intl Paper Co	IP	319	-	319
Electronic Data Systems Corp	EDS	290	-	290
Deere & Co	DE	489	207	282
ChevronTexaco Corp	CVX	716	450	267
ConocoPhillips	COP	564	333	231

Source: Company data, CSFB estimates.

Savings from Funding Relief Versus Cash Flow From Operations

Another way we examine the significance of the potential savings from pension funding relief is to compare the expected cash savings in 2004 to cash flow from operations. We estimate that the 11 industries in Exhibit 32 could save more than 5% of their trailing five-year average cash flow from operations as a direct result of pension funding relief.

Exhibit 32: Industries Saving at least 5% of Average Trailing Five-Year Cash Flow from Ops
US$ in millions

Industry	Savings 2004E	Trailing 5-Yr. Cash Flow From Ops	Percentage
Office Electronics	$ 186	$ 609	31%
Airlines	957	4,491	21%
Auto Components	768	4,171	18%
Machinery	1,218	9,488	13%
Chemicals	1,109	12,924	9%
Aerospace & Defense	1,121	14,413	8%
Automobiles	3,273	44,206	7%
Paper & Forest Products	403	5,787	7%
Air Freight & Logistics	387	6,018	6%
Building Products	63	1,260	5%
Gas Utilities	138	2,984	5%

Source: Company data, CSFB estimates.

The 29 companies in Exhibit 33 could experience savings in excess of 15% of the trailing five-year average of cash flow from operations. To further illustrate this analysis, let's take a look at Hercules (HPC, $10.81, NEUTRAL, Target $14, OVERWEIGHT) as an example. We estimate that without pension funding relief, Hercules would have to contribute $71 million to its pension plan in 2004. However, if pension-funding relief is put in place, we estimate that only a $27 million contribution would be required, saving the company $44 million. The $44 million in savings is 52% of the trailing five-year average of Hercules' cash flow from operations of $85 million. In other words, if the $71 million contribution were required, Hercules would have to devote an additional 52% of its cash flow from operations to meet the pension-funding requirement. Pension funding relief would temporarily relieve part of the burden on the company and temporarily reduce the claim on its cash flows.

Exhibit 33: Companies Estimated to Save at Least 15% of Cash Flow from Operations Due to Pension Funding Relief

Company	Ticker	Contribution: No Relief 2004E	Contribution: Corporate Bond 2004E	$ Savings 2004E	5-Year Average Cash Flow from Operations[1]	Savings as a % of Cash Flow from Ops
Raytheon Co	RTN	$ 692	$ 257	$ 435	$ 527	83%
Tektronix Inc	TEK	36	-	36	46	79%
Delphi Corp	DPH	848	350	498	667	75%
ITT Industries Inc	ITT	249	102	148	219	67%
Hercules Inc	HPC	71	27	44	85	52%
RJ Reynolds Tobacco Hldgs	RJR	239	119	120	242	50%
Navistar International	NAV	271	130	140	299	47%
Coors (Adolph) -Cl B	RKY	143	48	95	228	42%
Thomas & Betts Corp	TNB	26	13	13	32	41%
Cummins Inc	CUM	170	88	81	217	37%
Delta Air Lines Inc	DAL	1,368	774	594	1,853	32%
Xerox Corp	XRX	415	229	186	609	31%
Goodyear Tire & Rubber Co	GT	536	353	183	705	26%
Deere & Co	DE	489	207	282	1,185	24%
Goodrich Corp	GR	122	-	122	533	23%
AMR Corp/De	AMR	872	509	363	1,600	23%
Caterpillar Inc	CAT	475	-	475	2,152	22%
Fedex Corp	FDX	383	-	383	1,908	20%
Monsanto Co	MON	179	108	72	397	18%
Aetna Inc	AET	221	94	127	712	18%
Black & Decker Corp	BDK	68	-	68	384	18%
Maytag Corp	MYG	178	103	75	429	18%
Ball Corp	BLL	110	54	56	329	17%
United Technologies Corp	UTX	743	225	517	3,044	17%
Boise Cascade Corp	BCC	134	60	74	438	17%
Intl Paper Co	IP	319	-	319	1,927	17%
Du Pont (E I) De Nemours	DD	1,057	358	698	4,462	16%
Exelon Corp	EXC	546	222	324	2,129	15%
Electronic Data Systems Corp	EDS	290	-	290	1,935	15%

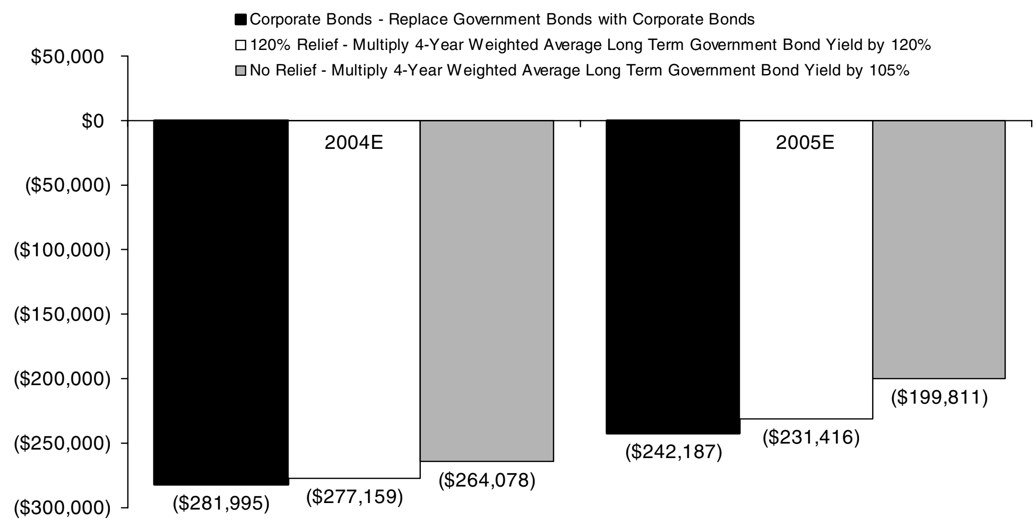
[1] *Based on 5-year trailing average.*

Source: Company data, CSFB estimates.

Less Contributions, Pension Plans Get Weaker

Clearly, if companies put less into their pension plans, the health of the plans will suffer. Exhibit 34 illustrates our estimates of the impact each of our three scenarios would have. Under the old funding rules—i.e., no relief—defined benefit pension plans in the S&P 500 would move from $225 billion underfunded at the end of 2002 to $200 billion underfunded, or 85% funded, at the end of 2005. On the other hand, if the proposed pension funding relief were enacted, the plans would be $242 billion underfunded at the end of 2005, or only 82% funded.

Exhibit 34: S&P 500 Pension Plan Funded Status under Three Scenarios
US$ in millions



Source: Company data, CSFB estimates.

Where Do We Go from Here?

Senator Grassley's version of pension funding relief is not as simple as that passed by the House. With little time left to provide companies with relief for 2004, we think that the Senate will scale back its plan and choose the simple approach passed by the House. Senator Grassley's bill does have some similarities to the House version. It also calls for a change in the discount rate used for funding purposes, replacing the long bond with a four-year weighted-average yield on high-grade corporate bonds; however, it provides the relief over three years instead of two.

So what happens in two years when this next round of pension funding relief expires? We think Senator Grassley's bill gives us an indication as to where the discount rate used for funding purposes may be headed—a permanent solution that begins in 2006 to phase in the yield curve approach backed by the Bush Administration and the PBGC. The yield curve approach requires that the pension obligation be determined using discount rates that are derived from current rates on high-quality corporate bonds, not a smoothed four-year average on long-term corporate bonds. The rates used would be obtained from a corporate bond yield curve that will be established by the Treasury Department. How would a company know which point to pick on the yield curve? That would depend upon when the future pension benefits are to be paid. Using a very simple example, if 50% of the pension obligation is due in five years and 50% is due in 15 years, the discount rate would be a weighted average based half on the current yield on five-year corporate bonds and half on the current yield on 15-year corporate bonds. Grassley's bill would transition from the four-year weighted-average yield on long-term corporate bonds to the yield curve approach by 2011; the Administration would prefer that the yield curve approach be fully phased in by 2008.

According to the Administration's proposal, "Using the yield curve is essential to match the timing of future benefit payments with the resources necessary to make the payments." We agree it is the economically correct way to price the obligation. The only problem with this approach is that it would hurt the companies that the funding relief is designed to help the most—those with the largest pension problems, the old-line companies with lots of retirees. A large portion of retirees and older workers in the pension plan results in a shorter-term obligation. Therefore, under a yield curve approach, the shorter end of the yield curve would be used to set the discount rate. Assuming a normal upward sloping yield curve, that would result in a lower discount rate, a larger pension obligation, and increased funding requirements. That's the reality for these companies: They have an obligation that is coming due in the near future. If they don't step up and fund it, you and I will be bearing that cost when the government has to step in and bail out the PBGC.

There is one other twist to Grassley's NESTEG bill that attempts to make the yield curve approach a bit more palatable. For companies that were not required to make additional contributions to their pension plans during 2000, it allows an exemption from making additional contributions to their plans for the next three years. A required additional contribution to the pension plan in 2000 would have been based on the funded status of the pension plan at the end of 1999, which was the best year on record for defined benefit pension plans. Owing to the height of the technology bubble and a roaring bull market, the pension plans for the companies in the S&P 500 were $250 billion overfunded at the end of 1999. In other words, not many companies had to make additional contributions to their pension plans in 2000; in fact, all the companies in the S&P 500 contributed only $16 billion to the plans in 2000.

For a more detailed discussion on pension funding requirements, please see our September 27, 2002, report, *The Magic of Pension Accounting*.

Fixing Pension Accounting—A Small Step

In 1985, with the issuance of FAS No. 87, *Employers Accounting for Pensions*, the FASB recognized that it was taking a significant step—although not the final step—in the evolution of good pension accounting. Investor complaints are rising, including our own; we think FAS No. 87 is confusing and misleading. Even the FASB chairman has described the smoothing mechanisms in pension accounting as Rube Goldberg like and views FAS No. 87 as a "prime example of bad accounting."

Back in March, the FASB decided to take a small step toward fixing pension accounting by adding a limited scope project to its agenda to improve disclosures. Another small step was taken by the FASB on September 12, 2003, when it issued an exposure draft, *Employers' Disclosure about Pensions and Other Postretirement Benefits*, containing the FASB's proposed changes to pension and other postretirement disclosures. (See our September 30, 2003, report, *OPEB: The "Other" Retirement Benefits*, for a further discussion of other postretirement plans). The board expects to have this project wrapped up by the end of the year so that companies will be required to provide new pension disclosures in their 2003 10-Ks.

What Is the FASB Proposing?

We believe the pension footnote is one of the better footnotes in the financial statements (strange but true) because it provides consistent, useful information across companies. Then why has the FASB taken on a project to improve it? To provide investors with some key pieces of information that are currently missing. We have mixed feelings about the FASB proposal. Although we think many of the new disclosures will be useful to investors, we would like to see some additional disclosures that have not been proposed, while the FASB is planning to remove some existing disclosures that we find extremely useful. Our thoughts on the proposal follow. If you feel strongly in favor or against the FASB's proposal, let it know by sending an email to director@fasb.org. The exposure draft is available on the FASB web site (http://www.fasb.org/draft/ed_pension_disclosures.pdf) and the comment period ends October 27, 2003.

What We Like

Starting with the good news, we think some of the FASB proposals will improve pension disclosures from an investor's perspective; including a few items that were on our wish list:

- Pension plan asset allocation.
- The accumulated benefit obligation.
- Schedule of estimated benefit payments.
- Expected contributions to the pension plan by the sponsoring company.
- Pension information on a quarterly basis.
- Better information on the assumptions.

Now for a little color on some of these new disclosures:

Pension Plan Asset Allocation

Information on asset allocations has been sorely missing from the pension footnote. Investors were forced to rely on various surveys that attempted to gather this information. The proposal would provide investors with a better indication of how much risk a company is taking on in its pension plan, whether the much criticized expected return assumption makes sense, and whether the appropriate type of assets are available to match up against the pension obligation. The FASB is proposing that for each major asset class in the pension portfolio (i.e., equities, fixed income, real estate, etc.) the company provide three new pieces of information:

1. The percentage of pension plan assets invested in each asset class based on the fair value of the plan assets at the pension plan year-end,
2. The target asset allocation for each asset class, and
3. The expected rate of return for each asset class,

Exhibit 35 provides an example of this new disclosure.

Exhibit 35: Disclosing Asset Allocation—Example from FASB Exposure Draft

Plan Assets

Company A's pension plan asset allocation at December 31, 20X2, and 20X3, target allocation for 2004, and expected long-term rate of return by asset category are as follows:

Asset Category	Target Allocation 20X4	Percentage of Plan Assets at December 31 20X3	Percentage of Plan Assets at December 31 20X2	Weighted-Average Expected Long-Term Rate of Return—20X3
Equity securities	40–60 %	50 %	48 %	8.50%
Debt securities	25–40	30	31	5.00%
Real estate	5–15	10	12	10.00%
Other	5–15	10	9	12.50%
Total		100 %	100 %	8.00%

Equity securities include Company A common stock in the amounts of $80 million (4 percent of total plan assets) and $64 million (6 percent of total plan assets) at December 31, 20X3, and 20X2, respectively.

The maturities of debt securities at December 31, 20X3, range from 1 to 4 years with a weighted-average maturity of 2.5 years. The maturities of debt securities at December 31, 20X2, range from 1 to 5 years with a weighted-average maturity of 3 years.

Source: Financial Accounting Standards Board, Employers' Disclosures about Pensions and Other Postretirement Benefits—Exposure Draft.

For the fixed income portion of the portfolio, the FASB proposes that companies provide additional disclosures about the range of maturities and the weighted-average maturity, as illustrated in Exhibit 35.

Schedule of Estimated Benefit Payments

Another piece of useful disclosure proposed by the FASB is a schedule of estimated future benefit payments used to determine the pension obligation. Remember, the pension obligation represents the promise to pay retirement benefits to employees in the future. It is the present value of all the future retirement benefits earned and not yet paid to date.

The FASB proposes that companies provide their estimated pension benefit payments over the next five years and the total benefits to be paid thereafter. This disclosure would give investors a sense as to how much of the pension obligation is coming due over the next five years. That coupled with the asset allocation information would allow investors to better determine if the company has the right mix of assets to meet its pension obligation.

Exhibit 36 is an illustration of this new disclosure.

Exhibit 36: Disclosing Benefit Payments—Example from FASB Exposure Draft

Benefit Payments	**Pension Benefits**
20X2	$ 114
20X3	125
Estimated Future Payments	
20X4	$ 200
20X5	208
20X6	215
20X7	225
20X8	235
Therafter	5,174
Total undiscounted payments	6,257
Less discount for interest	(3,980)
Benefit obligations	2,277

Source: Financial Accounting Standards Board, Employers' Disclosures about Pensions and Other Postretirement Benefits—Exposure Draft.

Company Contributions

Defined benefit pension plans get so much attention from investors because they affect cash flow, and therefore valuation. The most popular question we hear from investors is, "When will companies have to fund their pension plans?" To help answer this question, at least in the short term, the FASB proposes that companies with defined benefit pension plans disclose the amount of contributions they expect to make to the pension plan during the next fiscal year. That amount would then be broken down into three parts: (1) the amount contributed to meet the funding requirements, (2) any voluntary contributions, and (3) the amount and description of any noncash contributions to the plan (i.e., stock, hard assets, etc.).

Exhibit 37 provides an example of this new disclosure.

Exhibit 37: Disclosing Contributions—Example from FASB Exposure Draft

Cash Flows

Employer Contributions	**Pension Benefits**
20X2	$ 100
20X3	75
20X4 (expected)	125

Of the $125 million expected to be contributed to the pension plans during 20X4, $80 million is estimated to be needed to satisfy minimum funding requirements, and an additional $45 million is expected to be contributed at Company A's discretion. The Company anticipates that the contributions will comprise $110 million in cash and $15 million of Company A common stock.

Source: Financial Accounting Standards Board, Employers' Disclosures about Pensions and Other Postretirement Benefits—Exposure Draft*.*

Pension Information on a Quarterly Basis

The wonderful information in a pension footnote is only made available to investors once a year. The FASB wants to change that. The FASB proposes that companies provide information about their pension plans on a quarterly basis. No, they would not be forced to add the entire pension footnote. Instead, companies would have to break out net pension cost into its various components and disclose any contributions to pension plans that were significantly different from those estimated in their year-end disclosures.

Exhibit 38 is an example of this new disclosure.

Exhibit 38: Quarterly Disclosures—Example from FASB Exposure Draft

Components of Net Periodic Benefit Cost

Three months ended March 31

	Pension Benefits	
	20X4	**20X3**
Service cost	$35	$19
Interest cost	38	23
Expected return on plan assets	(41)	(21)
Amortization of prior service cost	7	5
Amortization of net (gain) loss	2	0
Net periodic benefit cost	$41	$26

Employer Contributions

Company A previously disclosed in its financial statements for the year ended December 31, 20X3, that it expected to contribute $125 million to its pension plan, of which $80 million is estimated to satisfy minimum funding requirements, and an additional $45 million is expected to be contributed at Company A's discretion. The contributions are expected to comprise $110 million in cash and $15 million of Company A common shares. As of March 31, 20X4, $20 million of the cash contributions have been made. Company A presently anticipates contributing $15 million in cash, in addition to the $125 million previously expected, to fund its pension plan.

Source: Financial Accounting Standards Board, Employers' Disclosures about Pensions and Other Postretirement Benefits—Exposure Draft*.*

Assumptions

One area of the pension footnote that we find confusing is the assumptions. In particular, to which period do the assumptions apply? For example, in a typical pension footnote the discount rate disclosed for the current year is the rate used to determine the end-of-year pension obligation; however, the discount rate from the prior year is used to determine the interest cost and service cost, which are both parts of the current year's net pension cost reported in the income statement. To alleviate this confusion, the FASB proposes that companies present their pension assumptions in two tables, describing (1) the assumptions used to determine the pension obligation and (2) the assumptions used to determine net pension cost.

Exhibit 39 illustrates an example of this new disclosure.

Exhibit 39: **Disclosing Assumptions—Example from FASB Exposure Draft**

Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31,

	Pension Benefits	
	20X3	**20X2**
Discount rate	6.75 %	7.25 %
Rate of compensation increase	4.25	4.50

Weighted-average assumptions used to determine net cost for years ended December 31,

	Pension Benefits	
	20X3	**20X2**
Discount rate	7.25 %	7.50 %
Expected return on plan assets	8.00	8.50
Rate of compensation increase	4.50	4.75

Source: Financial Accounting Standards Board, Employers' Disclosures about Pensions and Other Postretirement Benefits—Exposure Draft.

What We Don't Like

The FASB proposes to get rid of the reconciliation of the pension plan assets and PBO. One of the reasons we think the pension footnote is among the best in the financial statements is that it provides consistent information across companies. Take a look at one pension footnote and compare it with another and they will be virtually the same. By removing the reconciliation, the FASB would eliminate some consistency and some key pieces of information.

For example, the FASB proposes that companies disclose total pension benefits paid; however, it does not propose that the benefits paid out of plan assets be disclosed. Therefore, without the reconciliation, it would be impossible to determine if a company is paying a portion of its pension benefits from corporate cash flows. That is easily determined from the existing disclosures by comparing the benefits paid from the reconciliation of pension plan assets with the benefits paid from the reconciliation of the PBO. For most pension plans, this is not currently a significant issue, as only $1 billion of the $83 billion in total pension benefits paid during 2002 for the companies in the S&P 500 was paid from corporate cash flows. However, it is a big deal for the other retirement benefit (OPEB) plans, as $10 billion of the $23 billion in OPEB benefits paid during 2002 by the companies in the S&P 500 was paid directly from corporate cash flow.

Another piece of information that could evaporate by taking away the reconciliation is the actuarial gains and losses on the pension obligation. 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 these assumptions would change the value of the PBO. For example, as the PBO is a present value calculation, a decline in the discount rate would cause the PBO to rise in value; an increase in the value of the pension obligation would result in an actuarial loss for the sponsoring company. In other words, actuarial gains and losses are changes in the pension obligation's fair value as a result of changing actuarial assumptions. One way to measure how well the pension plan asset allocation is working is to compare the actual return on plan assets with the actuarial gains and losses on the PBO. If the pension plan assets decline in value at the same time the PBO is growing due to actuarial losses, investors could question whether a pension plan has properly matched its assets to its pension obligation. Without the reconciliation, it would be impossible to perform this type of analysis, leaving investors wondering what caused the pension assets and PBO to move up or down.

The FASB has not provided any solid rationale for removing this useful disclosure and three board members are against it. We hope the FASB comes to its senses and retains what we believe is useful information to investors.

What's Missing?

Each company with a defined benefit pension plan could apply pension accounting a bit differently, making some companies' earnings much more sensitive to pension plans than others. Some of the items that provide companies with flexibility include the amortization period used for recognizing unrecognized gains and losses; the use of the fair value of plan assets or a smoothed calculated value to determine the expected return; and, if a calculated value is used, over what period are gains and losses smoothed. In Appendix D, we demonstrate how sensitive results can be to these small variations in pension accounting. We were able to make that demonstration because Honeywell was kind enough to provide additional information about its pension plan in the Management Discussion and Analysis (MD&A) section of its 10-K. Otherwise investors are left in the dark. We drew up a wish list of items that the FASB has left out of the exposure draft that we think would further enhance pension footnote disclosures:

- Is the expected return based on the fair value of plan assets or the calculated value of plan assets?
- If the calculated value is used, over what period are gains and losses smoothed?
- What amortization period is used to recognize unrecognized gains and losses?
- Where is pension cost on the income statement, and the amounts? Is it under cost of goods sold, SG&A, R&D, etc.? Three board members agree this would be useful disclosure and easy for companies to provide.
- A sensitivity analysis for the expected return, discount rate, and salary inflation assumptions. For example, what happens to pension cost if each of the assumptions moves up or down 100 basis points?

The SEC staff has also encouraged companies to beef up pension disclosures in the Management Discussion and Analysis (MD&A) section of their annual filings. We suggest that investors take a look there for additional information about the pension plan, including information about the impact on pension cost of recognizing previously unrecognized gains or losses, whether the expected return was based on the fair value or the calculated value of plan assets, and details on the sensitivity of pension cost to changes in expected return assumptions.

Fixing Pension Accounting

Give the FASB a few years and pension accounting could look very different than it does today. The board has chosen to tackle pension accounting by first going after the low-hanging fruit (i.e., providing investors with additional disclosures).

After it has grabbed the low-hanging fruit, the FASB could attack pension accounting by trying to put the pension plan assets and obligation on the balance sheet—with changes in each going through earnings—similar to our methodology described in *The Magic of Pension Accounting, Part I*. However, after hearing company complaints about earnings volatility, we think the FASB could once again come to a compromise, requiring companies to report the funded status of the pension plan on the balance sheet as an asset for an overfunded plan and as a liability for an underfunded plan. On the income statement, the FASB will probably end up asking companies to run service cost through operating income and interest cost through interest expense, and to take the actual returns on the pension plan assets and changes in the pension obligation due to changes in actuarial assumptions and run them through other comprehensive income as part of shareholders' equity.

Continued complaints from investors, controversial smoothing mechanisms, meaningless amounts on the balance sheet, a chairman that dislikes the accounting and the IASB potentially changing pension accounting may force the FASB to take the final step toward fixing pension accounting, finally, requiring that the real economics of the pension plan be reported in the financial statements, not tucked away in a footnote.

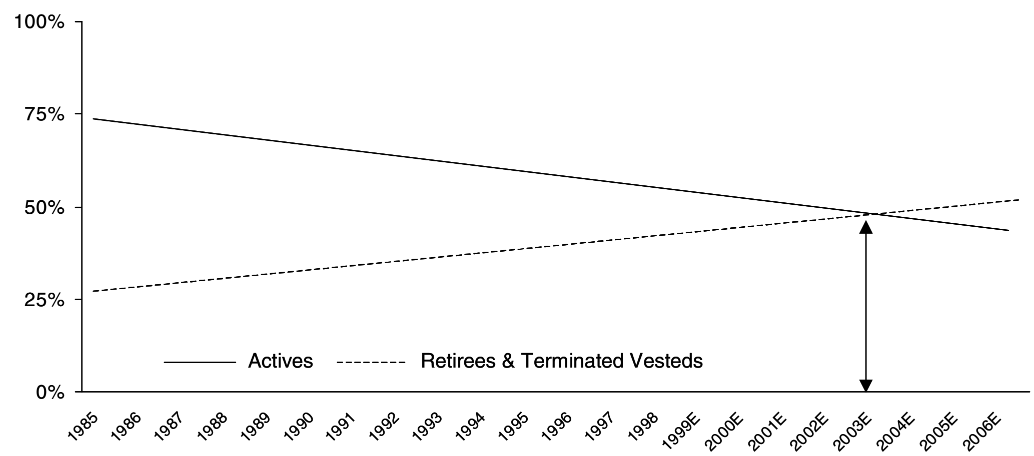
Pension Pressure on the Stock Market

From a macro perspective, there are potential trends faced by defined benefit pension plans that could exert downward pressure on the stock market. You may wonder whether or not defined benefit pension plans are large enough to have an effect on the market? Haven't many companies phased them out in favor of defined contribution plans? Yes, they have; however, defined benefit pension plans still have a large presence in the United States, comprising almost $4 trillion in total assets and split between corporate plans, at $1.6 trillion, and public (state, local, etc.) plans, at $2.1 trillion. As a point of reference, the total market cap of the companies in the Wilshire 5000 as of September 30, 2003 was $11.7 trillion. With current asset allocations generally around 65% equities and 35% fixed income, several potential trends lead us to believe that the 65% equity asset allocation could shrink over time, shifting toward fixed income, which would bode well for the bond market but poorly for the stock market. Those potential trends include:

- For arguments' sake, let's assume that over the next few years the stock market outperforms significantly and interest rates rise. We find ourselves with healthy pension plans once again, and the companies with these plans breathe a collective sigh of relief. To avoid the pension plan roller-coaster ride that they have taken since 1999, they may decide to change asset allocations to try and better match the pension plan assets with the pension obligations. Since a pension obligation has fixed income characteristics, such an allocation shift could involve a heavier dose of fixed income assets in the portfolios, or these companies could try to immunize their plans so they don't have to go through the pain and turmoil of past few years, as pension obligations grew and pension plan assets shrank.
- The PBGC has discussed instituting a risk-based premium that would be based on a pension plan's asset allocation. A pension plan with a riskier asset allocation (i.e., heavy equity allocation) would be charged a higher premium than a pension plan with a more conservative asset allocation (i.e., high proportion of fixed income assets). That would make it more expensive for a company to continue allocating a large portion of its pension plan toward equities.
- Minimizing If the FASB ever gets around to fixing pension accounting—finally requiring that the real economics of a pension plan be reported in the financial statements, not tucked away in a footnote—more of the pension plans' volatility could find its way onto financial statements. One potential way to minimize that volatility is to better match pension plan assets with pension obligations. That could involve fewer equities in pension portfolios and more fixed income.
- If the IRS ever provides a set of criteria that would allow companies to switch to cash balance plans so that the conversion is not age discriminatory, we could see more companies choose this type of pension plan. A cash balance plan is a type of defined benefit pension plan in which the benefit is defined in terms of a cash balance. That cash balance typically grows each year with a pay credit (a percentage of a worker's salary) and an interest credit (generally tied to Treasury yields—for example, the U.S. government long bond). If these plans became popular, we could see a shift toward fixed income assets in pension plans that would better match the returns promised to employees.

- If the government institutes the yield curve approach for determining the pension obligation for funding purposes (which we describe in the "Funding Relief" section), pension funding would become dependent upon the current yield on high-grade corporate bonds. To minimize the required contributions to pension plans, companies with defined benefit pension plans could shift their asset allocations toward high-grade corporate bonds so that the plan assets move in step with the pension obligations. That could cause a shift in pension portfolios away from equities.
- Demographic trends could cause a shift in asset allocation by defined benefit pension plans. As the population ages, pension obligations become shorter term, requiring pension plans to shift from equity to fixed income assets to provide for pension benefits that have suddenly become current liabilities. As Exhibit 40 shows, the Department of Labor estimates that retirees now outnumber active employees in U.S. defined benefit pension plans.

Exhibit 40: Participants in Defined Benefit Pension Plans from 1985 to 2006E
US$ in billions



Source: U.S. Department of Labor; Pension and Welfare Benefits Administration; Abstract of 1998 Form 5500 Annual Reports, Winter 2001-2002.

- As some companies have transitioned away from defined benefit pension plans for younger workers, the majority of their pension plans are associated with older workers and retirees. Here, once again, pension obligations become shorter term, potentially causing a shift in asset allocation away from equities toward fixed income.

Additional Analysis

As much of the focus in this report has been forward looking, we decided to use this section to quickly pull together some analysis of historical results, updated to include 2002 data. The exhibits in this section generated a high level of investor interest when we put out our first pension report in September 2002. This section of the report should provide some reading material between innings of the upcoming Yankees/Cubs World Series. If you are looking for other charts or tables that we ran in the first report and have not included in Part II, give us a call and we can run them for you.

Three Steps to Strip Out Accounting Magic

If the funded status of the pension plans were reported on the balance sheet, equity would *decline* by 5% or more for 146 companies in the S&P 500, including the 23 companies in Exhibit 41, whose equity would drop by 25% or more. Note that equity would fall by more than half for 11 companies and would be wiped out for Maytag (MYG, $27.44, NEUTRAL, Target $25, MARKET WEIGHT) and AMR (AMR, $14.64, OUTPERFORM [V], Target $18, MARKET WEIGHT).

Exhibit 41: Reporting Funded Status Reduces Equity by 25% or More
US$ in millions

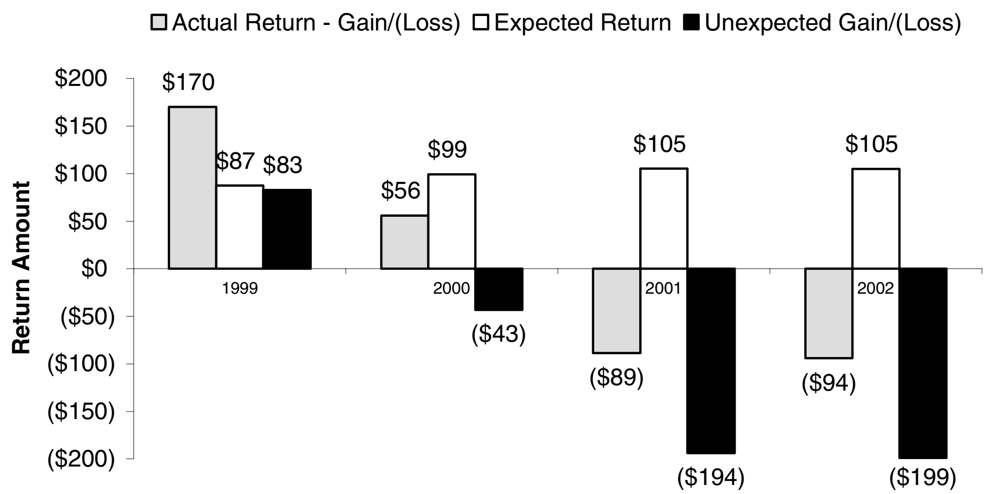
Company	Ticker	Total Equity	Reduction	Adjusted Equity	% Decrease
Maytag Corp	MYG	$ 42	$ (152)	$ (110)	360%
AMR Corp/De	AMR	957	(1,132)	(175)	118%
Ford Motor Co	F	5,590	(5,255)	335	94%
General Motors Corp	GM	6,814	(6,233)	581	91%
Delta Air Lines Inc	DAL	1,157	(999)	158	86%
Colgate-Palmolive Co	CL	350	(277)	73	79%
Goodyear Tire & Rubber Co	GT	651	(488)	163	75%
American Standard Cos Inc	ASD	230	(166)	64	72%
Boeing Co	BA	7,696	(4,635)	3,062	60%
Delphi Corp	DPH	1,279	(709)	571	55%
Intl Business Machines Corp	IBM	22,782	(11,730)	11,052	51%
United States Steel Corp	X	2,027	(942)	1,085	46%
Lockheed Martin Corp	LMT	5,865	(2,702)	3,163	46%
NCR Corp	NCR	1,325	(545)	780	41%
Pitney Bowes Inc	PBI	853	(341)	512	40%
Xerox Corp	XRX	2,401	(880)	1,521	37%
Allegheny Technologies Inc	ATI	449	(140)	308	31%
Kellogg Co	K	895	(278)	617	31%
Donnelley (R R) & Sons Co	DNY	915	(265)	649	29%
Eastman Kodak Co	EK	2,777	(773)	2,004	28%
Navistar International	NAV	251	(67)	184	27%
Whirlpool Corp	WHR	739	(195)	544	26%
Ball Corp	BLL	493	(124)	369	25%

Source: Company data, CSFB estimates.

Unexpected Returns

The net actual loss on defined benefit pension plan assets for the S&P 500 was $94 billion during 2002; 340 companies experienced an actual loss on plan assets and only 16 companies had a gain. However, through the magic of pension accounting, S&P 500 companies collectively recognized $105 billion of income during 2002 in the form of the *expected* return on plan assets. In other words, the companies expected to see their pension plan assets increase by $105 billion. Instead, they actually declined by $94 billion, creating an *unexpected* loss of $199 billion. In 2001, the net actual loss on plan assets was $89 billion (315 companies had a loss and 36 had a gain); however, the expected return was $105 billion, resulting in an *unexpected* loss of $194 billion. In 1999, defined pension plans in the S&P 500 produced an unexpected gain of $83 billion based on an actual return of $170 billion versus an $87 billion expected return. Exhibit 42 compares the aggregate actual and expected returns for the S&P 500.

Exhibit 42: Actual versus Expected Return Dollar Amounts
US$ in billions



Source: Company data, CSFB estimates.

EV/EBITDA Analysis

We adjust the EBITDA for the last fiscal year by 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 2002 historical results would rise from about 10.9 times to 11.3, an increase of approximately 4%.

- The EV/EBITDA multiple would increase by at least 10% for the 12 industry groups in Exhibit 43. The implication of this adjustment is simple: Investors may not always be getting what they think they're paying for.

Exhibit 43: Industry EV/EBITDA Multiples Rising over 10% Due to Adjustments

Industry	EV / EBITDA	Adjusted EV / EBITDA	% Change in Multiple
Aerospace & Defense	8.63x	11.27x	31%
Auto Components	4.10x	5.20x	27%
Automobiles	7.56x	8.42x	11%
Chemicals	9.92x	11.28x	14%
Communications Equipment	25.05x	28.89x	15%
Computers and Peripherals	12.17x	13.88x	14%
Construction and Engineering	5.53x	7.42x	34%
Containers and Packaging	9.76x	10.91x	12%
Leisure Equipment & Products	6.34x	7.30x	15%
Machinery	10.62x	11.78x	11%
Office Electronics	6.78x	7.42x	10%
Paper & Forest Products	8.74x	9.59x	10%

Source: Company data, CSFB estimates.

- The EV/EBITDA multiple would increase by 10% or more for 71 companies; 20% or more for 30 companies; and more than 30% for the 18 companies in Exhibit 44.

Exhibit 44: Company EV/EBITDA Multiples Rising over 30% Due to Adjustments

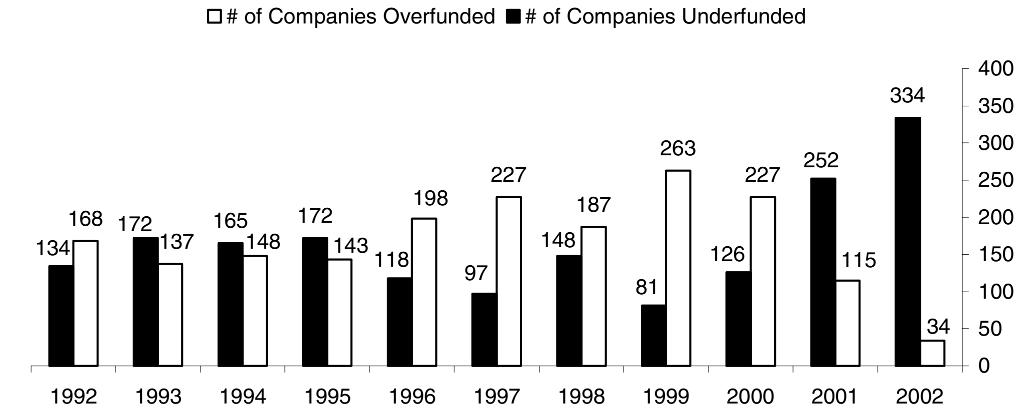
Company	Ticker	EV / EBITDA	Adjusted EV / EBITDA	% Change in Multiple
Delta Air Lines Inc	DAL	38.68x	106.40x	175%
Avaya Inc	AV	4.35x	11.11x	155%
Allegheny Technologies Inc	ATI	14.51x	34.42x	137%
NCR Corp	NCR	3.93x	7.36x	87%
Circuit City Str Crct Cty Gp	CC	0.25x	0.45x	80%
Unisys Corp	UIS	5.36x	9.45x	76%
Delphi Corp	DPH	3.17x	5.14x	62%
Lockheed Martin Corp	LMT	11.01x	16.84x	53%
Boeing Co	BA	7.17x	10.72x	49%
Pactiv Corp	PTV	7.46x	10.97x	47%
United States Steel Corp	X	5.04x	7.24x	44%
Northrop Grumman Corp	NOC	13.50x	18.86x	40%
Raytheon Co	RTN	9.74x	13.43x	38%
ITT Industries Inc	ITT	8.56x	11.56x	35%
AON Corp	AOC	3.24x	4.36x	35%
Visteon Corp	VC	1.66x	2.23x	34%
Goodyear Tire & Rubber Co	GT	4.99x	6.63x	33%
Cigna Corp	CI	2.96x	3.91x	32%

Source: Company data, CSFB estimates.

Funded Status

Exhibit 45 shows the number of companies in the S&P 500 with either over- or underfunded defined benefit pension plans at the end of 2002.

Exhibit 45: Number of Companies with Over/Underfunded Defined Benefit Pension Plans



Source: Company data, CSFB estimates.

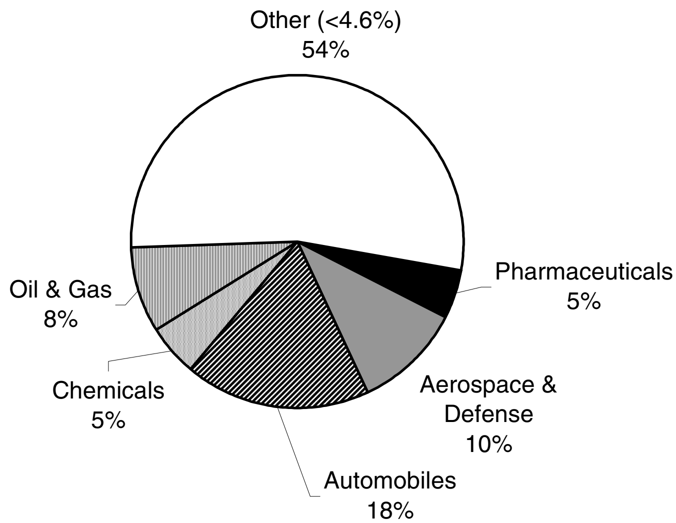
Key Observations

- Fewer companies were underfunded in 1999 than at any other time in the last 11 years. However, since 1999 the pendulum has swung in the opposite direction; the number of underfunded companies has more than quadrupled, from 81 to 334, leaving us at the end of 2002 with the largest number of underfunded companies in the last 11 years. In other words, 91% 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 263 overfunded pension plans at the end of 1999, the highest in the last 11 years, to only 34 companies overfunded at the end of 2002, the lowest number in the last 11 years.

Underfunded

Of the 59 different industry groups within the S&P 500, 52 were underfunded. The total amount underfunded for these groups was $228 billion at the end of 2002. In Exhibit 46, we see that five industry groups accounted for 46% of the total underfunded amount, which is less concentrated than last year when five industry groups accounted for 70% of the total underfunding. This year, Chemicals replaces Airlines. Exhibit 46 breaks out the amount underfunded for each industry as a percentage of the $228 billion underfunded.

Exhibit 46: 2002 Breakout of Underfunded Industries as a % of $228 Billion Total



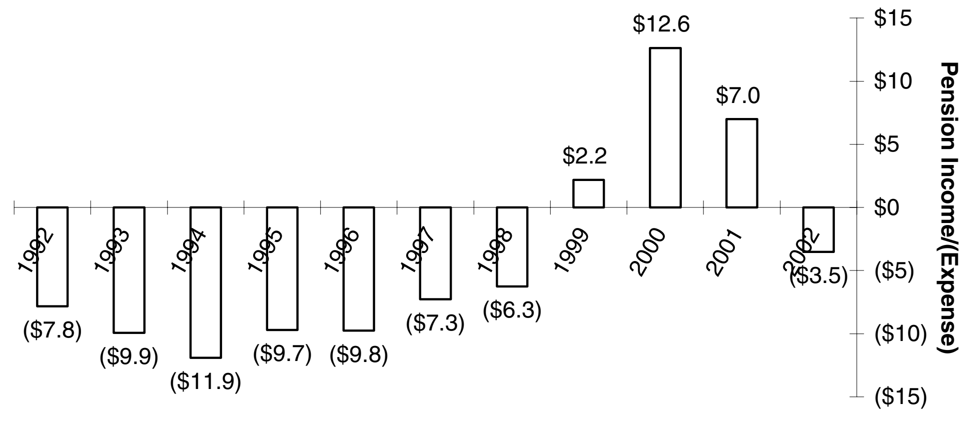
Source: Company data, CSFB estimates.

Note that only three industry groups in the S&P 500 were overfunded at the end of 2002—Diversified Telecom Services, Industrial Conglomerates, and Specialty Retail. Collectively, these three industry groups were $3 billion overfunded.

Quality of Earnings

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. The tide shifted once again in 2002 as the companies in the S&P 500 reported net pension expense of $3.5 billion. Exhibit 47 shows the evolution of total pretax net pension cost over the past 11 years.

Exhibit 47: Pretax Net Pension Cost for the S&P 500
US$ in billions



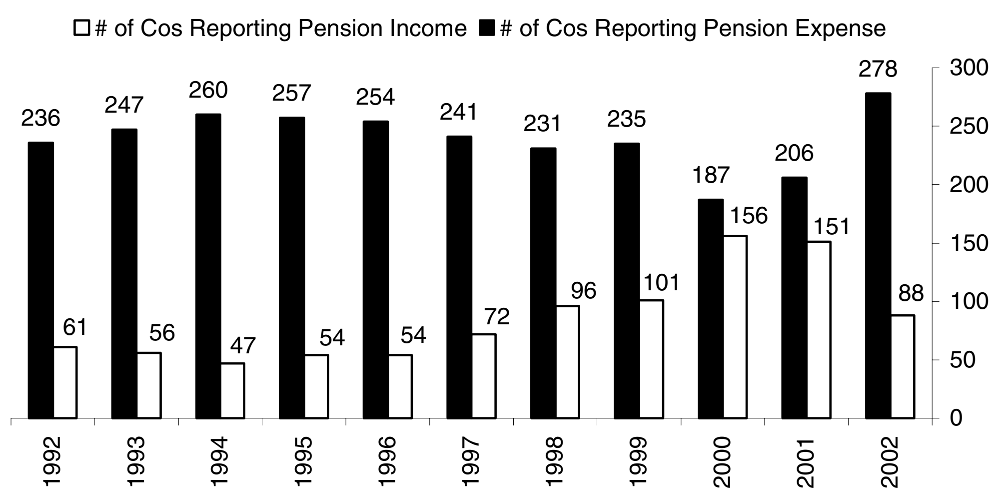
Source: Company data, CSFB estimates.

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 48 breaks out the number of companies in the S&P 500 reporting pretax net pension income/(expense) over each of the last 11 years. As the chart shows, the number of companies reporting pretax net pension income had more than tripled, from 47 in 1994 to 151 in 2001. Then in 2002, only 88 companies reported pretax net pension income, totaling $12 billion, while pretax net pension expense amounted to $16 billion for 278 companies.

Exhibit 48: Breakout of Companies Reporting Pretax Net Pension Income/(Expense)



Source: Company data, CSFB estimates.

Net Income

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

For each company 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 21 companies in Exhibit 49 relied on pension income for 10% or more of their net income in 2002. In 2002, 88 companies reported pension income, while 278 companies reported pension expense.

Exhibit 49: **Companies Deriving at Least 10% of 2002 Net Income from After-Tax Pension Income**

		% of Net Income from Pensions		
Company	**Ticker**	**2002**	**2001**	**2000**
Prudential Financial Inc	PRU	100%	N/M	73%
American Electric Power	AEP	89%	4%	10%
Unisys Corp	UIS	42%	N/M	37%
NCR Corp	NCR	38%	36%	45%
Pactiv Corp	PTV	32%	45%	62%
Weyerhaeuser Co	WY	29%	43%	15%
Consolidated Edison Inc	ED	24%	29%	24%
Verizon Communications	VZ	24%	204%	21%
Bellsouth Corp	BLS	20%	20%	11%
Lockheed Martin Corp	LMT	20%	291%	N/M
Textron Inc	TXT	18%	38%	20%
Peoples Energy Corp	PGL	17%	13%	29%
Intl Paper Co	IP	17%	N/M	18%
AT&T Corp	T	16%	N/M	11%
Intl Business Machines Corp	IBM	15%	12%	10%
Stanley Works	SWK	14%	18%	6%
Eastman Kodak Co	EK	13%	147%	6%
Boeing Co	BA	11%	21%	13%
Norfolk Southern Corp	NSC	11%	21%	6%
FPL Group Inc	FPL	10%	9%	10%
SBC Communications Inc	SBC	10%	13%	9%

Source: Company data, CSFB estimates.

Prudential Financial (PRU, $38.07, OUTPERFORM, Target $40, MARKET WEIGHT) would not have reported net income in 2001 had after-tax net pension income been excluded from earnings. For example, Prudential reported $257 million of after-tax net pension income in 2002 and net income of $256 million. Prudential's net income would drop 100% if we stripped after-tax net pension income out of net income.

Analysis of Assumptions

With a defined benefit pension plan, the company has entered into an obligation for which 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 too high. Note that we used the median rate for companies that provide a range of assumptions in the pension footnote. (See Appendix G for the assumptions used by companies in the S&P 500 during 2002 and 2001.)

Expected Rate of Return on Plan Assets

The combination of a declining stock market, fixed income yields remaining at historical lows, and investor pressure were enough for many companies to start ratcheting down their expected return assumptions for 2003. Add on SEC and auditor pressure and it looks like we won't be seeing too many return assumptions north of 9% in the near future.

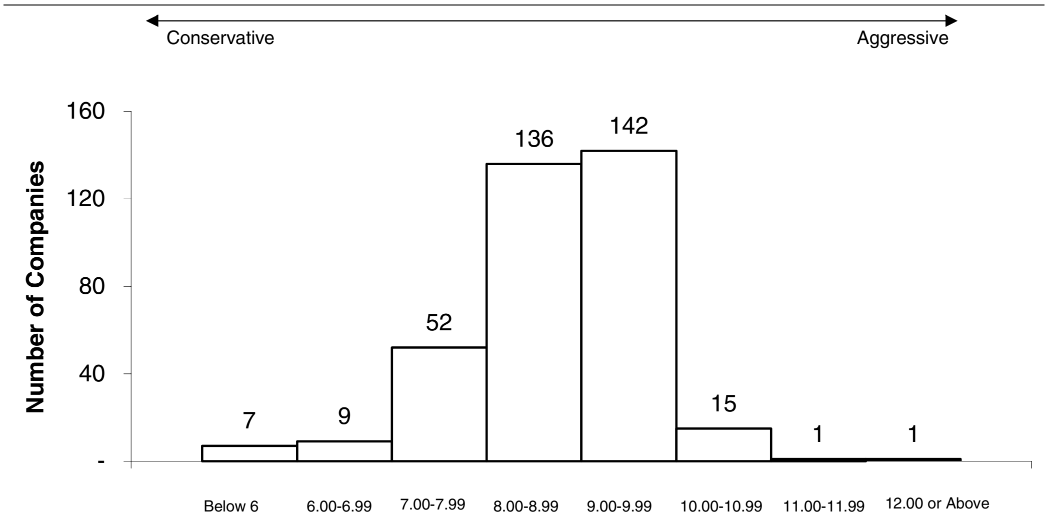
SEC officials and other accounting bigwigs met last December for the 30th Annual AICPA National Conference on Current SEC Developments. Along with a variety of other topics, pension accounting was on the agenda. The SEC staff urged companies to pay close attention to their expected return assumptions, indicating that the SEC could challenge anything over 9%. The SEC staff made clear the range in which it believes expected return assumptions should fall by highlighting a study from 1926 through the third quarter of 2002 that indicated 10% and 6% historical average annual returns on equity and fixed income portfolios, respectively.

The expected rate of return assumption is supposed to be a long-term concept (ten-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 the mix of plan assets. As a starting point, the SEC indicated that companies should use historical returns of similarly allocated portfolios.

The median expected rate of return assumption for the S&P 500 historically has not moved: it was 9.2% in 1997 and remained at that level through 2001. The median expected rate of return was 9% from 1991 through 1996. However, it dropped to 8.75% in 2002.

Companies have a significant amount of discretion when setting their expected rates of return. The highest rate of return used for 2002 belonged to Freeport McMoran (FCX, $35.87, NOT RATED) at 12%. National Semiconductor (NSM, $38.25, UNDERPERFORM [V], Target $30, MARKET WEIGHT) held the distinction of having the lowest rate at 5.40%. Exhibit 50 shows the distribution of expected rates of return across the companies in the S&P 500 during 2002.

Exhibit 50: Distribution of Expected Rates of Return across Companies, 2002



Source: Company data, CSFB estimates.

Exhibit 51 shows the eight companies with expected rates of return over 10% in 2002.

Exhibit 51: Companies Expecting Return Rates of over 10% in 2002

		Expected Return (%)		
Company	Ticker	2002	2001	2000
Freeprt Mcmor Cop&Gld -Cl B	FCX	12.00	12.00	12.00
AES Corp. (The)	AES	11.64	9.10	9.00
U S Bancorp	USB	10.90	11.60	10.85
Weyerhaeuser Co	WY	10.50	11.00	11.50
Darden Restaurants Inc	DRI	10.40	10.40	10.40
General Mills Inc	GIS	10.40	10.40	10.40
Fedex Corp	FDX	10.10	10.90	10.90
Navistar International	NAV	10.10	9.90	9.90

Source: Company data, CSFB estimates.

Companies Ratchet down Expected Rates of Return

Whether they have done so on their own or have heeded the SEC's caution, many companies have indeed been ratcheting down their long-term expected rates of return. We anticipate that increased SEC and auditor scrutiny of the expected rates of return will result in a further drop in the rate for many companies. There were 159 companies in the S&P 500 with an expected rate of return of 9% or higher and eight companies with an expected rate of return above 10% at the end of 2002. The median return assumption used by companies in the S&P 500 during 2002 was 8.75%. Looking into our crystal ball, we see the median expected return assumption for 2003 settling around 8.25% as companies play it conservative and take down their expected return assumptions another 50 basis points. This is a little bit below the (8.43%) return on a portfolio allocated to 65% equity and 35% fixed income, using historical rates of return (back to 1926) for equity (10%) and fixed income (5.50%) securities.

There were 255 companies that changed their expected rates of return in 2002. Of these, 14 increased and 241 decreased the rate (the highest number of companies decreasing their expected rates of return in the last 10 years); this compares with 78 companies that changed their expected rates of return in 2001, with 32 increasing and 46 dropping.

There were 118 companies that dropped their expected rates of return by over 50 basis points from 2001 to 2002, including the nine companies in Exhibit 52 that dropped their rates by over 150 basis points.

Exhibit 52: Decreased Expected Return Rates by over 150 Basis Points in 2002

		Expected Return (%)		
Company	**Ticker**	**2002**	**2001**	**Change (bps)**
Worthington Industries	WOR	4.00	8.36	(436)
Illinois Tool Works	ITW	8.06	10.51	(245)
Harley-Davidson Inc	HDI	8.50	10.50	(200)
Household International Inc	HI	8.00	10.00	(200)
Mattel Inc	MAT	8.00	10.00	(200)
State Street Corp	STT	8.00	10.00	(200)
Lehman Brothers Holdings Inc	LEH	8.92	10.81	(189)
Allergan Inc	AGN	8.25	10.00	(175)
Guidant Corp	GDT	8.75	10.50	(175)

Source: Company data, CSFB estimates.

As Rates of Return Fall . . . Earnings Fall

For a back-of-the-envelope approach to estimating the impact on earnings of a falling 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.

Comparing Actual Returns to Expected Returns

The actual return on plan assets for the S&P 500 was a loss of 8.84% in 2002, a loss of 7.43% in 2001 and a gain of 4.88% in 2000.

The vast majority of defined benefit plans lost value in 2002. Only 16 companies earned positive actual rates of return in 2002. A total of 146 companies lost more than 10% of their plan asset values in 2002.

Exhibit 53 shows the companies that experienced the widest positive and negative differences or spreads between actual and expected returns in 2002. Only three companies earned actual rates of return on plan assets in excess of their expected rates of return in 2002.

Exhibit 53: Widest Positive and Negative Spreads between Expected Return Rates and Actual Return Rates in 2002

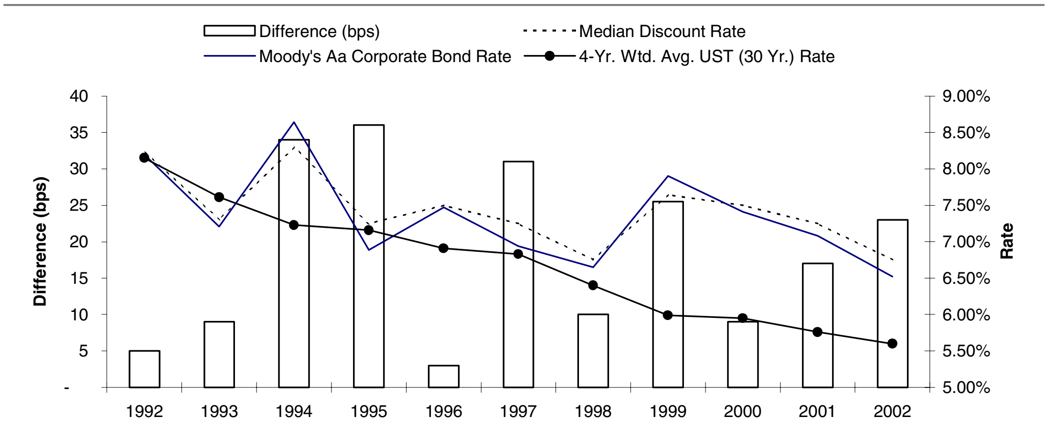
Widest Positive Spreads (%)				Widest Negative Spreads (%)			
Company	Ticker	Expected Rate of Return	Actual Return	Company	Ticker	Expected Rate of Return	Actual Return
Waste Management Inc	WMI	9.00%	66.67%	Ace Limited	ACE	3.35%	(27.99%)
Merrill Lynch & Co	MER	6.00%	10.92%	Genzyme Corp	GENZ	7.00%	(23.76%)
Loews Corp	LTR	7.75%	9.77%	Unumprovident Corp	UNM	8.26%	(21.60%)
				Biogen Inc	BGEN	9.00%	(20.18%)
				Dover Corp	DOV	9.00%	(19.99%)
				CMS Energy Corp	CMS	8.75%	(19.41%)
				Zimmer Hldgs Inc	ZMH	7.64%	(20.41%)
				National Semiconductor Corp	NSM	5.40%	(22.14%)
				Brown-Forman -Cl B	BF.B	8.75%	(18.56%)
				Manor Care	HCR	10.00%	(16.89%)

Source: Company data, CSFB estimates.

Discount Rate

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 54; with the spread between the two rates never widening more than 36 basis points over the past 11 years.

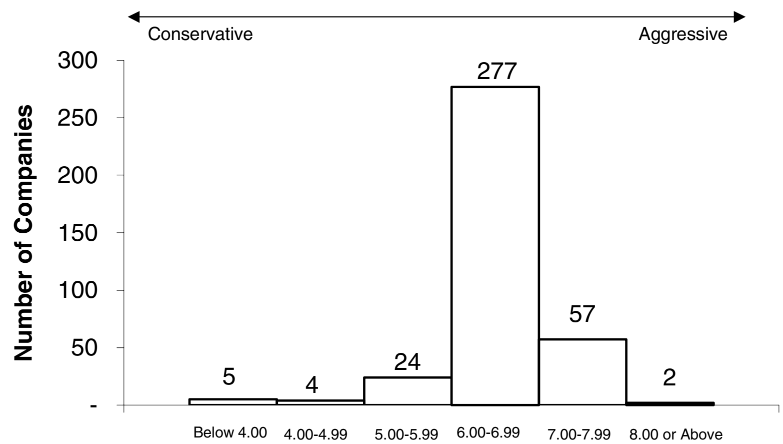
Exhibit 54: Moody's Aa Corporate Bond Rate versus S&P 500's Median Discount Rate



Source: Company data, CSFB estimates.

Exhibit 55 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, including different fiscal year-ends, the ages of the workforce can differ, and companies with international pension plans will use different discount rates.

Exhibit 55: Distribution of Discount Rates across Companies, 2002



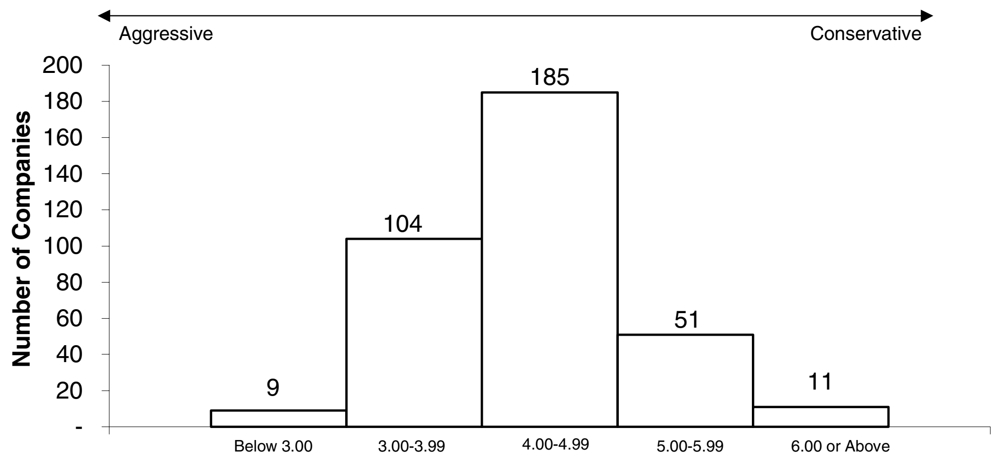
Source: Company data, CSFB estimates.

The median discount rate for the S&P 500 was 6.75% at the end of 2002, compared with 7.25% in 2001 and 7.50% in 2000.

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 56 displays the distribution of salary inflation rate assumptions among the companies in the S&P 500.

Exhibit 56: Distribution of Salary Inflation Rates across Companies, 2002



Source: Company data, CSFB estimates.

The median salary inflation rate was 4.10% in 2002, down from the 4.50% used in 2001.

Halliburton (HAL, $24.75, OUTPERFORM [V] Target $34, MARKET WEIGHT) had the highest salary inflation rate assumption in 2002, at 11.55%, while Occidental Petroleum (OXY, $36.49, OUTPERFORM [V], Target $40, MARKET WEIGHT) had the lowest rate, at 6.00%.

Appendix A

Exhibit 57: S&P 500 Companies That Don't Have a Defined Benefit Pension Plan

Company	Ticker	Company	Ticker	Company	Ticker	Company	Ticker
ADC Telecommunications Inc	ADCT	Computer Associates Intl Inc	CA	Limited Brands Inc	LTD	Quest Diagnostics Inc	DGX
Adobe Systems Inc.	ADBE	Compuware Corp	CPWR	Linear Technology Corp	LLTC	Quintiles Transnat'l Corp	QTRN
Advanced Micro Devices	AMD	Comverse Technology Inc	CMVT	Liz Claiborne Inc	LIZ	Radioshack Corp	RSH
Alberto-Culver Co -Cl B	ACV	Concord Efs Inc	CE	Lowes Cos	LOW	Rational Software Corp	RATL
Altera Corp	ALTR	Costco Wholesale Corp	COST	LSI Logic Corp	LSI	Reebok International Ltd	RBK
American Pwr Cnvrsion	APCC	Dell Computer Corp	DELL	Marriott Intl Inc	MAR	Robert Half Intl Inc	RHI
Amgen Inc	AMGN	Deluxe Corp	DLX	Marshall & Ilsley Corp	MI	Sanmina-Sci Corp	SANM
Andrew Corp	ANDW	Dollar General Corp	DG	Maxim Integrated Products	MXIM	Siebel Systems Inc	SEBL
Apache Corp	APA	Ebay Inc	EBAY	MBIA Inc	MBI	Simon Property Group Inc	SPG
Apollo Group Inc -Cl A	APOL	Electronic Arts Inc	ERTS	McDonalds Corp	MCD	Solectron Corp	SLR
Apple Computer Inc	AAPL	EOG Resources Inc	EOG	Medimmune Inc	MEDI	Southwest Airlines	LUV
Applied Materials Inc	AMAT	Equity Office Properties Tr	EOP	Mercury Interactive Corp	MERQ	St Jude Medical Inc	STJ
Applied Micro Circuits Corp	AMCC	Equity Residential	EQR	Micron Technology Inc	MU	Staples Inc	SPLS
AT&T Wireless Services Inc	AWE	Family Dollar Stores	FDO	Microsoft Corp	MSFT	Starbucks Corp	SBUX
Autodesk Inc	ADSK	Fiserv Inc	FISV	Network Appliance Inc	NTAP	Sun Microsystems Inc	SUNW
Bear Stearns Companies Inc	BSC	Forest Laboratories -Cl A	FRX	Nextel Communications	NXTL	Sungard Data Systems Inc	SDS
Bed Bath & Beyond Inc	BBBY	Gap Inc	GPS	Nike Inc -Cl B	NKE	Synovus Financial Cp	SNV
Best Buy Co Inc	BBY	Gateway Inc	GTW	Novell Inc	NOVL	Tellabs Inc	TLAB
Biomet Inc	BMET	Golden West Financial Corp	GDW	Novellus Systems Inc	NVLS	Tenet Healthcare Corp	THC
Block H & R Inc	HRB	Grainger (W W) Inc	GWW	Nucor Corp	NUE	TMP Worldwide Inc	TMPW
BMC Software Inc	BMC	Harrahs Entertainment Inc	HET	Nvidia Corp	NVDA	Toys R Us Inc	TOY
Boston Scientific Corp	BSX	HCA Inc	HCA	Office Depot Inc	ODP	Union Planters Corp	UPC
Broadcom Corp -Cl A	BRCM	Health Management Assoc	HMA	Omnicom Group	OMC	Unitedhealth Group Inc	UNH
Calpine Corp	CPN	Healthsouth Corp	HRC	Oracle Corp	ORCL	Univision Communications	UVN
Capital One Finl Corp	COF	Home Depot Inc	HD	Paychex Inc	PAYX	Veritas Software Co	VRTS
Carnival Corp	CCL	Humana Inc	HUM	Peoplesoft Inc	PSFT	Walgreen Co	WAG
Centex Corp	CTX	Intl Game Technology	IGT	PMC-Sierra Inc	PMCS	Wal-Mart Stores	WMT
Charter One Finl Inc	CF	Intuit Inc	INTU	Price (T. Rowe) Group	TROW	Watson Pharmaceuticals	WPI
Ciena Corp	CIEN	Janus Capital Group Inc	JNS	Progressive Corp-Ohio	PGR	Winn-Dixie Stores Inc	WIN
Cintas Corp	CTAS	JDS Uniphase Corp	JDSU	Providian Financial Corp	PVN	Xilinx Inc	XLNX
Cisco Systems Inc	CSCO	KB Home	KBH	Pulte Homes Inc	PHM	XL Capital Ltd	XL
Citrix Systems Inc	CTXS	King Pharmaceuticals Inc	KG	Qlogic Corp	QLGC	Yahoo Inc	YHOO
Clear Channel Comm.	CCU	Kohls Corp	KSS	Qualcomm Inc	QCOM		

Source: Company data, CSFB estimates.

Appendix B

Since we keep mentioning this four-year weighted average discount rate, we thought it made sense to explain how it is calculated. We calculate the four-year weighted-average rate similarly for both corporate bonds and U.S. Treasuries. We illustrate the calculation in Exhibit 58, which is followed by a brief explanation. The four-year weighted average yield on the U.S. Government long bond is available on the IRS web site at: http://www.irs.gov/retirement/article/0,,id=96450,00.html.

Exhibit 58: Calculating the Four-Year Weighted-Average Corporate and Government Bond Discount Rates for Funding Purposes

Monthly Discount Rates During Year 0

A Month	B Rate	C Weight	D Wtd. Avg.
Jan	Rate$_1$	1/12	B x C
Feb	Rate$_2$	1/12	B x C
Mar	Rate$_3$	1/12	B x C
Apr	Rate$_4$	1/12	B x C
May	Rate$_5$	1/12	B x C
Jun	Rate$_6$	1/12	B x C
Jul	Rate$_7$	1/12	B x C
Aug	Rate$_8$	1/12	B x C
Sep	Rate$_9$	1/12	B x C
Oct	Rate$_{10}$	1/12	B x C
Nov	Rate$_{11}$	1/12	B x C
Dec	Rate$_{12}$	1/12	B x C
			Year 0 Wtd. Avg. Rate

Monthly Discount Rates During Year -1

A Month	B Rate	C Weight	D Wtd. Avg.
Jan	Rate$_1$	1/12	B x C
Feb	Rate$_2$	1/12	B x C
Mar	Rate$_3$	1/12	B x C
Apr	Rate$_4$	1/12	B x C
May	Rate$_5$	1/12	B x C
Jun	Rate$_6$	1/12	B x C
Jul	Rate$_7$	1/12	B x C
Aug	Rate$_8$	1/12	B x C
Sep	Rate$_9$	1/12	B x C
Oct	Rate$_{10}$	1/12	B x C
Nov	Rate$_{11}$	1/12	B x C
Dec	Rate$_{12}$	1/12	B x C
			Year -1 Wtd. Avg. Rate

Wtd. Avg. Rate Per Year		Weight		Wtd. Avg.
Year 0 (e.g., 2002)	x	40%	=	Wtd. Rate 1
Year -1 (e.g., 2001)	x	30%	=	Wtd. Rate 2
Year -2 (e.g., 2000)	x	20%	=	Wtd. Rate 3
Year -3 (e.g., 1999)	x	10%	=	Wtd. Rate 4
				4-Year Wtd. Avg.

Apply similar process to determine weighted average rates for year nos. -2 and -3.

Source: Company data, CSFB estimates.

First, determine the average monthly discount rate over each of the past four years. Doing so will help us to calculate the weighted-average rate for year nos. 0, -1, -2, and -3 as shown on the left side of Exhibit 58. Next, apply weights of 40%, 30%, 20%, and 10% to year nos. 0, -1, -2, and –3, respectively; multiply these weights by the corresponding weighted-average rates for each year as shown on the right side of Exhibit 58. Finally, arrive at the four-year weighted average rate by adding the weighted-average rates for each year.

Appendix C

If you have happened to make your way to the Web site that includes our new model, you may have noticed that our *Pension Forecasting Model, Version 2.0* looks a lot different than the version we released last year. Apart from having taken it for a few tweaks here and a couple of tucks there, we've also tried to make the new model more user-friendly and versatile. In this appendix, we introduce you to how the new model looks and give you a couple of pointers to help you navigate through its use. After a few minutes with this appendix, you should be all set to take her for a spin on your own. Let us know if you have any questions along the way.

In the input tab, you'll start with a row labeled "Ticker Symbol." If the company is in the S&P 500, all you have to do is type in the ticker symbol as shown in Exhibit 59. If you want to run the model for a company that is not in the S&P 500, please give us a call and we would be happy to make another version of the model available to you.

Exhibit 59: Pension Model—Simply Enter the Ticker for an S&P 500 Company

PENSION FORECAST MODEL V 2.0 - DATA INPUT	**DATA INPUT**
HONEYWELL INTERNATIONAL INC PENSION PLAN	
Ticker Symbol	HON
Most Recent 10-K Year End	2002

Source: CSFB.

Once you've entered the ticker, the historical data will update automatically. The only data entry required is that you input your assumptions about the future in the cells that are highlighted in green. We describe the main input cells in Exhibit 60.

Exhibit 60: Pension Model—Screen Shot of "Input" Tab

FORECAST DATA

ASSUMPTIONS		**2003**	**2004**	**2005**
Plan Assumptions				
Discount Rate		6.25%	6.00%	6.25%
Expected rate of return		9.50%	9.50%	9.50%
Compensation inflation		4.00%	4.00%	4.00%
Plan Asset Mix				
Equity		65%	65%	65%
Fixed Income		35%	35%	35%
Actual return				
Equity		15.00%	10.00%	10.00%
Fixed Income		5.00%	5.50%	5.50%
Inflation				
Rate		3.00%	3.00%	3.00%
Shares Outstanding				
Latest Reported Period		*If you know it, drop it in here…*		
Income Taxes				
Rate		35%	35%	35%
What type of pension funding relief do you expect?		CB assumed if left blank		
Corporate Bonds - replace govt bonds with corp bonds	= CB			
120% Relief - multiply 4 year wtd avg LT govt bond yield by 120%	= 120			
No Relief - multiply 4 year wtd avg LT govt bond yield by 105%	= NO			
Discount Rates Used for Funding Purposes & PBGC Variable Premium				
4 Year wtd avg LT govt bond yield		5.29%	4.95%	4.85%
4 Year wtd avg LT corp bond yield		6.89%	6.45%	6.30%
Current yield on LT govt bond		5.14%	4.89%	5.14%
Additional Variables to Include Only if Known				
How are expected returns determined?		Calculated Value = CV; Fair Value = FV		
What is the smoothing period for determining calculated value?		# of years		
What is the amortization period for unrecognized gains/losses?		# of years		

Enter assumptions. Use the prior year as a benchmark.

This is a good proxy based on a number of surveys. Stick with this unless you know otherwise.

Up, down, sideways? Enter your views on market performance here.

In the absence of evidence to the contrary, this is a good guess…

"CB" is the default case but you can also enter "120" or "NO" and check out the impact

Include these if a company tells you what they are. Otherwise, the model will default to good old fashioned rules of thumb.

Source: Company data, CSFB estimates.

In this example, we've entered our base case assumptions for Honeywell International. Exhibit 61 and Exhibit 62 show the output that the model generates in its "Forecast" tab. Does this information look familiar? This is exactly the type of information you'd find in a pension footnote, with one key difference—here, you get three projected years.

Exhibit 61: Pension Model—Screen Shot of "Forecast" Tab

	Actual		Estimate		
Assumptions:	***2001***	***2002***	**2003**	**2004**	**2005**
Discount rate	*7.25%*	*6.75%*	6.25%	6.00%	6.25%
Expected rate of return	*10.00%*	*10.00%*	9.50%	9.50%	9.50%
Compensation inflation	*4.00%*	*4.00%*	4.00%	4.00%	4.00%
Plan Assets Return					
Equity			15.00%	10.00%	10.00%
Fixed Income			5.00%	5.50%	5.50%
Actual return	*-3.12%*	*-8.25%*	11.50%	8.43%	8.43%
Employee contribution growth			3.00%	3.00%	3.00%
Inflation assumption			3.00%	3.00%	3.00%
Duration - actives		15	15	15	15
Duration - retirees		8	8	8	8

	Actual		Estimate		
Pension Cost / (Income):	***2001***	***2002***	**2003**	**2004**	**2005**
Service cost	*194*	*201*	222	245	262
Interest cost	*765*	*753*	757	745	738
Expected return on plan assets	*(1,201)*	*(1,164)*	(1,124)	(1,092)	(1,051)
Amortization of transition (asset) / liability	*(11)*	*(7)*	1	-	-
Amortization of prior service cost / (benefit)	*49*	*43*	43	43	43
Recognized actuarial (gain) / loss	*(52)*	*13*	33	109	161
Net pension cost / (income)	*(256)*	*(161)*	(68)	50	154
Curtailments, settlements and other	*(54)*	*14*	-	-	-
Total pension cost / (income)	*(310)*	*(147)*	(68)	50	154

	Actual		Estimate		
Change in Benefit Obligation:	***2001***	***2002***	**2003**	**2004**	**2005**
Benefit obligation at beginning of year	*10,132*	*10,952*	11,660	12,376	12,781
Service cost	*194*	*201*	222	245	262
Interest cost	*765*	*753*	757	745	738
Employee contribution	-	-	-	-	-
Amendments	*37*	*25*	-	-	-
Actuarial (gain)/loss	*748*	*633*	631	335	(346)
Benefits paid	*(857)*	*(868)*	(894)	(921)	(948)
Net acquisitions / divestitures	*(7)*	*(105)*	-	-	-
Curtailments, settlements, terminations and other	*(60)*	*69*	-	-	-
Benefit obligation at end of year	*10,952*	*11,660*	12,376	12,781	12,487

Source: Company data, CSFB estimates.

Exhibit 62: Pension Model—Screen Shot of "Forecast" Tab (Continued)

	Actual		Estimate		
Change in Plan Assets:	***2001***	***2002***	**2003**	**2004**	**2005**
Fair value of plan assets at beginning of year	*12,264*	*11,051*	10,178	10,454	10,414
Actual return / (loss) on plan assets	*(383)*	*(912)*	1,170	881	877
Company contribution	*46*	*885*	-	-	-
Employee contribution	-	-	-	-	-
Benefits paid	*(857)*	*(868)*	(894)	(921)	(948)
Net acquisitions / divestitures	*(8)*	*(103)*	-	-	-
Settlements and other	*(11)*	*125*	-	-	-
Fair value of plan assets at end of year	*11,051*	*10,178*	10,454	10,414	10,343

	Actual		Estimate		
Funded Status:	***2001***	***2002***	**2003**	**2004**	**2005**
Funded Status	*99*	*(1,482)*	(1,922)	(2,366)	(2,143)
Unrecognized actuarial (gain) / loss	*1,118*	*3,829*	4,381	4,818	4,484
Unrecognized prior service cost / (benefit)	*239*	*193*	150	107	65
Unrecognized transition (asset) / liability	*(8)*	*1*	-	-	-
Adjustment to recognize minimum liabiltiy	-	-			
Net amount recognized	*1,448*	*2,541*	2,609	2,559	2,405

	Actual		Estimate		
Charge Against Equity:	***2001***	***2002***	**2003**	**2004**	**2005**
Intangible asset	-	*8*	150	150	150
Accumulated other comprehensive income	-	*1,192*	3,296	3,698	3,390
Minimum pension liability	-	*(1,200)*	(3,447)	(3,848)	(3,540)
Estimated Reduction in Equity - After Tax			(1,368)	(261)	201

Source: Company data, CSFB estimates.

In the new version of the model, we also provide you with a summary snapshot of the model's key outputs that you see in Exhibit 63. Simply go to the "Summary" tab to find this.

Exhibit 63: Pension Model—Screen Shot of "Summary" Tab

	Actual		Estimate		
	2001	***2002***	**2003**	**2004**	**2005**
Company contributions	*46*	*885*	-	-	-
Actual return/(loss) on plan assets	*(383)*	*(912)*	1,170	881	877
Benefits paid	*(857)*	*(868)*	(894)	(921)	(948)
Pension plan assets	*11,051*	*10,178*	10,454	10,414	10,343
Projected benefit obligation	*10,952*	*11,660*	12,376	12,781	12,487
Funded status $	*99*	*(1,482)*	(1,922)	(2,366)	(2,143)
Funded status %	*101%*	*87%*	84%	81%	83%
Total pension expense / (income)	*(310)*	*(147)*	(68)	50	154
Total pension expense / (income) per share			NA	NA	NA

Source: Company data, CSFB estimates.

Now that we've introduced you to the model, we wanted to take a moment to provide a few words of caution.

The Model's Limitations

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, 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. 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 87).

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.

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 of our September 27, 2002 research report, *The Magic of Pension Accounting*.

Appendix D

You may be wondering, Why do I need to bother with the individual model on the Web site if this report contains the pension cost and funded status forecasts for every company in the S&P 500?

One of the key reasons is that companies may apply pension accounting differently than we have assumed in our base case forecast. They may be using different amortization periods or different smoothing mechanisms that can have a significant effect on the forecasts. These differences can now be easily adjusted for in the new model. In this appendix, we use Honeywell as an example to show you how extremely sensitive the pension results are to the company's application of pension accounting. Exhibit 64 shows our forecasted pension income of $68 million for Honeywell in 2003, followed by $50 million of pension expense in 2004 and $154 million of pension expense in 2005. These forecasts are derived from our base case scenario that we apply to all companies in the S&P 500.

Exhibit 64: Pension Cost for Honeywell Using Actuarial Rules of Thumb

	Actual		Estimate		
Pension Expense / (Income):	***2001***	***2002***	**2003**	**2004**	**2005**
Service cost	*194*	*201*	222	245	262
Interest cost	*765*	*753*	757	745	738
Expected return on plan assets	*(1,201)*	*(1,164)*	(1,124)	(1,092)	(1,051)
Amortization of transition (asset) / liability	*(11)*	*(7)*	1	-	-
Amortization of prior service cost / (benefit)	*49*	*43*	43	43	43
Recognized actuarial (gain) / loss	*(52)*	*13*	33	109	161
Net pension cost / (income)	*(256)*	*(161)*	(68)	50	154
Curtailments, settlements and other	*(54)*	*14*	-	-	-
Total pension expense / (income)	*(310)*	*(147)*	(68)	50	154

Source: Company data, CSFB estimates.

We've applied the same logic that we used to calculate pension cost for Honeywell to every company in the S&P 500, including the same rules of thumb. For instance, we reflect changes in the market-related value of plan assets over a five-year period and amortize unrecognized gains and losses over 15 years. These "generic" rules of thumb are fine overall. However, they are wrong in other cases, like Honeywell. Switching from our generic rules of thumb to the actual methods that companies use can produce dramatically different results. In Honeywell's case, the following excerpt from the Management Discussion and Analysis (MD&A) section of its 10-K provides some further insight into how Honeywell applies pension accounting:

> *Under SFAS No. 87, we use the market-related value of plan assets reflecting changes in the fair value over a three-year period. Further, unrecognized losses in excess of 10 percent of the greater of the market-related value of plan assets or the plans' projected benefit obligation are recognized over a six-year period.*

According to this disclosure, Honeywell reflects changes in the market-related value of plan assets over a three-year period and amortizes unrecognized gains and losses over six years. Honeywell's treatment of these items differs from the base case we ran for all S&P 500 companies, which reflects changes in the market-related value of plan assets over a five-year period and amortizes unrecognized gains and losses over 15 years. In addition, our base case assumes that companies in the S&P 500 will bring down their expected return assumptions by 50 basis points in 2003. However, it's wrong for Honeywell. In it's latest 10-K, Honeywell discloses the following:

> *The assumed rate of return on plan assets used to determine pension income in 2002, 2001 and 2000 was 10 percent. Based on our historic plan asset returns and the continued deterioration in financial market returns in 2002 we are reducing the assumed rate of return on plan assets from 10 to 9 percent for purposes of determining 2003 pension benefit cost (income).*

According to this disclosure, we should be bringing Honeywell's expected rate of return down by 100 basis points, not the 50 basis points that we assume overall. After making all of these adjustments, Exhibit 65 shows the "revised" pension cost estimate for Honeywell.

Exhibit 65: Pension Cost for Honeywell Using it's Actual Assumptions Disclosed by the Company

	Actual		Estimate		
Pension Expense / (Income):	***2001***	***2002***	**2003**	**2004**	**2005**
Service cost	*194*	*201*	222	245	262
Interest cost	*765*	*753*	757	745	738
Expected return on plan assets	*(1,201)*	*(1,164)*	(1,027)	(953)	(895)
Amortization of transition (asset) / liability	*(11)*	*(7)*	1	-	-
Amortization of prior service cost / (benefit)	*49*	*43*	43	43	43
Recognized actuarial (gain) / loss	*(52)*	*13*	161	387	483
Net pension cost / (income)	*(256)*	*(161)*	156	467	631
Curtailments, settlements and other	*(54)*	*14*	-	-	-
Total pension expense / (income)	*(310)*	*(147)*	156	467	631

Source: Company data, CSFB estimates.

As you can see, this change in assumptions caused a significant change in the model's output. Instead of reporting pension income of $68 million in 2003, the model now estimates that Honeywell will report $156 million of pension expense; that is not too far off from Honeywell's estimate of 2003 net pension expense that it included in its 10-K of $174 million. Note the even more dramatic change in the 2004 and 2005 estimates. How can you avoid this problem? First, you are going to have to find out the answers to some important questions:

- Does the company use the fair value of plan assets or a smoothed calculated value to determine the expected return?
- If the company is using a calculated value, over what period does it smooth gains and losses? (The maximum according to FAS 87 is five years.)
- Over what period does the company amortize unrecognized gains and losses?

The answers may be in the 10-K, either in the pension footnote or in the MD&A. If you can't find them there, ask the company. Once you have the answers, simply enter the specific information provided by the company into the model as seen in Exhibit 66.

Exhibit 66: Adjusting the Model for Honeywell

FORECAST DATA

ASSUMPTIONS		**2003**	**2004**	**2005**
Plan Assumptions				
Discount Rate		6.25%	6.00%	6.25%
Expected rate of return		9.00%	9.00%	9.00%
Compensation inflation		4.00%	4.00%	4.00%
Plan Asset Mix				
Equity		65%	65%	65%
Fixed Income		35%	35%	35%
Actual return				
Equity		15.00%	10.00%	10.00%
Fixed Income		5.00%	5.50%	5.50%
Inflation				
Rate		3.00%	3.00%	3.00%
Shares Outstanding				
Latest Reported Period				
Income Taxes				
Rate		35%	35%	35%
What type of pension funding relief do you expect?			CB assumed if left blank	
Corporate Bonds - replace govt bonds with corp bonds	= CB			
120% Relief - multiply 4 year wtd avg LT govt bond yield by 120%	= 120			
No Relief - multiply 4 year wtd avg LT govt bond yield by 105%	= NO			
Discount Rates Used for Funding Purposes & PBGC Variable Premium				
4 Year wtd avg LT govt bond yield		5.29%	4.95%	4.85%
4 Year wtd avg LT corp bond yield		6.89%	6.45%	6.30%
Current yield on LT govt bond		5.14%	4.89%	5.14%
Additional Variables to Include Only if Known				
How are expected returns determined?		CV	Calculated Value = CV; Fair Value = FV	
What is the smoothing period for determining calculated value?		3	# of years	
What is the amortization period for unrecognized gains/losses?		6	# of years	

We knocked down the expected rate of return by 100 basis points from 10.00% in 2002 to 9.00% in 2003E and beyond.

Don't forget to drop in this information based on the company's disclosures. The model's "generic" default assumptions are wrong in this case.

After making these adjustments to your assumptions in the input tab, you're ready to roll…simply go to the forecast tab to view the revised output.

Source: Company data, CSFB estimates.

Appendix E

Exhibit 67: Historical and Projected Funded Status for the S&P 500

US$ in millions

Company Name	Ticker Symbol	Plan Assets 2002A	PBO 2002A	Over/ (Under) Funded 2002A	Estimated Over (Under) Funded 2003E	2004A	2005A
3M CO	MMM	$ 7,983	$ 10,093	$ (2,110)	$ (2,658)	$ (3,170)	$ (3,004)
ABBOTT LABORATORIES	ABT	2,373	3,748	(1,375)	(1,550)	(1,675)	(1,514)
ACE LIMITED	ACE	106	191	(85)	(82)	(75)	(53)
ADC TELECOMMUNICATIONS INC	ADCT	-	-	-	-	-	-
ADOBE SYSTEMS INC.	ADBE	-	-	-	-	-	-
ADVANCED MICRO DEVICES	AMD	-	-	-	-	-	-
AES CORP. (THE)	AES	1,304	2,693	(1,389)	(1,187)	(1,053)	(776)
AETNA INC	AET	2,943	3,946	(1,003)	(1,112)	(1,230)	(1,079)
AFLAC INC	AFL	92	180	(89)	(93)	(93)	(77)
AGILENT TECHNOLOGIES INC	A	1,064	1,718	(654)	(707)	(735)	(633)
AIR PRODUCTS & CHEMICALS INC	APD	1,013	1,780	(768)	(816)	(880)	(804)
ALBERTO-CULVER CO -CL B	ACV	-	-	-	-	-	-
ALBERTSONS INC	ABS	398	656	(258)	(284)	(306)	(277)
ALCOA INC	AA	7,531	9,360	(1,829)	(2,244)	(2,643)	(2,489)
ALLEGHENY ENERGY INC	AYE	703	997	(294)	(329)	(362)	(324)
ALLEGHENY TECHNOLOGIES INC	ATI	1,679	1,946	(267)	(337)	(404)	(357)
ALLERGAN INC	AGN	242	293	(51)	(63)	(72)	(73)
ALLIED WASTE INDS INC	AW	278	299	(22)	(29)	(35)	(20)
ALLSTATE CORP	ALL	2,322	3,684	(1,362)	(1,381)	(1,447)	(1,282)
ALLTEL CORP	AT	693	803	(110)	(160)	(180)	(143)
ALTERA CORP	ALTR	-	-	-	-	-	-
ALTRIA GROUP INC	MO	10,083	13,076	(2,993)	(3,609)	(3,819)	(3,672)
AMBAC FINANCIAL GP	ABK	13	18	(6)	(7)	(7)	(6)
AMERADA HESS CORP	AHC	495	737	(241)	(278)	(305)	(278)
AMEREN CORP	AEE	1,059	1,587	(528)	(547)	(583)	(506)
AMERICAN ELECTRIC POWER	AEP	2,795	3,583	(788)	(890)	(974)	(840)
AMERICAN EXPRESS	AXP	1,352	1,845	(493)	(696)	(901)	(966)
AMERICAN GREETINGS -CL A	AM	91	91	1	0	(0)	5
AMERICAN INTERNATIONAL GROUP	AIG	2,176	3,217	(1,041)	(1,159)	(1,235)	(1,075)
AMERICAN PWR CNVRSION	APCC	-	-	-	-	-	-
AMERICAN STANDARD COS INC	ASD	689	1,199	(510)	(510)	(520)	(448)
AMERISOURCEBERGEN CORP	ABC	52	79	(27)	(22)	(16)	(7)
AMGEN INC	AMGN	-	-	-	-	-	-
AMR CORP/DE	AMR	5,323	8,757	(3,434)	(3,726)	(4,056)	(3,751)
AMSOUTH BANCORPORATION	ASO	558	618	(60)	(91)	(123)	(113)
ANADARKO PETROLEUM CORP	APC	286	489	(203)	(206)	(213)	(189)
ANALOG DEVICES	ADI	55	79	(24)	(26)	(26)	(19)
ANDREW CORP	ANDW	-	-	-	-	-	-
ANHEUSER-BUSCH COS INC	BUD	1,732	2,324	(592)	(675)	(743)	(661)
ANTHEM INC	ATH	717	783	(66)	(117)	(174)	(138)
AOL TIME WARNER INC	AOL	1,244	2,014	(770)	(830)	(879)	(786)
AON CORP	AOC	2,566	3,761	(1,195)	(1,310)	(1,369)	(1,142)
APACHE CORP	APA	-	-	-	-	-	-
APOLLO GROUP INC -CL A	APOL	-	-	-	-	-	-
APPLE COMPUTER INC	AAPL	-	-	-	-	-	-
APPLERA CORP APPLIED BIOSYS	ABI.CM	515	584	(69)	(82)	(91)	(63)
APPLIED MATERIALS INC	AMAT	-	-	-	-	-	-
APPLIED MICRO CIRCUITS CORP	AMCC	-	-	-	-	-	-
ARCHER-DANIELS-MIDLAND CO	ADM	637	1,132	(494)	(533)	(552)	(485)

Source: Company data, CSFB estimates.

Appendix E continued

Company Name	Ticker Symbol	Plan Assets 2002A	PBO 2002A	Over/ (Under) Funded 2002A	Estimated Over (Under) Funded 2003E	2004A	2005A
ASHLAND INC	ASH	$ 551	$ 983	$ (432)	$ (478)	$ (510)	$ (466)
AT&T CORP	T	15,603	14,985	618	458	243	864
AT&T WIRELESS SERVICES INC	AWE	-	-	-	-	-	-
AUTODESK INC	ADSK	-	-	-	-	-	-
AUTOMATIC DATA PROCESSING	ADP	553	593	(40)	(82)	(124)	(117)
AUTOZONE INC	AZO	83	117	(34)	(39)	(43)	(35)
AVAYA INC	AV	1,941	2,739	(798)	(848)	(919)	(807)
AVERY DENNISON CORP	AVY	577	624	(47)	(77)	(107)	(95)
AVON PRODUCTS	AVP	729	1,144	(415)	(414)	(428)	(376)
BAKER-HUGHES INC	BHI	287	345	(58)	(87)	(96)	(98)
BALL CORP	BLL	527	981	(454)	(439)	(452)	(385)
BANK OF AMERICA CORP	BAC	7,518	8,279	(761)	(1,086)	(1,453)	(1,411)
BANK OF NEW YORK CO INC	BK	1,093	770	323	327	319	360
BANK ONE CORP	ONE	2,481	2,419	62	(11)	(118)	(141)
BARD (C.R.) INC	BCR	128	150	(23)	(34)	(37)	(30)
BAUSCH & LOMB INC	BOL	207	293	(86)	(96)	(104)	(93)
BAXTER INTERNATIONAL INC	BAX	1,275	2,075	(800)	(879)	(947)	(864)
BB&T CORP	BBT	471	565	(94)	(112)	(126)	(95)
BEAR STEARNS COMPANIES INC	BSC	-	-	-	-	-	-
BECTON DICKINSON & CO	BDX	519	853	(334)	(360)	(373)	(324)
BED BATH & BEYOND INC	BBBY	-	-	-	-	-	-
BELLSOUTH CORP	BLS	13,338	11,386	1,952	2,136	2,185	2,628
BEMIS CO	BMS	287	396	(109)	(140)	(162)	(152)
BEST BUY CO INC	BBY	-	-	-	-	-	-
BIG LOTS INC	BLI	34	45	(12)	(13)	(14)	(13)
BIOGEN INC	BGEN	25	42	(18)	(20)	(22)	(20)
BIOMET INC	BMET	-	-	-	-	-	-
BJ SERVICES CO	BJS	90	135	(45)	(49)	(50)	(41)
BLACK & DECKER CORP	BDK	1,037	1,410	(373)	(452)	(524)	(471)
BLOCK H & R INC	HRB	-	-	-	-	-	-
BMC SOFTWARE INC	BMC	-	-	-	-	-	-
BOEING CO	BA	28,834	35,971	(7,137)	(8,947)	(10,657)	(10,057)
BOISE CASCADE CORP	BCC	1,001	1,610	(610)	(635)	(683)	(605)
BOSTON SCIENTIFIC CORP	BSX	-	-	-	-	-	-
BRISTOL MYERS SQUIBB	BMY	3,267	4,062	(795)	(867)	(932)	(791)
BROADCOM CORP -CL A	BRCM	-	-	-	-	-	-
BROWN-FORMAN -CL B	BF.B	334	449	(115)	(134)	(148)	(145)
BRUNSWICK CORP	BC	639	870	(231)	(267)	(296)	(264)
BURLINGTON NORTHERN SANTA FE	BNI	1,151	1,611	(460)	(467)	(492)	(410)
BURLINGTON RESOURCES INC	BR	138	187	(49)	(53)	(55)	(48)
CALPINE CORP	CPN	-	-	-	-	-	-
CAMPBELL SOUP CO	CPB	1,377	1,669	(292)	(369)	(446)	(388)
CAPITAL ONE FINL CORP	COF	-	-	-	-	-	-
CARDINAL HEALTH INC	CAH	68	129	(60)	(62)	(63)	(53)
CARNIVAL CORP	CCL	-	-	-	-	-	-
CATERPILLAR INC	CAT	7,467	9,361	(1,894)	(2,321)	(2,732)	(2,328)
CENDANT CORP	CD	291	466	(175)	(124)	(83)	(42)
CENTERPOINT ENERGY INC	CNP	1,054	1,550	(496)	(488)	(508)	(431)
CENTEX CORP	CTX	-	-	-	-	-	-
CENTURYTEL INC	CTL	290	346	(56)	(78)	(100)	(98)
CHARTER ONE FINL INC	CF	-	-	-	-	-	-

Source: Company data, CSFB estimates.

Appendix E continued

Company Name	Ticker Symbol	Plan Assets 2002A	PBO 2002A	Over/ (Under) Funded 2002A	Estimated Over (Under) Funded 2003E	2004A	2005A
CHEVRONTEXACO CORP	CVX	$ 4,835	$ 7,471	$ (2,636)	$ (2,123)	$ (1,885)	$ (1,381)
CHIRON CORP	CHIR	-	12	(12)	(11)	(10)	(7)
CHUBB CORP	CB	461	746	(285)	(331)	(365)	(330)
CIENA CORP	CIEN	-	-	-	-	-	-
CIGNA CORP	CI	2,032	3,427	(1,395)	(1,235)	(1,152)	(870)
CINCINNATI FINANCIAL CORP	CINF	124	133	(9)	(20)	(31)	(23)
CINERGY CORP	CIN	757	1,413	(656)	(629)	(642)	(552)
CINTAS CORP	CTAS	-	-	-	-	-	-
CIRCUIT CITY STR CRCT CTY GP	CC	148	193	(45)	(53)	(60)	(49)
CISCO SYSTEMS INC	CSCO	-	-	-	-	-	-
CITIGROUP INC	C	10,094	10,514	(420)	(999)	(1,619)	(1,040)
CITIZENS COMMUNICATIONS CO	CZN	692	780	(88)	(103)	(116)	(84)
CITRIX SYSTEMS INC	CTXS	-	-	-	-	-	-
CLEAR CHANNEL COMMUNICATIONS	CCU	-	-	-	-	-	-
CLOROX CO/DE	CLX	269	383	(114)	(130)	(143)	(131)
CMS ENERGY CORP	CMS	607	1,338	(731)	(649)	(598)	(491)
COCA-COLA CO	KO	1,452	2,182	(730)	(777)	(798)	(671)
COCA-COLA ENTERPRISES	CCE	1,051	1,680	(629)	(718)	(786)	(725)
COLGATE-PALMOLIVE CO	CL	1,123	1,529	(407)	(443)	(466)	(396)
COMCAST CORP -CL A SPL	CMCSA	72	350	(278)	(236)	(204)	(146)
COMERICA INC.	CMA	705	809	(104)	(152)	(198)	(182)
COMPUTER ASSOCIATES INTL INC	CA	-	-	-	-	-	-
COMPUTER SCIENCES CORP	CSC	1,530	2,143	(613)	(696)	(757)	(644)
COMPUWARE CORP	CPWR	-	-	-	-	-	-
COMVERSE TECHNOLOGY INC	CMVT	-	-	-	-	-	-
CONAGRA FOODS INC	CAG	1,541	1,900	(359)	(407)	(438)	(335)
CONCORD EFS INC	CE	-	-	-	-	-	-
CONOCOPHILLIPS	COP	2,260	4,580	(2,320)	(2,263)	(2,291)	(1,976)
CONSOLIDATED EDISON INC	ED	5,760	6,434	(674)	(941)	(1,193)	(996)
CONSTELLATION ENERGY GRP INC	CEG	768	1,248	(480)	(407)	(378)	(302)
CONVERGYS CORP	CVG	136	231	(95)	(100)	(101)	(86)
COOPER INDUSTRIES LTD	CBE	534	650	(116)	(125)	(129)	(95)
COOPER TIRE & RUBBER	CTB	694	895	(201)	(264)	(294)	(259)
COORS (ADOLPH) -CL B	RKY	1,617	2,199	(582)	(717)	(793)	(691)
CORNING INC	GLW	1,517	1,890	(373)	(423)	(508)	(441)
COSTCO WHOLESALE CORP	COST	-	-	-	-	-	-
COUNTRYWIDE FINANCIAL CORP	CFC	57	142	(85)	(92)	(95)	(84)
CRANE CO	CR	425	427	(2)	(20)	(38)	(27)
CSX CORP	CSX	1,324	1,806	(482)	(483)	(515)	(424)
CUMMINS INC	CUM	1,581	2,227	(646)	(643)	(674)	(573)
CVS CORP	CVS	187	323	(136)	(132)	(133)	(111)
DANA CORP	DCN	2,121	2,808	(687)	(733)	(759)	(625)
DANAHER CORP	DHR	447	527	(80)	(93)	(115)	(96)
DARDEN RESTAURANTS INC	DRI	116	130	(14)	(21)	(28)	(26)
DEERE & CO	DE	5,024	6,840	(1,816)	(2,179)	(2,311)	(1,966)
DELL COMPUTER CORP	DELL	-	-	-	-	-	-
DELPHI CORP	DPH	5,628	9,712	(4,084)	(4,410)	(4,861)	(4,438)
DELTA AIR LINES INC	DAL	6,775	11,682	(4,907)	(4,555)	(4,567)	(3,828)
DELUXE CORP	DLX	-	-	-	-	-	-
DEVON ENERGY CORP	DVN	281	460	(179)	(187)	(197)	(175)
DILLARDS INC -CL A	DDS	-	64	(64)	(54)	(45)	(33)

Source: Company data, CSFB estimates.

Appendix E continued

Company Name	Ticker Symbol	Plan Assets 2002A	PBO 2002A	Over/ (Under) Funded 2002A	Estimated Over (Under) Funded 2003E	2004A	2005A
DISNEY (WALT) CO	DIS	$ 2,157	$ 2,388	$ (231)	$ (410)	$ (483)	$ (363)
DOLLAR GENERAL CORP	DG	-	-	-	-	-	-
DOMINION RESOURCES INC	D	3,074	2,801	273	189	90	182
DONNELLEY (R R) & SONS CO	DNY	1,487	1,635	(148)	(225)	(310)	(304)
DOVER CORP	DOV	200	271	(72)	(73)	(81)	(68)
DOW CHEMICAL	DOW	9,561	12,097	(2,536)	(3,154)	(3,742)	(3,575)
DOW JONES & CO INC	DJ	117	148	(31)	(36)	(36)	(27)
DTE ENERGY CO	DTE	1,845	2,549	(704)	(755)	(826)	(717)
DU PONT (E I) DE NEMOURS	DD	15,110	19,555	(4,445)	(5,424)	(6,003)	(5,218)
DUKE ENERGY CORP	DUK	2,375	3,005	(630)	(804)	(885)	(815)
DYNEGY INC	DYN	501	626	(125)	(167)	(209)	(210)
EASTMAN CHEMICAL CO	EMN	574	1,222	(648)	(592)	(565)	(472)
EASTMAN KODAK CO	EK	7,595	8,807	(1,212)	(1,434)	(1,671)	(1,486)
EATON CORP	ETN	1,480	1,996	(516)	(552)	(590)	(544)
EBAY INC	EBAY	-	-	-	-	-	-
ECOLAB INC	ECL	513	731	(218)	(245)	(261)	(220)
EDISON INTERNATIONAL	EIX	2,365	2,760	(395)	(562)	(731)	(718)
EL PASO CORP	EP	2,072	2,088	(16)	(57)	(105)	(39)
ELECTRONIC ARTS INC	ERTS	-	-	-	-	-	-
ELECTRONIC DATA SYSTEMS CORP	EDS	3,739	5,154	(1,415)	(1,982)	(2,547)	(2,530)
EMC CORP/MA	EMC	202	327	(125)	(114)	(113)	(83)
EMERSON ELECTRIC CO	EMR	1,982	2,213	(231)	(346)	(461)	(425)
ENGELHARD CORP	EC	405	541	(136)	(156)	(181)	(166)
ENTERGY CORP	ETR	1,452	1,992	(540)	(583)	(600)	(473)
EOG RESOURCES INC	EOG	-	-	-	-	-	-
EQUIFAX INC	EFX	376	477	(102)	(121)	(139)	(115)
EQUITY OFFICE PROPERTIES TR	EOP	-	-	-	-	-	-
EQUITY RESIDENTIAL	EQR	-	-	-	-	-	-
EXELON CORP	EXC	5,395	7,854	(2,459)	(2,506)	(2,653)	(2,238)
EXXON MOBIL CORP	XOM	11,351	22,682	(11,331)	(11,106)	(11,339)	(10,061)
FAMILY DOLLAR STORES	FDO	-	-	-	-	-	-
FANNIE MAE	FNM	234	391	(157)	(226)	(290)	(314)
FEDERAL HOME LOAN MORTG CORP	FRE	139	179	(40)	(50)	(58)	(50)
FEDERATED DEPT STORES	FD	1,276	1,699	(423)	(475)	(516)	(458)
FEDEX CORP	FDX	5,825	7,117	(1,292)	(2,012)	(2,746)	(2,887)
FIFTH THIRD BANCORP	FITB	177	243	(66)	(73)	(82)	(70)
FIRST DATA CORP	FDC	676	895	(219)	(232)	(243)	(202)
FIRST TENNESSEE NATL CORP	FTN	246	261	(14)	(32)	(50)	(49)
FIRSTENERGY CORP	FE	2,889	3,866	(977)	(1,119)	(1,214)	(1,029)
FISERV INC	FISV	-	-	-	-	-	-
FLEETBOSTON FINANCIAL CORP	FBF	1,932	2,217	(285)	(407)	(538)	(545)
FLUOR CORP	FLR	534	600	(67)	(77)	(84)	(47)
FORD MOTOR CO	F	42,240	57,851	(15,611)	(17,553)	(18,953)	(16,748)
FOREST LABORATORIES -CL A	FRX	-	-	-	-	-	-
FORTUNE BRANDS INC	FO	623	849	(226)	(254)	(275)	(236)
FPL GROUP INC	FPL	2,388	1,405	983	1,037	1,064	1,192
FRANKLIN RESOURCES INC	BEN	15	32	(17)	(17)	(18)	(16)
FREEPRT MCMOR COP&GLD -CL B	FCX	45	130	(85)	(81)	(77)	(66)
GANNETT CO	GCI	2,022	2,402	(380)	(523)	(667)	(658)
GAP INC	GPS	-	-	-	-	-	-
GATEWAY INC	GTW	-	-	-	-	-	-

Source: Company data, CSFB estimates.

Appendix E continued

Company Name	Ticker Symbol	Plan Assets 2002A	PBO 2002A	Over/ (Under) Funded 2002A	Estimated Over (Under) Funded 2003E	2004A	2005A
GENERAL DYNAMICS CORP	GD	$ 5,329	$ 5,599	$ (270)	$ (544)	$ (833)	$ (746)
GENERAL ELECTRIC CO	GE	37,811	33,266	4,545	3,621	2,410	3,283
GENERAL MILLS INC	GIS	2,541	2,765	(224)	(321)	(413)	(312)
GENERAL MOTORS CORP	GM	66,803	92,243	(25,440)	(14,801)	(17,551)	(15,085)
GENUINE PARTS CO	GPC	655	770	(115)	(171)	(227)	(223)
GENZYME CORP	GENZ	16	30	(15)	(16)	(16)	(14)
GEORGIA-PACIFIC CORP	GP	3,143	4,117	(974)	(1,049)	(1,093)	(886)
GILLETTE CO	G	1,935	2,365	(430)	(534)	(558)	(488)
GOLDEN WEST FINANCIAL CORP	GDW	-	-	-	-	-	-
GOLDMAN SACHS GROUP INC	GS	373	407	(34)	(87)	(94)	(62)
GOODRICH CORP	GR	1,990	2,536	(546)	(592)	(697)	(589)
GOODYEAR TIRE & RUBBER CO	GT	3,602	5,830	(2,228)	(2,207)	(2,204)	(1,822)
GRAINGER (W W) INC	GWW	-	-	-	-	-	-
GREAT LAKES CHEMICAL CORP	GLK	179	286	(107)	(122)	(131)	(118)
GUIDANT CORP	GDT	55	91	(36)	(39)	(42)	(38)
HALLIBURTON CO	HAL	1,999	2,383	(384)	(393)	(368)	(131)
HANCOCK JOHN FINL SVCS INC	JHF	1,938	2,098	(159)	(217)	(277)	(220)
HARLEY-DAVIDSON INC	HDI	309	567	(258)	(279)	(297)	(267)
HARRAHS ENTERTAINMENT INC	HET	-	-	-	-	-	-
HARTFORD FINL SVCS GRP INC	HIG	1,487	2,588	(1,101)	(1,084)	(1,137)	(979)
HASBRO INC	HAS	147	221	(74)	(82)	(88)	(79)
HCA INC	HCA	-	-	-	-	-	-
HEALTH MANAGEMENT ASSOC	HMA	-	-	-	-	-	-
HEALTHSOUTH CORP	HRC	-	-	-	-	-	-
HEINZ (H J) CO	HNZ	1,512	1,923	(411)	(507)	(593)	(546)
HERCULES INC	HPC	1,139	1,528	(389)	(419)	(453)	(389)
HERSHEY FOODS CORP	HSY	717	816	(99)	(153)	(208)	(209)
HEWLETT-PACKARD CO	HPQ	5,125	7,785	(2,660)	(2,873)	(2,982)	(2,543)
HILTON HOTELS CORP	HLT	253	257	(4)	35	68	104
HOME DEPOT INC	HD	-	-	-	-	-	-
HONEYWELL INTERNATIONAL INC	HON	10,178	11,660	(1,482)	(1,922)	(2,366)	(2,143)
HOUSEHOLD INTERNATIONAL INC	HI	838	828	10	(36)	(87)	(81)
HUMANA INC	HUM	-	-	-	-	-	-
HUNTINGTON BANCSHARES	HBAN	247	253	(7)	(18)	(31)	(29)
ILLINOIS TOOL WORKS	ITW	993	1,237	(245)	(271)	(290)	(234)
IMS HEALTH INC	RX	151	196	(45)	(52)	(57)	(56)
INGERSOLL-RAND CO LTD	IR	2,230	2,767	(537)	(592)	(632)	(506)
INTEL CORP	INTC	163	270	(107)	(120)	(129)	(116)
INTERPUBLIC GROUP OF COS	IPG	213	395	(183)	(182)	(183)	(157)
INTL BUSINESS MACHINES CORP	IBM	57,621	64,056	(6,435)	(8,413)	(10,284)	(8,023)
INTL FLAVORS & FRAGRANCES	IFF	534	703	(168)	(191)	(208)	(193)
INTL GAME TECHNOLOGY	IGT	-	-	-	-	-	-
INTL PAPER CO	IP	5,584	7,111	(1,527)	(1,844)	(2,137)	(1,839)
INTUIT INC	INTU	-	-	-	-	-	-
ITT INDUSTRIES INC	ITT	2,735	4,059	(1,324)	(1,463)	(1,556)	(1,365)
J P MORGAN CHASE & CO	JPM	5,395	5,570	(175)	(420)	(698)	(663)
JABIL CIRCUIT INC	JBL	51	59	(8)	(9)	(10)	(6)
JANUS CAPITAL GROUP INC	JNS	-	-	-	-	-	-
JDS UNIPHASE CORP	JDSU	-	-	-	-	-	-
JEFFERSON-PILOT CORP	JP	331	322	9	(5)	(21)	(15)
JOHNSON & JOHNSON	JNJ	4,705	6,051	(1,346)	(1,546)	(1,688)	(1,669)

Source: Company data, CSFB estimates.

Appendix E continued

Company Name	Ticker Symbol	Plan Assets 2002A	PBO 2002A	Over/ (Under) Funded 2002A	Estimated Over (Under) Funded 2003E	2004A	2005A
JOHNSON CONTROLS INC	JCI	$ 1,245	$ 1,815	$ (570)	$ (668)	$ (748)	$ (687)
JONES APPAREL GROUP INC	JNY	23	36	(13)	(10)	(8)	(6)
KB HOME	KBH	-	-	-	-	-	-
KELLOGG CO	K	1,850	2,261	(412)	(534)	(653)	(631)
KERR-MCGEE CORP	KMG	1,190	1,147	43	28	8	48
KEYCORP	KEY	717	846	(129)	(189)	(255)	(277)
KEYSPAN CORP	KSE	1,545	2,080	(536)	(607)	(659)	(572)
KIMBERLY-CLARK CORP	KMB	3,407	4,393	(986)	(1,087)	(1,173)	(980)
KINDER MORGAN INC	KMI	148	162	(15)	(26)	(38)	(40)
KING PHARMACEUTICALS INC	KG	-	-	-	-	-	-
KLA-TENCOR CORP	KLAC	2	12	(10)	(10)	(9)	(8)
KNIGHT-RIDDER INC	KRI	1,045	1,290	(245)	(335)	(426)	(378)
KOHLS CORP	KSS	-	-	-	-	-	-
KROGER CO	KR	1,089	1,666	(577)	(643)	(706)	(653)
LEGGETT & PLATT INC	LEG	142	134	8	4	1	7
LEHMAN BROTHERS HOLDINGS INC	LEH	867	917	(50)	(95)	(139)	(111)
LEXMARK INTL INC -CL A	LXK	417	643	(226)	(232)	(247)	(216)
LILLY (ELI) & CO	LLY	3,161	3,941	(780)	(1,028)	(1,346)	(1,202)
LIMITED BRANDS INC	LTD	-	-	-	-	-	-
LINCOLN NATIONAL CORP	LNC	392	521	(129)	(147)	(159)	(135)
LINEAR TECHNOLOGY CORP	LLTC	-	-	-	-	-	-
LIZ CLAIBORNE INC	LIZ	-	-	-	-	-	-
LOCKHEED MARTIN CORP	LMT	17,661	21,918	(4,257)	(5,581)	(6,887)	(6,790)
LOEWS CORP	LTR	2,839	3,118	(278)	(313)	(336)	(222)
LOUISIANA-PACIFIC CORP	LPX	145	232	(86)	(87)	(91)	(81)
LOWES COS	LOW	-	-	-	-	-	-
LSI LOGIC CORP	LSI	-	-	-	-	-	-
LUCENT TECHNOLOGIES INC	LU	28,598	30,312	(1,714)	(1,870)	(2,141)	(1,108)
MANOR CARE INC	HCR	42	31	11	12	14	16
MARATHON OIL CORP	MRO	769	1,286	(517)	(572)	(610)	(557)
MARRIOTT INTL INC	MAR	-	-	-	-	-	-
MARSH & MCLENNAN COS	MMC	4,963	5,969	(1,006)	(1,356)	(1,692)	(1,594)
MARSHALL & ILSLEY CORP	MI	-	-	-	-	-	-
MASCO CORP	MAS	273	456	(182)	(201)	(217)	(196)
MATTEL INC	MAT	196	216	(19)	(28)	(35)	(28)
MAXIM INTEGRATED PRODUCTS	MXIM	-	-	-	-	-	-
MAY DEPARTMENT STORES CO	MAY	494	902	(408)	(394)	(383)	(317)
MAYTAG CORP	MYG	854	1,495	(641)	(606)	(613)	(515)
MBIA INC	MBI	-	-	-	-	-	-
MBNA CORP	KRB	263	574	(310)	(349)	(377)	(351)
MCDERMOTT INTL INC	MDR	1,580	2,043	(463)	(532)	(581)	(493)
MCDONALDS CORP	MCD	-	-	-	-	-	-
MCGRAW-HILL COMPANIES	MHP	774	671	103	80	51	67
MCKESSON CORP	MCK	291	363	(72)	(80)	(86)	(68)
MEADWESTVACO CORP	MWV	2,732	2,441	291	271	229	306
MEDIMMUNE INC	MEDI	-	-	-	-	-	-
MEDTRONIC INC	MDT	488	481	8	(37)	(86)	(96)
MELLON FINANCIAL CORP	MEL	1,430	1,135	295	273	240	292
MERCK & CO	MRK	3,105	4,410	(1,305)	(1,564)	(1,865)	(1,815)
MERCURY INTERACTIVE CORP	MERQ	-	-	-	-	-	-
MEREDITH CORP	MDP	55	68	(12)	(13)	(13)	(10)

Source: Company data, CSFB estimates.

Appendix E continued

Company Name	Ticker Symbol	Plan Assets 2002A	PBO 2002A	Over/ (Under) Funded 2002A	Estimated Over (Under) Funded 2003E	2004A	2005A
MERRILL LYNCH & CO	MER	$ 2,741	$ 2,425	$ 316	$ 289	$ 254	$ 388
METLIFE INC	MET	4,053	4,785	(732)	(356)	60	724
MGIC INVESTMENT CORP/WI	MTG	91	111	(20)	(24)	(27)	(20)
MICRON TECHNOLOGY INC	MU	-	-	-	-	-	-
MICROSOFT CORP	MSFT	-	-	-	-	-	-
MILLIPORE CORP	MIL	9	16	(7)	(6)	(6)	(5)
MIRANT CORP	MIR	127	224	(97)	(107)	(113)	(100)
MOLEX INC	MOLX	38	77	(39)	(38)	(36)	(28)
MONSANTO CO	MON	894	1,566	(672)	(603)	(585)	(481)
MOODYS CORP	MCO	72	53	18	13	7	6
MORGAN STANLEY	MWD	1,286	1,721	(435)	(470)	(496)	(426)
MOTOROLA INC	MOT	2,438	3,957	(1,519)	(1,584)	(1,599)	(1,361)
NABORS INDUSTRIES LTD	NBR	9	14	(5)	(4)	(4)	(3)
NATIONAL CITY CORP	NCC	1,411	1,221	190	147	94	126
NATIONAL SEMICONDUCTOR CORP	NSM	78	194	(117)	(120)	(119)	(100)
NAVISTAR INTERNATIONL	NAV	2,578	3,570	(992)	(905)	(892)	(664)
NCR CORP	NCR	3,346	4,080	(734)	(928)	(1,110)	(1,029)
NETWORK APPLIANCE INC	NTAP	-	-	-	-	-	-
NEW YORK TIMES CO -CL A	NYT	678	1,124	(445)	(475)	(513)	(465)
NEWELL RUBBERMAID INC	NWL	728	991	(263)	(288)	(305)	(265)
NEWMONT MINING CORP	NEM	131	251	(120)	(114)	(115)	(100)
NEXTEL COMMUNICATIONS	NXTL	-	-	-	-	-	-
NICOR INC	GAS	338	252	86	88	87	99
NIKE INC -CL B	NKE	-	-	-	-	-	-
NISOURCE INC	NI	1,651	1,948	(297)	(385)	(476)	(407)
NOBLE CORP	NE	64	91	(27)	(30)	(32)	(27)
NORDSTROM INC	JWN	-	48	(48)	(40)	(33)	(22)
NORFOLK SOUTHERN CORP	NSC	1,469	1,370	99	85	63	117
NORTH FORK BANCORPORATION	NFB	92	88	4	1	(2)	(1)
NORTHERN TRUST CORP	NTRS	247	342	(96)	(95)	(94)	(76)
NORTHROP GRUMMAN CORP	NOC	18,532	21,524	(2,992)	(3,971)	(4,849)	(4,109)
NOVELL INC	NOVL	-	-	-	-	-	-
NOVELLUS SYSTEMS INC	NVLS	-	-	-	-	-	-
NUCOR CORP	NUE	-	-	-	-	-	-
NVIDIA CORP	NVDA	-	-	-	-	-	-
OCCIDENTAL PETROLEUM CORP	OXY	251	357	(106)	(115)	(121)	(101)
OFFICE DEPOT INC	ODP	-	-	-	-	-	-
OMNICOM GROUP	OMC	-	-	-	-	-	-
ORACLE CORP	ORCL	-	-	-	-	-	-
PACCAR INC	PCAR	577	673	(96)	(116)	(129)	(88)
PACTIV CORP	PTV	3,057	3,644	(587)	(717)	(837)	(733)
PALL CORP	PLL	169	297	(128)	(132)	(131)	(108)
PARAMETRIC TECHNOLOGY CORP	PMTC	65	100	(35)	(33)	(33)	(24)
PARKER-HANNIFIN CORP	PH	1,316	1,996	(680)	(726)	(742)	(613)
PAYCHEX INC	PAYX	-	-	-	-	-	-
PENNEY (J C) CO	JCP	2,972	3,277	(305)	(451)	(604)	(556)
PEOPLES ENERGY CORP	PGL	485	410	75	72	64	65
PEOPLESOFT INC	PSFT	-	-	-	-	-	-
PEPSI BOTTLING GROUP INC	PBG	538	953	(415)	(430)	(464)	(417)
PEPSICO INC	PEP	3,537	4,324	(787)	(1,098)	(1,415)	(1,452)
PERKINELMER INC	PKI	221	336	(115)	(122)	(132)	(116)

Source: Company data, CSFB estimates.

Appendix E continued

Company Name	Ticker Symbol	Plan Assets 2002A	PBO 2002A	Over/ (Under) Funded 2002A	Estimated Over (Under) Funded 2003E	2004A	2005A
PFIZER INC	PFE	$ 5,457	$ 8,012	$ (2,555)	$ (2,842)	$ (3,052)	$ (2,742)
PG&E CORP	PCG	6,189	6,781	(592)	(907)	(1,217)	(1,045)
PHARMACIA CORP	PHA	1,879	3,432	(1,553)	(1,581)	(1,675)	(1,524)
PHELPS DODGE CORP	PD	830	1,111	(281)	(295)	(323)	(271)
PINNACLE WEST CAPITAL	PNW	721	1,070	(349)	(399)	(439)	(397)
PITNEY BOWES INC	PBI	1,445	1,590	(145)	(204)	(263)	(222)
PLUM CREEK TIMBER CO INC	PCL	63	81	(18)	(20)	(22)	(18)
PMC-SIERRA INC	PMCS	-	-	-	-	-	-
PNC FINANCIAL SVCS GROUP INC	PNC	966	988	(22)	(68)	(119)	(114)
POWER-ONE INC	PWER	2	2	(0)	(0)	(0)	(0)
PPG INDUSTRIES INC	PPG	2,030	2,719	(689)	(843)	(945)	(841)
PPL CORP	PPL	3,133	3,684	(551)	(694)	(826)	(715)
PRAXAIR INC	PX	748	1,147	(399)	(421)	(441)	(379)
PRICE (T. ROWE) GROUP	TROW	-	-	-	-	-	-
PRINCIPAL FINANCIAL GRP INC	PFG	893	1,046	(153)	(205)	(279)	(243)
PROCTER & GAMBLE CO	PG	1,558	3,543	(1,985)	(2,047)	(2,112)	(1,922)
PROGRESS ENERGY INC	PGN	1,364	1,694	(330)	(436)	(541)	(535)
PROGRESSIVE CORP-OHIO	PGR	-	-	-	-	-	-
PROVIDIAN FINANCIAL CORP	PVN	-	-	-	-	-	-
PRUDENTIAL FINANCIAL INC	PRU	7,914	7,570	344	136	(99)	156
PUBLIC SERVICE ENTRP	PEG	2,131	2,968	(837)	(956)	(1,052)	(946)
PULTE HOMES INC	PHM	-	-	-	-	-	-
QLOGIC CORP	QLGC	-	-	-	-	-	-
QUALCOMM INC	QCOM	-	-	-	-	-	-
QUEST DIAGNOSTICS INC	DGX	-	-	-	-	-	-
QUINTILES TRANSNATIONAL CORP	QTRN	-	-	-	-	-	-
QWEST COMMUNICATION INTL INC	Q	11,121	9,625	1,496	1,512	1,408	1,657
RADIOSHACK CORP	RSH	-	-	-	-	-	-
RATIONAL SOFTWARE CORP	RATL	-	-	-	-	-	-
RAYTHEON CO	RTN	9,135	11,979	(2,844)	(3,122)	(3,527)	(3,093)
REEBOK INTERNATIONAL LTD	RBK	-	-	-	-	-	-
REGIONS FINL CORP	RF	255	291	(37)	(58)	(80)	(82)
RJ REYNOLDS TOBACCO HLDGS	RJR	1,915	2,848	(933)	(919)	(953)	(788)
ROBERT HALF INTL INC	RHI	-	-	-	-	-	-
ROCKWELL AUTOMATION	ROK	1,192	1,564	(372)	(442)	(498)	(434)
ROCKWELL COLLINS INC	COL	1,580	2,062	(482)	(571)	(643)	(564)
ROHM & HAAS CO	ROH	1,567	1,925	(358)	(482)	(533)	(445)
ROWAN COS INC	RDC	158	289	(131)	(140)	(151)	(139)
RYDER SYSTEM INC	R	756	1,024	(267)	(309)	(341)	(296)
SABRE HLDGS CORP -CL A	TSG	202	315	(113)	(132)	(147)	(134)
SAFECO CORP	SAFC	96	130	(33)	(32)	(33)	(28)
SAFEWAY INC	SWY	1,572	1,519	53	(39)	(144)	(152)
SANMINA-SCI CORP	SANM	-	-	-	-	-	-
SARA LEE CORP	SLE	2,791	4,363	(1,572)	(1,703)	(1,765)	(1,509)
SBC COMMUNICATIONS INC	SBC	24,999	26,148	(1,149)	(1,658)	(2,411)	(2,296)
SCHERING-PLOUGH	SGP	1,090	1,378	(288)	(402)	(444)	(452)
SCHLUMBERGER LTD	SLB	1,767	2,583	(816)	(925)	(1,003)	(884)
SCHWAB (CHARLES) CORP	SCH	252	281	(29)	(52)	(76)	(79)
SCIENTIFIC-ATLANTA INC	SFA	60	83	(23)	(28)	(32)	(35)
SEALED AIR CORP	SEE	122	145	(23)	(26)	(29)	(21)
SEARS ROEBUCK & CO	S	2,100	3,142	(1,042)	(986)	(1,004)	(847)

Source: Company data, CSFB estimates.

Appendix E continued

Company Name	Ticker Symbol	Plan Assets 2002A	PBO 2002A	Over/ (Under) Funded 2002A	Estimated Over (Under) Funded 2003E	2004A	2005A
SEMPRA ENERGY	SRE	$ 1,984	$ 2,290	$ (306)	$ (340)	$ (367)	$ (337)
SHERWIN-WILLIAMS CO	SHW	480	221	259	268	268	283
SIEBEL SYSTEMS INC	SEBL	-	-	-	-	-	-
SIGMA-ALDRICH	SIAL	130	141	(11)	(20)	(30)	(30)
SIMON PROPERTY GROUP INC	SPG	-	-	-	-	-	-
SLM CORP	SLM	147	139	8	(3)	(15)	(18)
SNAP-ON INC	SNA	461	624	(164)	(185)	(200)	(170)
SOLECTRON CORP	SLR	-	-	-	-	-	-
SOUTHERN CO	SO	4,600	4,094	506	409	295	478
SOUTHTRUST CORP	SOTR	163	254	(91)	(104)	(113)	(101)
SOUTHWEST AIRLINES	LUV	-	-	-	-	-	-
SPRINT FON GROUP	FON	2,448	3,536	(1,088)	(1,187)	(1,328)	(1,174)
SPRINT PCS GROUP	PCS	-	-	-	-	-	-
ST JUDE MEDICAL INC	STJ	-	-	-	-	-	-
ST PAUL COS	SPC	1,045	1,018	27	(14)	(63)	(55)
STANLEY WORKS	SWK	136	189	(53)	(51)	(48)	(44)
STAPLES INC	SPLS	-	-	-	-	-	-
STARBUCKS CORP	SBUX	-	-	-	-	-	-
STARWOOD HOTELS&RESORTS WRLD	HOT	96	146	(50)	(55)	(57)	(50)
STATE STREET CORP	STT	379	553	(174)	(189)	(198)	(166)
STRYKER CORP	SYK	47	87	(40)	(40)	(39)	(30)
SUN MICROSYSTEMS INC	SUNW	-	-	-	-	-	-
SUNGARD DATA SYSTEMS INC	SDS	-	-	-	-	-	-
SUNOCO INC	SUN	930	1,353	(423)	(377)	(367)	(293)
SUNTRUST BANKS INC	STI	1,026	1,136	(110)	(178)	(250)	(249)
SUPERVALU INC	SVU	393	502	(109)	(136)	(176)	(157)
SYMBOL TECHNOLOGIES	SBL	-	12	(12)	(11)	(10)	(7)
SYNOVUS FINANCIAL CP	SNV	-	-	-	-	-	-
SYSCO CORP	SYY	456	709	(253)	(298)	(334)	(309)
TARGET CORP	TGT	1,058	1,101	(43)	(126)	(217)	(234)
TECO ENERGY INC	TE	372	455	(83)	(113)	(128)	(129)
TEKTRONIX INC	TEK	476	773	(297)	(321)	(355)	(322)
TELLABS INC	TLAB	-	-	-	-	-	-
TEMPLE-INLAND INC	TIN	771	999	(228)	(290)	(323)	(312)
TENET HEALTHCARE CORP	THC	-	-	-	-	-	-
TERADYNE INC	TER	106	237	(131)	(140)	(150)	(141)
TEXAS INSTRUMENTS INC	TXN	1,038	1,939	(901)	(942)	(945)	(804)
TEXTRON INC	TXT	4,008	4,342	(334)	(515)	(703)	(620)
THERMO ELECTRON CORP	TMO	56	85	(29)	(32)	(33)	(29)
THOMAS & BETTS CORP	TNB	193	309	(116)	(120)	(127)	(111)
TIFFANY & CO	TIF	79	123	(43)	(48)	(50)	(42)
TJX COMPANIES INC	TJX	217	270	(53)	(63)	(71)	(55)
TMP WORLDWIDE INC	TMPW	-	-	-	-	-	-
TORCHMARK CORP	TMK	133	146	(14)	(22)	(31)	(31)
TOYS R US INC	TOY	-	-	-	-	-	-
TRANSOCEAN INC	RIG	189	296	(107)	(119)	(128)	(115)
TRAVELERS PPTY CAS CP -CL B	TAP.B	410	503	(93)	(116)	(133)	(106)
TRIBUNE CO	TRB	1,219	1,185	33	12	(18)	11
TUPPERWARE CORP	TUP	39	88	(49)	(45)	(42)	(36)
TXU CORP	TXU	1,595	2,019	(424)	(498)	(556)	(464)
TYCO INTERNATIONAL LTD	TYC	2,294	3,986	(1,693)	(1,734)	(1,793)	(1,591)

Source: Company data, CSFB estimates.

Appendix E continued

Company Name	Ticker Symbol	Plan Assets 2002A	PBO 2002A	Over/ (Under) Funded 2002A	Estimated Over (Under) Funded 2003E	2004A	2005A
U S BANCORP	USB	$ 1,443	$ 1,671	$ (228)	$ (312)	$ (403)	$ (409)
UNION PACIFIC CORP	UNP	1,802	2,482	(680)	(736)	(808)	(705)
UNION PLANTERS CORP	UPC	-	-	-	-	-	-
UNISYS CORP	UIS	4,549	5,442	(893)	(1,094)	(1,281)	(1,133)
UNITED PARCEL SERVICE INC	UPS	6,494	6,670	(176)	(570)	(976)	(857)
UNITED STATES STEEL CORP	X	7,247	7,638	(391)	(503)	(631)	(365)
UNITED TECHNOLOGIES CORP	UTX	10,025	13,925	(3,900)	(4,277)	(4,764)	(4,213)
UNITEDHEALTH GROUP INC	UNH	-	-	-	-	-	-
UNIVISION COMMUNICATIONS INC	UVN	-	-	-	-	-	-
UNOCAL CORP	UCL	882	1,197	(315)	(303)	(301)	(238)
UNUMPROVIDENT CORP	UNM	400	584	(184)	(212)	(231)	(202)
UST INC	UST	227	407	(180)	(192)	(207)	(191)
VERITAS SOFTWARE CO	VRTS	-	-	-	-	-	-
VERIZON COMMUNICATIONS	VZ	38,676	37,908	768	77	(815)	278
VF CORP	VFC	519	797	(278)	(304)	(330)	(297)
VIACOM INC -CL B	VIA.B	4,249	5,577	(1,328)	(1,329)	(1,341)	(1,068)
VISTEON CORP	VC	1,013	1,717	(704)	(785)	(838)	(754)
VULCAN MATERIALS CO	VMC	389	427	(38)	(66)	(96)	(74)
WACHOVIA CORP	WB	3,480	4,007	(527)	(770)	(1,033)	(1,074)
WALGREEN CO	WAG	-	-	-	-	-	-
WAL-MART STORES	WMT	-	-	-	-	-	-
WASHINGTON MUTUAL INC	WM	1,062	1,104	(42)	(106)	(177)	(181)
WASTE MANAGEMENT INC	WMI	22	24	(2)	(5)	(8)	(9)
WATERS CORP	WAT	24	44	(19)	(22)	(24)	(22)
WATSON PHARMACEUTICALS INC	WPI	-	-	-	-	-	-
WELLPOINT HLTH NETWRK -CL A	WLP	175	274	(99)	(109)	(117)	(106)
WELLS FARGO & CO	WFC	3,090	3,243	(153)	(394)	(665)	(743)
WENDY'S INTERNATIONAL INC	WEN	65	76	(11)	(12)	(14)	(11)
WEYERHAEUSER CO	WY	3,474	3,871	(397)	(577)	(763)	(713)
WHIRLPOOL CORP	WHR	1,271	1,675	(404)	(471)	(522)	(453)
WILLIAMS COS INC	WMB	703	907	(203)	(206)	(210)	(177)
WINN-DIXIE STORES INC	WIN	-	-	-	-	-	-
WORTHINGTON INDUSTRIES	WOR	15	25	(10)	(9)	(9)	(6)
WRIGLEY (WM) JR CO	WWY	380	435	(54)	(80)	(106)	(101)
WYETH	WYE	3,215	3,895	(680)	(805)	(1,000)	(892)
XCEL ENERGY INC	XEL	2,640	2,506	134	78	4	59
XEROX CORP	XRX	5,963	7,931	(1,968)	(2,140)	(2,272)	(1,987)
XILINX INC	XLNX	-	-	-	-	-	-
XL CAPITAL LTD	XL	-	-	-	-	-	-
YAHOO INC	YHOO	-	-	-	-	-	-
YUM BRANDS INC	YUM	251	501	(250)	(258)	(274)	(249)
ZIMMER HLDGS INC	ZMH	39	64	(25)	(28)	(31)	(26)
ZIONS BANCORPORATION	ZION	94	128	(34)	(38)	(42)	(36)
TOTALS		$ 965,568	$ 1,190,847	$ (225,279)	$ (246,640)	$ (281,995)	$ (242,187)

NOTE: FRE, Q, and SBL have not filed 2002 10-Ks; 2001 data are used wherever possible.
Source: Company data, CSFB estimates.

Appendix F

Exhibit 68: Pension Cost—Income/(Expense) for the S&P 500
US$ in millions

Company Name	Ticker Symbol	Pension Cost - Expense / (Income) 2001A	2002A	2003E	2004E	2005E
3M CO	MMM	$ 98	$ 141	$ 119	$ 234	$ 330
ABBOTT LABORATORIES	ABT	82	119	179	226	267
ACE LIMITED	ACE	-	1	(5)	1	4
ADC TELECOMMUNICATIONS INC	ADCT	-	-	-	-	-
ADOBE SYSTEMS INC.	ADBE	-	-	-	-	-
ADVANCED MICRO DEVICES	AMD	-	-	-	-	-
AES CORP. (THE)	AES	39	87	32	26	28
AETNA INC	AET	(37)	50	100	123	140
AFLAC INC	AFL	8	12	14	15	16
AGILENT TECHNOLOGIES INC	A	94	149	131	157	175
AIR PRODUCTS & CHEMICALS INC	APD	60	56	73	87	97
ALBERTO-CULVER CO -CL B	ACV	-	-	-	-	-
ALBERTSONS INC	ABS	(9)	12	35	33	33
ALCOA INC	AA	(33)	35	139	199	230
ALLEGHENY ENERGY INC	AYE	(5)	6	22	28	35
ALLEGHENY TECHNOLOGIES INC	ATI	(68)	(4)	83	81	82
ALLERGAN INC	AGN	11	11	10	15	19
ALLIED WASTE INDS INC	AW	(17)	(8)	3	2	1
ALLSTATE CORP	ALL	(6)	126	130	187	242
ALLTEL CORP	AT	8	9	39	40	41
ALTERA CORP	ALTR	-	-	-	-	-
ALTRIA GROUP INC	MO	(138)	154	74	200	346
AMBAC FINANCIAL GP	ABK	0	1	1	2	2
AMERADA HESS CORP	AHC	17	32	46	47	48
AMEREN CORP	AEE	4	18	47	53	64
AMERICAN ELECTRIC POWER	AEP	(65)	(44)	10	49	86
AMERICAN EXPRESS	AXP	73	99	90	122	148
AMERICAN GREETINGS -CL A	AM	(0)	1	0	(0)	(0)
AMERICAN INTERNATIONAL GROUP	AIG	66	114	133	159	172
AMERICAN PWR CNVRSION	APCC	-	-	-	-	-
AMERICAN STANDARD COS INC	ASD	33	56	63	66	71
AMERISOURCEBERGEN CORP	ABC	5	10	7	7	7
AMGEN INC	AMGN	-	-	-	-	-
AMR CORP/DE	AMR	268	522	683	690	704
AMSOUTH BANCORPORATION	ASO	(12)	(8)	(4)	6	14
ANADARKO PETROLEUM CORP	APC	11	16	24	29	33
ANALOG DEVICES	ADI	3	4	3	5	5
ANDREW CORP	ANDW	-	-	-	-	-
ANHEUSER-BUSCH COS INC	BUD	12	44	65	93	116
ANTHEM INC	ATH	11	14	7	18	35
AOL TIME WARNER INC	AOL	64	94	129	143	151
AON CORP	AOC	(11)	56	82	142	190
APACHE CORP	APA	-	-	-	-	-
APOLLO GROUP INC -CL A	APOL	-	-	-	-	-
APPLE COMPUTER INC	AAPL	-	-	-	-	-
APPLERA CORP APPLIED BIOSYS	ABI.CM	5	9	16	15	15
APPLIED MATERIALS INC	AMAT	-	-	-	-	-
APPLIED MICRO CIRCUITS CORP	AMCC	-	-	-	-	-
ARCHER-DANIELS-MIDLAND CO	ADM	37	42	54	66	75

Source: Company data, CSFB estimates.

Appendix F continued

Company Name	Ticker Symbol	Pension Cost - Expense / (Income) 2001A	2002A	2003E	2004E	2005E
ASHLAND INC	ASH	46	74	77	83	86
AT&T CORP	T	(246)	(232)	(68)	(68)	(53)
AT&T WIRELESS SERVICES INC	AWE	-	-	-	-	-
AUTODESK INC	ADSK	-	-	-	-	-
AUTOMATIC DATA PROCESSING	ADP	(1)	7	13	26	38
AUTOZONE INC	AZO	9	15	16	18	19
AVAYA INC	AV	457	6	45	62	79
AVERY DENNISON CORP	AVY	(13)	(9)	14	14	15
AVON PRODUCTS	AVP	47	42	53	65	76
BAKER-HUGHES INC	BHI	(8)	13	17	22	25
BALL CORP	BLL	4	11	37	40	44
BANK OF AMERICA CORP	BAC	24	166	159	265	353
BANK OF NEW YORK CO INC	BK	(98)	(95)	(59)	(47)	(23)
BANK ONE CORP	ONE	(14)	19	27	57	97
BARD (C.R.) INC	BCR	5	7	8	10	12
BAUSCH & LOMB INC	BOL	12	15	15	18	19
BAXTER INTERNATIONAL INC	BAX	(24)	(16)	9	46	84
BB&T CORP	BBT	20	36	28	38	44
BEAR STEARNS COMPANIES INC	BSC	-	-	-	-	-
BECTON DICKINSON & CO	BDX	21	35	38	51	61
BED BATH & BEYOND INC	BBBY	-	-	-	-	-
BELLSOUTH CORP	BLS	(797)	(826)	(473)	(410)	(333)
BEMIS CO	BMS	(13)	(5)	4	8	14
BEST BUY CO INC	BBY	-	-	-	-	-
BIG LOTS INC	BLI	4	5	5	5	5
BIOGEN INC	BGEN	4	6	6	7	7
BIOMET INC	BMET	-	-	-	-	-
BJ SERVICES CO	BJS	1	3	4	5	7
BLACK & DECKER CORP	BDK	(10)	(4)	20	38	55
BLOCK H & R INC	HRB	-	-	-	-	-
BMC SOFTWARE INC	BMC	-	-	-	-	-
BOEING CO	BA	(920)	(404)	23	468	960
BOISE CASCADE CORP	BCC	11	30	57	71	84
BOSTON SCIENTIFIC CORP	BSX	-	-	-	-	-
BRISTOL MYERS SQUIBB	BMY	77	45	73	136	204
BROADCOM CORP -CL A	BRCM	-	-	-	-	-
BROWN-FORMAN -CL B	BF.B	(12)	(10)	(1)	7	16
BRUNSWICK CORP	BC	10	22	42	41	42
BURLINGTON NORTHERN SANTA FE	BNI	10	(7)	11	22	33
BURLINGTON RESOURCES INC	BR	6	8	9	11	13
CALPINE CORP	CPN	-	-	-	-	-
CAMPBELL SOUP CO	CPB	(12)	(4)	25	43	59
CAPITAL ONE FINL CORP	COF	-	-	-	-	-
CARDINAL HEALTH INC	CAH	6	7	6	8	9
CARNIVAL CORP	CCL	-	-	-	-	-
CATERPILLAR INC	CAT	(163)	(73)	29	124	219
CENDANT CORP	CD	-	9	12	6	0
CENTERPOINT ENERGY INC	CNP	41	35	86	80	79
CENTEX CORP	CTX	-	-	-	-	-
CENTURYTEL INC	CTL	(8)	3	2	7	12
CHARTER ONE FINL INC	CF	-	-	-	-	-

Source: Company data, CSFB estimates.

Appendix F continued

Company Name	Ticker Symbol	Pension Cost - Expense / (Income) 2001A	2002A	2003E	2004E	2005E
CHEVRONTEXACO CORP	CVX	186	457	474	451	441
CHIRON CORP	CHIR	1	1	2	2	2
CHUBB CORP	CB	14	37	38	43	49
CIENA CORP	CIEN	-	-	-	-	-
CIGNA CORP	CI	69	91	117	143	185
CINCINNATI FINANCIAL CORP	CINF	(2)	-	4	7	8
CINERGY CORP	CIN	24	68	59	58	66
CINTAS CORP	CTAS	-	-	-	-	-
CIRCUIT CITY STR CRCT CTY GP	CC	12	13	13	17	20
CISCO SYSTEMS INC	CSCO	-	-	-	-	-
CITIGROUP INC	C	102	110	198	294	432
CITIZENS COMMUNICATIONS CO	CZN	7	4	16	20	23
CITRIX SYSTEMS INC	CTXS	-	-	-	-	-
CLEAR CHANNEL COMMUNICATIONS	CCU	-	-	-	-	-
CLOROX CO/DE	CLX	5	14	5	11	19
CMS ENERGY CORP	CMS	31	43	62	76	92
COCA-COLA CO	KO	62	72	72	92	104
COCA-COLA ENTERPRISES	CCE	42	49	74	96	114
COLGATE-PALMOLIVE CO	CL	39	57	37	51	60
COMCAST CORP -CL A SPL	CMCSA	-	3	18	13	9
COMERICA INC.	CMA	(1)	5	(4)	10	18
COMPUTER ASSOCIATES INTL INC	CA	-	-	-	-	-
COMPUTER SCIENCES CORP	CSC	89	121	142	163	176
COMPUWARE CORP	CPWR	-	-	-	-	-
COMVERSE TECHNOLOGY INC	CMVT	-	-	-	-	-
CONAGRA FOODS INC	CAG	37	77	86	97	104
CONCORD EFS INC	CE	-	-	-	-	-
CONOCOPHILLIPS	COP	79	228	236	248	278
CONSOLIDATED EDISON INC	ED	(310)	(256)	(88)	(50)	15
CONSTELLATION ENERGY GRP INC	CEG	21	26	47	53	62
CONVERGYS CORP	CVG	12	19	23	25	28
COOPER INDUSTRIES LTD	CBE	12	17	15	20	25
COOPER TIRE & RUBBER	CTB	27	33	48	50	51
COORS (ADOLPH) -CL B	RKY	12	19	75	79	74
CORNING INC	GLW	66	56	27	39	56
COSTCO WHOLESALE CORP	COST	-	-	-	-	-
COUNTRYWIDE FINANCIAL CORP	CFC	11	20	26	29	30
CRANE CO	CR	(7)	0	6	8	9
CSX CORP	CSX	14	3	41	51	62
CUMMINS INC	CUM	24	21	48	71	98
CVS CORP	CVS	1	2	4	4	5
DANA CORP	DCN	7	28	51	66	95
DANAHER CORP	DHR	(9)	2	(1)	4	15
DARDEN RESTAURANTS INC	DRI	(2)	(0)	1	3	4
DEERE & CO	DE	85	(24)	47	121	168
DELL COMPUTER CORP	DELL	-	-	-	-	-
DELPHI CORP	DPH	233	293	406	482	557
DELTA AIR LINES INC	DAL	(73)	155	303	392	532
DELUXE CORP	DLX	-	-	-	-	-
DEVON ENERGY CORP	DVN	7	16	8	11	19
DILLARDS INC -CL A	DDS	-	5	5	5	5

Source: Company data, CSFB estimates.

Appendix F continued

Company Name	Ticker Symbol	Pension Cost - Expense / (Income) 2001A	2002A	2003E	2004E	2005E
DISNEY (WALT) CO	DIS	$ (24)	$ 14	$ 55	$ 81	$ 100
DOLLAR GENERAL CORP	DG	-	-	-	-	-
DOMINION RESOURCES INC	D	(62)	(96)	(45)	(7)	24
DONNELLEY (R R) & SONS CO	DNY	(8)	12	2	21	39
DOVER CORP	DOV	(1)	7	8	12	15
DOW CHEMICAL	DOW	(95)	(145)	47	135	254
DOW JONES & CO INC	DJ	-	3	(1)	(0)	(0)
DTE ENERGY CO	DTE	159	(3)	49	74	90
DU PONT (E I) DE NEMOURS	DD	(374)	(217)	646	682	703
DUKE ENERGY CORP	DUK	(9)	(23)	18	61	96
DYNEGY INC	DYN	(4)	1	15	24	33
EASTMAN CHEMICAL CO	EMN	20	32	53	59	67
EASTMAN KODAK CO	EK	(172)	(159)	(105)	(44)	40
EATON CORP	ETN	(52)	22	45	64	93
EBAY INC	EBAY	-	-	-	-	-
ECOLAB INC	ECL	17	33	31	40	48
EDISON INTERNATIONAL	EIX	25	42	109	115	123
EL PASO CORP	EP	(54)	(101)	(60)	(31)	5
ELECTRONIC ARTS INC	ERTS	-	-	-	-	-
ELECTRONIC DATA SYSTEMS CORP	EDS	152	181	354	391	427
EMC CORP/MA	EMC	(0)	3	6	7	9
EMERSON ELECTRIC CO	EMR	(16)	10	28	48	70
ENGELHARD CORP	EC	8	12	17	22	26
ENTERGY CORP	ETR	2	38	60	78	96
EOG RESOURCES INC	EOG	-	-	-	-	-
EQUIFAX INC	EFX	(11)	(12)	(3)	2	7
EQUITY OFFICE PROPERTIES TR	EOP	-	-	-	-	-
EQUITY RESIDENTIAL	EQR	-	-	-	-	-
EXELON CORP	EXC	(74)	4	75	117	164
EXXON MOBIL CORP	XOM	451	995	1,201	1,112	1,098
FAMILY DOLLAR STORES	FDO	-	-	-	-	-
FANNIE MAE	FNM	14	27	76	85	92
FEDERAL HOME LOAN MORTG CORP	FRE	10	10	11	13	13
FEDERATED DEPT STORES	FD	1	4	17	40	62
FEDEX CORP	FDX	149	228	231	345	439
FIFTH THIRD BANCORP	FITB	2	13	1	3	5
FIRST DATA CORP	FDC	(7)	0	5	10	15
FIRST TENNESSEE NATL CORP	FTN	(4)	(3)	1	5	11
FIRSTENERGY CORP	FE	(24)	(29)	22	63	98
FISERV INC	FISV	-	-	-	-	-
FLEETBOSTON FINANCIAL CORP	FBF	(15)	(12)	8	43	79
FLUOR CORP	FLR	20	31	28	40	48
FORD MOTOR CO	F	(115)	97	843	1,133	1,760
FOREST LABORATORIES -CL A	FRX	-	-	-	-	-
FORTUNE BRANDS INC	FO	7	22	29	38	45
FPL GROUP INC	FPL	(110)	(110)	(99)	(82)	(50)
FRANKLIN RESOURCES INC	BEN	1	-	2	2	1
FREEPRT MCMOR COP&GLD -CL B	FCX	2	9	8	7	6
GANNETT CO	GCI	(14)	57	65	83	97
GAP INC	GPS	-	-	-	-	-
GATEWAY INC	GTW	-	-	-	-	-

Source: Company data, CSFB estimates.

Appendix F continued

Company Name	Ticker Symbol	Pension Cost - Expense / (Income) 2001A	2002A	2003E	2004E	2005E
GENERAL DYNAMICS CORP	GD	$ (33)	$ 12	$ 181	$ 187	$ 206
GENERAL ELECTRIC CO	GE	(2,095)	(1,556)	(104)	133	502
GENERAL MILLS INC	GIS	(85)	(82)	(25)	(5)	9
GENERAL MOTORS CORP	GM	550	1,805	2,641	2,077	2,675
GENUINE PARTS CO	GPC	(10)	1	13	25	34
GENZYME CORP	GENZ	1	2	2	2	2
GEORGIA-PACIFIC CORP	GP	17	176	148	182	236
GILLETTE CO	G	46	70	31	61	80
GOLDEN WEST FINANCIAL CORP	GDW	-	-	-	-	-
GOLDMAN SACHS GROUP INC	GS	32	40	37	47	51
GOODRICH CORP	GR	8	37	39	52	68
GOODYEAR TIRE & RUBBER CO	GT	138	216	246	296	372
GRAINGER (W W) INC	GWW	-	-	-	-	-
GREAT LAKES CHEMICAL CORP	GLK	3	7	13	16	18
GUIDANT CORP	GDT	(3)	1	(1)	1	3
HALLIBURTON CO	HAL	47	57	189	211	221
HANCOCK JOHN FINL SVCS INC	JHF	(76)	(24)	32	29	32
HARLEY-DAVIDSON INC	HDI	27	42	46	52	56
HARRAHS ENTERTAINMENT INC	HET	-	-	-	-	-
HARTFORD FINL SVCS GRP INC	HIG	57	67	137	149	162
HASBRO INC	HAS	(3)	7	14	14	14
HCA INC	HCA	-	-	-	-	-
HEALTH MANAGEMENT ASSOC	HMA	-	-	-	-	-
HEALTHSOUTH CORP	HRC	-	-	-	-	-
HEINZ (H J) CO	HNZ	(2)	21	18	41	60
HERCULES INC	HPC	(3)	6	18	32	45
HERSHEY FOODS CORP	HSY	130	64	29	36	42
HEWLETT-PACKARD CO	HPQ	226	579	243	294	393
HILTON HOTELS CORP	HLT	-	18	11	6	0
HOME DEPOT INC	HD	-	-	-	-	-
HONEYWELL INTERNATIONAL INC	HON	(310)	(147)	(68)	50	154
HOUSEHOLD INTERNATIONAL INC	HI	(38)	12	61	61	63
HUMANA INC	HUM	-	-	-	-	-
HUNTINGTON BANCSHARES	HBAN	(0)	(1)	(1)	3	8
ILLINOIS TOOL WORKS	ITW	(15)	29	46	57	71
IMS HEALTH INC	RX	5	4	6	8	10
INGERSOLL-RAND CO LTD	IR	4	37	40	56	71
INTEL CORP	INTC	-	31	33	36	38
INTERPUBLIC GROUP OF COS	IPG	14	17	37	34	31
INTL BUSINESS MACHINES CORP	IBM	(1,450)	(1,199)	(1,098)	(435)	532
INTL FLAVORS & FRAGRANCES	IFF	8	11	25	24	24
INTL GAME TECHNOLOGY	IGT	-	-	-	-	-
INTL PAPER CO	IP	(141)	(75)	38	114	182
INTUIT INC	INTU	-	-	-	-	-
ITT INDUSTRIES INC	ITT	(9)	(10)	41	88	128
J P MORGAN CHASE & CO	JPM	163	119	98	182	242
JABIL CIRCUIT INC	JBL	-	1	1	1	0
JANUS CAPITAL GROUP INC	JNS	-	-	-	-	-
JDS UNIPHASE CORP	JDSU	-	-	-	-	-
JEFFERSON-PILOT CORP	JP	(4)	(3)	8	7	10
JOHNSON & JOHNSON	JNJ	74	122	170	222	302

Source: Company data, CSFB estimates.

Appendix F continued

Company Name	Ticker Symbol	Pension Cost - Expense / (Income) 2001A	2002A	2003E	2004E	2005E
JOHNSON CONTROLS INC	JCI	27	45	79	91	98
JONES APPAREL GROUP INC	JNY	(0)	0	0	(1)	(2)
KB HOME	KBH	-	-	-	-	-
KELLOGG CO	K	(11)	(1)	(2)	33	70
KERR-MCGEE CORP	KMG	(44)	(36)	(20)	(0)	8
KEYCORP	KEY	(5)	6	25	38	51
KEYSPAN CORP	KSE	(51)	13	101	99	99
KIMBERLY-CLARK CORP	KMB	(20)	32	72	104	130
KINDER MORGAN INC	KMI	(2)	2	(0)	1	4
KING PHARMACEUTICALS INC	KG	-	-	-	-	-
KLA-TENCOR CORP	KLAC	-	3	2	2	2
KNIGHT-RIDDER INC	KRI	35	13	27	41	58
KOHLS CORP	KSS	-	-	-	-	-
KROGER CO	KR	29	55	79	99	114
LEGGETT & PLATT INC	LEG	(7)	(2)	10	1	1
LEHMAN BROTHERS HOLDINGS INC	LEH	(32)	26	51	48	48
LEXMARK INTL INC -CL A	LXK	(2)	(0)	6	13	20
LILLY (ELI) & CO	LLY	45	65	85	173	255
LIMITED BRANDS INC	LTD	-	-	-	-	-
LINCOLN NATIONAL CORP	LNC	16	18	28	28	29
LINEAR TECHNOLOGY CORP	LLTC	-	-	-	-	-
LIZ CLAIBORNE INC	LIZ	-	-	-	-	-
LOCKHEED MARTIN CORP	LMT	(354)	(160)	182	438	714
LOEWS CORP	LTR	68	61	78	71	69
LOUISIANA-PACIFIC CORP	LPX	15	15	15	17	20
LOWES COS	LOW	-	-	-	-	-
LSI LOGIC CORP	LSI	-	-	-	-	-
LUCENT TECHNOLOGIES INC	LU	1,090	(575)	(453)	(377)	(130)
MANOR CARE INC	HCR	(3)	(3)	(3)	(3)	(2)
MARATHON OIL CORP	MRO	25	55	78	96	110
MARRIOTT INTL INC	MAR	-	-	-	-	-
MARSH & MCLENNAN COS	MMC	(49)	(22)	(13)	69	156
MARSHALL & ILSLEY CORP	MI	-	-	-	-	-
MASCO CORP	MAS	12	14	16	20	23
MATTEL INC	MAT	(6)	(5)	(2)	1	4
MAXIM INTEGRATED PRODUCTS	MXIM	-	-	-	-	-
MAY DEPARTMENT STORES CO	MAY	62	72	97	97	97
MAYTAG CORP	MYG	42	79	83	88	95
MBIA INC	MBI	-	-	-	-	-
MBNA CORP	KRB	34	67	79	87	92
MCDERMOTT INTL INC	MDR	(18)	26	579	38	38
MCDONALDS CORP	MCD	-	-	-	-	-
MCGRAW-HILL COMPANIES	MHP	(52)	(50)	(21)	(14)	(8)
MCKESSON CORP	MCK	(10)	2	10	9	8
MEADWESTVACO CORP	MWV	(135)	(87)	(116)	(59)	(28)
MEDIMMUNE INC	MEDI	-	-	-	-	-
MEDTRONIC INC	MDT	9	22	24	35	43
MELLON FINANCIAL CORP	MEL	(120)	(97)	(51)	(39)	(20)
MERCK & CO	MRK	148	198	303	348	396
MERCURY INTERACTIVE CORP	MERQ	-	-	-	-	-
MEREDITH CORP	MDP	5	5	5	6	6

Source: Company data, CSFB estimates.

Appendix F continued

Company Name	Ticker Symbol	Pension Cost - Expense / (Income) 2001A	2002A	2003E	2004E	2005E
MERRILL LYNCH & CO	MER	6	39	49	44	43
METLIFE INC	MET	29	101	93	112	127
MGIC INVESTMENT CORP/WI	MTG	4	7	11	11	11
MICRON TECHNOLOGY INC	MU	-	-	-	-	-
MICROSOFT CORP	MSFT	-	-	-	-	-
MILLIPORE CORP	MIL	(0)	0	0	0	0
MIRANT CORP	MIR	15	13	20	20	19
MOLEX INC	MOLX	6	6	7	7	8
MONSANTO CO	MON	-	22	(74)	(28)	0
MOODYS CORP	MCO	(1)	(1)	1	2	4
MORGAN STANLEY	MWD	68	121	102	121	136
MOTOROLA INC	MOT	212	154	206	253	317
NABORS INDUSTRIES LTD	NBR	0	0	1	0	0
NATIONAL CITY CORP	NCC	(66)	(57)	(25)	(17)	(10)
NATIONAL SEMICONDUCTOR CORP	NSM	7	9	0	1	3
NAVISTAR INTERNATIONL	NAV	46	77	99	76	71
NCR CORP	NCR	(124)	(74)	(25)	27	68
NETWORK APPLIANCE INC	NTAP	-	-	-	-	-
NEW YORK TIMES CO -CL A	NYT	37	33	37	45	52
NEWELL RUBBERMAID INC	NWL	(3)	8	18	29	47
NEWMONT MINING CORP	NEM	29	13	16	16	17
NEXTEL COMMUNICATIONS	NXTL	-	-	-	-	-
NICOR INC	GAS	(22)	(13)	(0)	(1)	(1)
NIKE INC -CL B	NKE	-	-	-	-	-
NISOURCE INC	NI	(9)	22	76	72	78
NOBLE CORP	NE	6	6	7	8	8
NORDSTROM INC	JWN	6	8	8	7	6
NORFOLK SOUTHERN CORP	NSC	(116)	(80)	(41)	(34)	(22)
NORTH FORK BANCORPORATION	NFB	(2)	(0)	3	3	3
NORTHERN TRUST CORP	NTRS	11	10	16	19	22
NORTHROP GRUMMAN CORP	NOC	(337)	(94)	12	97	206
NOVELL INC	NOVL	-	-	-	-	-
NOVELLUS SYSTEMS INC	NVLS	-	-	-	-	-
NUCOR CORP	NUE	-	-	-	-	-
NVIDIA CORP	NVDA	-	-	-	-	-
OCCIDENTAL PETROLEUM CORP	OXY	14	11	30	30	31
OFFICE DEPOT INC	ODP	-	-	-	-	-
OMNICOM GROUP	OMC	-	-	-	-	-
ORACLE CORP	ORCL	-	-	-	-	-
PACCAR INC	PCAR	26	28	24	28	35
PACTIV CORP	PTV	(113)	(109)	(42)	12	60
PALL CORP	PLL	8	12	15	17	20
PARAMETRIC TECHNOLOGY CORP	PMTC	2	4	5	5	4
PARKER-HANNIFIN CORP	PH	25	55	77	105	125
PAYCHEX INC	PAYX	-	-	-	-	-
PENNEY (J C) CO	JCP	(55)	55	123	123	130
PEOPLES ENERGY CORP	PGL	(20)	(23)	2	5	10
PEOPLESOFT INC	PSFT	-	-	-	-	-
PEPSI BOTTLING GROUP INC	PBG	22	25	47	55	63
PEPSICO INC	PEP	83	111	128	192	245
PERKINELMER INC	PKI	2	3	6	7	9

Source: Company data, CSFB estimates.

Appendix F continued

Company Name	Ticker Symbol	Pension Cost - Expense / (Income) 2001A	2002A	2003E	2004E	2005E
PFIZER INC	PFE	169	358	621	620	623
PG&E CORP	PCG	(125)	43	252	248	253
PHARMACIA CORP	PHA	73	133	281	273	262
PHELPS DODGE CORP	PD	(13)	14	19	26	34
PINNACLE WEST CAPITAL	PNW	12	27	36	46	53
PITNEY BOWES INC	PBI	(1)	(3)	(18)	3	21
PLUM CREEK TIMBER CO INC	PCL	3	4	7	6	6
PMC-SIERRA INC	PMCS	-	-	-	-	-
PNC FINANCIAL SVCS GROUP INC	PNC	2	23	7	22	35
POWER-ONE INC	PWER	-	0	(0)	(0)	(0)
PPG INDUSTRIES INC	PPG	(53)	54	171	170	170
PPL CORP	PPL	(57)	(42)	(216)	(105)	(28)
PRAXAIR INC	PX	9	15	34	38	50
PRICE (T. ROWE) GROUP	TROW	-	-	-	-	-
PRINCIPAL FINANCIAL GRP INC	PFG	(33)	7	46	49	53
PROCTER & GAMBLE CO	PG	151	192	196	216	232
PROGRESS ENERGY INC	PGN	(47)	(15)	85	87	93
PROGRESSIVE CORP-OHIO	PGR	-	-	-	-	-
PROVIDIAN FINANCIAL CORP	PVN	-	-	-	-	-
PRUDENTIAL FINANCIAL INC	PRU	(457)	(395)	(243)	(144)	(54)
PUBLIC SERVICE ENTRP	PEG	58	89	168	163	164
PULTE HOMES INC	PHM	-	-	-	-	-
QLOGIC CORP	QLGC	-	-	-	-	-
QUALCOMM INC	QCOM	-	-	-	-	-
QUEST DIAGNOSTICS INC	DGX	-	-	-	-	-
QUINTILES TRANSNATIONAL CORP	QTRN	-	-	-	-	-
QWEST COMMUNICATION INTL INC	Q	(360)	(360)	(9)	63	174
RADIOSHACK CORP	RSH	-	-	-	-	-
RATIONAL SOFTWARE CORP	RATL	-	-	-	-	-
RAYTHEON CO	RTN	(286)	(80)	121	271	418
REEBOK INTERNATIONAL LTD	RBK	-	-	-	-	-
REGIONS FINL CORP	RF	1	7	14	16	17
RJ REYNOLDS TOBACCO HLDGS	RJR	(3)	39	57	70	87
ROBERT HALF INTL INC	RHI	-	-	-	-	-
ROCKWELL AUTOMATION	ROK	10	25	46	54	61
ROCKWELL COLLINS INC	COL	(5)	(8)	33	51	64
ROHM & HAAS CO	ROH	(50)	41	33	59	78
ROWAN COS INC	RDC	5	8	15	17	20
RYDER SYSTEM INC	R	(1)	29	62	62	62
SABRE HLDGS CORP -CL A	TSG	13	6	8	12	14
SAFECO CORP	SAFC	5	8	6	5	6
SAFEWAY INC	SWY	(27)	30	99	105	112
SANMINA-SCI CORP	SANM	-	-	-	-	-
SARA LEE CORP	SLE	85	138	174	204	224
SBC COMMUNICATIONS INC	SBC	(1,450)	(1,137)	(529)	(114)	413
SCHERING-PLOUGH	SGP	(1)	23	35	64	82
SCHLUMBERGER LTD	SLB	44	82	120	147	172
SCHWAB (CHARLES) CORP	SCH	(12)	-	18	19	19
SCIENTIFIC-ATLANTA INC	SFA	4	8	8	9	9
SEALED AIR CORP	SEE	2	5	(0)	1	2
SEARS ROEBUCK & CO	S	68	70	134	155	178

Source: Company data, CSFB estimates.

Appendix F continued

Company Name	Ticker Symbol	Pension Cost - Expense / (Income) 2001A	2002A	2003E	2004E	2005E
SEMPRA ENERGY	SRE	(15)	24	43	50	59
SHERWIN-WILLIAMS CO	SHW	(29)	(23)	4	2	2
SIEBEL SYSTEMS INC	SEBL	-	-	-	-	-
SIGMA-ALDRICH	SIAL	3	5	5	7	9
SIMON PROPERTY GROUP INC	SPG	-	-	-	-	-
SLM CORP	SLM	1	(2)	1	5	8
SNAP-ON INC	SNA	(6)	(0)	5	9	17
SOLECTRON CORP	SLR	-	-	-	-	-
SOUTHERN CO	SO	(124)	(117)	(38)	-	13
SOUTHTRUST CORP	SOTR	17	24	20	25	26
SOUTHWEST AIRLINES	LUV	-	-	-	-	-
SPRINT FON GROUP	FON	(66)	(2)	93	147	192
SPRINT PCS GROUP	PCS	18	24	-	-	-
ST JUDE MEDICAL INC	STJ	-	-	-	-	-
ST PAUL COS	SPC	(7)	26	1	19	35
STANLEY WORKS	SWK	(43)	(39)	30	27	24
STAPLES INC	SPLS	-	-	-	-	-
STARBUCKS CORP	SBUX	-	-	-	-	-
STARWOOD HOTELS&RESORTS WRLD	HOT	(15)	(1)	(3)	5	6
STATE STREET CORP	STT	36	53	61	61	65
STRYKER CORP	SYK	5	6	5	6	7
SUN MICROSYSTEMS INC	SUNW	-	-	-	-	-
SUNGARD DATA SYSTEMS INC	SDS	-	-	-	-	-
SUNOCO INC	SUN	5	26	73	66	65
SUNTRUST BANKS INC	STI	8	26	24	41	55
SUPERVALU INC	SVU	7	13	16	23	29
SYMBOL TECHNOLOGIES	SBL	3	3	2	2	2
SYNOVUS FINANCIAL CP	SNV	-	-	-	-	-
SYSCO CORP	SYY	30	51	60	68	73
TARGET CORP	TGT	32	24	31	52	71
TECO ENERGY INC	TE	(9)	(5)	4	7	13
TEKTRONIX INC	TEK	(8)	(0)	3	12	21
TELLABS INC	TLAB	-	-	-	-	-
TEMPLE-INLAND INC	TIN	(18)	9	10	22	32
TENET HEALTHCARE CORP	THC	-	-	-	-	-
TERADYNE INC	TER	10	9	15	16	17
TEXAS INSTRUMENTS INC	TXN	85	88	121	132	137
TEXTRON INC	TXT	(96)	(101)	(9)	22	71
THERMO ELECTRON CORP	TMO	2	2	3	4	4
THOMAS & BETTS CORP	TNB	7	11	18	17	17
TIFFANY & CO	TIF	7	8	10	10	11
TJX COMPANIES INC	TJX	16	29	27	28	28
TMP WORLDWIDE INC	TMPW	-	-	-	-	-
TORCHMARK CORP	TMK	3	2	4	4	5
TOYS R US INC	TOY	-	-	-	-	-
TRANSOCEAN INC	RIG	10	17	20	25	28
TRAVELERS PPTY CAS CP -CL B	TAP.B	-	9	34	24	15
TRIBUNE CO	TRB	(4)	(52)	(19)	3	23
TUPPERWARE CORP	TUP	5	5	5	5	6
TXU CORP	TXU	(16)	8	38	46	60
TYCO INTERNATIONAL LTD	TYC	(26)	133	197	208	215

Source: Company data, CSFB estimates.

Appendix F continued

Company Name	Ticker Symbol	Pension Cost - Expense / (Income) 2001A	2002A	2003E	2004E	2005E
U S BANCORP	USB	(65)	(64)	(49)	(14)	20
UNION PACIFIC CORP	UNP	(23)	12	35	44	69
UNION PLANTERS CORP	UPC	-	-	-	-	-
UNISYS CORP	UIS	(170)	(144)	(69)	0	64
UNITED PARCEL SERVICE INC	UPS	(30)	18	107	178	227
UNITED STATES STEEL CORP	X	(120)	(3)	210	187	189
UNITED TECHNOLOGIES CORP	UTX	78	105	207	329	447
UNITEDHEALTH GROUP INC	UNH	-	-	-	-	-
UNIVISION COMMUNICATIONS INC	UVN	-	-	-	-	-
UNOCAL CORP	UCL	(1)	40	41	51	61
UNUMPROVIDENT CORP	UNM	(17)	3	21	29	35
UST INC	UST	13	20	25	27	27
VERITAS SOFTWARE CO	VRTS	-	-	-	-	-
VERIZON COMMUNICATIONS	VZ	(1,848)	(1,660)	(997)	(752)	(392)
VF CORP	VFC	20	28	49	48	48
VIACOM INC -CL B	VIA.B	26	49	107	126	139
VISTEON CORP	VC	143	174	109	119	135
VULCAN MATERIALS CO	VMC	(9)	(3)	8	14	18
WACHOVIA CORP	WB	2	43	79	139	192
WALGREEN CO	WAG	-	-	-	-	-
WAL-MART STORES	WMT	-	-	-	-	-
WASHINGTON MUTUAL INC	WM	24	46	40	53	67
WASTE MANAGEMENT INC	WMI	2	2	3	3	3
WATERS CORP	WAT	3	3	4	5	5
WATSON PHARMACEUTICALS INC	WPI	-	-	-	-	-
WELLPOINT HLTH NETWRK -CL A	WLP	12	17	17	21	25
WELLS FARGO & CO	WFC	(49)	150	181	201	224
WENDY'S INTERNATIONAL INC	WEN	2	2	2	3	5
WEYERHAEUSER CO	WY	(234)	(106)	(75)	(44)	12
WHIRLPOOL CORP	WHR	(70)	(37)	35	57	81
WILLIAMS COS INC	WMB	12	63	37	47	56
WINN-DIXIE STORES INC	WIN	-	-	-	-	-
WORTHINGTON INDUSTRIES	WOR	1	1	2	2	2
WRIGLEY (WM) JR CO	WWY	9	17	10	15	19
WYETH	WYE	75	137	159	182	202
XCEL ENERGY INC	XEL	(77)	(84)	(67)	(27)	(7)
XEROX CORP	XRX	99	195	204	243	267
XILINX INC	XLNX	-	-	-	-	-
XL CAPITAL LTD	XL	-	-	-	-	-
YAHOO INC	YHOO	-	-	-	-	-
YUM BRANDS INC	YUM	21	28	39	43	47
ZIMMER HLDGS INC	ZMH	3	10	9	11	12
ZIONS BANCORPORATION	ZION	6	11	15	15	16
Totals		$ (6,989)	$ 3,523	$ 18,758	$ 26,141	$ 36,663

NOTE: FRE, Q, and SBL have not filed 2002 10-Ks; 2001 data are used wherever possible.

Source: Company data, CSFB estimates.

Appendix G

Exhibit 69: Assumptions for the S&P 500

%

Company Name	Ticker Symbol	Expected Return (%) 2001	Expected Return (%) 2002	Discount Rate (%) 2001	Discount Rate (%) 2002	Salary Inflation (%) 2001	Salary Inflation (%) 2002
3M CO	MMM	8.61	8.55	6.70	6.19	4.44	4.31
ABBOTT LABORATORIES	ABT	9.50	8.75	7.25	6.75	5.00	4.50
ACE LIMITED	ACE		3.35		5.06		7.81
ADC TELECOMMUNICATIONS INC	ADCT						
ADOBE SYSTEMS INC.	ADBE						
ADVANCED MICRO DEVICES	AMD						
AES CORP. (THE)	AES	9.10	11.64	7.00	8.05	3.20	4.53
AETNA INC	AET	9.25	9.00	7.50	6.75	4.50	3.75
AFLAC INC	AFL	6.09	5.75	4.90	4.72	3.77	3.75
AGILENT TECHNOLOGIES INC	A	8.07	7.44	5.65	5.29	4.96	4.48
AIR PRODUCTS & CHEMICALS INC	APD	9.50	9.40	7.10	6.50	4.70	4.70
ALBERTO-CULVER CO -CL B	ACV						
ALBERTSONS INC	ABS	9.00	8.50	6.75	6.15		3.95
ALCOA INC	AA	9.50	9.50	7.25	6.75	5.00	5.00
ALLEGHENY ENERGY INC	AYE	9.00	9.00	7.25	6.50	4.50	4.00
ALLEGHENY TECHNOLOGIES INC	ATI	9.00	9.00	7.00	7.00		3.75
ALLERGAN INC	AGN	10.00	8.25	7.50	6.75	4.89	4.14
ALLIED WASTE INDS INC	AW	9.75	9.50	7.25	6.75	4.00	4.00
ALLSTATE CORP	ALL	9.50	8.50	7.25	7.00	4.50	4.50
ALLTEL CORP	AT	8.50	8.50	7.25	6.85	4.50	3.50
ALTERA CORP	ALTR						
ALTRIA GROUP INC	MO	8.79	8.70	6.55	6.03	4.27	3.92
AMBAC FINANCIAL GP	ABK	9.25	8.75	7.00	6.50	4.50	4.50
AMERADA HESS CORP	AHC	9.00	9.00	7.00	6.60	4.50	4.40
AMEREN CORP	AEE	8.50	8.50	7.25	6.75	4.25	3.75
AMERICAN ELECTRIC POWER	AEP	9.00	9.00	7.25	6.75	3.70	3.70
AMERICAN EXPRESS	AXP	9.50	9.30	7.00	6.20	4.20	4.00
AMERICAN GREETINGS -CL A	AM	7.25	7.00	7.25	6.75		
AMERICAN INTERNATIONAL GROUP	AIG	7.96	7.96	5.52	5.52	3.59	3.59
AMERICAN PWR CNVRSION	APCC						
AMERICAN STANDARD COS INC	ASD	7.62	7.20	6.27	6.00	1.70	1.70
AMERISOURCEBERGEN CORP	ABC	10.00	8.75	7.50	7.00	4.48	5.50
AMGEN INC	AMGN						
AMR CORP/DE	AMR	9.50	9.25	7.50	6.75	3.93	3.78
AMSOUTH BANCORPORATION	ASO	9.50	9.50	7.50	6.65	5.25	4.40
ANADARKO PETROLEUM CORP	APC	9.00	8.00	7.25	6.75	5.00	5.00
ANALOG DEVICES	ADI	5.73	5.50	3.99	3.80	7.88	7.67
ANDREW CORP	ANDW						
ANHEUSER-BUSCH COS INC	BUD	10.00	9.25	7.25	6.75	4.75	4.75
ANTHEM INC	ATH	9.00	8.50	7.25	6.75	4.50	4.50
AOL TIME WARNER INC	AOL	9.00	9.00	7.50	6.75	4.50	4.50
AON CORP	AOC	8.65	7.29	6.91	6.03	4.00	3.76
APACHE CORP	APA						
APOLLO GROUP INC -CL A	APOL						
APPLE COMPUTER INC	AAPL						
APPLERA CORP APPLIED BIOSYS	ABI.CM	8.38	8.13	7.50	7.25	6.00	5.00
APPLIED MATERIALS INC	AMAT						
APPLIED MICRO CIRCUITS CORP	AMCC						
ARCHER-DANIELS-MIDLAND CO	ADM	8.30	7.50	6.70	6.00	4.10	4.10

Source: Company data, CSFB estimates.

Appendix G continued

Company Name	Ticker Symbol	Expected Return (%) 2001	Expected Return (%) 2002	Discount Rate (%) 2001	Discount Rate (%) 2002	Salary Inflation (%) 2001	Salary Inflation (%) 2002
ASHLAND INC	ASH	9.00	9.00	7.25	6.75	5.00	5.00
AT&T CORP	T	9.50	9.00	7.25	6.50	4.50	4.25
AT&T WIRELESS SERVICES INC	AWE						
AUTODESK INC	ADSK						
AUTOMATIC DATA PROCESSING	ADP	8.50	7.25	6.75	5.75	6.00	6.00
AUTOZONE INC	AZO	9.50	8.00	7.50	7.00	7.50	7.50
AVAYA INC	AV	9.00	9.00	7.00	6.50	4.50	4.00
AVERY DENNISON CORP	AVY	8.80	9.50	6.80	7.00	4.00	3.60
AVON PRODUCTS	AVP	8.81	8.35	7.10	6.75	4.01	3.91
BAKER-HUGHES INC	BHI	8.68	8.07	6.53	6.19	3.75	3.47
BALL CORP	BLL	9.62	8.86	7.39	6.71	3.30	3.34
BANK OF AMERICA CORP	BAC	10.00	8.50	7.25	6.75	4.00	4.00
BANK OF NEW YORK CO INC	BK	10.50	9.00	7.25	6.50	4.50	4.50
BANK ONE CORP	ONE	8.50	8.50	7.00	6.50	4.25	4.25
BARD (C.R.) INC	BCR	9.38	8.50	7.09	6.40	4.63	4.37
BAUSCH & LOMB INC	BOL	9.20	9.00	7.10	6.50	4.80	4.20
BAXTER INTERNATIONAL INC	BAX	9.38	8.67	6.59	6.09	4.07	3.83
BB&T CORP	BBT	8.00	8.00	7.25	6.75	5.50	4.00
BEAR STEARNS COMPANIES INC	BSC						
BECTON DICKINSON & CO	BDX	8.56	7.58	6.62	5.97	3.88	3.59
BED BATH & BEYOND INC	BBBY						
BELLSOUTH CORP	BLS	9.00	9.00	7.25	6.75	5.10	5.10
BEMIS CO	BMS	10.00	10.00	7.00	6.75	5.50	5.00
BEST BUY CO INC	BBY						
BIG LOTS INC	BLI	9.00	9.00	7.20	6.75	5.50	5.08
BIOGEN INC	BGEN	9.00	9.00	7.25	6.75	5.00	5.00
BIOMET INC	BMET						
BJ SERVICES CO	BJS	6.99	6.96	6.44	6.23	3.50	3.50
BLACK & DECKER CORP	BDK	9.07	9.04	6.83	6.29	4.63	4.28
BLOCK H & R INC	HRB						
BMC SOFTWARE INC	BMC				-		-
BOEING CO	BA	9.25	9.00	7.00	6.50	5.50	5.50
BOISE CASCADE CORP	BCC	9.75	9.25	7.25	6.75	4.75	4.50
BOSTON SCIENTIFIC CORP	BSX						
BRISTOL MYERS SQUIBB	BMY	10.00	9.00	7.30	6.75	4.30	4.00
BROADCOM CORP -CL A	BRCM						
BROWN-FORMAN -CL B	BF.B	9.50	8.75	7.00	6.50	4.00	4.00
BRUNSWICK CORP	BC	9.50	9.00	7.25	6.75	5.50	4.50
BURLINGTON NORTHERN SANTA FE	BNI	9.50	8.50	7.00	6.50	4.00	3.90
BURLINGTON RESOURCES INC	BR	9.00	8.50	7.25	6.75	5.00	4.50
CALPINE CORP	CPN						
CAMPBELL SOUP CO	CPB	10.00	9.30	7.25	6.90	4.50	4.50
CAPITAL ONE FINL CORP	COF						
CARDINAL HEALTH INC	CAH	7.30	7.20	6.40	6.30	3.90	4.00
CARNIVAL CORP	CCL						
CATERPILLAR INC	CAT	9.73	9.50	7.09	6.74	3.93	3.87
CENDANT CORP	CD						
CENTERPOINT ENERGY INC	CNP	9.50	9.00	7.25	6.75	4.25	4.25
CENTEX CORP	CTX						
CENTURYTEL INC	CTL	9.00	9.00	7.00	6.75		4.50
CHARTER ONE FINL INC	CF						

Source: Company data, CSFB estimates.

Appendix G continued

Company Name	Ticker Symbol	Expected Return (%) 2001	Expected Return (%) 2002	Discount Rate (%) 2001	Discount Rate (%) 2002	Salary Inflation (%) 2001	Salary Inflation (%) 2002
CHEVRONTEXACO CORP	CVX	8.83	7.97	7.41	6.89	4.37	4.32
CHIRON CORP	CHIR			6.00	6.00	3.00	3.00
CHUBB CORP	CB	9.00	8.75	7.25	7.00	4.50	4.50
CIENA CORP	CIEN						
CIGNA CORP	CI	9.00	7.50	7.25	6.75	5.30	3.60
CINCINNATI FINANCIAL CORP	CINF	8.00	8.00	7.00	6.50	6.00	6.00
CINERGY CORP	CIN	9.25	9.00	7.50	6.75	4.00	4.00
CINTAS CORP	CTAS						
CIRCUIT CITY STR CRCT CTY GP	CC	9.00	8.25	7.25	6.60	6.00	5.00
CISCO SYSTEMS INC	CSCO						
CITIGROUP INC	C	9.09	7.87	7.22	6.85	5.59	4.09
CITIZENS COMMUNICATIONS CO	CZN	8.25	8.25	7.50	7.38	4.00	4.00
CITRIX SYSTEMS INC	CTXS						
CLEAR CHANNEL COMMUNICATIONS	CCU						
CLOROX CO/DE	CLX	8.75	7.63	7.00	6.25	5.38	4.50
CMS ENERGY CORP	CMS	9.75	8.75	7.25	6.75	3.75	3.50
COCA-COLA CO	KO	8.50	8.25	6.50	6.25	4.25	4.25
COCA-COLA ENTERPRISES	CCE	9.40	9.20	6.90	6.80	4.80	4.70
COLGATE-PALMOLIVE CO	CL	8.97	8.09	7.11	6.69	4.55	4.14
COMCAST CORP -CL A SPL	CMCSA		7.00		6.50		
COMERICA INC.	CMA	10.00	10.00	7.40	6.80	5.00	4.50
COMPUTER ASSOCIATES INTL INC	CA						
COMPUTER SCIENCES CORP	CSC	8.40	8.10	6.80	6.30	5.00	4.40
COMPUWARE CORP	CPWR						
COMVERSE TECHNOLOGY INC	CMVT						
CONAGRA FOODS INC	CAG	9.25	7.75	7.50	7.25	5.50	5.50
CONCORD EFS INC	CE						
CONOCOPHILLIPS	COP	8.30	7.05	7.00	6.75	4.00	4.00
CONSOLIDATED EDISON INC	ED	9.20	9.50	7.50	6.75	4.23	4.23
CONSTELLATION ENERGY GRP INC	CEG	9.00	9.00	7.25	6.75	4.00	4.00
CONVERGYS CORP	CVG	9.00	9.00	7.25	6.75	4.75	4.75
COOPER INDUSTRIES LTD	CBE	7.75	7.50	6.63	6.50	3.75	3.50
COOPER TIRE & RUBBER	CTB	9.28	9.03	7.12	6.84	4.79	4.77
COORS (ADOLPH) -CL B	RKY	10.50	9.50	7.25	6.75	4.10	3.75
CORNING INC	GLW	9.00	9.00	7.25	6.75	4.50	4.50
COSTCO WHOLESALE CORP	COST						
COUNTRYWIDE FINANCIAL CORP	CFC	8.00	7.50	7.25	6.50	5.00	5.00
CRANE CO	CR	8.05	7.77	6.72	6.30	4.29	4.00
CSX CORP	CSX	9.50	9.50	7.25	7.25	4.50	3.30
CUMMINS INC	CUM	10.00	8.50	7.25	7.00		4.75
CVS CORP	CVS	9.25	8.75	7.50	6.50	4.00	4.00
DANA CORP	DCN	8.38	7.81	6.94	6.50	4.50	4.50
DANAHER CORP	DHR	10.00	9.00	7.50	7.00		
DARDEN RESTAURANTS INC	DRI	10.40	10.40	7.00	6.25	3.75	3.75
DEERE & CO	DE	9.70	9.70	7.20	6.70	4.80	3.90
DELL COMPUTER CORP	DELL						
DELPHI CORP	DPH	10.00	10.00	7.25	6.75	5.00	4.50
DELTA AIR LINES INC	DAL	10.00	9.00	7.75	6.75	4.67	2.67
DELUXE CORP	DLX						
DEVON ENERGY CORP	DVN	8.27	8.27	7.10	6.72	4.88	4.88
DILLARDS INC -CL A	DDS				7.25		2.50

Source: Company data, CSFB estimates.

Appendix G continued

Company Name	Ticker Symbol	Expected Return (%)		Discount Rate (%)		Salary Inflation (%)	
		2001	2002	2001	2002	2001	2002
DISNEY (WALT) CO	DIS	9.50	8.50	7.50	7.20	5.00	4.70
DOLLAR GENERAL CORP	DG						
DOMINION RESOURCES INC	D	9.50	9.50	7.25	6.75	4.60	4.70
DONNELLEY (R R) & SONS CO	DNY	9.50	9.40	7.00	6.70	4.00	4.00
DOVER CORP	DOV	9.50	9.00	7.25	6.75	4.50	
DOW CHEMICAL	DOW	9.18	9.25	7.00	6.75	5.00	5.00
DOW JONES & CO INC	DJ		9.00		6.75		3.00
DTE ENERGY CO	DTE	9.50	9.00	7.50	6.75	4.00	4.00
DU PONT (E I) DE NEMOURS	DD	9.50	9.50	7.00	6.75	5.00	4.50
DUKE ENERGY CORP	DUK	9.25	9.09	7.25	6.72	4.94	4.81
DYNEGY INC	DYN	9.47	9.00	7.50	6.50	4.48	4.50
EASTMAN CHEMICAL CO	EMN	9.50	9.00	7.25	6.75	4.00	4.00
EASTMAN KODAK CO	EK	9.31	9.21	6.90	6.18	3.95	3.97
EATON CORP	ETN	10.00	9.85	7.25	6.53	4.00	3.73
EBAY INC	EBAY						
ECOLAB INC	ECL	7.84	7.82	6.59	5.99	4.46	4.39
EDISON INTERNATIONAL	EIX	8.50	8.50	7.00	6.50	5.00	5.00
EL PASO CORP	EP	10.00	8.80	7.25	6.75	4.50	4.00
ELECTRONIC ARTS INC	ERTS						
ELECTRONIC DATA SYSTEMS CORP	EDS	9.70	9.60	6.70	6.40	4.30	3.50
EMC CORP/MA	EMC	8.60	8.40	7.00	6.40	3.80	
EMERSON ELECTRIC CO	EMR	10.21	8.90	7.55	7.03	4.20	3.70
ENGELHARD CORP	EC	10.04	9.70	7.24	6.60	4.18	3.80
ENTERGY CORP	ETR	7.25	7.13	7.50	6.75	4.60	3.25
EOG RESOURCES INC	EOG						
EQUIFAX INC	EFX	9.50	9.50	7.25	6.75	4.25	4.25
EQUITY OFFICE PROPERTIES TR	EOP						
EQUITY RESIDENTIAL	EQR						
EXELON CORP	EXC	9.50	9.50	7.35	6.75	4.00	4.00
EXXON MOBIL CORP	XOM	8.81	8.40	5.78	5.29	3.53	3.38
FAMILY DOLLAR STORES	FDO						
FANNIE MAE	FNM	9.50	8.50	7.75	6.75	6.50	6.50
FEDERAL HOME LOAN MORTG CORP	FRE	9.00	9.00	7.50	7.50	4.50	4.50
FEDERATED DEPT STORES	FD	9.75	9.00	7.25	6.75		6.75
FEDEX CORP	FDX	10.90	10.10	7.10	6.99	3.30	3.15
FIFTH THIRD BANCORP	FITB	9.52	8.99	7.25	7.25	4.86	5.10
FIRST DATA CORP	FDC	8.49	7.87	6.91	6.32	4.00	3.75
FIRST TENNESSEE NATL CORP	FTN	10.00	8.75	7.25	6.75	4.00	4.00
FIRSTENERGY CORP	FE	10.25	9.00	7.25	6.75	4.00	3.50
FISERV INC	FISV						
FLEETBOSTON FINANCIAL CORP	FBF	10.00	9.25	7.00	6.50	5.00	5.00
FLUOR CORP	FLR	7.25	7.25	7.00	6.38	3.75	3.50
FORD MOTOR CO	F	9.29	8.65	6.89	6.36	4.76	4.70
FOREST LABORATORIES -CL A	FRX						
FORTUNE BRANDS INC	FO	8.30	8.30	7.00	6.60	4.60	3.90
FPL GROUP INC	FPL	7.75	7.75	6.25	6.00	5.50	5.50
FRANKLIN RESOURCES INC	BEN	9.00	8.00	7.25	6.50	5.50	4.50
FREEPRT MCMOR COP&GLD -CL B	FCX	12.00	12.00	7.05	7.56	9.00	9.00
GANNETT CO	GCI	10.00	9.50	7.25	6.75	4.00	4.00
GAP INC	GPS						
GATEWAY INC	GTW						

Source: Company data, CSFB estimates.

Appendix G continued

Company Name	Ticker Symbol	Expected Return (%) 2001	Expected Return (%) 2002	Discount Rate (%) 2001	Discount Rate (%) 2002	Salary Inflation (%) 2001	Salary Inflation (%) 2002
GENERAL DYNAMICS CORP	GD	8.16	8.34	7.25	7.00		7.50
GENERAL ELECTRIC CO	GE	9.50	8.50	7.25	6.75	5.00	5.00
GENERAL MILLS INC	GIS	10.40	10.40	7.50	6.00	4.40	4.40
GENERAL MOTORS CORP	GM	9.91	9.89	7.20	6.68	4.86	4.79
GENUINE PARTS CO	GPC	9.85	9.45	7.35	6.75	4.15	4.15
GENZYME CORP	GENZ	6.75	7.00	6.00	5.75	3.50	3.50
GEORGIA-PACIFIC CORP	GP	8.25	7.63	6.25	6.00	4.85	4.38
GILLETTE CO	G	8.60	8.00	6.80	6.20	4.20	3.80
GOLDEN WEST FINANCIAL CORP	GDW						
GOLDMAN SACHS GROUP INC	GS	7.00	7.04	5.82	5.56	4.49	4.48
GOODRICH CORP	GR	9.23	9.11	7.49	6.76	4.05	3.78
GOODYEAR TIRE & RUBBER CO	GT	7.13	6.73	7.13	6.73	3.75	3.75
GRAINGER (W W) INC	GWW						
GREAT LAKES CHEMICAL CORP	GLK	8.32	8.03	6.94	6.24	3.89	3.87
GUIDANT CORP	GDT	10.50	8.75	7.25	6.90	5.90	5.90
HALLIBURTON CO	HAL	7.37	6.95	6.55	12.29	4.97	11.55
HANCOCK JOHN FINL SVCS INC	JHF	9.50	9.40	7.25	6.75	4.20	3.50
HARLEY-DAVIDSON INC	HDI	10.50	8.50	8.00	7.25	5.00	5.00
HARRAHS ENTERTAINMENT INC	HET						
HARTFORD FINL SVCS GRP INC	HIG	9.75	9.75	7.50	7.50	4.25	4.25
HASBRO INC	HAS	9.00	8.75	7.25	6.50	4.50	4.00
HCA INC	HCA						
HEALTH MANAGEMENT ASSOC	HMA						
HEALTHSOUTH CORP	HRC						
HEINZ (H J) CO	HNZ	9.20	8.90	6.60	5.90	4.20	4.00
HERCULES INC	HPC	9.25	8.59	7.25	6.55	4.50	4.32
HERSHEY FOODS CORP	HSY	9.50	9.50	7.00	6.30	4.90	4.90
HEWLETT-PACKARD CO	HPQ	8.05	7.42	5.64	5.58	5.16	4.14
HILTON HOTELS CORP	HLT						
HOME DEPOT INC	HD						
HONEYWELL INTERNATIONAL INC	HON	10.00	10.00	7.25	6.75	4.00	4.00
HOUSEHOLD INTERNATIONAL INC	HI	10.00	8.00	7.50	6.75	4.00	4.00
HUMANA INC	HUM						
HUNTINGTON BANCSHARES	HBAN	9.75	8.50	7.50	6.75	5.00	5.00
ILLINOIS TOOL WORKS	ITW	10.51	8.06	7.05	6.44	4.09	4.43
IMS HEALTH INC	RX	8.76	8.14	6.62	6.14	3.89	3.71
INGERSOLL-RAND CO LTD	IR	8.38	8.13	6.63	6.25	4.25	3.50
INTEL CORP	INTC	8.86	8.84	7.56	7.45	5.60	5.89
INTERPUBLIC GROUP OF COS	IPG	7.40	6.89	6.81	6.38	4.67	4.74
INTL BUSINESS MACHINES CORP	IBM	9.12	8.65	6.56	6.20	5.29	3.85
INTL FLAVORS & FRAGRANCES	IFF	8.20	8.12	6.45	5.99	3.75	3.29
INTL GAME TECHNOLOGY	IGT						
INTL PAPER CO	IP	10.00	9.25	7.25	6.50	4.50	3.75
INTUIT INC	INTU						
ITT INDUSTRIES INC	ITT	9.61	8.86	7.14	6.44	4.89	4.88
J P MORGAN CHASE & CO	JPM	9.25	8.00	7.25	6.50	4.50	4.50
JABIL CIRCUIT INC	JBL		7.50		6.20		3.90
JANUS CAPITAL GROUP INC	JNS						
JDS UNIPHASE CORP	JDSU						
JEFFERSON-PILOT CORP	JP	8.00	8.00	7.00	6.80	5.00	4.00
JOHNSON & JOHNSON	JNJ	8.25	8.25	6.63	6.25	4.00	4.00

Source: Company data, CSFB estimates.

Appendix G continued

Company Name	Ticker Symbol	Expected Return (%) 2001	Expected Return (%) 2002	Discount Rate (%) 2001	Discount Rate (%) 2002	Salary Inflation (%) 2001	Salary Inflation (%) 2002
JOHNSON CONTROLS INC	JCI	9.75	9.50	7.25	7.00	6.00	5.00
JONES APPAREL GROUP INC	JNY	9.00	8.00				
KB HOME	KBH						
KELLOGG CO	K	10.50	9.30	7.00	6.60	4.70	4.70
KERR-MCGEE CORP	KMG	8.00	7.69	6.50	6.19	5.00	4.50
KEYCORP	KEY	9.75	9.75	7.25	6.50	4.00	4.00
KEYSPAN CORP	KSE	8.50	8.50	7.00	6.75	4.00	4.00
KIMBERLY-CLARK CORP	KMB	9.20	8.42	7.20	6.62	3.90	3.56
KINDER MORGAN INC	KMI	9.50	9.00	7.25	7.00	3.50	3.50
KING PHARMACEUTICALS INC	KG						
KLA-TENCOR CORP	KLAC		3.75		3.63		1.50
KNIGHT-RIDDER INC	KRI	9.00	9.00	7.50	6.75	4.10	3.80
KOHLS CORP	KSS						
KROGER CO	KR	9.50	9.50	7.25	6.75	3.75	3.50
LEGGETT & PLATT INC	LEG	8.00	8.00	6.00	6.00	4.40	4.50
LEHMAN BROTHERS HOLDINGS INC	LEH	10.81	8.92	6.89	6.44	4.82	4.60
LEXMARK INTL INC -CL A	LXK	9.70	9.60	7.30	6.40	4.80	3.90
LILLY (ELI) & CO	LLY	10.50	9.26	7.20	6.80		4.25
LIMITED BRANDS INC	LTD						
LINCOLN NATIONAL CORP	LNC	9.00	8.25	7.00	6.50		4.50
LINEAR TECHNOLOGY CORP	LLTC						
LIZ CLAIBORNE INC	LIZ						
LOCKHEED MARTIN CORP	LMT	9.50	9.50	7.25	6.75	5.50	5.50
LOEWS CORP	LTR	8.25	7.75	7.30	6.80	5.55	5.55
LOUISIANA-PACIFIC CORP	LPX	8.75	8.75	7.00	7.00		4.00
LOWES COS	LOW						
LSI LOGIC CORP	LSI						
LUCENT TECHNOLOGIES INC	LU	9.00	9.00	7.00	6.50	4.50	3.50
MANOR CARE INC	HCR	10.00	10.00	7.50	6.75		-
MARATHON OIL CORP	MRO	9.50	9.00	7.00	6.50	5.00	4.50
MARRIOTT INTL INC	MAR						
MARSH & MCLENNAN COS	MMC	9.24	8.49	6.43	6.11	4.11	3.81
MARSHALL & ILSLEY CORP	MI						
MASCO CORP	MAS	9.00	8.50	7.50	6.75	4.50	4.50
MATTEL INC	MAT	10.00	8.00	7.00	6.50	4.00	4.00
MAXIM INTEGRATED PRODUCTS	MXIM						
MAY DEPARTMENT STORES CO	MAY	7.50	7.00	7.25	6.72	4.00	4.00
MAYTAG CORP	MYG	9.50	9.50	7.75	7.50	5.25	4.75
MBIA INC	MBI						
MBNA CORP	KRB	9.50	9.00	7.50	6.75	6.00	5.50
MCDERMOTT INTL INC	MDR	8.33	8.28	7.25	6.50	4.44	4.00
MCDONALDS CORP	MCD						
MCGRAW-HILL COMPANIES	MHP	9.50	9.50	7.50	7.25	5.50	5.50
MCKESSON CORP	MCK	9.75	8.25	7.25	6.75	4.00	4.00
MEADWESTVACO CORP	MWV	8.75	8.50	6.50	6.50	5.00	4.50
MEDIMMUNE INC	MEDI						
MEDTRONIC INC	MDT	9.20	8.40	6.80	6.10	4.50	3.90
MELLON FINANCIAL CORP	MEL	10.00	10.00	7.50	7.50	4.50	4.50
MERCK & CO	MRK	10.00	10.00	7.25	6.50	4.50	4.50
MERCURY INTERACTIVE CORP	MERQ				-		-
MEREDITH CORP	MDP	8.25	8.25	7.25	6.25	5.00	5.00

Source: Company data, CSFB estimates.

Appendix G continued

Company Name	Ticker Symbol	Expected Return (%) 2001	Expected Return (%) 2002	Discount Rate (%) 2001	Discount Rate (%) 2002	Salary Inflation (%) 2001	Salary Inflation (%) 2002
MERRILL LYNCH & CO	MER	6.60	6.00	6.70	6.20	4.30	4.30
METLIFE INC	MET	6.50	7.00	5.70	6.75	5.25	5.00
MGIC INVESTMENT CORP/WI	MTG	7.50	7.50	7.00	6.75	6.00	4.50
MICRON TECHNOLOGY INC	MU						
MICROSOFT CORP	MSFT						
MILLIPORE CORP	MIL	8.00	8.00	7.25	6.50	5.00	4.00
MIRANT CORP	MIR	9.00	8.57	7.53	7.05	4.83	4.29
MOLEX INC	MOLX	7.91	7.66	5.11	4.67	3.05	3.44
MONSANTO CO	MON	9.50	8.75	7.25	6.75	4.25	3.75
MOODYS CORP	MCO	9.75	9.75	7.25	6.75	4.41	3.91
MORGAN STANLEY	MWD	9.00	8.50	7.55	6.75	5.00	5.00
MOTOROLA INC	MOT	7.50	7.25	7.25	6.75	3.50	3.50
NABORS INDUSTRIES LTD	NBR	6.50	6.50	6.50	6.50		
NATIONAL CITY CORP	NCC	10.00	9.50	7.00	6.75	5.13	5.13
NATIONAL SEMICONDUCTOR CORP	NSM	5.65	5.40	4.65	4.30	3.30	3.15
NAVISTAR INTERNATIONL	NAV	9.90	10.10	7.40	7.20	3.50	3.50
NCR CORP	NCR	9.86	9.63	6.90	6.39	4.15	4.16
NETWORK APPLIANCE INC	NTAP						
NEW YORK TIMES CO -CL A	NYT	9.00	9.00	7.25	6.50	5.00	4.50
NEWELL RUBBERMAID INC	NWL	10.00	8.50	7.25	6.75	5.00	4.50
NEWMONT MINING CORP	NEM	9.25	9.25	7.25	6.75	4.00	4.00
NEXTEL COMMUNICATIONS	NXTL						
NICOR INC	GAS	9.25	9.25	7.25	6.75	4.00	4.00
NIKE INC -CL B	NKE						
NISOURCE INC	NI	9.00	9.00	7.50	7.00	4.50	4.00
NOBLE CORP	NE	7.82	7.68	6.59	6.40	4.29	4.40
NORDSTROM INC	JWN			7.25	7.00	5.00	4.00
NORFOLK SOUTHERN CORP	NSC	10.00	9.00	7.50	7.25	5.00	5.00
NORTH FORK BANCORPORATION	NFB	8.00	7.50	7.25	6.50	4.50	4.50
NORTHERN TRUST CORP	NTRS	9.00	8.75	6.75	6.13	5.00	3.60
NORTHROP GRUMMAN CORP	NOC	9.50	9.00	7.00	6.50	4.50	4.00
NOVELL INC	NOVL						
NOVELLUS SYSTEMS INC	NVLS						
NUCOR CORP	NUE						
NVIDIA CORP	NVDA						
OCCIDENTAL PETROLEUM CORP	OXY	9.00	8.00	12.00	7.88	11.00	6.00
OFFICE DEPOT INC	ODP						
OMNICOM GROUP	OMC						
ORACLE CORP	ORCL						
PACCAR INC	PCAR	7.80	7.40	6.80	6.50	4.40	4.20
PACTIV CORP	PTV	9.50	9.00	7.25	6.75	4.90	4.90
PALL CORP	PLL	6.91	6.08	5.96	5.41	4.11	3.56
PARAMETRIC TECHNOLOGY CORP	PMTC	6.57	6.38	6.64	6.40	1.18	-
PARKER-HANNIFIN CORP	PH	8.00	7.44	6.44	6.44	4.20	4.01
PAYCHEX INC	PAYX						
PENNEY (J C) CO	JCP	9.50	8.90	7.25	7.10	4.00	4.00
PEOPLES ENERGY CORP	PGL	9.00	9.00	8.00	7.50	4.50	4.00
PEOPLESOFT INC	PSFT						
PEPSI BOTTLING GROUP INC	PBG	10.00	9.50	7.50	6.80	4.30	4.30
PEPSICO INC	PEP	9.80	9.10	7.40	6.70	4.60	4.40
PERKINELMER INC	PKI	8.82	8.79	6.73	6.27	4.04	3.25

Source: Company data, CSFB estimates.

Appendix G continued

Company Name	Ticker Symbol	Expected Return (%) 2001	Expected Return (%) 2002	Discount Rate (%) 2001	Discount Rate (%) 2002	Salary Inflation (%) 2001	Salary Inflation (%) 2002
PFIZER INC	PFE	9.30	9.05	6.54	6.20	4.08	4.15
PG&E CORP	PCG	8.50	8.10	7.25	6.75	5.00	5.00
PHARMACIA CORP	PHA	8.56	9.16	6.35	5.99	3.88	3.86
PHELPS DODGE CORP	PD	9.50	9.00	7.25	7.25	4.00	4.00
PINNACLE WEST CAPITAL	PNW	10.00	9.00	7.50	6.75	4.00	4.00
PITNEY BOWES INC	PBI	8.99	9.00	6.77	6.37	4.49	4.50
PLUM CREEK TIMBER CO INC	PCL	9.00	8.25	7.25	6.75	5.00	5.00
PMC-SIERRA INC	PMCS						
PNC FINANCIAL SVCS GROUP INC	PNC	9.50	9.50	7.25	6.75	4.50	4.00
POWER-ONE INC	PWER		8.00		7.00		3.00
PPG INDUSTRIES INC	PPG	10.90	9.50	7.00	6.50	4.10	4.10
PPL CORP	PPL	9.21	8.61	7.33	6.17	4.33	3.86
PRAXAIR INC	PX	9.29	8.25	7.22	6.70	4.46	3.72
PRICE (T. ROWE) GROUP	TROW						
PRINCIPAL FINANCIAL GRP INC	PFG	9.00	8.50	7.50	6.50		
PROCTER & GAMBLE CO	PG	8.60	7.70	5.60	5.10	3.50	3.10
PROGRESS ENERGY INC	PGN	9.25	9.25	7.50	6.60	4.00	4.00
PROGRESSIVE CORP-OHIO	PGR						
PROVIDIAN FINANCIAL CORP	PVN						
PRUDENTIAL FINANCIAL INC	PRU	9.50	9.50	7.25	6.50	4.50	4.50
PUBLIC SERVICE ENTRP	PEG	9.00	9.00	7.25	6.75	4.69	4.69
PULTE HOMES INC	PHM						
QLOGIC CORP	QLGC						
QUALCOMM INC	QCOM						
QUEST DIAGNOSTICS INC	DGX						
QUINTILES TRANSNATIONAL CORP	QTRN						
QWEST COMMUNICATION INTL INC	Q	9.40	9.40	7.75	7.75	4.65	4.65
RADIOSHACK CORP	RSH						
RATIONAL SOFTWARE CORP	RATL						
RAYTHEON CO	RTN	9.50	9.50	7.25	7.00	4.50	4.50
REEBOK INTERNATIONAL LTD	RBK						
REGIONS FINL CORP	RF	9.50	9.50	7.75	7.00	4.50	4.50
RJ REYNOLDS TOBACCO HLDGS	RJR	9.50	9.50	7.40	7.40	5.00	5.00
ROBERT HALF INTL INC	RHI						
ROCKWELL AUTOMATION	ROK	9.75	9.00	7.50	7.00	4.50	4.50
ROCKWELL COLLINS INC	COL	9.75	9.00	7.50	7.00	4.50	4.50
ROHM & HAAS CO	ROH	8.44	8.34	7.04	6.50	3.95	3.93
ROWAN COS INC	RDC	9.50	9.00	7.25	6.50	4.00	4.00
RYDER SYSTEM INC	R	9.50	8.75	7.00	7.00	5.00	5.00
SABRE HLDGS CORP -CL A	TSG	9.50	9.00	7.25	6.75	5.25	5.25
SAFECO CORP	SAFC	9.00	8.50	7.25	6.75	5.00	5.00
SAFEWAY INC	SWY	8.50	8.00	7.40	6.50	5.00	4.25
SANMINA-SCI CORP	SANM						
SARA LEE CORP	SLE	7.60	7.20	6.00	5.40	5.00	5.00
SBC COMMUNICATIONS INC	SBC	9.50	9.50	7.50	6.75	4.25	4.25
SCHERING-PLOUGH	SGP	9.50	8.50	6.70	6.30	4.00	3.90
SCHLUMBERGER LTD	SLB	9.00	8.50	7.25	6.75	4.50	3.00
SCHWAB (CHARLES) CORP	SCH	9.00	9.00	7.50	6.75	6.10	5.30
SCIENTIFIC-ATLANTA INC	SFA	10.00	10.00	7.50	7.50	5.00	5.00
SEALED AIR CORP	SEE		7.90		5.50		3.40
SEARS ROEBUCK & CO	S	9.00	9.00	7.25	7.00	4.00	4.25

Source: Company data, CSFB estimates.

Appendix G continued

Company Name	Ticker Symbol	Expected Return (%)		Discount Rate (%)		Salary Inflation (%)	
		2001	2002	2001	2002	2001	2002
SEMPRA ENERGY	SRE	8.00	8.00	7.25	6.50	5.00	4.50
SHERWIN-WILLIAMS CO	SHW	8.50	8.00	6.75	6.55	4.50	4.00
SIEBEL SYSTEMS INC	SEBL						
SIGMA-ALDRICH	SIAL	8.20	7.78	6.18	5.64	4.35	3.88
SIMON PROPERTY GROUP INC	SPG						
SLM CORP	SLM	10.00	8.50	7.00	6.75	5.50	4.00
SNAP-ON INC	SNA	9.60	8.20	7.40	6.70	4.60	3.70
SOLECTRON CORP	SLR						
SOUTHERN CO	SO	8.50	8.50	7.50	6.50	5.00	4.00
SOUTHTRUST CORP	SOTR	8.50	8.50	7.25	6.75	5.50	5.00
SOUTHWEST AIRLINES	LUV						
SPRINT FON GROUP	FON	10.00	9.50	8.00	7.50	4.50	4.25
SPRINT PCS GROUP	PCS	10.00	9.50	8.00	7.50	4.50	4.25
ST JUDE MEDICAL INC	STJ						
ST PAUL COS	SPC	10.00	8.50	7.00	6.50	4.00	4.00
STANLEY WORKS	SWK	8.88	7.85	6.66	6.12	3.83	3.43
STAPLES INC	SPLS						
STARBUCKS CORP	SBUX						
STARWOOD HOTELS&RESORTS WRLD	HOT	7.79	7.62	6.29	6.04	4.29	3.96
STATE STREET CORP	STT	10.00	8.00	7.50	6.75		4.50
STRYKER CORP	SYK	6.60	5.20	6.10	5.50	3.30	3.10
SUN MICROSYSTEMS INC	SUNW						
SUNGARD DATA SYSTEMS INC	SDS				-		-
SUNOCO INC	SUN	9.00	9.00	7.25	6.75	4.00	4.00
SUNTRUST BANKS INC	STI	9.50	9.50	7.25	6.75	4.00	3.50
SUPERVALU INC	SVU	10.00	9.25	7.25	7.00	3.50	3.25
SYMBOL TECHNOLOGIES	SBL			7.50	7.50	5.00	5.00
SYNOVUS FINANCIAL CP	SNV						
SYSCO CORP	SYY	10.50	9.50	7.50	7.25	4.50	5.89
TARGET CORP	TGT	9.00	9.00	7.25	7.00	4.25	4.00
TECO ENERGY INC	TE	9.00	9.00	7.50	6.75	4.70	4.80
TEKTRONIX INC	TEK	9.60	8.80	7.20	5.20	3.70	3.60
TELLABS INC	TLAB						
TEMPLE-INLAND INC	TIN	9.00	9.00	7.50	6.75	4.75	4.75
TENET HEALTHCARE CORP	THC						
TERADYNE INC	TER	9.00	9.00	7.00	6.00	5.00	5.00
TEXAS INSTRUMENTS INC	TXN	6.91	6.57	5.25	4.91	4.12	3.81
TEXTRON INC	TXT	9.25	8.90	7.25	6.75	4.50	4.20
THERMO ELECTRON CORP	TMO	7.00	7.40	6.10	5.80	4.40	3.70
THOMAS & BETTS CORP	TNB	8.81	8.31	6.96	6.59	4.24	3.99
TIFFANY & CO	TIF	9.00	7.50	6.75	6.50	4.00	4.00
TJX COMPANIES INC	TJX	9.00	8.00	7.00	6.50	4.00	4.00
TMP WORLDWIDE INC	TMPW						
TORCHMARK CORP	TMK	9.25	9.25	7.25	6.75	4.50	4.50
TOYS R US INC	TOY						
TRANSOCEAN INC	RIG	9.24	8.73	7.45	6.90	5.71	5.53
TRAVELERS PPTY CAS CP -CL B	TAP.B		8.00		6.75		4.50
TRIBUNE CO	TRB	9.75	9.00	7.75	7.25	4.00	3.75
TUPPERWARE CORP	TUP	7.23	7.10	5.62	5.44	3.44	3.49
TXU CORP	TXU	9.00	8.50	7.50	6.75	4.30	3.95
TYCO INTERNATIONAL LTD	TYC	9.05	8.12	6.67	5.94	4.20	3.89

Source: Company data, CSFB estimates.

Appendix G continued

Company Name	Ticker Symbol	Expected Return (%) 2001	Expected Return (%) 2002	Discount Rate (%) 2001	Discount Rate (%) 2002	Salary Inflation (%) 2001	Salary Inflation (%) 2002
U S BANCORP	USB	11.60	10.90	7.50	6.80	3.50	3.50
UNION PACIFIC CORP	UNP	10.00	9.00	7.25	6.75	4.25	3.75
UNION PLANTERS CORP	UPC						
UNISYS CORP	UIS	9.74	9.22	7.25	6.53	5.09	5.01
UNITED PARCEL SERVICE INC	UPS	9.50	9.42	7.50	6.75	4.00	4.00
UNITED STATES STEEL CORP	X	8.90	8.80	7.00	6.25	4.00	4.00
UNITED TECHNOLOGIES CORP	UTX	9.60	9.50	7.40	6.60	4.70	4.40
UNITEDHEALTH GROUP INC	UNH						
UNIVISION COMMUNICATIONS INC	UVN						
UNOCAL CORP	UCL	9.33	8.40	7.24	6.74	4.50	4.93
UNUMPROVIDENT CORP	UNM	9.00	8.26	7.35	6.64	5.00	4.57
UST INC	UST	9.50	9.25	7.25	6.50	4.80	4.80
VERITAS SOFTWARE CO	VRTS						
VERIZON COMMUNICATIONS	VZ	9.25	9.25	7.25	6.75	5.00	5.00
VF CORP	VFC	8.80	8.75	7.50	6.75	4.00	4.00
VIACOM INC -CL B	VIA.B	8.30	7.30	7.21	6.47	4.50	4.00
VISTEON CORP	VC	9.29	8.67	6.78	6.25	4.14	3.87
VULCAN MATERIALS CO	VMC	8.25	8.25	7.25	6.75	4.25	4.00
WACHOVIA CORP	WB	10.00	10.00	7.25	6.75	4.25	3.75
WALGREEN CO	WAG						
WAL-MART STORES	WMT						
WASHINGTON MUTUAL INC	WM	8.00	8.00	7.25	6.50	5.50	5.50
WASTE MANAGEMENT INC	WMI	9.00	9.00	7.19	6.50	3.50	3.50
WATERS CORP	WAT	9.00	9.00	7.25	6.75	4.75	4.75
WATSON PHARMACEUTICALS INC	WPI						
WELLPOINT HLTH NETWRK -CL A	WLP	9.50	9.00	7.25	6.50	4.50	4.50
WELLS FARGO & CO	WFC	9.00	9.00	7.50	7.00	5.00	4.00
WENDY'S INTERNATIONAL INC	WEN	8.50	8.50	7.25	7.25		
WEYERHAEUSER CO	WY	11.00	10.50	7.25	6.75	3.25	3.25
WHIRLPOOL CORP	WHR	9.92	8.73	7.57	6.92	5.03	4.58
WILLIAMS COS INC	WMB	10.00	8.50	7.50	7.00	5.00	5.00
WINN-DIXIE STORES INC	WIN						
WORTHINGTON INDUSTRIES	WOR	8.36	4.00	7.00	5.69		
WRIGLEY (WM) JR CO	WWY	8.13	8.13	6.81	6.44	4.13	3.88
WYETH	WYE	9.25	9.00	7.25	6.75	4.00	4.00
XCEL ENERGY INC	XEL	9.50	9.50	7.25	6.75	4.50	4.00
XEROX CORP	XRX	8.90	8.80	6.90	6.20	3.80	3.90
XILINX INC	XLNX						
XL CAPITAL LTD	XL						
YAHOO INC	YHOO						
YUM BRANDS INC	YUM	10.00	8.50	7.60	6.85	4.60	3.85
ZIMMER HLDGS INC	ZMH	6.18	7.64	6.01	6.05	3.30	3.46
ZIONS BANCORPORATION	ZION	9.00	8.60	7.25	6.75	5.00	4.00
Median		9.20	8.75	7.25	6.75	4.50	4.10
Average		9.06	8.58	7.08	6.54	4.52	4.25

NOTE: FRE, Q, and SBL have not filed 2002 10-Ks; 2001 data are used wherever possible.
Source: Company data, CSFB estimates.

Companies Mentioned *(Price as of 10 Oct 03)*

Adolph Coors Co. (RKY, $57.42, NEUTRAL, TP $56, MARKET WEIGHT)
Allegheny Energy Inc. (AYE, $9.59)
AMR Corp. (AMR, $14.64, OUTPERFORM [V], TP $18, MARKET WEIGHT)
Avaya Inc. (AV, $13.48)
Corning Incorporated (GLW, $10.95, UNDERPERFORM [V], TP $6.5, UNDERWEIGHT)
Electronic Data Systems (EDS, $21.56, NEUTRAL [V], TP $18, MARKET WEIGHT)
Freeport McMoran Copper & Gold (FCX, $35.87)
General Motors Corp. (GM, $42.79, RESTRICTED, MARKET WEIGHT)
Georgia-Pacific Corporation (GP, $26.17, NEUTRAL, TP $14, MARKET WEIGHT)
Goodrich (GR, $25.73, NEUTRAL, TP $17, MARKET WEIGHT)
Halliburton (HAL, $24.75, OUTPERFORM [V], TP $34, MARKET WEIGHT)
Hercules (HPC, $10.81, NEUTRAL, TP $14, OVERWEIGHT)
Honeywell International Inc. (HON, $27.5, NEUTRAL, TP $24, MARKET WEIGHT)
ITT Industries (ITT, $60.71, NEUTRAL, TP $65, MARKET WEIGHT)
Lockheed Martin (LMT, $46.2, OUTPERFORM, TP $64, OVERWEIGHT)
Lucent Technologies (LU, $2.36, NEUTRAL [V], TP $1.8, UNDERWEIGHT)
Maytag Corporation (MYG, $27.44, NEUTRAL, TP $25, MARKET WEIGHT)
Mirant Corp (MIR, $9.00)
National Semiconductor Corp. (NSM, $38.25, UNDERPERFORM [V], TP $30, MARKET WEIGHT)
Northrop Grumman Corporation (NOC, $85.57, OUTPERFORM, TP $130.00, OVERWEIGHT)
Occidental Petroleum (OXY, $36.49, OUTPERFORM [V], TP $40, MARKET WEIGHT)
Prudential Financial, Inc. (PRU, $38.07, OUTPERFORM, TP $40, MARKET WEIGHT)
RJ Reynolds (RJR, $42.32, NEUTRAL, TP $42, MARKET WEIGHT)
Williams Companies (WMB, $10.3, NEUTRAL [V], TP $8, MARKET WEIGHT)

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