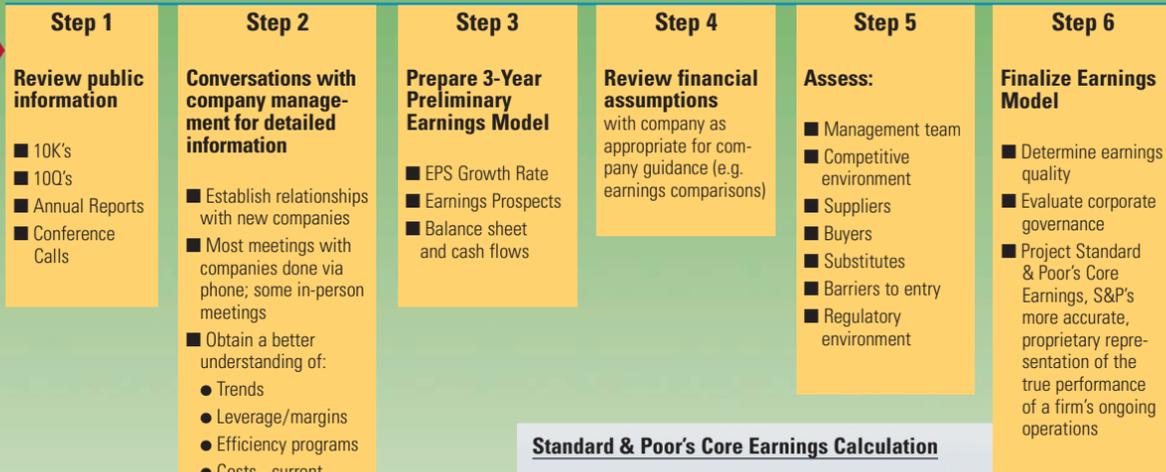


Standard & Poor's Equity Research Methodology

BOTTOM-UP COMPANY ANALYSIS

Company Fundamental Analysis¹



Standard & Poor's Core Earnings Calculation

Included

- Employee stock option grant expense
- Restructuring charges from ongoing operations
- Write-downs of depreciable or amortizable operating assets
- Pension costs
- Purchased research and development expenses
- Merger/acquisition related expenses
- Unrealized gains/losses from hedging activities

Excluded

- Goodwill impairment charges
- Gains/losses from asset sales
- Pension gains
- Litigation or insurance settlements and proceeds
- Reversal of prior-year changes and provisions

Company Valuation Analysis



Criteria/Definition

Intrinsic Value Analysis

- Determine security's “intrinsic value” based on discounted “free” cash flow (DCF) analysis. Estimates of future “free” cash flows are discounted back to current dollars, including variables like risk assessment and capital structure
- Present value of shares vs. current share price
- 10-15 year projection
- Defined parameters around DCF to make it more reasonable (e.g. interest rate inputs)

Relative Valuation

- Assessing a security's relative value by comparing appropriate financial ratios across peer groups
- Comparison with industry group
 - Price/Earnings (P/E)
 - Efficiency
 - Margins

Company value

- P/E trading history
- High/low in cycle
- Current P/E level justification
- Valuation vs. appropriate index

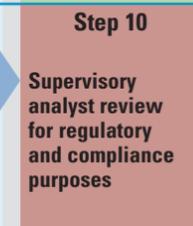
Sum of the Parts

- Determining “fair value” of a stock by determining private market values for a firm's individual units
- No clear comparison and/or conglomerate
- Break divisions up as stand-alone business units
- Calculate a relative value for each division
- Arrive at a blended valuation

Risk Assessment

- Technicals
- Insider buying
- Beta

Review



Products and Services

Retail

- Advisor Insight
- Custom Newsletters
- Equity Liaison Desk
- Industry Surveys
- Market Insight
- MarketScope
- Model Portfolios
- NetAdvantage
- Pocket Guides
- Portfolio Advisor
- Sector Scorecard
- Stock Guides
- Stock Reports
- The Outlook

Institutional

- Compustat Data
- Equity Insights
- Industry Surveys
- Institutional Equity Reports
- IPC Notes
- Monthly Investment Review
- Sector Watch
- US Financial Notes

Ongoing Analytical Review



Company Coverage Criteria

Core STARS Coverage Criteria

- All S&P 500 Index²
- 300 of the S&P MidCap 400 Index
- 200 of the S&P SmallCap 600 Index
- Key non-U.S. stocks

Additional Coverage Criteria

- S&P Composite 1500 Index constituent
- Significant trading volume
- Market capitalization
- Corporate actions (mergers/acquisitions, spin-offs)
- Emerging growth companies

Deletions to Equity Coverage

- Negative corporate actions (bankruptcy, mergers and acquisitions)
- Dropped from S&P Composite 1500 Index
- Stock price < \$5/share
- Lack of investor interest

Number of Companies Covered Per Analyst

- 20-25 companies

¹ Standard & Poor's analysts' access to information will always be subject to applicable legal requirements concerning fair disclosure.

² Excluding Standard & Poor's parent, the McGraw-Hill Companies.

The equity research reports and recommendations provided by Standard & Poor's Equity Research are performed separately from any other analytic activity of Standard & Poor's. Standard & Poor's Equity Research has no access to non-public information received by other units of Standard & Poor's. Standard & Poor's does not trade on its own account.

MACRO AND ECONOMIC ANALYSIS

When conducting bottom-up company analysis, analysts are expected to incorporate Macro and Economic Analysis.

Investment Policy Committee (IPC)

- Meets weekly and is responsible for determining Standard & Poor's analytical views on investment trends

Mission:
Ensure Standard & Poor's views are reached through a deliberative, consistent process that involves input from a diverse group of Standard & Poor's senior analytic personnel

- Analysis includes:
 - Interest rate forecasts
 - Market performance forecasts
 - Economic, political and related developments of interest to investment community
 - Consensus concerning effect of such developments on S&P's view of financial markets, including recommended percentage asset allocation among stocks, bonds and cash

Sector Strategy and Guidance

Chief Investment Strategist provides guidance on past and current sector trends and forecasts top and bottom performing sectors.

Group Sector Heads meet regularly with Global and Regional Research Directors to incorporate input from equity analysts from all sectors to formulate a collective bottom-up investment strategy. This bottom-up input, in the context of past and current sector trends and macro-economic projections, support S&P's holistic sector weight strategy and recommendations.