FACTSET
BUYBACK QUARTERLY

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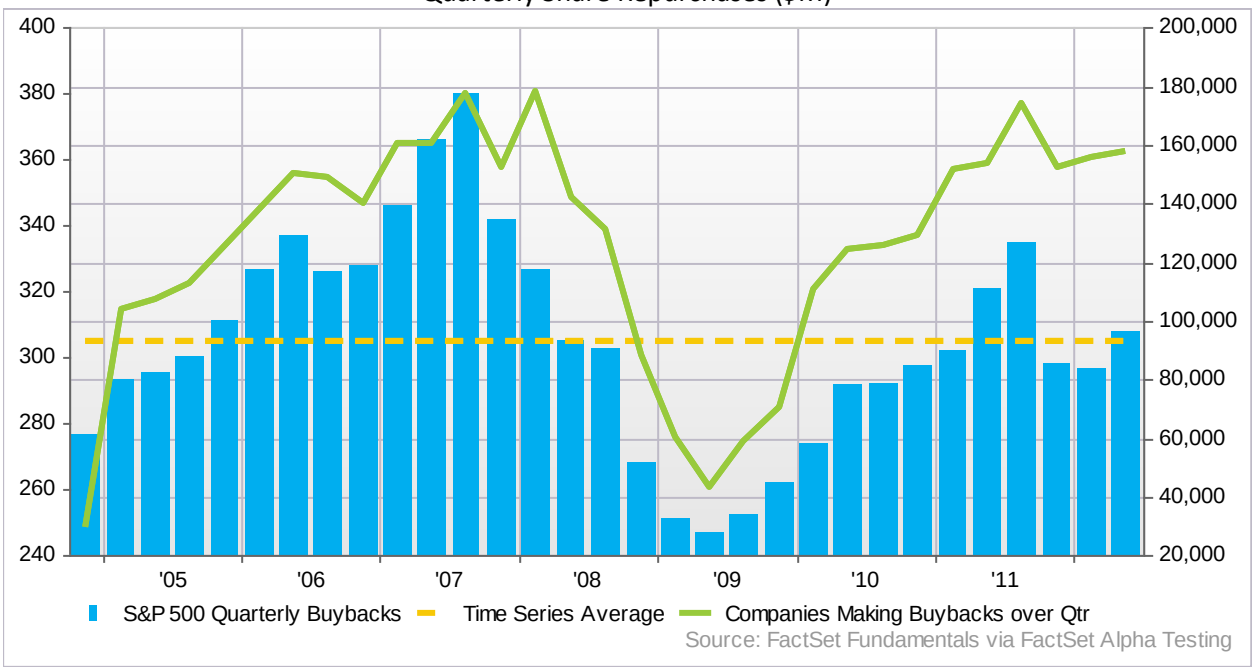
S&P 500 September 28, 2012

Key Metrics:

- **Aggregate Buybacks:** Dollar-value share repurchases amounted to $96.9 billion over the second quarter and $394.6 billion over the trailing twelve months. Activity in Q2 2012 represents sequential growth of 15.6% but a year-over-year decline of -11.5%.
- **Sector Trends:** Of the sectors that spent more than $3 billion on share repurchases, only the Consumer Discretionary sector showed year-over-year growth (0.1%) in quarterly dollar-value buybacks. Also, the Information Technology sector once again spent the most on quarterly repurchases ($21.2 billion) in Q2 2012. In the previous quarter, the Consumer Discretionary sector broke the Information Technology sector's stretch of twelve consecutive quarters with the highest dollar-value buybacks in the S&P 500.
- **Buyback Conviction:** Dollar-value buybacks amounted to 60.3% of free cash flow on a trailing twelve-month basis, but a number of sectors made significant share buybacks reduced free cash flow. The Consumer Discretionary and Consumer Staples sectors both spent more than 100% of their free cash flow (117.4% and 114.3%, respectively), while the Energy and Utilities sectors spent $44.9 billion and $2.1 billion on buybacks despite generating negative free cash flow (-$17.1 billion and -22.4 billion, respectively). The Consumer Discretionary sector also led all sectors in repurchasing the most shares relative to its size. Over the trailing twelve-months, the sector repurchased shares worth 5.3% of its quarter-end market capitalization over the trailing twelve-months.
- **Predictive Factors:** FactSet's back testing application ("Alpha Testing") shows that, over an eight-year time frame, companies with a larger portion of diluted shares relative to basic shares outstanding in the trailing quarter have repurchased a higher percentage of their shares in the forward quarter.

Quarterly Share Repurchases ($M)



"Buyback Quarterly" is one part of three reports ("Dividend Quarterly" and "Cash & Investments Quarterly") analyzing cash and discretionary spending within the S&P 500. The other reports can be found at http://www.factset.com/insight or within the FactSet Market News application of your FactSet workstation. All data published in this report is available on FactSet. Please contact media_request@factset.com of 1-877-FACTSET for more information.

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Share Buyback Activity Recovers in Second Quarter

Dollar-value share repurchases ended their multi-quarter slide by growing 15.6% sequentially in Q2 2012. However, the second and third quarter of 2011 marked periods of high share repurchase activity ($110.8 billion and $126.7 billion) in the S&P 500, and the $96.9 billion spent in Q2 2012 represented an 11.5% decline on a year-over-year basis.

Since 2009, a general recovery in share repurchase activity has contributed to stable aggregate shares outstanding within the S&P 500. In Q2, share counts grew just 0.2% year-over-year. At the sector-level, however, both the Energy and Materials sectors increased their share count by greater than 5% (7.5% and 5.5%). The sectors with the largest percentage declines in shares outstanding were the Consumer Staples (-2.7%), Health Care (-2.2%), and Consumer Discretionary (-2.1%) sectors.

Buyback Conviction: Consumer Discretionary Leads Relative to Size, Free Cash Flow

The Information Technology sector again led all groups in dollar-value share repurchases in Q2 2012. In Q1 2012, the Consumer Discretionary sector spent the most money on share repurchases. Prior to Q1 2012, the Information Technology sector had led all sectors for twelve consecutive quarters. In terms of sector size and resources, however, the Consumer Discretionary sector was the most active. The sector's trailing twelve-month spending on share repurchases amounted to 5.3% of its quarter-end, aggregate float market capitalization. The next highest sector, Health Care, spent 3.8%. The Information Technology sector was the fifth most active group in the index, spending 3.1% of its market value. However, the Information Technology sector's market value was noticeably inflated by Apple's ballooning size (the company added $268.5 billion in market value over just one year). If one excludes Apple, the Information Technology sector's ratio for Q2 rises from 3.1% to 4.0%. Furthermore, over an eight-year period, the sector has averaged trailing twelve-month share repurchases amounting to 4.4% of float-based market capitalization, which is second only to the Consumer Discretionary sector (4.6%).

On a company-level, the firm with the heaviest buyback activity relative to its market capitalization was a company in the Consumer Staples sector: Safeway Inc. The company has repurchased $2.3 billion worth of stock over the trailing twelve-months, which amounted to 59.5% of its current market value ($3.9 billion). In recent earnings announcements, the firm has stated an interest in capitalizing on low interest rates and issuing debt to be more aggressive with share buybacks. As a result, trailing twelve-month shares repurchased amounted to 111.3 million, which was 2.85 times larger than the shares repurchased in the year-ago period. This increased activity has also contributed to Safeway decreasing share count by 31.6% over one year, and contributed to dramatic discrepancies between gross and per-share company performance. For example, while the company's share price is down only 4.6% over one year, its market value has declined 34.7%. In addition, the company reported a 16.4% decline in net income in the most recent quarter, but that translated to a 22.0% increase in EPS. While this strategy has contributed to a higher long-term debt balance ($6.1 billion at Q2 2012 compared to $4.9 billion in Q2 2011), Safeway's CEO, Steven A. Burd, noted in the Q1 2012 earnings call that "…the cost of higher borrowings were partially offset by a decline in the average borrowing rates. So our average borrowing rate went from 5.67% to 5.08%." Mr. Burd also affirmed that "…our intention is to maintain our investment grade, and that does put a near-term limiting factor on how much stock you would buy".

In terms of utilizing cash flow resources, the S&P 500 trailing twelve-month growth for dollar-value share repurchases grew 9.7%, which outpaced the 4.6% year-over-year growth in adjusted free cash flow (operating cash flow less fixed capital expenditures and dividends). This led to a slight uptick in the ratio of buybacks to free cash flow (+4.9%), as the ratio ended Q2 2012 with a value of 60.4%. On the sector-level, the Consumer Discretionary sector again was a leader in conviction by spending 117.4% of its free cash flow, which is nearly double the value for the S&P 500 index. However, there were other sectors that spent more dollars on trailing twelve-month share buybacks than was generated in free cash flow. The Consumer Staples sector spent (114.3%) of free cash flow, and the Energy and Utilities

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sectors spent $44.9 billion and $2.1 billion on share buybacks despite generating negative adjusted free cash flow (-$17.1 billion and -22.4 billion, respectively).

Repurchasing Shares at a Relative Discount (Price and P/E): MNST, SBUX, F, CELG, PCS

In an attempt to find companies that have made share repurchases during periods when stock prices are depressed, this report examines companies' average price paid for repurchases over the trailing twelve-months and compares it to the company's 52-week average price. Using this metric, Monster Beverage Corp. and Starbucks Corp. showed discretion in their share buybacks in the period ending Q2 2012 by repurchasing shares at 73.9% and 77.7% of their 52-week average price. Both companies repurchased negligible amounts of shares in Q4 2012 and did not repurchase shares in the first or second quarter of 2012—periods when both of their stocks were rising to new highs (Monster Beverage shares' climbed 63.1% over that period, while Starbucks advanced 43.0%). However, prior to the stocks' run-up in share price, Monster Beverage repurchased 2.8 million shares (the split-adjusted figure was 1.6% of shares outstanding at Q3 2011) and Starbucks repurchased 6.5 million shares (0.8% of shares) during Q3 2011. In that quarter, the average prices of the two stocks were $41.29 and $38.60, respectively, which were well below the average prices at the end of the 2nd quarter ($53.44 and $51.04).

But there is more than one way to assess prudent share repurchase activity, and the aforementioned analysis is based on short-term prices, without considering comparable valuations. Therefore, an examination of the average price paid for share buybacks in Q2 2012 relative to trailing twelve-month earnings (a "buyback price-to-earnings ratio") has been included. This "buyback P/E" was then compared to each company's seven-year (on a monthly frequency) median price-to-earnings ratio (excluding periods of negative earnings). Using this examination, Ford Motor Co., Celgene Corp., and MetroPCS Communications Inc. repurchased their shares at some of their lowest valuations relative to their historical, median valuation (27.5%, 27.9%, and 28.0%, respectively) in Q2.

Dilutive Share Potential Shows Relationship to Future Buyback Activity

FactSet's back testing application ("Alpha Testing") shows a statistically significant relationship (with a correlation of 0.12) between a company's dilutive share potential and the size of its share buyback activity in the forward period. The test was conducted using data from 2005 to present. It examined the relationship between the percentage difference in a company's diluted and basic share count in the most recent quarter and the percentage of shares the company repurchases in the subsequent quarter. In other words, companies with a larger portion of diluted shares relative to basic shares outstanding in the most recent quarter have been more likely to repurchase a higher percentage of their shares in the forward quarter. Going forward, Teradyne Inc. and Accenture PLC are two of the companies with the largest dilutive potential. Weighted-average dilutive capacity for those two companies amounted to 23.1% and 12.0% of weighted-average shares outstanding for the second quarter.

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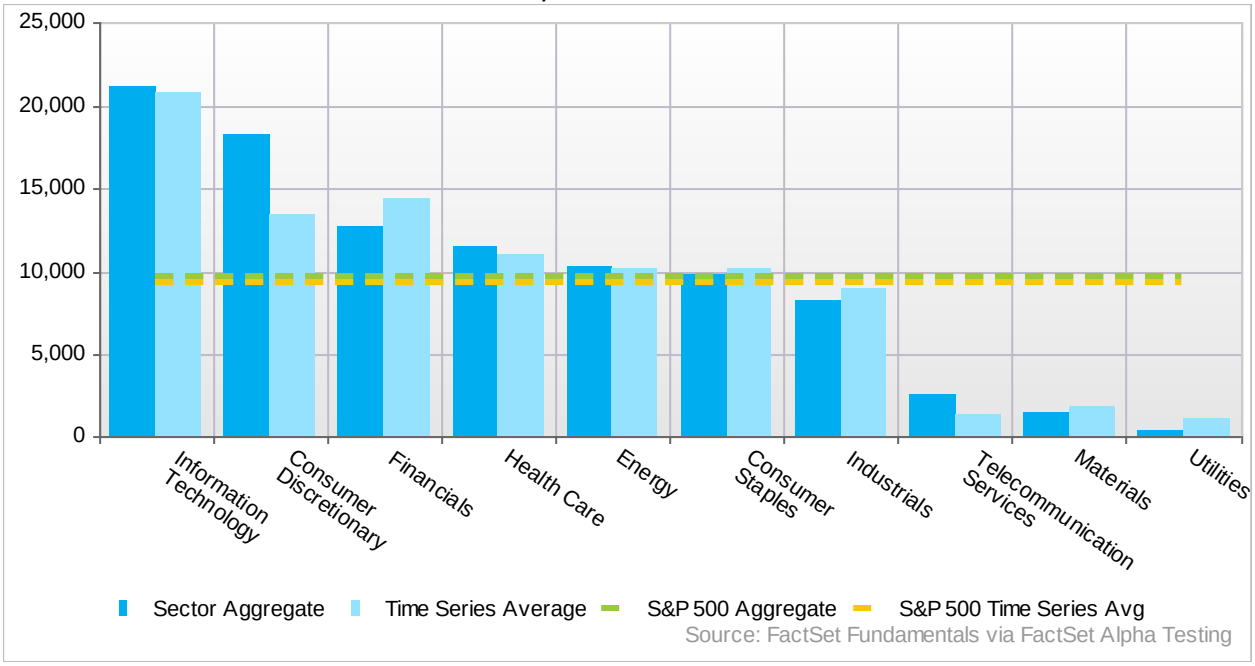
Dollar-Value Buybacks: Quarterly

All aforementioned and forthcoming values are in millions, unless otherwise designated. Quarterly data is organized by adjusted calendar quarters. Adjusted calendar quarters are mapped in three month denominations with Q2 capturing quarters ending in May, June, and July.

Company-level EPS figures using prior quarter's shares are calculated using the current quarter's net income and dividing that by the corresponding quarter-end diluted shares outstanding. S&P aggregate earnings per share (EPS) figures utilize float shares in their calculation (as of the last trading day for Q1 2011 and as of three months ago for "EPS using last quarter's shares"). Due to the aggregation methodology of the index, an aggregate decrease in share count may not correspond to an increase in index-level EPS.

Dollar Value Buybacks – Most Recent Quarter



Top 10 Companies by Dollar-Value Buybacks – Most Recent Quarter

Company	Sector	Quarter's Buybacks ($M)	% Change in Shares (Qtr)	Shares Available ($M)	1 Year Total Return
Exxon Mobil Corp.	Energy	$5,012	(1.3%)	$0	29.1%
ConocoPhillips	Energy	$3,050	(4.0%)	$5,051	22.3%
IBM Corp.	Information Technology	$3,004	(0.9%)	$9,653	17.8%
AT&T Inc.	Telecom Services	$2,557	(1.2%)	$5,582	40.2%
Oracle Corp.	Information Technology	$2,485	(1.5%)	$3,119	4.5%
Wal-Mart Stores Inc.	Consumer Staples	$1,840	(0.7%)	$7,900	45.8%
Cisco Systems Inc.	Information Technology	$1,795	(1.6%)	$5,867	18.8%
Philip Morris International	Consumer Staples	$1,535	(1.0%)	$612	45.4%
DIRECTV	Consumer Discretionary	$1,362	(4.3%)	$4,221	17.6%
Pfizer Inc.	Health Care	$1,346	(0.2%)	$7,035	46.2%
S&P 500	-	**$96,361**	**(0.4%)**	**$469,760**	**25.4%**

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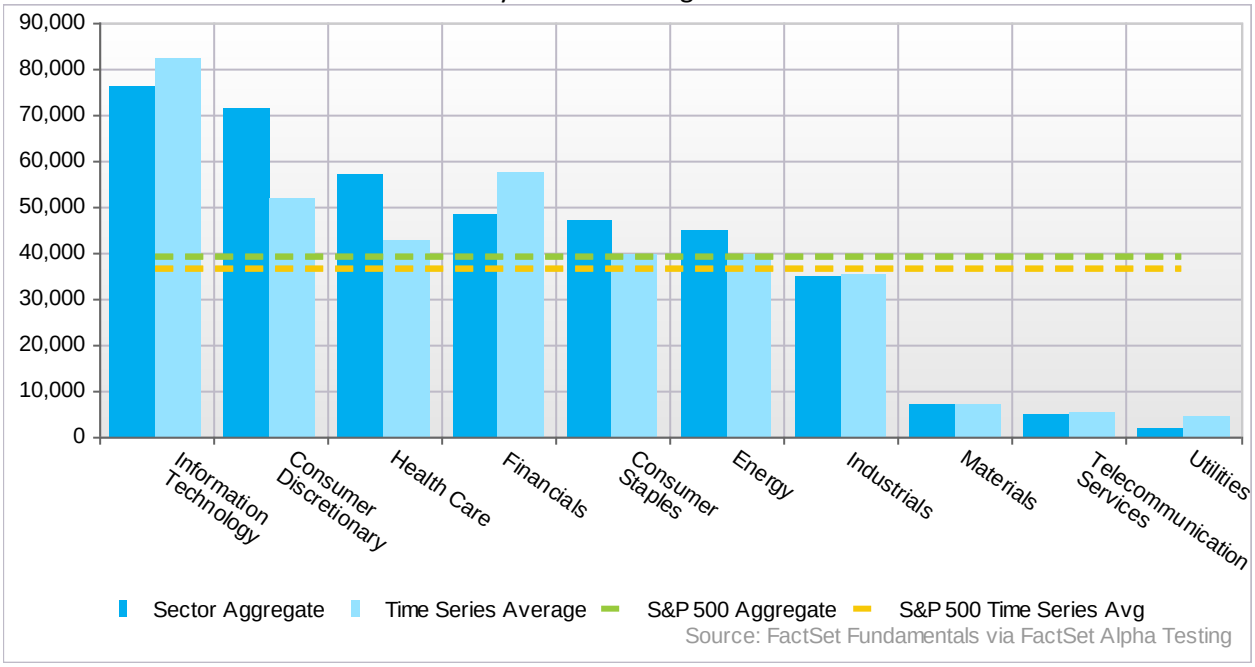
Dollar-Value Buybacks: Trailing Twelve Months

Company-level EPS figures using prior year's shares are calculated using the trailing twelve month's net income and dividing that by the corresponding quarter-end diluted shares outstanding. S&P aggregate earnings per share (EPS) figures utilize float shares in their calculation (as of the last trading day for TTM and as of twelve months ago for "EPS using last year's shares") . Due to the aggregation methodology of the index, an aggregate decrease in share count may not correspond to an increase in index-level EPS.

Dollar Value Buybacks – Trailing Twelve Month Basis



Top 10 Companies by Dollar-Value Buybacks – Trailing Twelve Months

Company	Sector	TTM Buybacks ($M)	% Change in Shares (TTM)	Shares Available ($M)	1 Year Total Return
Exxon Mobil Corp.	Energy	$21,606	(5.1%)	$0	$0.29
IBM Corp.	Information Technology	$13,000	(4.3%)	$9,653	$0.18
ConocoPhillips	Energy	$11,299	(13.8%)	$5,051	$0.22
Intel Corp.	Information Technology	$10,734	(5.1%)	$7,497	$0.06
Amgen Inc.	Health Care	$10,207	(16.8%)	$2,360	$0.52
Pfizer Inc.	Health Care	$8,410	(4.3%)	$7,035	$0.46
JPMorgan Chase & Co.	Financials	$6,585	(2.9%)	$13,433	$0.33
Wal-Mart Stores Inc.	Consumer Staples	$6,187	(2.6%)	$7,900	$0.46
Bank of America Corp.	Financials	$6,119	6.4%	$0	$0.39
Oracle Corp.	Information Technology	$5,966	(3.2%)	$3,119	$0.04
S&P 500	**-**	**$394,292**	**(1.1%)**	**$469,760**	**25.4%**

**Certain companies, such as Exxon Mobil do not publicly announce share repurchase programs.*

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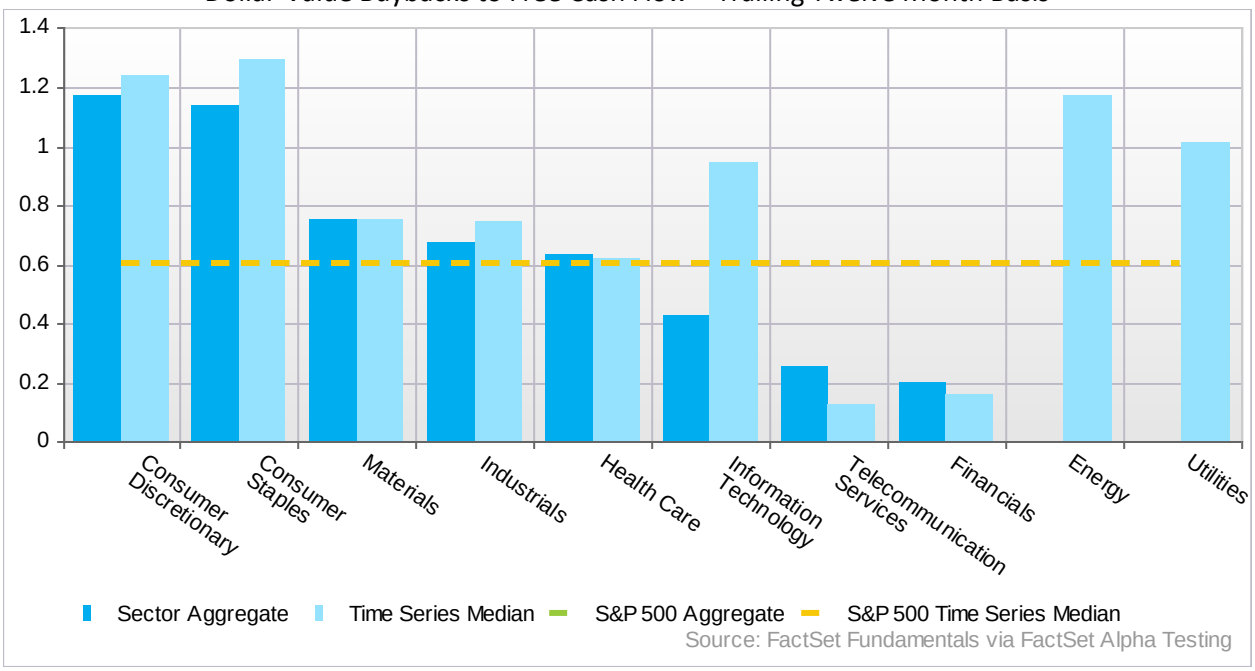
Buybacks to Adj'd Free Cash Flow: Trailing Twelve Months

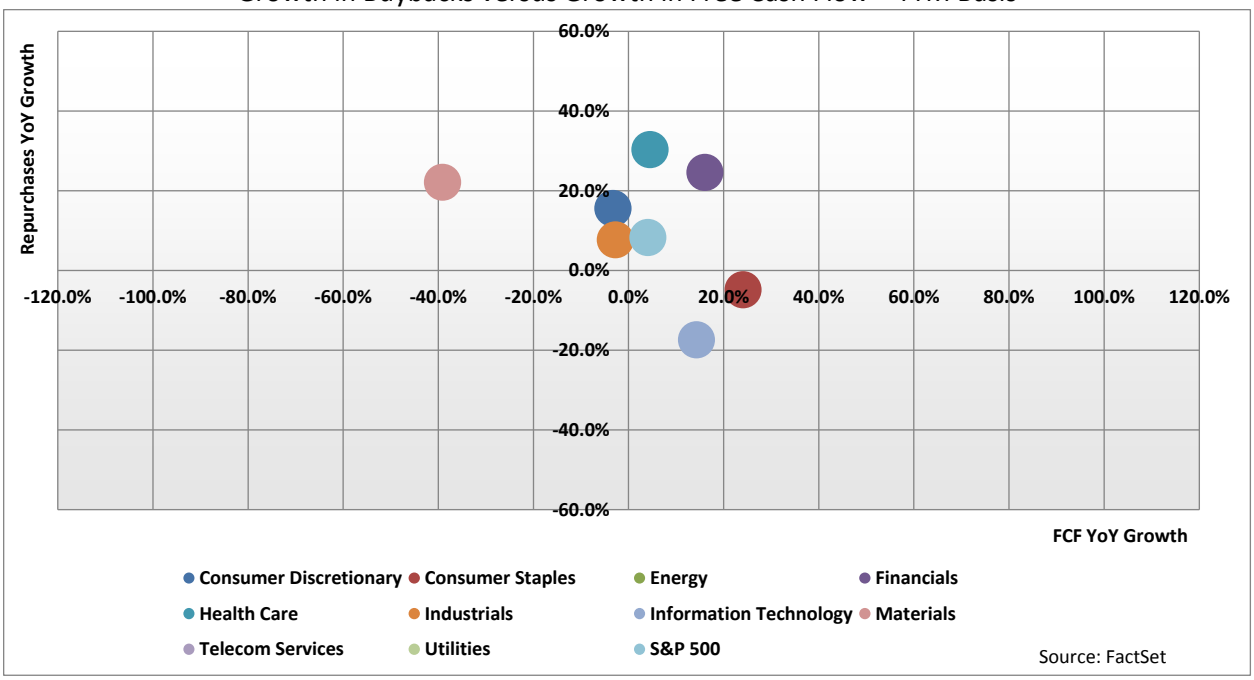
Free cash flow to the firm is defined as cash from operating activities minus capital expenditures from fixed assets and cash dividends paid. Periods where aggregate free cash flow is negative have been removed from the charts below.

Dollar-Value Buybacks to Free Cash Flow – Trailing Twelve Month Basis



The following chart shows sector-level year-over-year growth in trailing twelve months of adjusted free cash flow (x-axis) and dollar-value buybacks (y-axis).

Growth in Buybacks versus Growth in Free Cash Flow – TTM Basis



**Note that the Telecommunications sector is not shown because it's Q1 2011 TTM buybacks were extremely low, resulting in an outlier for the growth rate (1,962.3%). The Energy and Utilities sectors are also not shown because they have had negative free cash flow to equity.*

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Share Repurchase Discounts: Company-Level

The following list examines a company's average repurchase price over 52-weeks and compares that to the company's average share price over the same period. Companies with small repurchase programs (under $50 million over the period), are excluded from this screen.

Top 10 Stocks by Average Share Buyback Price Discount Relative to Average Stock Price – TTM

Company	Sector	Average Buyback Price	Average Stock Price	Buyback Price / Average Price	1 Year Total Return
Peabody Energy Corp.	Energy	$24.51	$37.12	66.0%	(41.0%)
Monster Beverage Corp.	Consumer Staples	$38.91	$52.65	73.9%	18.2%
Intuitive Surgical Inc.	Health Care	$353.73	$458.18	77.2%	28.7%
Starbucks Corp.	Consumer Discretionary	$36.13	$46.51	77.7%	29.9%
Helmerich & Payne Inc.	Energy	$44.40	$54.80	81.0%	6.1%
FedEx Corp.	Industrials	$69.99	$85.50	81.9%	22.4%
Denbury Resources Inc.	Energy	$13.96	$16.70	83.6%	29.5%
Dun & Bradstreet Corp.	Industrials	$61.11	$72.40	84.4%	28.1%
Cooper Inustries PLC Cl A	Industrials	$48.14	$57.00	84.5%	54.9%
Quanta Services Inc.	Industrials	$17.47	$20.60	84.7%	27.3%
S&P 500	**-**	**$52.83**	**$52.22**	**97.7%**	**25.4%**

The following list calculates the price to earnings ratio (P/E) at which a company made its share repurchase by dividing the company's average repurchase price over the quarter by its trailing twelve month earnings per share. This "buyback P/E" is then compared to the company's median monthly P/E ratio over seven years (or maximum company history). The companies with the largest percentage spread between their buyback P/E and historical median P/E are presented in the list below.

Top 10 Stocks by "Share Repurchase P/E" Discount Relative to 7-Year Median P/E

Company	Sector	Buyback PE / 7Yr Med. PE	"Buyback PE" ratio	Median 7Yr PE ratio	1 Year Total Return
Ford Motor Co.	Consumer Discretionary	27.5%	2.4	8.8	0.4%
Celgene Corp.	Health Care	27.9%	20.2	72.4	20.0%
MetroPCS Communications	Telecom Services	28.0%	7.2	25.8	26.9%
Symantec Corp.	Information Technology	30.7%	10.1	32.8	6.2%
Peabody Energy Corp.	Energy	33.1%	7.4	22.3	(41.0%)
ONEOK Inc.	Utilities	33.4%	5.2	15.6	46.4%
Harman Int'l Industries Inc.	Consumer Discretionary	40.5%	8.3	20.6	46.7%
Jabil Circuit Inc.	Information Technology	42.4%	11.4	26.9	10.4%
Seagate Technology Inc.	Information Technology	43.4%	4.3	9.8	188.9%
MetLife Inc.	Financials	45.1%	5.4	12.0	20.6%

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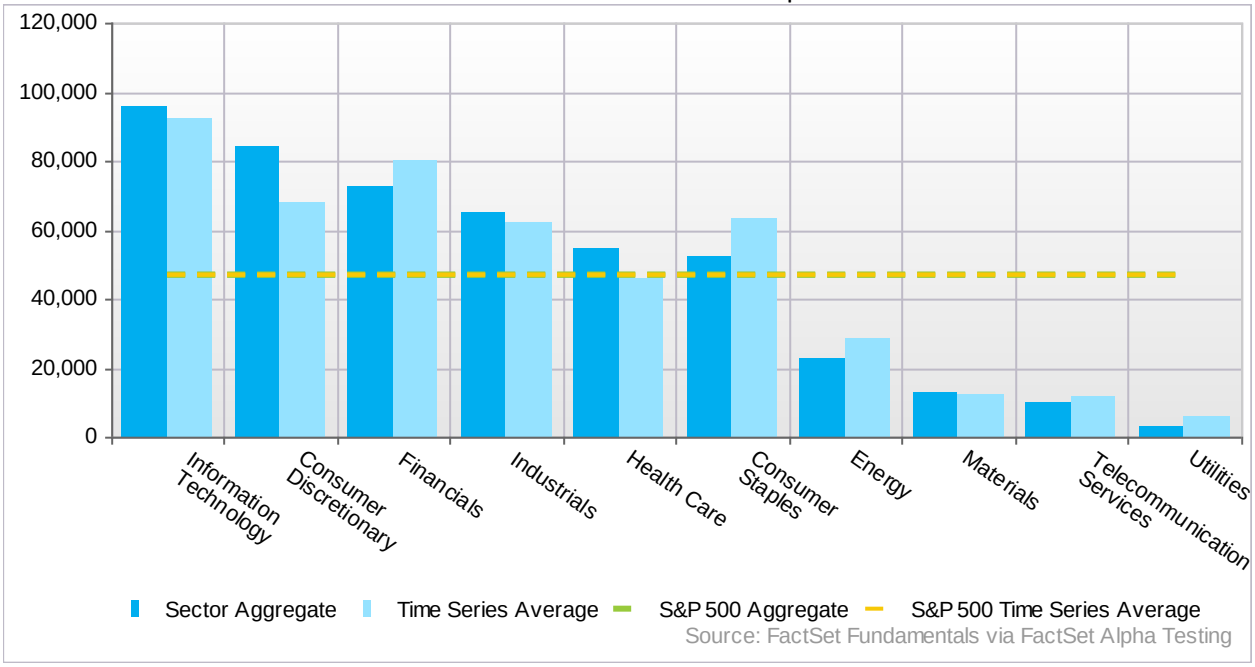
Dollar-Value Shares Available for Repurchase

Some companies make share repurchases outside of publicly announced buyback programs, while other companies' announced programs may not publicly disclose closing, completing, or abandoning the program. Therefore, the following chart tracks dollar-value shares available for repurchase as disclosed in 10-Q's and 10-K's. This metric can either be presented in dollars or shares (in which case shares are converted to dollars by multiplying them by the stock's quarter-end price).

Dollar-Value Shares Available for Repurchase



Top 10 Companies by Dollar-Value Shares Available for Repurchase

Company	Sector	Shares Available ($M)	Quarter's Buybacks ($M)	TTM Buybacks ($M)	1 Year Total Return
JPMorgan Chase & Co.	Financials	$13,433	$1,199	$6,585	32.8%
Walt Disney Co.	Consumer Discretionary	$12,174	$384	$4,069	71.6%
PepsiCo Inc.	Consumer Staples	$9,794	$959	$2,926	16.8%
Hewlett-Packard Co.	Information Technology	$9,300	$365	$1,995	(25.3%)
Microsoft Corp.	Information Technology	$8,221	$1,000	$4,000	20.7%
Expeditors Int'l of WA Inc.	Industrials	$8,039	$84	$153	(11.1%)
Wal-Mart Stores Inc.	Consumer Staples	$7,900	$1,840	$6,187	45.8%
Intel Corp.	Information Technology	$7,497	$1,100	$10,734	5.8%
Pfizer Inc.	Health Care	$7,035	$1,346	$8,410	46.2%
ConocoPhillips	Energy	$5,051	$3,050	$11,299	22.3%
S&P 500	**-**	**$469,760**	**$96,361**	**$394,292**	**25.4%**

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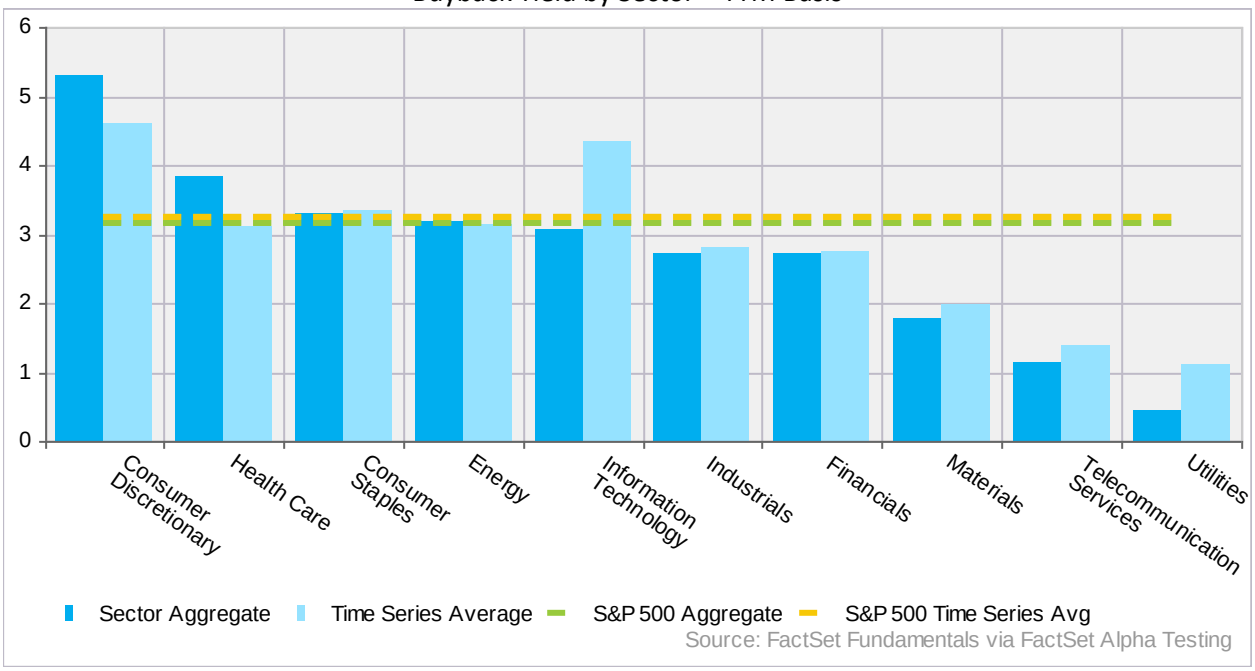
Buyback Yield

Buyback yield is calculated by dividing the TTM dollar-value share repurchases by the company's latest market value at close. It's also important to note the relationship between dividend and share yields. Share repurchases decrease the dividend burden of a company by reducing shares outstanding, and can reduce dividend yield by increasing a stock's price.

Buyback Yield by Sector – TTM Basis



Top 10 Companies by Buyback Yield

Company	Sector	Buyback Yield	TTM Buybacks ($M)	Mkt Val (Co. Level)	1 Year Total Return
Safeway Inc.	Consumer Staples	59.5%	$2,297	$3,863	(1.2%)
Apollo Group Inc. Cl A	Consumer Discretionary	33.1%	$1,093	$3,301	(30.9%)
Big Lots Inc.	Consumer Discretionary	21.5%	$376	$1,753	(17.2%)
Motorola Solutions Inc.	Information Technology	20.1%	$2,916	$14,530	21.4%
Seagate Technology Inc.	Information Technology	19.3%	$2,412	$12,519	188.9%
Lexmark International	Information Technology	19.0%	$305	$1,608	(17.7%)
AutoNation Inc.	Consumer Discretionary	18.1%	$948	$5,236	27.4%
Iron Mountain Inc.	Industrials	17.5%	$1,012	$5,771	6.8%
Assurant Inc.	Financials	16.9%	$509	$3,013	5.5%
ConocoPhillips	Energy	16.2%	$11,299	$69,703	22.3%
S&P 500	**-**	**3.0%**	**$394,292**	**$12,938,381**	**25.4%**

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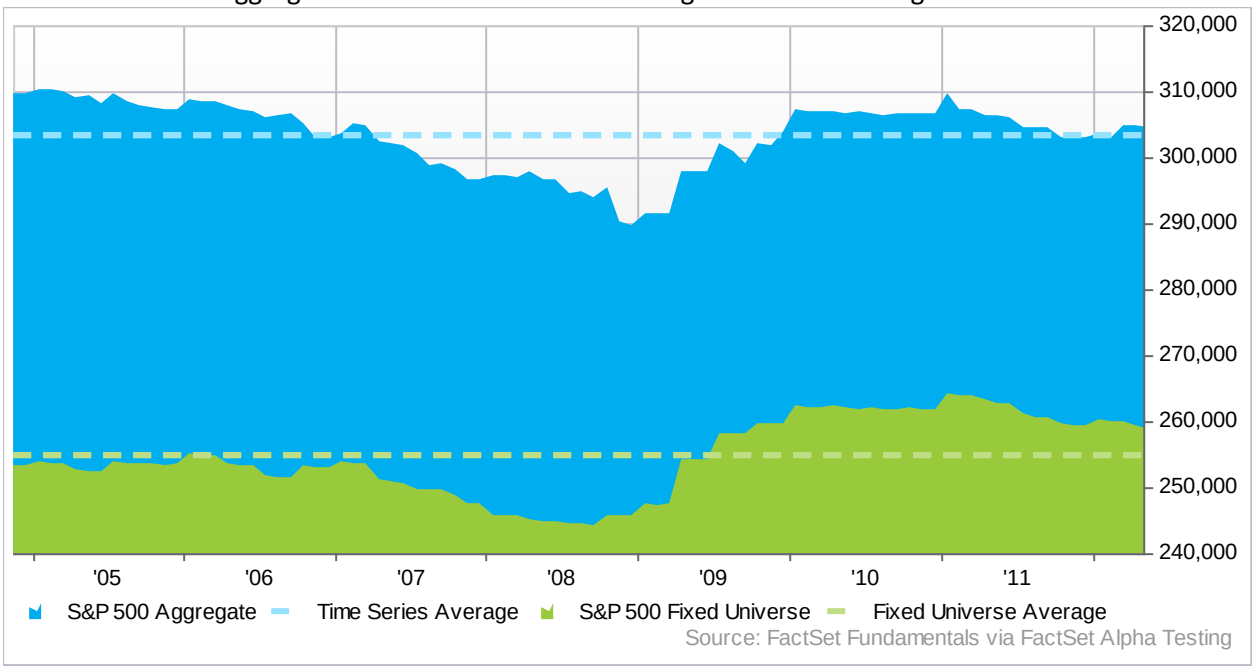
Trends in Diluted Common Shares Outstanding

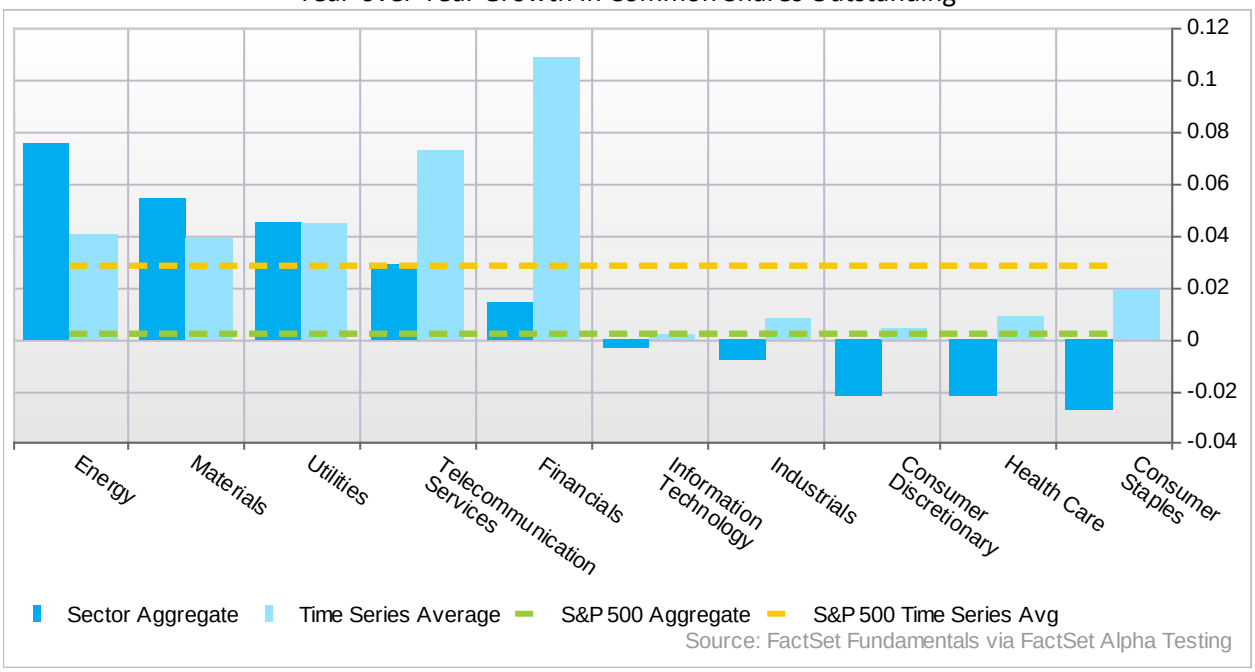
While share repurchases are a large factor in determining the change in share count of a company, they do not capture such activities as exchange of common stock for debentures, conversion of preferred stock, convertible securities, or stock options, or the issuance of stock for acquisitions. Therefore, the charts below are included to show the aggregate change in shares outstanding.

The first chart shows aggregate common shares outstanding in the S&P 500 using a rolling universe and a universe of only the companies that were in the index throughout the time series. The latter view is intended to isolate the trend in share count from constituent changes. The number of companies included in this fixed universe is 332.

Aggregate Common Shares Outstanding – Fixed and Rolling Universe



Year-over-Year Growth in Common Shares Outstanding



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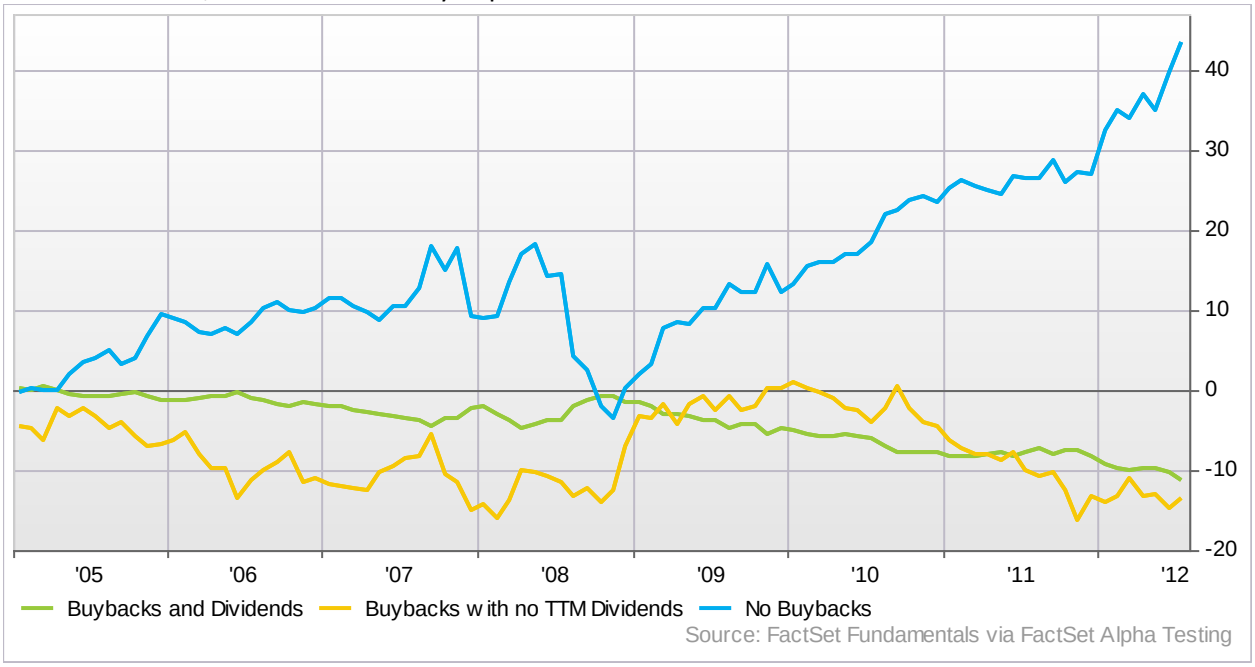
Historical, Forward Performance: Capital Distribution Practices

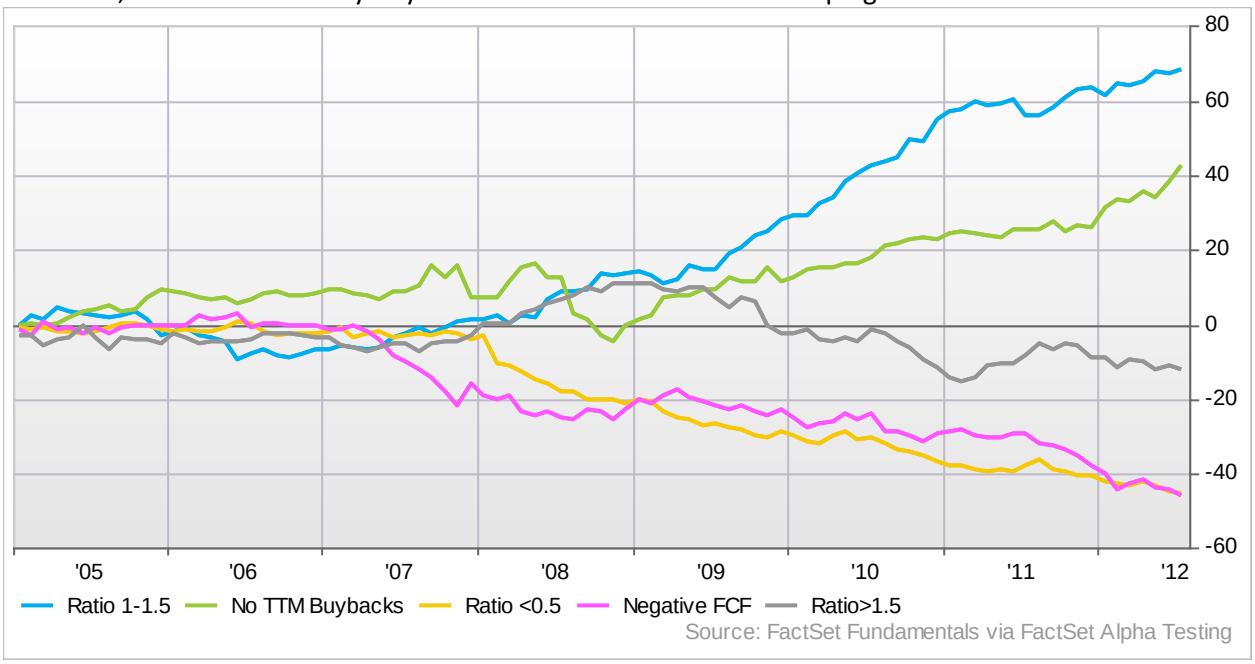
For this back test, S&P 500 companies were broken into groups by their methods of capital distribution.

Historical, Forward Returns by Capital Distribution Practice – Relative to S&P 500 TR Index



For this back test, S&P 500 companies were broken into groups by their buyback to free cash flow ratio on a trailing twelve month bases.

Historical, Forward Returns by Buyback to Free Cash Flow Ratio Grouping – Relative to S&P 500 TR Index



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About FactSet Fundamentals

FactSet Fundamentals gives you access to current, comprehensive, and comparative information on securities worldwide. The comprehensive coverage available includes more than 69,000 companies from over 70 countries, with 20 years of historical data, and up to 2,000 data items on each company record. Comprised of annual and interim/quarterly data, detailed historical financial statement content, per share data, calculated ratios, pricing, and textual information, FactSet Fundamentals provides you with the information you need for a global investment perspective.

About FactSet Alpha Testing

Alpha Testing is FactSet's backtesting tool. Alpha Testing lets you test ideas about which quantitative and qualitative factors drive returns. Use our robust and flexible interface to create custom models and communicate results. Alpha Testing is fully integrated into the FactSet workstation. Model scores can be used in real time portfolio contribution or for portfolio construction.

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