CASE 16

Teletech Corporation, 2005

Raider Dials Teletech

"Wake-Up Call Needed," Says Investor

New York—The reclusive billionaire Victor Yossarian has acquired a 10 percent stake in Teletech Corporation, a large regional telecommunications firm, and has demanded two seats on the firm's board of directors. The purchase was revealed yesterday in a filing with the Securities and Exchange Commission, and separately in a letter to Teletech's CEO, Maxwell Harper. "The firm is misusing its resources and not earning an adequate return," the letter said. "The company should abandon its misguided entry into computers, and sell its Products and Systems segment. Management must focus on creating value for shareholders." Teletech issued a brief statement emphasizing the virtues of a link between computer technology and telecommunications.

Wall Street Daily News, October 15 2005

Margaret Weston, Teletech Corporation's CFO, learned of Victor Yossarian's letter late one evening in early October 2005. Quickly, she organized a team of lawyers and finance staff to assess the threat. Maxwell Harper, the firm's CEO, scheduled a teleconference meeting of the firm's board of directors for the following afternoon. Harper and Weston agreed that before the meeting they needed to fashion a response to Yossarian's assertions about the firm's returns.

Ironically, returns had been the subject of debate within the firm's circle of senior managers in recent months. A number of issues had been raised about the hurdle rate used by the company when evaluating performance and setting the firm's annual capital budget. As the company was expected to invest nearly $2 billion in capital projects in the coming year, gaining closure and consensus on those issues had become an important priority for Weston. Now, Yossarian's letter lent urgency to the discussion.

In the short run, Weston needed to respond to Yossarian. In the long run, she needed to assess the competing viewpoints on Teletech's returns, and she had to

This case was written by Robert F. Bruner, with the assistance of Sean D. Carr. It is dedicated to the memory of Professor Robert F. Vandell, a scholar in corporate finance and investment analysis and the author of an antecedent case upon which the present case draws. Teletech Corporation is a fictional company, reflecting the issues facing actual firms, and is used as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. The financial support of the Batten Institute is gratefully acknowledged.

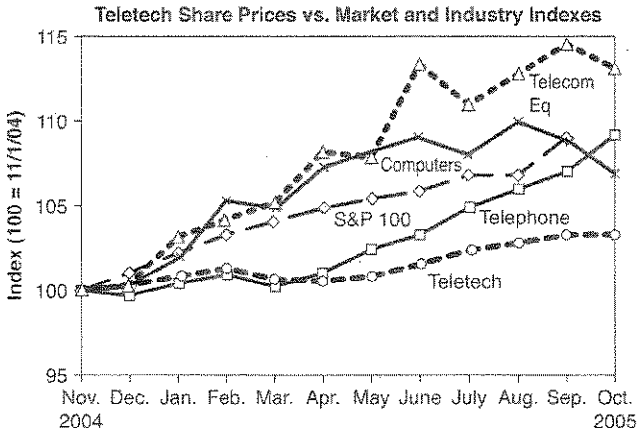
recommend new policies as necessary. What *should* the hurdle rates be for Teletech's two business segments, telecommunications services and its newer products and systems unit? Was the products and systems segment really paying its way?

The Company

The Teletech Corporation, headquartered in Dallas, Texas, defined itself as a "provider of integrated information movement and management." The firm had two main business segments: telecommunications services, which provided long-distance, local, and cellular telephone service to business and residential customers, and the products and systems segment, which engaged in the manufacture of computing and telecommunications equipment.

In 2004, telecommunications services had earned a return on capital (ROC)[1] of 9.10%; products and systems had earned 11%. The firm's current book value of net assets was $16 billion, consisting of $11.4 billion allocated to telecommunications services, and $4.6 billion allocated to products and systems. An internal analysis suggested that telecommunications services accounted for 75% of the market value (MV) of Teletech, while products and systems accounted for 25%. Overall, it appeared that the firm's prospective ROC would be 9.58%. Top management applied a hurdle rate of 9.30% to all capital projects and in the evaluation of the performance of business units.

Over the past 12 months, Teletech's shares had not kept pace with the overall stock market or with industry indexes for telephone, equipment, or computer stocks. Securities analysts had remarked on the firm's lackluster earnings growth, pointing especially to increasing competition in telecommunications, as well as disappointing performance in the Products and Systems segment. A prominent commentator on TV opined, "There's no precedent for a hostile takeover in this sector, but, in the case of Teletech, there is every reason to try."



[1]Return on capital was calculated as the ratio of net operating profits after tax (NOPAT) to capital.

Telecommunications Services

The telecommunications services segment provided long-distance, local, and cellular telephone service to more than 7 million customer lines throughout the Southwest and Midwest. Revenues in this segment grew at an average rate of 3% during 2000–04. In 2004, segment revenues, net operating profit after tax (NOPAT), and net assets were $11 billion, $1.18 billion, and $11.4 billion, respectively.

Since the court-ordered breakup of the Bell System telephone monopoly in 1983, Teletech had coped with the gradual deregulation of its industry through aggressive expansion into new services and geographical regions. Most recently, the firm had been a leading bidder for cellular telephone operations and for licenses to offer personal communications services (PCS). In addition, the firm had purchased a number of telephone-operating companies through privatization auctions in Latin America. Finally, the firm had invested aggressively in new technology—primarily, digital switches and optical-fiber cables—in an effort to enhance its service quality. All of those strategic moves had been costly: the capital budget in this segment had varied between $1.5 billion and $2 billion in each of the previous 10 years.

Unfortunately, profit margins in the telecommunications segment had been under pressure for several years. Government regulators had been slow to provide rate relief to Teletech for its capital investments. Other leading telecommunications providers had expanded into Teletech's geographical markets and invested in new technology and quality-enhancing assets. Teletech's management noted that large cable-TV companies had aggressively entered the telecommunications market and continued the pressure on profit margins.

Nevertheless, Teletech was the dominant service provider in its geographical markets and product segments. Customer surveys revealed that the company was the leader in product quality and customer satisfaction. Its management was confident that the company could command premium prices no matter how the industry might evolve.

Products and Systems

Before 2000, telecommunications had been the company's core business, supplemented by an equipment-manufacturing division that produced telecommunications components. In 2000, the company acquired a leading computer-workstation manufacturer with the goal of applying state-of-the-art computing technology to the design of telecommunications equipment. The explosive growth in the microcomputer market and the increased usage of telephone lines to connect home- and office-based computers with mainframes convinced Teletech's management of the potential value of marrying telecommunications equipment with computing technology. Using Teletech's capital base, borrowing ability, and distribution network to catapult growth, the products and systems segment increased its sales by nearly 40% in 2004. This segment's 2004 NOPAT and net assets were $480 million and $4.6 billion, respectively.

The products and systems segment was acknowledged as a technology leader in the industry. While this accounted for its rapid growth and pricing power, maintenance

of that leadership position required sizable investments in research and development (R&D) and fixed assets. The rate of technological change was increasing, as witnessed by sudden major write-offs by Teletech on products that, until recently, management had thought were still competitive. Major computer manufacturers were entering the telecommunications-equipment industry. Foreign manufacturers were proving to be stiff competition for bidding on major supply contracts.

Focus on Value at Teletech

We will create value by pursuing business activities that earn premium rates of return.
—Teletech Corporation mission statement (excerpt)

Translating Teletech's mission statement into practice had been a challenge for Margaret Weston. First, it had been necessary to help managers of the segments and business units understand what *creating value* meant. Because the segments and smaller business units did not issue securities in the capital markets, the only objective measure of value was the securities prices of the whole corporation—but the activities of any particular manager might not be significant enough to drive Teletech's securities prices. Therefore, the company had adopted a measure of value creation for use at the segment and business-unit level that would provide a proxy for the way investors would view each unit's performance. This measure, called economic profit, multiplied the excess rate of return of the business unit by the capital it used:

$$Economic\ profit = (ROC - Hurdle\ rate) \times Capital\ employed$$

Where:

$$ROC = Return\ on\ capital = \frac{NOPAT}{Capital}$$

$$NOPAT = Net\ operating\ profit\ after\ taxes$$

Each year, the segment and business-unit executives were evaluated based on economic profit. This measure was an important consideration in strategic decisions about capital allocation, manager promotion, and incentive compensation.

The second way in which the value-creation perspective influenced managers was in the assessment of capital-investment proposals. For each investment, projected cash flows were discounted to the present using the firm's hurdle rate to give a measure of the net present value (NPV) of each project. A positive (or negative) NPV indicated the amount by which the value of the firm would increase (or decrease) if the project were undertaken. The following shows how the hurdle rate was used in the familiar NPV equation:

$$Net\ present\ value = \sum_{t=1}^{n}\left[\frac{Free\ cash\ flow_t}{(1 + Hurdle\ rate)^t}\right] - Initial\ investment$$

Hurdle Rates

The hurdle rate used in the assessments of economic profit and NPV had been the focus of considerable debate in recent months. This rate was based on an estimate of Teletech's weighted average cost of capital (WACC). Management was completely satisfied with the intellectual relevance of a hurdle rate as an expression of the opportunity cost of money. The notion that the WACC represented this opportunity cost had been hotly debated within the company, and while its measurement had never been considered wholly scientific, it was generally accepted.

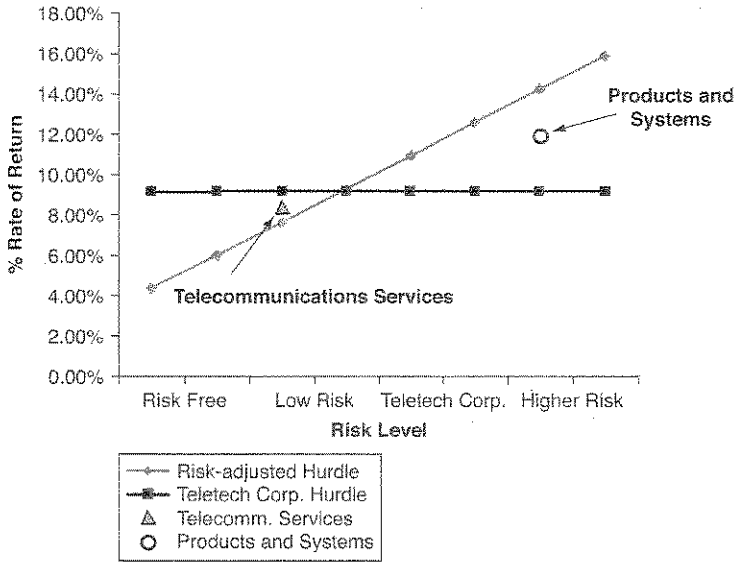
Teletech was "split-rated" between A− and BBB+. An investment banker recently suggested that, at those ratings, new debt funds might cost Teletech 5.88% (about 3.53% after a 40% tax rate). With a beta of 1.15, the cost of equity might be about 10.95%. At market-value weights of 22% for debt and 78% for equity, the resulting WACC would be 9.30%. **Exhibit 1** summarizes the calculation. The hurdle rate of 9.30% was applied to all investment and performance-measurement analyses at the firm.

Arguments for Risk-Adjusted Hurdle Rates

How the rate should be used within the company in evaluating projects was another point of debate. Given the differing natures of the two businesses and the risks each one faced, differences of opinion arose at the segment level over the appropriateness of measuring all projects against the corporate hurdle rate of 9.30%. The chief advocate for multiple rates was Rick Phillips, executive vice president of telecommunications services, who presented his views as follows:

> Each phase of our business is different. They must compete differently and must draw on capital differently. Given the historically stable nature of this industry, many telecommunications companies can raise large quantities of capital from the debt markets. In operations comparable to telecommunications services, 50% of the necessary capital is raised in the debt markets at interest rates reflecting solid A quality, on average. This is better than Teletech's corporate bond rating of A−/BBB+.
>
> I also have to believe that the cost of equity for telecommunications services is lower than it is for products and systems. Although the products and systems segment's sales growth and profitability have been strong, its risks are high. Independent equipment manufacturers are financed with higher-yielding BB-rated debt and a greater proportion of equity.
>
> In my book, the hurdle rate for products and systems should reflect those higher costs of funds. Without the risk-adjusted system of hurdle rates, telecommunications services will gradually starve for capital, while products and systems will be force-fed—that's because our returns are less than the corporate hurdle rate, and theirs are greater. Telecommunications services lowers the risk of the whole corporation, and should not be penalized. Here's a rough graph of what I think is going on (**Figure 1**):
>
> Telecommunications services, which can earn 9.10% on capital, is actually profitable on a risk-adjusted basis, even though it is not profitable compared to the corporate hurdle rate. The triangle shape on the drawing shows about where telecommunications services is located. My hunch is that the reverse is true for products and systems [P&S], which promises to earn 11.0% on capital. P&S is located on the graph near the little circle. In deciding

FIGURE 1 | Rick Phillips's assessment of constant versus risk-adjusted hurdle rates.



how much to loan us, lenders will consider the composition of risks. If money flows into safer investments, over time the cost of their loans to us will decrease.

Our stockholders are equally as concerned with risk. If they perceive our business as being more risky than other companies are, they will not pay as high a price for our earnings. Perhaps this is why our price-to-earnings ratio is below the industry average most of the time. It is not a question of whether we adjust for risk—we already do, informally. The only question in my mind is whether we make those adjustments systematically or not.

While multiple hurdle rates may not reflect capital-structure changes on a day-to-day basis, over time they will reflect prospects more realistically. At the moment, as I understand it, our real problem is an inadequate and very costly supply of equity funds. If we are really rationing equity capital, then we should be striving for the best returns on equity for the risk. Multiple hurdle rates achieve that objective.

Implicit in Phillips's argument, as Weston understood it, was the notion that if each segment in the company had a different hurdle rate, the costs of the various forms of capital would remain the same. The mix of capital used, however, would change in the calculation. Low-risk operations would use leverage more extensively, while the high-risk divisions would have little to no debt funds. This lower-risk segment would have a lower hurdle rate.

Opposition to Risk-Adjusted Hurdle Rates

While several others within Teletech supported Phillips's views, opposition was strong within the products and systems segment. Helen Buono, executive vice president of products and systems, expressed her opinion as follows:

> All money is green. Investors can't know as much about our operations as we do. To them the firm is a black box; they hire us to take care of what is inside the box, and judge us by the dividends coming out of the box. We can't say that one part of the box has a different hurdle rate than another part of the box if our investors don't think that way. Like I say, all money is green: all investments at Teletech should be judged against one hurdle rate.
>
> Multiple hurdle rates are illogical. Suppose that the hurdle rate for telecommunications services was much lower than the corporate-wide hurdle rate. If we undertook investments that met the *segment* hurdle rate, we would be destroying shareholder value because we weren't meeting the *corporate* hurdle rate.
>
> Our job as managers should be to put our money where the returns are best. A single hurdle rate may deprive an under profitable division of investments in order to channel more funds into a more profitable division, but isn't that the aim of the process? Our challenge today is simple: we must earn the highest absolute rates of return that we can get.
>
> In reality, we don't finance each division separately. The corporation raises capital based on its overall prospects and record. The diversification of the company probably helps keep our capital costs down and enables us to borrow more in total than the sum of the capabilities of the divisions separately. As a result, developing separate hurdle rates is both unrealistic and misleading. All our stockholders want is for us to invest our funds wisely in order to increase the value of their stock. This happens when we pick the most promising projects, irrespective of the source.

Margaret Weston's Concerns

As Weston listened to these arguments, presented over the course of several months, she became increasingly concerned about several related considerations. First, Teletech's corporate strategy had directed the company toward integrating the two segments. One effect of using multiple hurdle rates would be to make justifying high-technology research and application proposals more difficult, as the required rate of return would be increased. On the one hand, she thought, perhaps multiple hurdle rates were the right idea, but the notion that they should be based on capital costs rather than strategic considerations might be wrong. On the other hand, perhaps multiple rates based on capital costs should be used, but, in allocating funds, some qualitative adjustment should be made for unquantifiable strategic considerations. In Weston's mind, the theory was certainly not clear on how to achieve strategic objectives when allocating capital.

Second, using a single measure of the cost of money (the hurdle rate or discount factor) made the NPV results consistent, at least in economic terms. If Teletech adopted multiple rates for discounting cash flows, Weston was afraid that the NPV and economic-profit calculations would lose their meaning and comparability across business segments. To her, a performance criterion had to be consistent and understandable, or it would not be useful.

In addition, Weston was concerned about the problem of attributing capital structures to divisions. In the telecommunications services segment, a major new switching station might be financed by mortgage bonds. In products and systems, however, it was impossible for the division to borrow directly; indeed, any financing was only feasible because the corporation guaranteed the debt. Such projects were considered highly risky—at best, perhaps, warranting only a minimal debt structure. Also, Weston considered the debt-capacity decision difficult enough for the corporation as a whole, let alone for each division. Judgments could only be very crude.

In further discussions with others in the organization about the use of multiple hurdle rates, Weston discovered two predominant themes. One argument held that investment decisions should never be mixed with financing decisions. A firm should first decide what its investments should be and then determine how to finance them most efficiently. Adding leverage to a present-value calculation would distort the results. The use of multiple hurdle rates was simply a way of mixing financing with investment analysis. This argument also held that a single rate made the risk decision clear-cut. Management could simply adjust its standard (NPV or economic profit) as the risks increased.

The contrasting line of reasoning noted that the WACC tended to represent an average market reaction to a mixture of risks. Lower-than-average-risk projects should probably be accepted even when they did not meet the weighted-average criterion. Higher-than-normal-risk projects should provide a return premium. While the multiple-hurdle-rate system was a crude way to achieve this end, at least it was a step in the right direction. Moreover, some argued that Teletech's objective should be to maximize return on equity funds, and because equity funds were and would remain a comparatively scarce resource, a multiple-rate system would tend to maximize returns to stockholders better than a single-rate system would.

To help resolve these issues, Weston asked her assistant, Bernard Ingles, to summarize the scholarly thought regarding multiple hurdle rates. His memorandum is given in **Exhibit 2**. She also requested that Ingles obtain samples of firms comparable with the telecommunications services segment and the products and systems unit that might be used in deriving segment WACCs. A summary of the data is given in **Exhibit 3**. Information on capital-market conditions in October 2005 is given in **Exhibit 4**.

Conclusion

Weston could not realistically hope that all the issues before her would be resolved in time to influence Victor Yossarian's attack on management. But the attack did dictate the need for an objective assessment of the performance of Teletech's two segments—the choice of hurdle rates would be very important in the analysis. She did want to institute a pragmatic system of appropriate hurdle rates (or one rate), however, that would facilitate judgments in the changing circumstances faced by Teletech. What were the appropriate hurdle rates for the two segments? Was the products and systems segment underperforming, as suggested by Yossarian? How should Teletech respond to the raider?

EXHIBIT 1 | Summary of the WACC Calculation for Teletech Corporation and Segment Worksheet

	Corporate	Telecommunications Services	Products and Systems
MV asset weights	100%	75%	25%
Bond rating	A−/BBB+	A	BB
Pretax cost of debt	5.88%	5.74%	7.47%
Tax rate	40%	40%	40%
After-tax cost of debt	3.53%	3.44%	4.48%
Equity beta	1.15		
R_f	4.62%		
R_M	10.12%		
R_M–R_f	5.50%		
Cost of equity	10.95%		
Weight of debt	22.2%		
Weight of equity	77.8%		
WACC	**9.30%**		

Data Source: Bloomberg LP, S&P Research Insight, and case writer analysis.

EXHIBIT 2 | Theoretical Overview of Multiple Hurdle Rates

To: Margaret Weston
From: Bernard Ingles
Subject: Segment cost-of-capital theory
Date: October 2005

You requested an overview of the theories on multiple hurdle rates. Without getting into the minutiae, the theories boil down to the following points:

1. The central idea is that required returns should be driven by risk. This is the dominant view in the field of investment management, and is based on a mountain of theory and empirical research stretching over several decades. The extension of this idea from investment management to corporate decision making is, at least in theory, straightforward.
2. An underlying assumption is that the firm is transparent (i.e., that investors can see through the corporate veil and evaluate the activities going on inside). No one believes firms are *completely* transparent, or that investors are perfectly informed. But financial accounting standards have evolved toward making the firm more transparent. And the investment community has grown tougher and sharper in its analysis. Teletech now has 36 analysts publishing both reports and forecasts on the firm. The reality is that for big publicly held firms, transparency is not a bad assumption.
3. Another underlying assumption is that the value of the whole enterprise is simply the sum of its parts—this is the concept of value additivity. We can define "parts" as either the business segments (on the left-hand side of the balance sheet) or the layers of the capital structure (on the right-hand side of the balance sheet). Market values have to balance.

$$MV_{Teletech} = (MV_{Telecommunication\ Services} + MV_{Products+Systems}) = (MV_{debt} + MV_{equity})$$

If those equalities did not hold, then a raider could come along and exploit the inequality by buying or selling the whole and the parts. This is arbitrage. By buying and selling, the actions of the raider would drive the MVs back into balance.

4. Investment theory tells us that the only risk that matters is nondiversifiable risk, which is measured by beta. Beta indicates the risk that an asset will add to a portfolio. Since we assume that an investor is diversified, we also assume she seeks a return for only the risk that she cannot shed, which is the nondiversifiable risk. The important point here is that the beta of a portfolio is equal to a weighted average of the betas of the portfolio components. Extending this to the corporate environment, the asset beta for the firm will equal a weighted average of the components of the firm—again, the components of the firm can be defined in terms of either the right-hand side or the left-hand side of the balance sheet.

$$\beta_{Teletech\ Assets} = (w_{Tel.Serv.}\,\beta_{Tel.Serv.} + w_{P+S}\,\beta_{P+S}) = (w_{debt}\,\beta_{debt} + w_{equity}\,\beta_{equity})$$

Where:

w = *percentage weights based on market values.*

$\beta_{Tel.\ Serv.}, \beta_{P+S}$ = *Asset betas for business segments.*

β_{debt} = β *for the firm's debt securities.*

β_{equity} = β *of firm's common stock (given by Bloomberg, etc.)*

This is a very handy way to model the risk of the firm, for it means that we can use the capital asset pricing model to estimate the cost of capital for a segment (i.e., using segment asset betas).

5. Given the foregoing, it follows that the weighted average of the various costs of capital (K) for the firm (WACC), which is the theoretically correct hurdle rate, is simply a weighted average of segment WACCs:

$$WACC_{Teletech} = (W_{Tel.Serv.}WACC_{Tel.Serv.}) + (W_{P+S}WACC_{P+S})$$

EXHIBIT 2 | Theoretical Overview of Multiple Hurdle Rates (*Continued*)

Where:

$$w = \textit{percentage weights based on market values.}$$

$$WACC_{Tel.\ Serv.} = (w_{debt,\ Tel.\ Serv.} K_{debt,\ Tel.\ Serv.}) + (w_{equity,\ Tel.\ Serv.} K_{equity,\ Tel.\ Serv.})$$

$$WACC_{P+S} = (w_{debt,\ P+S} K_{debt,\ P+S}) + (w_{equity,\ P+S} K_{equity,\ P+S})$$

6. The notion in point number 5 may not hold exactly in practice. First, most of the components in the WACC formula are estimated with some error. Second, because of taxes, information asymmetries, or other market imperfections, assets may not be priced strictly in line with the model—for a company like Teletech, it is reasonable to assume that any mispricings are just temporary. Third, the simple two-segment characterization ignores a hidden third segment: the corporate treasury department that hedges and aims to finance the whole corporation optimally—this acts as a shock absorber for the financial policies of the segments. Modeling the WACC of the corporate treasury department is quite difficult. Most companies assume that the impact of corporate treasury is not very large, and simply assume it away. As a first cut, we could do this too, although it is an issue we should revisit.

Conclusions

- In theory, the corporate WACC for Teletech is appropriate *only* for evaluating an asset having the same risk as the whole company. It is not appropriate for assets having different risks than the whole company.
- Segment WACCs are computed similarly to corporate WACCs.
- In concept, the corporate WACC is a weighted average of the segment WACCs. In practice, the weighted average concept may not hold, due to imperfections in the market and/or estimation errors.
- If we start computing segment WACCs, we must use the cost of debt, cost of equity, and the weights *appropriate to that segment.* We need a lot of information to do this correctly, or else we really need to stretch to make assumptions.

EXHIBIT 3 | Samples of Comparable Firms

Company Name	2004 Revenues	Equity Beta	Bond Rating	Book Val. Debt/Total Capital	Price to Book	Mkt. Val. Debt/ Capital	Mkt. Val. Debt/ Equity	Price/ Earnings
Teletech Corporation	**16,000**	**1.15**	**A−/BBB+**	**46%**	**3.0**	**22%**	**29%**	**12.9**
Telecommunications Services Industry								
Alltel Corp.	8,246	1.00	A	42.3%	2.4	23.2%	30.1%	15.4
AT&T Corp.	30,537	1.10	BB+	53.9%	2.0	36.6%	57.7%	(2.4)
BellSouth Corp.	20,350	1.00	A	38.1%	2.1	22.9%	29.7%	16.7
Centurytel Corp.	2,411	1.05	BBB+	42.5%	1.3	37.0%	58.8%	13.3
Citizens Communications Co.	2,193	1.00	BB+	76.1%	3.5	47.7%	91.1%	65.0
IDT Corp.	2,217	1.05	NA	2.5%	1.2	2.1%	2.1%	(19.3)
SBC Communications Inc.	40,787	1.05	A	32.3%	1.9	20.0%	25.0%	19.6
Sprint Corp.	27,428	1.15	A−	50.8%	2.4	30.3%	43.4%	(43.1)
Verizon Communications Inc.	71,283	1.00	A+	45.0%	2.6	24.1%	31.8%	12.5
Average		1.04		42.6%	2.15	27.1%	41.1%	8.65
Telecommunications Equipment Industry								
Avaya Inc.	4,057	1.35	BB	14.0%	3.5	4.4%	4.6%	18.3
Belden CDT Inc.	966	1.45	NA	19.9%	1.2	17.5%	21.3%	38.7
Commscope Inc.	1,153	1.10	BB	36.9%	2.0	22.4%	28.9%	10.3
Corning Inc.	3,854	1.45	BBB−	41.9%	5.4	11.8%	13.4%	(11.1)
Harris Corp.	2,519	1.05	BBB−	24.5%	2.7	10.7%	11.9%	21.9
Lucent Technologies Inc.	9,045	1.75	B	109.8%	(26.0)	30.1%	43.0%	6.0
Nortel Networks Corp.	9,828	1.75	NA	43.9%	3.0	20.7%	26.0%	(51.8)
Plantronics Inc.	560	1.20	NA	0.7%	4.2	0.2%	0.2%	17.0
Scientific-Atlanta Inc.	1,708	1.45	NA	0.4%	2.6	0.1%	0.1%	20.7
Average		1.39		32.5%	(0.15)	13.1%	16.6%	7.77
Computer and Network Equipment Industry								
EMC Corp.	8,229	1.55	BBB	1.0%	2.9	0.4%	0.4%	34.3
Gateway Inc.	3,650	1.35	NA	42.3%	5.5	11.8%	13.4%	(4.2)
Hewlett-Packard Corp.	79,905	1.45	A−	12.7%	1.7	7.8%	8.5%	18.5
Int'l. Business Machines Corp.	96,293	1.10	A+	27.1%	4.1	8.4%	9.1%	15.2
Lexmark Int'l. Inc.	5,314	1.15	NA	5.5%	4.2	1.4%	1.4%	15.5
NCR Corp.	5,984	1.20	NA	13.7%	3.3	4.5%	4.8%	21.1
Seagate Technology	6,224	1.20	NA	33.0%	4.4	10.0%	11.1%	25.0
Storage Technology Corp.	2,224	1.15	NA	0.8%	2.4	0.3%	0.3%	18.2
Western Digital Corp.	3,047	1.80	NA	12.5%	4.8	2.9%	3.0%	16.7
Average		1.33		16.5%	3.70	5.3%	5.8%	17.81

EXHIBIT 4 | Debt-Capital-Market Conditions, October 2005

Corporate Bond Yields		U. S. Treasury Securities	
Industrials			
AAA	5.44%	3-month	3.56%
AA	5.51%	6-month	3.99%
A	5.74%	2-year	4.23%
		3-year	4.23%
BBB	6.23%	5-year	4.25%
BB	7.47%	10-year	4.39%
B	8.00%	30-year	4.62%
Phones			
A	6.17%		
BBB	6.28%		
Utilities			
A	5.69%		
BBB	6.09%		

Data Source: Bloomberg LP.