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THE WALL STREET JOURNAL.

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Fear Factors

Why Do Americans Feel That Danger Lurks Everywhere?

Fixation on Risk, Fed by Labs, Law and Media, Haunts The World's Safest Nation

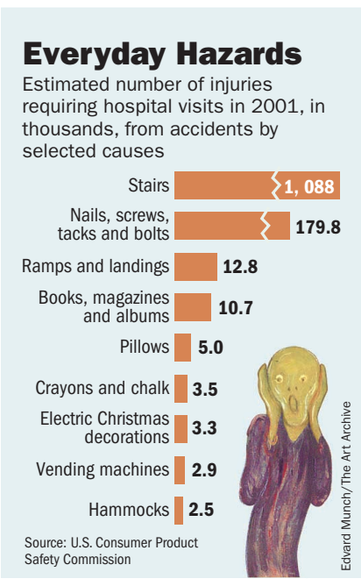
'Easier to Scare Than Unscare'

By Jane Spencer
And Cynthia Crossen

Scott Jordan is not averse to risk. He has flown a small plane, tried bungee jumping and skied on glaciers. He once drove his sports car on a public highway at 152 miles an hour, and he is lax about fastening his seat belt on short trips. He only sometimes wears his helmet when cycling.

But terrorism and severe acute respiratory syndrome have him worried. Mr. Jordan, chief executive of a small Chicago apparel company, is likely to cancel his business trip to South Korea next month. "If I go ... and some crazy person decides to bomb the Hyatt, I'm dead," he says.

Mr. Jordan may not be reading his risk rationally. Even in 2001, when more than



3,000 people died in a terrorist attack on the U.S., he was 12 times as likely to lose his life on a highway as at the hands of a hostile fanatic. But who can blame him?

Today, thanks to research labs, tort law and media hype, danger seems to lurk in every corner of life, from children's toys to McDonald's coffee, anthrax to secondhand smoke, West Nile virus to SARS. Faced with a barrage of warnings—including the color-coded caveats of the new Homeland Security department—it's not surprising that in contemporary America, the safest society in recorded history, many people feel as though they have never been more at risk.

"Everyone's nerves are on edge," says Andrew Karam, radiation-safety officer at the University of Rochester, where he ensures that the use of radiation in medicine and research complies with federal regulations. "No matter where we turn, we're reading about something killing us prematurely."

Armed with scientific and technological breakthroughs, Americans have dramatically reduced their risk in virtually every area of life, resulting in life spans 60% longer in 2000 than in 1900. Many deadly infectious diseases were tamed, food and water were purified, drugs and surgery helped forestall heart attacks, and thousands of safety devices—window guards, smoke detectors, circuit breakers, air bags—protected against everyday mishaps. Even the risk of financial disaster was reduced by insurance, pensions and Social Security.

The very safety of modern life in the U.S. may amplify our sense of loss. To die prematurely today may mean losing 40 years of life instead of 10. And while humans have learned to control much of their environment, there are periodically new, unpredictable and catastrophic threats against which they feel helpless, at least initially, such as AIDS, SARS and anthrax.

The past century also saw the flow of information about risk grow from a trickle to a tidal wave. Government officials, scientists, marketers and the media learned to

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INDEX

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What's News—

Business and Finance

AMR POSTED a $1.04 billion loss as the board of the American Air parent weighed Donald Carty's future. The CEO has been sharply criticized for failing to give unions details about large executive bonuses and pension protections while he was asking workers to approve huge pay cuts. Outsiders believe it is possible Carty could be ousted, possibly as soon as today.

■ **Other large companies** have funded pension trusts for top executives while forgoing contributions to employee pension plans.

(Articles on Page A3 and in Column 4)

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■ **Frank Quattrone was arrested** and charged by prosecutors with obstructing justice and witness tampering in connection with the probe of IPO practices at CSFB.

(Article on Page C1)

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■ **Raytheon CEO Dan Burnham** said he is resigning. He will be succeeded by William Swanson, the defense company's president.

(Article on Page A3)

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■ **An Ernst & Young accountant** testified that his firm was warned about possible fraud at HealthSouth but couldn't detect it.

(Article on Page A2)

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■ **Fed officials expect** the economy to pick up, but they are split on the strength of the rebound and are likely to hold rates steady.

(Article on Page A2)

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■ **OPEC meets** today to consider cutting oil output if needed to stabilize prices. Crude futures plunged on a surge in imports.

(Articles on Pages A2 and C11)

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■ **The Nasdaq rose** 14.80 to 1466.16, its high for the year, on favorable earnings news. The industrials edged up 30.67 to 8515.66.

(Article on Page C1)

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■ **Accounting rule makers** have agreed that stock options should be treated as an expense but have yet to decide how to value them.

(Article on Page C1)

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■ **Boeing reported** a $478 million loss, including charges, for a quarter hurt by the airline-industry slump. Revenue fell 11%.

(Article on Page B2)

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■ **AOL swung** to a a profit of $396 million, helped by strong film and cable-TV results and cost savings at America Online.

(Article on Page B3)

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■ **Kodak's net tumbled** 69% as film sales continued to slide. The firm warned second-quarter results could fall short of forecasts.

(Article on Page B7)

* * *

■ **AT&T and BellSouth swung** to first-quarter profits. Both firms saw smaller declines in revenue compared with the year earlier.

■ **Nextel added** more net subscribers and a had a lower defection rate than AT&T Wireless.

(Articles on Page B6)

* * *

■ **Lucent's loss narrowed** to $351 million. Revenue slid 31% and the company said sales for the year could fall more than expected.

(Article on Page B7)

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■ **An FDIC lawsuit** against Ernst & Young over the firm's audits for Superior Bank was dismissed by a federal judge.

(Article on Page C9)

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■ **GE shareholders nearly passed** two proposals aimed at increasing management accountability.

(Article on Page B3)

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—Markets—

Stocks: NYSE vol. 1,619,843,210 shares, Nasdaq vol. 1,784,023,198. DJ industrials 8515.66, ▲ +30.67; Nasdaq composite 1466.16, ▲ +14.80; S&P 500 index 919.02, ▲ +7.65.

Bonds (4 p.m.): 10-yr Treasury ▲ +1/32, yld 3.986%; 30-yr Treasury ▲ +7/32, yld 4.891%.

Dollar: 120.41 yen, +0.45; euro $1.0968, -0.04 cent against the dollar.

Commodities: Oil futures (June) $26.65 a barrel, ▼ -$1.34; Dow Jones-AIG futures 113.329, ▼ -1.192; DJ-AIG spot 145.704, ▼ -1.533.

World-Wide

■ **THE U.S. KEPT a hawk's eye on Iran amid Iraq's Shiite resurgence.** As local imams stepped into the power vacuum left by the demise of Hussein's secularist Baath Party, organizing militias and taking control of many public functions, Washington warned Tehran not to seek advantage in the situation. Four fugitive Iraqi leaders were arrested, including the air-defense chief and head of military intelligence. Three Marines died at Kut while testing a fedayeen rocket-propelled grenade. The U.S. is confiscating smuggled booty from journalists and others departing Iraq. Powell said that France will face consequences for efforts to block the war, with exclusion from some meetings of NATO under consideration. (Pages A4, A6 and A15)

The Pentagon has launched a study to determine if the military police force in Iraq is large enough. Many, including some in the military, are asking if widespread looting and destruction might have been prevented.

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■ **Arafat relented** and allowed Mahmoud Abbas to form the government he wants, a deal that opens the way for a renewed U.S. peace push. The Palestinian leader reportedly was helped to his decision by Egypt's brokering of assurances of personal safety and steps to end his isolation.

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■ **Nuclear-crisis talks opened** in Beijing as U.S., North Korean and Chinese delegates met. None gave any estimate of progress. Pyongyang said U.S. belligerence led to the standoff.

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■ **Afghanistan's Karzai handed** Pakistan a list of Taliban suspects that he wants arrested. U.S. troops say they have killed a man who fatally shot a Red Cross worker last month.

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■ **U.N. experts warned** against trips to Toronto; Beijing sealed off a 1,200-bed hospital. Top AIDS scientists are to help fight a new pneumonia. (Column 1 and Pages A3, A15, B1 and D1)

* * *

■ **Gephardt proposed gutting** Bush's tax cuts and using the money to pay for health coverage. The Democratic candidate seeks a way to challenge a popular war president. (Page A4)

■ **California could extend** health insurance to all residents for about $7.8 billion a year, a Blue Shield study says, but the plan's chances for a quick adoption are remote. (Page D3)

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■ **The Supreme Court decided not to** limit appeals over poor lawyering. It also weighed if the First Amendment protects Nike's public-relations rebuttal of sweatshop charges. (Page A12)

* * *

■ **Republicans will propose** new fines on chemical plants that fail to heed antiterror rules, but won't threaten jail time. Democrats would. (Page B2)

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■ **Obesity raises** cancer risk significantly, accounting for 14% of deaths from the disease for men and 20% for women, a study says. (Page D3)

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■ **Space shuttle wings weren't** designed to take hits of any sort, NASA ex-officials said. Russia launches a space station crew of two Saturday.

* * *

■ **Racial disparities persist** in the U.S. death penalty, Amnesty International said. Blacks are 12% of the population but are 41% of death row.

■ **An appeals court blocked** Texas from executing a man whose lawyers say is retarded. The Supreme Court has barred executions of such people.

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■ **Traffic deaths rose** to the highest level in over a decade in 2002, with alcohol, failure to wear belts and SUV rollovers contributing. (Page D2)

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■ **Nigeria's Obasanjo vowed** to crack down on any mass protests over his disputed re-election. The opposition demands he quit and set a new vote.

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■ **An Iranian actress was sentenced** to 74 lashes for kissing an actor on the cheek in public. Sentence was suspended barring a future offense.

* * *

■ **Three supermarket chains are facing** suits seeking to force disclosure that farm-raised salmon is dyed pink. One insisted there is no safety issue.

—Online Today—

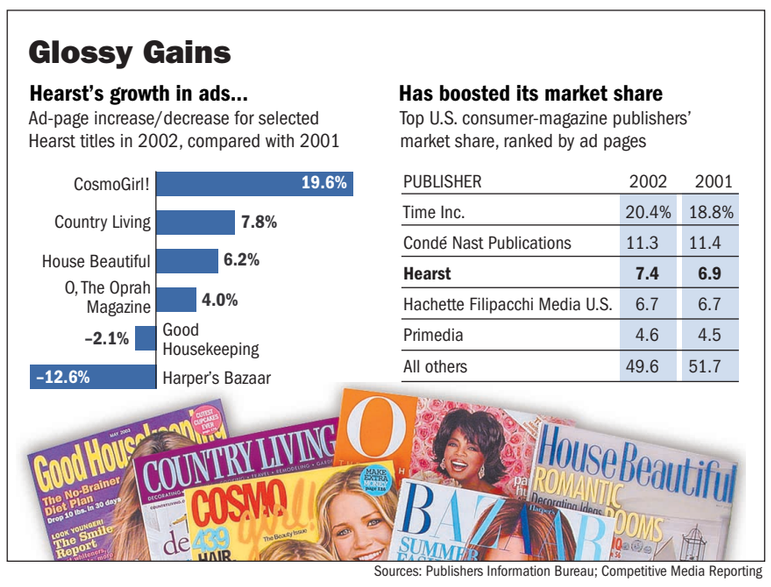
WSJ.com **Work & Family Mailbox:** The lousy economy has made it even harder to balance work and home life, so Sue Shellenbarger advises taking small steps that can still bring big changes.

* * *

■ **Fiscally Fit:** Terri Cullen looks at the worst financial-planning tips people readily accept, and the best advice they almost always ignore.

* * *

■ **World Press Reacts:** Tracking the anti-U.S. backlash among Iraqi Shiites.



PUBLISHER	2002	2001
Time Inc.	20.4%	18.8%
Condé Nast Publications	11.3	11.4
Hearst	**7.4**	**6.9**
Hachette Filipacchi Media U.S.	6.7	6.7
Primedia	4.6	4.5
All others	49.6	51.7

Executives Get Pension Security While Plans for Workers Falter

By Ellen E. Schultz
And Theo Francis

A number of large companies are setting aside millions of dollars to protect pensions of top executives, even as they forgo contributions to financially strained pension plans for other workers.

The issue of inequity in pension plans is heating up in the airline industry, amid recent disclosures that AMR Corp., Delta Air Lines and UAL Corp. had poured millions into special pension trusts for executives. That angered workers who have seen their own pension plans ravaged by weak stock markets and low interest rates. At AMR's American Airlines, employee outrage over the issue is threatening delicate labor talks that are crucial to keeping the company from filing for bankruptcy protection. (See article on page A3.)

Some other companies that also have established such pension trusts for executives include Motorola Inc., Owens-Illinois Inc., TXU Corp., Altria Group Inc. (formerly Philip Morris), and Abbott Laboratories, according to regulatory filings.

Companies that contribute to pensions for executives—while choosing not to fund regular pensions—aren't breaking any laws. Federal rules require companies to make minimum contributions if their pension plans become excessively underfunded. That occurs when liabilities exceed assets by too great a margin as defined by the Internal Revenue Service. But companies can coast for years with pensions that have just two-thirds or three-quarters of the money they would need to pay their future obligations.

The practice illustrates the growing gap in retirement security between most employees and those at the very top. As senior executives rely more on their special pensions, they have less incentive to ensure that the regular pension plan offers adequate benefits—or is adequately funded. Executives' special pensions also are increasingly being sheltered from their companies' financial troubles, including bankruptcy.

Last year, for instance, Motorola's pension plan that covers more than 70,000 employees and retirees was underfunded by $1.4 billion, the company's regulatory filings show. Although Motorola didn't add any money to help bridge this gap, the company did contribute $38 million to a special pension fund, with assets of $135 million, for an undisclosed number of top executives. A Motorola spokeswoman said the telecommunications-equipment maker plans to put $200 million into its pension plan this year.

It can be difficult for employees and shareholders to compare the funding levels of regular pensions and executive pensions. In their annual reports, companies must disclose pension assets and liabilities, company contributions and other details. But when it comes to executive pensions, companies are required to disclose the existence of trusts they set up only for the top five officers, and not the amount of money in them or other details.

For example, TXU, a Texas utility, notes in its 2002 annual report that its pension for 30,000 employees and retirees was underfunded by $424 million at the end of 2002, and that the company contributed only $28 million to the plan in that year. However, other filings note that the company has established special trusts for executive pensions.

A TXU spokeswoman says the company hasn't made any contribution for two years to the executive trust, which benefits a current employee and two retirees. She said the trust, which is fully funded, has performed better than the company's pension plan because it is invested largely in bonds. The pension plan, with greater exposure to stock markets, is 90% funded, she said.

Similarly, Fortune Brands Inc., whose businesses include Master Lock and Jim Beam bourbon, provides four top executives—including Chairman and Chief Executive Norman H. Wesley—with secured

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Going Bats: Baseball, In Limiting Suppliers, Drives Many Nuts

* * *

Now, Purveyors of Hardwood Pay Fees, Buy Insurance Or They're Called Out

By Jonathan Eig

Chris Corso can't shake the memory of the first time he swung a bat as a professional baseball player in 1994 for the Kane County Cougars in Schaumburg, Ill.

The bases were loaded and there were two outs. The pitch looked like a fastball. But as he swung, it curved and dropped away and he had to stretch to reach the slider. His bat shattered and the ball rolled into the glove of the second baseman who threw to first for an easy out.

A series of injuries ended Mr. Corso's minor-league career just a year later. But the sting of that broken bat lingered.


Chris Corso

Mr. Corso, now 32 years old, has been working ever since to get back into baseball—as the manufacturer and supplier of Sandlot Stiks, which he claims are the most durable wood bats on the market. His business grew enough that he recently had to move the operation from his grandmother's garage in Cupertino, Calif., to a small warehouse in nearby Chico.

Then came another slider.

In December, Major League Baseball issued new rules requiring bat manufacturers to pay a $10,000 administrative fee and carry $10 million in liability insurance in case a broken bat injures a spectator. Companies were also required to demonstrate that they had sold at least 360 bats to professional players or teams in each of the past two seasons.

As a result, Mr. Corso and dozens of other small manufacturers—makers of bats with names such as Split Rock, Tom Cat and Reaper—are no longer players in the big-league bat business. "I felt like I finally made it to the major leagues," says Mr. Corso, who hasn't been able to ante up the fee and insurance premium baseball requires. "This

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Good Housekeeping

In Tough Market, Hearst Magazines Manage to Thrive

Cathleen Black Trims Budgets, Hustles to Sell Advertising; War Clouds 2003 Outlook

Using an Old Rumsfeld Photo

By Matthew Rose

NEW YORK—Cathleen P. Black, the president of Hearst Corp.'s magazine division, gets around town by taxi rather than the chauffeured Town Cars preferred by most big shots in her industry. She has cut frills and cracked down in other ways at both highly profitable and struggling publications in her empire. Hearst employees used to spend $500,000 a year in company money buying each other flowers and gifts. Ms. Black ended that. Executives regularly used to jump ship to rival publishers. Ms. Black insisted her staff abide by their contracts.


Cathleen P. Black

Last year, when she addressed the staff of Talk magazine for the first time, it was to tell them that the money-losing magazine was closing. At that meeting, Maer Roshan, Talk's editorial director, raised his hand and asked what would happen to the next issue, which was almost finished. There wouldn't be one, Ms. Black said. Hearst, which owned half the magazine, thought Talk's circulation was weak and its costs too high. "You have to draw the line somewhere," she said.

The moment illustrated Ms. Black's no-nonsense approach in an industry that thrives on the attention generated by glitzy titles such as Talk. In the 1990s, when publishers were swimming in ad revenue, big spenders such as Advance Publications Inc.'s Condé Nast typified the world of glossy magazines, loaning millions to top editors to buy homes and shelling out hundreds of thousands of dollars on individual cover shoots.

But in the current era of austerity, Ms. Black's more parsimonious practices have turned Hearst into the industry's financial powerhouse. Despite one of the worst years in publishing in a generation, Hearst in 2002 celebrated the century-old magazine division's most profitable year ever. Ms. Black, 58 years old, won't talk about the private company's profits. But according to other industry executives, the unit registered a striking 60% leap in net income last year, to about $270 million, on revenue of about $1.8 billion.

Those profits are more than double what the unit earned in 1995, the year Ms. Black took over. Without any significant acquisitions, Hearst increased its share of the industry's advertising pages last year, to 7.4%, up from 6.9% in 2001, according to Competitive Media Reporting. Industry leader Time Inc. also registered a jump in market share, to 20.4% from 18.8%, but Hearst's profits increased much more dramatically.

Success Stories

Hearst titles such as Marie Claire, which focuses on fashion and beauty, Redbook, a magazine pitched to young married women, and upscale Town & Country all had their most profitable years ever in 2002. Esquire, which has lost readers in recent years, in part because of competition from younger, brasher men's magazines, turned in its best performance in a decade. Three-year-old O, The Oprah Magazine, extended one of the industry's most successful launches in a quarter-century.

As advertisers have scaled back spending in the past couple of years, there are questions in the industry about whether Hearst can maintain its performance. Some of its magazines are limping: Harper's Bazaar, for example, whose publisher was recently moved to another position in the company, has undergone two significant editorial overhauls under Ms. Black's leadership. Advertisers complain that it hasn't established a consistent profile as either a fashion magazine or a broader

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INSIDE TODAY'S JOURNAL

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Hearst Magazines Thrive in a Tough Market

Continued From First Page

women's-lifestyle publication.

While ad sales have held up so far this year, Ms. Black says that advertising is currently down for the July issue of the company's 17 magazines, compared with the same issue in 2002. "Between the economy and Wall Street and a war, those are three pretty tough factors," she says. Nonetheless, in a sign of confidence, Hearst is launching Lifetime, a women's magazine based on the cable channel of the same name. Launches have become rare in the battle-scarred industry. Hearst is also negotiating to buy Seventeen magazine from Primedia Inc. for around $180 million, a person familiar with the situation says. A deal could be announced as soon as today.

In early 2001, when the smell of recession was only vaguely in the air, Hearst started trimming sooner and faster than most of its peers. Some other publishers tried to deal with problems on the business side by switching editors. Hearst did much less of that. A committee of six Hearst senior executives, including Ms. Black, met every two weeks and divided the company among them to scour for waste. Hearst capped salary increases and shifted job-performance reviews to every 18 months from every year, to reduce the number of times it had to offer raises. It zapped a layer of management on its business side, helping to reduce its overall headcount by 10%, to 1,600. Ms. Black wanted to cut shrimp from the division's Christmas party but changed her mind after being counseled that the shrimp was a big favorite.

David Granger, the editor-in-chief of Esquire, says Ms. Black told him to talk with his staff about ways to cut costs. "I'll ask," Mr. Granger recalls responding. "Take an ax handle with you," he says Ms. Black replied.

To illustrate the results, Mr. Granger points to a February 2002 story on Vice President Dick Cheney and Defense Secretary Donald Rumsfeld. He used unpublished images shot by a photographer for a different assignment three months earlier. That saved $8,000, he says.

Previously, editors were allowed to fiddle with their layouts until the last minute, a habit that adds many thousands to printing costs. Now, Hearst editors are discouraged from making more than two or three expensive last-minute changes to their color scheme.

Spendthrift outside photographers were shown the door. Cosmopolitan discovered one who hired an extra chef just to look after a carvery station during one shoot. "We can do it for $20,000 or $50,000, and the reader isn't going to notice the difference," says Cosmopolitan's editor in chief, Kate White. "People who were egregious in terms of not coming close [to their budget], we just couldn't use."

Ms. Black, a board member of both Coca-Cola Co. and International Business Machines Corp., began her publishing career selling ads for such magazines as Ms. and New York, where she was tapped to be publisher in 1979. She later became president of Gannett Co.'s USA Today, among other jobs at that company, and headed the Newspaper Association of America, a trade group. She can have a brusque manner in the office, colleagues say, and she is extraordinarily disciplined. On weekends, Ms. Black sometimes patrols the country roads near her Connecticut home, picking up trash and stuffing it into shopping bags.

She hates informal chitchat in the office, saying it chews up valuable time, and has been known to scold people who arrive late for appointments. "She's warm and supportive, but you would be afraid to not please her," says Ms. White.

Honeymoon Tour

Hearst's magazine division dates back to William Randolph Hearst's 1903 honeymoon auto tour across Europe, during which he came up with the idea for a car magazine called "Motor." Two years later, he acquired Cosmopolitan, then a monthly fiction title. As the rest of the Hearst media empire swelled, the magazine division followed. Its biggest title, the women's magazine Cosmopolitan, is published in 48 countries. (Hearst also publishes Smart-Money magazine in partnership with Dow Jones & Co., publisher of The Wall Street Journal.) Ranked by market share, Hearst is the third-largest U.S. publisher of consumer magazines, behind Condé Nast and industry leader Time Inc., a unit of AOL Time Warner Inc.

By the time Ms. Black took over in 1995, Hearst was regarded as sleepy and conservative, little changed since the heyday of legendary editors such as Cosmopolitan's Helen Gurley Brown and Esquire's Harold Hayes. Until the mid-1990s, it organized a men-only event for which Hearst would rent four houses in Augusta, Ga., to allow publishers and their clients to watch the Masters tournament at the Augusta National Golf Club and play a few rounds on nearby courses. Women who asked to attend were turned down.

Ms. Black started with small symbolic changes. To discourage defeatism, she fined executives $10 if they said, "We tried that before, and it didn't work." The phrase had become a mantra within the company, some executives say.

She didn't stamp out all fancy trappings of publishing life but instead updated some of them. The exclusive Augusta golf outing ended around the time Ms. Black took over, replaced during her reign by events such as "Mind, Body & Soul," an occasional all-female retreat held at Enchantment Resort in Sedona, Ariz., and similar spots. The magazine division's Christmas lunch at Manhattan's 21 Club, a bastion of old-school corporate executives, was moved to Le Cirque 2000, a more modern restaurant decked out in bright colors. Once Ms. Black took her unit to the ultra-hip Delano hotel in Miami's South Beach. That disconcerted some veterans. "The rooms were all white and looked like a hospital," retired Hearst executive Alan Waxenberg recalls.

Selling Ads

Ms. Black's predecessor, D. Claeys Bahrenburg, rarely made ad-sales calls. Ms. Black, by contrast, is often on the road, pressing the flesh with potential clients. "Whenever we need to, we see her," says Deborah Wahl Meyer, corporate manager of marketing communications for Toyota Motor Sales USA.

Ms. Black has ended the traditional Hearst practice of magazines operating almost independently. Now, the company's beefed-up central sales department is increasingly packaging Hearst's many brand names in joint deals for big advertisers, a common industry practice.

"Four years ago, they came in and said, 'What does it take to do more business with you?' " says Renetta McCann, chief executive of media-buying giant Starcom North America, a unit of Publicis Groupe SA, which represents Procter & Gamble Co., among other marketers. Previously, Hearst sales people hadn't been aggressive enough, Ms. McCann says.

The Oprah magazine did a lot to change the publisher's reputation. Ms. McCann got her photo taken with Ms. Winfrey at the magazine's 2000 launch party, and the picture currently sits on the advertising executive's desk. She was also invited to attend one of Ms. Winfrey's speaking engagements in Chicago and sat at the talk-show host's table during the magazine's one-year anniversary. We "got to hang out in that gravitational pull for a while," Ms. McCann says. These days, Procter & Gamble spends more money with Hearst—$122 million last year—than with any other publishing company. Five years earlier, the comparable figure was only $65 million.

In an effort headed by Hearst Executive Vice President Michael Clinton, Hearst has struck multimagazine deals with advertisers as diverse as Ford Motor Co.'s Lincoln line, J.C. Penney Co. and Citigroup Inc.'s Citibank. And Ms. Black has reined in the publisher's past tendency to offer hefty discounts on ad rates, a practice that had drawn derision from rivals. While some of her counterparts obsess about the number of ad pages they sell, Ms. Black looks at net revenue per page—a more accurate measure of financial productivity.

Aided by a bevy of management consultants brought in by Ms. Black, Hearst's top management has introduced a series of jargon-laden concepts, such as "visioning," a process designed to encourage better planning. Out of one retreat came the idea to join forces with Ms. Winfrey. Another spawned the concept for CosmoGirl!, a 1999 spin-off from Cosmopolitan. The new magazine turned its first profit last year. After the company's first all-company sales meeting in 2001, Hearst started to offer employees $1,000 for each new sales gimmick that wins business.

Executives in the industry typically jump from one publishing company to another, with contractual restrictions often overlooked. Ms. Black put a quick stop to any outside raids on her ranks, especially when Condé Nast's chief executive, Steven T. Florio, came calling.

Hearst barred Jayne Jamison, currently the publisher of its Redbook magazine, from accepting either of two recent job offers from Condé Nast, citing her contractual obligations. Declining to discuss any specific employee, Ms. Black says that, in general, "it's a legal, binding agreement, and you don't get up and leave a contract." Ms. Jamison declines to discuss the matter.

"I am not a hugely complex person," Ms. Black says. "For me, it is about the results."

Executives Get Pension Security

Continued From First Page

trusts for their special retirement benefits but doesn't disclose how much money is in the trusts. Fortune Brands' annual report shows that in 2002 the Lincolnshire, Ill., company contributed only $16 million to the regular pension plan, which was underfunded by $226 million, or about 27%, under generally accepted accounting principles.

A Fortune Brands spokesman said the pension plan is fully funded, if one uses a less conservative measure employed by the IRS.

Although the IRS legally determines how much companies must contribute to pension plans, investors typically focus on GAAP measurements as a truer reflection of a company's future pension obligations.

Special supplemental pensions for top executives aren't new. But as they have grown larger, and the economy has grown shakier, companies have been taking more steps to make sure the executives get their money. In the past, executive pensions were paid from the general assets of a company, so if it went into bankruptcy, executives would have to get in line with other creditors. Now, with these secured trusts, selected executives own the money, whatever happens.

Executive pension trusts can be costlier than regular executive pensions, for which taxes are deferred under U.S. tax law. So some companies pay not only the benefits to the trusts, but also the taxes the executives owe on that money.

Owens-Illinois, a container maker in Toledo, Ohio, spent $290,169 last year to pay the taxes due on pension contributions for Chairman and Chief Executive Joseph H. Lemieux, which went into a special trust on his behalf, according to company regulatory filings.

The company declined to say how many executives participate, or how much money is in the trusts. However, filings show that the company contributed nothing to its pension plan for regular employees and retirees in 2002, although the plan is underfunded by $269 million, with total obligations of $2.7 billion. Owens-Illinois, which had nearly 32,000 workers in 2002, declined to comment.

A more common way companies fund executive retirement benefits is to buy life insurance. Steelcase Inc., a maker of office furniture, has put $161 million into life-insurance policies that it says fund executive retirement benefits and other unspecified employee benefit obligations, regulatory filings show. The company has total executive-pension obligations of $16.4 million. Meanwhile, Steelcase has for several years contributed only about $6 million a year to its employee pension plan, which is underfunded by $30 million, according to its latest filing. Steelcase declines to say how many people participate in the regular or executive pension plans, but the company employed more than 19,000 world-wide in 2001.

From an executive's perspective, Steelcase's arrangement is less secure, because the company still owns the money in the policies. If the company were to go bankrupt, they'd lose their benefits. That's what happened to many executives at Enron Corp. who participated in the company's similarly unsecured deferred-compensation plan.