P1JW284008-4-A00900-1---XA
**** BLACK
CX,EE,FL,MW,NE,NY,SA,SW,WE
10/11/2002

Hidden Perk Means Big Money for Executives

Continued From First Page

ing director at Executive Compensation Advisory Services, an Alexandria, Va., consulting firm. "You can't see how big it is, you can't see how it's growing. You can't see what the total value to the executive is."

On the surface, it looks pretty routine. The deferred-compensation programs appear to be nothing more than savings plans that let executives reap the tax advantages of deferring some of their pretax pay.

There is, however, a crucial twist or two that makes these plans especially rich. Employees typically are allowed to put no more than 10% of their pretax pay into 401(k) retirement plans. But top executives enrolled in these souped-up plans usually can sock away all of their salary and bonuses.

Then the company makes a contribution, sometimes a percentage of what the executive kicks in, and frequently guarantees a rate of return that continues to be paid even after the executive retires. Those rates vary company to company, but they are often higher than what investors make in the stock market even in good economic times. So while many employees recently have seen the value of their retirement accounts wither, executives who have put off taking big chunks of income are sitting pretty.

Among the companies with generous plans are Xerox Corp., Walgreen Co., Lucent Technologies Inc., AT&T Corp. and Diebold Inc., all of which guarantee senior executives above-market annual returns, currently defined by the Securities and Exchange Commission as interest of more than 5.89% a year.

For the most part, public filings only hint at a company's total price tag for deferred compensation, and the tidbits are buried in footnotes and oblique language. Companies are required to disclose only a piece of what they promise executives—but not their total annual contributions or even how many employees participate in the plan. Just to estimate how much an executive is getting often requires access to a company's filings going back years. Publications distributed by at least two federal agencies also are necessary to fit together the puzzle pieces. It's beyond the experience, and certainly the patience, of most shareholders.

Fuzzy disclosure by U.S. companies is entirely legal. Still, incomplete information can stymie the efforts of shareholders, regulators or anyone else trying to calculate an executive's full compensation. It also can keep them from being able to understand deferred compensation's impact on a company's bottom line. An examination of hundreds of public filings by The Wall Street Journal found that vague disclosure of deferred-compensation plans is pervasive.

'Exponential Growth'

Deferred-pay programs, often called top-hat plans, have been around for decades. A big push to beef them up came in 1994, when Congress enacted a law intended to rein in the cost to taxpayers of runaway executive pay. The law barred companies from taking a tax deduction on compensation in excess of $1 million a year for any currently employed individual. So companies encouraged executives to postpone taking the amount of their pay in excess of $1 million until after they left the company or retired.

Company contributions into individual top-hat accounts are usually many times larger than what they put into regular 401(k) retirement plans of rank-and-file employees. Electronic Data Systems Corp., for instance, made a $355,078 contribution into the deferred-compensation account of Chief Executive Richard H. Brown in 2001, according to the company's proxy. Mr. Brown deferred $300,000 of his $1.5 salary and $1.2 million of his $7 million bonus.

Ralph Larsen, former chief executive of Johnson & Johnson, from 1999 to 2001 received $5.2 million in company contributions to his deferred-compensation account, on top of $8.9 million in salary and bonus, according to the company's latest proxy. Mr. Larsen's account would have an estimated value of $33.3 million when he retires, the proxy notes. Both companies declined to discuss their deferred-compensation plans.

For shareholders, understanding contributions can be confusing because companies use so many methods of calculating them, and then disclose little about their methodology. At some companies, contributions are awarded at the discretion of the board. Other companies have formulas for determining contributions. When Sears, Roebuck & Co. executives postpone taking bonuses and long-term incentive pay, they get a contribution equal to 20% of the amount deferred. If Boise Cascade Corp. executives agree to put their deferred pay into company stock, they get a 25% matching contribution. Both companies say the contributions help retain executives.

Companies also increasingly are offering executives guaranteed rates of return. The approximately 200 executives in Boise Cascade's plan receive interest payments equal to 130% of Moody's average corporate yield, that comes to about 8.9% today. Harrah's Entertainment Inc.'s plan has provided 12% to 13% returns in recent years. Halliburton Co. paid an average of 9.8% on deferrals last year. AT&T pays a minimum rate of 2% above the yield on a 10-year Treasury note, or about 7% last year.

AT&T provides above-market returns in order "to be competitive with other major corporations and their compensation policies," according to a spokesman.

Another beneficiary of above-market interest is Richard J. Meelia, chief executive of Tyco International Ltd.'s health-care unit. He was paid $624,519 in salary last year, a $7.6 million bonus and deferred $6 million of his compensation, according to the company's proxy statement. The company says executive accounts recently received interest of about 9.1% a year. At that rate Mr. Meelia, 53, can expect to accumulate more than $8 million in interest over the next 10 years, even if he defers no more of his income.

In another flourish recently added to some plans, companies permit executives to defer gains from exercising stock options, swelling the size of the accounts. At Sears, which started doing so in 1999, the gains earn returns based on the performance of Sears stock. The treatment of stock-option gains varies at other companies. Some make matching contributions or grant above-market interest on deferred stock-option gains.

"The exponential growth in compensation being deferred is being jacked up by the ability to defer gains on stock options," says Ms. Fischer, the compensation consultant.

Tiers of Retirement Plans

Many companies have more than one kind of top-hat plan. Less elite varieties, often known as "mirror" or "make up" plans, simply are meant to supplement 401(k) plans, which allow workers to defer some salary and receive company contributions.

Tax laws limit the amount of money employees can annually contribute to 401(k) retirement plans. The idea was to prevent retirement programs from favoring highly paid employees. Companies use the make-up plans to sidestep that rule, by allowing executives to set aside additional money.

Kmart Corp., for example, lets most of its highly paid employees put up to 10% of their pay into 401(k) plans. But a Kmart executive earning $200,000 can't put 10% of his pay into his 401(k) because the law limits the amount an individual can contribute to $11,000, if the employee is under 50, or $12,000, if he or she is 50 or older. The executive, however, can make additional payments into a deferred-compensation plan to bring him up to the full $20,000, or 10%, of his pay.

Meanwhile, the highest-paid executives at Kmart can defer 100% of their salaries, as well as stock, restricted stock and stock-option gains. These executives are entitled to a company match of up to 3% of their salary, plus discretionary awards by the board's compensation committee "for any reason whatsoever," according to the plan, which is attached to the back of the company's annual financial report filed with the SEC in 1999. They can earn a rate of five percentage points above 10-year Treasury notes, or currently about 8.6%.

Company filings show that in 2000 Kmart credited Floyd Hall, its 64-year-old former chief, with $207,763 in interest on his deferred compensation, plus $385,354 in company contributions to his retirement and deferral accounts. Mr. Hall said in an interview that from 1996 through 2000, he deferred a total of $4.47 million of his compensation and received a total of $1.09 million from Kmart in company contributions and interest. The pay he deferred was compensation that Kmart would otherwise not have been able to deduct from its taxes that year, Mr. Hall said.

Benefits for the Company

Deferred-compensation plans differ from 401(k) plans in another significant respect. An employee's 401(k) account is kept in his or her name and is segregated in a special account that the company can't dip into. Although participants in top-hat plans have accounts, they really are just bookkeeping devices, IOUs to the executives from their companies.

The plans are set up this way, because in order not to be taxed, the executive cannot actually have the money in his name. So even if the company tucks some of the money away in a trust, which some do in order to cover their liabilities, the money still is kept in the company's name.

Because they hold on to the money, companies sometimes argue that they benefit from top-hat plans. Kmart's arrangement, says Mr. Hall, was "very well thought through" because it allowed the company to use the money. The company "could have borrowed it cheaper," Mr. Hall acknowledges, but employers have to provide a "sweetener" to executives who otherwise could invest their money elsewhere and potentially get a higher return.

Wal-Mart Stores Inc. uses its deferred compensation "for capital expenditures, for growth and reinvesting in the business," says spokesman Jay Allen. Deferred-compensation programs, he adds, are a necessary recruiting tool. "We're the largest company in the world, and we need to attract and retain a senior management team that reflects that," he says.

A spokesman for Walgreen says its deferred-compensation plan, which grants above-market interest, "helps tie the individual to the company. It builds loyalty to the company." In fact, some companies allow executives to keep interest payments or matching contributions only if they stay put for typically three to five years.

Top-hat plans amount to a huge and ever-growing liability that is rarely well disclosed to shareholders. But some companies dismiss the importance of their deferred-compensation liability by pointing to assets they have set aside to offset the obligation, often in a trust. Tyco, for one, notes that it has set aside assets in a trust to cover its deferred-compensation program liabilities of $175 million. "The fair value of these assets exceeds the plan's liabilities," says Tyco spokesman Gary Holmes.

But even when companies set aside money to pay their deferred-compensation costs—and they are not required to do so—they usually are not obligated to use it for that purpose. Also, they may not have set aside enough to account for the cost of company contributions and compounded annual interest over the course of many years, says an SEC official who declined to be named. "It isn't a neutral on the balance sheet," he says. "It's a tremendously large obligation."

Getting Out the Magnifying Glass

Back in 1992, the SEC beefed up disclosure rules for executive pay and perks, and companies began disclosing the annual cost of plane rides, financial planning and moving costs—entitlements worth tens of thousands of dollars for some executives.

Deferred compensation, which can be worth millions a year to executives, was dealt with only in passing by the new rules. Companies are required to report only guaranteed above-market interest paid annually into the accounts of the five highest-paid executives. They are not required to disclose interest paid below that rate or any gains pegged to stock funds, hedge funds or other investments with fluctuating returns. Such investments, of course, may have lost money recently.

And although companies are required by the SEC to disclose agreements with senior management, which includes deferred-compensation plans, some don't. Tyco, for example, hasn't filed its deferral plan. Mr. Holmes, the company's spokesman, says the company's new management is reviewing its disclosure practices.

David D. Glass, the chairman of the executive committee of Wal-Mart's board, earned $400,163 in above-market interest on his deferral account last fiscal year, according to the company's proxy. The company did not have to disclose the additional interest that was paid at market rates. Mr. Glass also received a company contribution of $113,432.

For shareholders, this all means that deciphering deferred-compensation programs, and calculating who is getting how much, can border on the impossible.

To figure out how much GE paid into retired Chief Executive John F. Welch Jr.'s deferred compensation plan in 2001, for example, it helps to have handy the company's proxy, attachment 10(x) to its annual financial report, the IRS's Revenue Ruling 2001-58, a copy of SEC Regulation S-K, Item 402(b)(2)(iii)(C) and, of course, a calculator.

Mr. Welch, 66, who retired in September 2001, earned $3.4 million in salary and $12.7 million in bonus that year. GE's proxy filing doesn't say how much of his compensation he deferred. It does, however, note that the company paid him $1.25 million in above-market interest. In the attachment to its annual financial report, GE notes that it paid top executives 12% interest on their 2001 deferred salary. Using those figures, plus the market interest rate for December 2001 of 6.08%—Regulation S-K defines market-rate interest as up to 120% of the rate published monthly in the IRS publication—investors could calculate that Mr. Welch received another $1.3 million in market-rate interest. The proxy also states that GE made a $340,375 contribution to Mr. Welch's retirement and deferred compensation plans, although it doesn't fully explain how the company arrived at that figure. It all adds up to an additional $2.87 million, or 17.8%, of Mr. Welch's 2001 cash compensation. And that's an estimate.

GE declined to comment on Mr. Welch's deferred compensation.

Divining the total price tag for a company's deferred-compensation plan can be equally frustrating. Companies are not required to disclose it and so investors cannot see how the cost is growing. Often companies lump it into more general liability categories on their balance sheets. Verizon Communications Inc. includes it in the figure for the cost of pensions for rank-and-file employees. GE includes it in the "other liabilities" line.

David Frail, a GE spokesman, says the company's liability for its deferred-compensation plans is $2.4 billion. He says that the company does not disclose the number in its public filings because the amount is not significant. "Frankly, it's relatively small for a company with half a trillion dollars in assets," he said in an e-mail.

Sometimes, even companies have trouble figuring out their own tabs for deferred compensation. Halliburton spokeswoman Wendy Hall said in an e-mail that the "total liability" for the Halliburton Elective Deferral Plan was $53.4 million as of the end of June 2002. But that figure doesn't tell the whole story because it does not take into account future interest costs to the company. What's more, Halliburton has other deferred-compensation plans, including some inherited through mergers, Ms. Hall subsequently said. She added that the total liability for the company's entire deferred-compensation program is "not publicly disclosed information."

Special Privileges

For most executives, the one potential drawback to socking away large sums in top-hat plans is that if a company becomes insolvent, they may have to get in line with other creditors. But executives have some protection against this problem because they have fairly easy access to their money.

Tax law dictates that employees must pay a 10% penalty if they make early withdrawals from their 401(k) plans. But when it comes to deferred compensation, the IRS only says that executives must have "substantial limitations or restrictions" on their ability to get the cash.

As a result, companies are free to determine the penalties for early withdrawal themselves. Many companies do impose penalties, also known as haircuts, of 10% or in the case of Verizon and some other companies 6%. But some companies impose no penalties, so long as, when making the deferral, the executive notifies the company when he or she will take out the money. Both Kmart and Merrill Lynch & Co. allow executives to defer compensation for as little as one year, according to their plans.

Some companies also design their plans so that if there is a change in corporate control or the company hits the skids financially, they will either pay out the money to executives or guarantee it, except in the case of a bankruptcy. Under the terms of Halliburton's deferred-compensation plan, for example, the company is required to automatically turn over account balances to executives within 45 days if the company's credit-rating were to fall below investment grade.

Enron Corp. had about 285 executives enrolled in its deferred-compensation program and had accumulated roughly $220 million in related liabilities by the time it filed for bankruptcy-court protection last Dec. 2. One of Enron's plans guaranteed executives a minimum 12% return on deferrals.

The company allowed executives to take money out of their deferral accounts by paying a 10% penalty on the money withdrawn. In the year before the bankruptcy filing, about 140 executives with the title of managing director or above deferred nearly $28 million of their pay. About three dozen of those executives withdrew a combined $32 million from their accounts in the same period, bankruptcy-court documents show.

Among the executives who withdrew funds was Mark Frevert, former chairman and chief executive of Enron Wholesale Services. During the 12 months before Enron filed for bankruptcy, Mr. Frevert deferred $3.4 million of his pay, but he withdrew $6.4 million from the account he had accumulated over time.

Mr. Frevert's attorney, J.C. Nickens, confirms the withdrawals but adds that his client "ended up losing a lot. He put ... a lot of money into that particular vehicle because it was advantageous, obviously, and because he believed in the company."

WSJ.com **Journal Link:** *See a detailed graphic on how to unravel the complicated issue of deferred executive compensation, in the Online Journal at* **WSJ.com/JournalLinks**. *Also, compare executive compensation by industry and function in the Salaries and Hiring Info section on* **CareerJournal.com**.

How Executive Accounts Grow

A sampling of interest and other contributions made to the deferred-compensation accounts of senior corporate officers in 2001. This doesn't include the portion of interest paid at market rate, currently 5.9%, because companies are required to publicly disclose only interest that is above market rate.

COMPANY	EXECUTIVE	ABOVE-MARKET INTEREST PAID	COMPANY CONTRIBUTIONS
Ball	George Sissel	$410,113	$20,000
Halliburton	David Lesar	$66,195	$457,980
McKesson	John Hammergren	$73,810	$131,117
Reliant Resources	Steve Letbetter	$54,915	$259,919
Tyco	Dennis Kozlowski	$219,543	$397,450
Wal-Mart	David Glass	$400,163	$113,432
Wyeth	John Stafford	$1,215,448	$47,700

Source: company filings

Treasure Hunt

For shareholders trying to unravel the secrets of deferred-compensation plans, figuring out the value of an executive's account is usually impossible. To estimate how much interest GE owes on former Chairman and CEO John F. Welch Jr.'s deferral account for 2001, start with:

1. Summary Compensation Table in GE's 2002 proxy filing

Many companies lump deferred-compensation payments under "other compensation" in the table, and break the figures out in a footnote. GE provides separate columns: the one labeled "earnings on deferred compensation" shows that Mr. Welch received $1.25 million last year.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (Annual Compensation)	Bonus (Annual Compensation)	Other Annual Compensation[1]	Payments ... to Em... Savings...[4]	ALL OTHER COMPE...: Earnings on Deferred Compensation[5]	...Value of ...emental Life ...ce Premiums[6]	Total
John F. Welch, Jr. Retired Chairman and CEO	2001	$3,375,000	$12,700,000	$171,772	$340...	**$1,249,096**	...056,859	$2,646,330
	2000	4,000,000	12,700,000	54,019	315,0...	974,005	1,269,064	2,558,119
	1999	3,325,000	10,000,000	–	242,35...	746,383	51,050	1,039,783

2. Footnote 5

This footnote indicates that the amount shown isn't the total interest Mr. Welch received, but rather "the difference between market interest rates determined pursuant to SEC rules and the 10% to 14% interest" GE actually paid.

[5] This compensation represents the difference between market interest rates determined pursuant to SEC rules and the 10% to 14% interest contingently credited by the Company on salary deferred by the executive officers under various salary deferral plans in effect between 1987 and 2001. ...

3. SEC Regulation S-K 402 (b)(2)(iii)(C)

To find out the market interest rate, turn to the instructions for SEC Regulation S-K 402 (b)(2)(iii)(C). There, the SEC defines market-rate interest to be 120% of the Applicable Federal Rate (AFR), as determined by the Internal Revenue Service.

Regulation S-K 402 (b)(2)(iii)(C)
Interest on deferred or long-term compensation is above-market only if the rate of interest exceeds 120% of the applicable federal long-term rate, with compounding ...

4. Exhibit Index to GE's latest 10-K filing

To figure out which AFR is right in Mr. Welch's case, look here. Companies are required to file management compensation plans with the SEC, and to list their location each year. GE's exhibit index shows that the 2001 Executive Deferred Salary Plan was filed as Exhibit 10(x) to its 2001 annual report. The plan document, in Part IV, lists the interest rate as 12%, compounded annually on Dec. 31.

EXHIBIT 10(x)
GENERAL ELECTRIC COMPANY
2001 EXECUTIVE OFFICER DEFERRED SALARY PLAN
IV. MANNER OF ACCOUNTING
2. Except as may be otherwise provided in Section V or VIII, the Participant's Deferred Account will be credited with (a) the amount of base salary deferred on each Deferral Date as set forth in Section II. 2., the special one-time matching make-up credit as set forth in Section III, and (c) interest at the annual rate of **12%** compounded annually on each December 31.

To find out the AFR, turn to the IRS tables, published monthly, which show varying figures, depending on how often interest is compounded. The market rate for December 2001 is 6.08%.

REV. RUL. 2001-58 TABLE 1

PERIOD FOR COMPOUNDING:	AFR for December 2001 LONG-TERM ANNUAL
AFR	5.05%
110% AFR	5.57%
120% AFR	**6.08%**
130% AFR	6.60%

5. Doing the Math

With these three figures – the 6.08% market rate, 12% total interest, and $1.25 million in above-market interest – it's possible to calculate how much interest GE paid Mr. Welch in total last year. (GE declined to comment on the calculations).

- **Start by calculating the above-market rate of interest paid:** Subtract the market rate (6.08%) from the total interest (12%) to get 5.92%, the above-market rate worth $1.25 million to Mr. Welch, as the original proxy disclosure showed.
- **The next step is to calculate Mr. Welch's account balance:** $1.25 million is 5.92% of how much? Divide $1.25 million by 5.92% to get $21.1 million.
- **Now calculate the total interest Mr. Welch received:** Take 12% of $21.1 million.
- **The Answer?** $2.53 million is the total interest he received in 2001.

Congressional Proposal on Plans Would Leave Some Loopholes

Until recently, executive deferred-compensation plans largely escaped scrutiny by regulators. That changed after Enron Corp. filed for bankruptcy late last year, and court documents showed that some Enron executives had withdrawn millions of dollars from their accounts just before the Chapter 11 filing.

In response, Rep. Robert Matsui, a California Democrat, is sponsoring legislation that would make it harder for executives to withdraw money from their deferral accounts. Bill Thomas, a California Republican, subsequently made a similar proposal. The legislation, however, wouldn't put a stop to most withdrawals.

Executives at many large companies are allowed to defer large chunks of compensation, enabling them to postpone paying income tax on the money. The tax doctrine of "constructive receipt" dictates that income can be deferred as long as an executive's access to the money is restricted. For that reason companies usually impose penalties for early withdrawals.

Rep. Matsui drafted the legislation because he thinks companies don't go far enough. The proposal would prohibit withdrawals at will before an executive retires or leaves the company. "Recently we have seen many corporate executives abuse deferred-compensation schemes that allow them to reap substantial retirement benefits outside of their company's retirement plan," says Rep. Matsui. Because companies are spending disproportionately on executives, Rep. Matsui says, "This practice actually provides a disincentive for companies to set up generous, or even adequate, plans for their workers."

Rep. Matsui says that companies have had so much leeway in setting up the deferral plans that they are essentially giving executives all the tax benefits of 401(k) plans without the restrictions, such as a limit on how much can be contributed annually.

The lawmakers also believe that some companies may be flouting another tax doctrine by putting the executive's money into a secure account designed to keep the cash beyond the reach of creditors or claimants in lawsuits. Tax rules say that in order for an executive to avoid paying taxes on compensation, he cannot have received it. Nor can it be held for him in a secure arrangement. The legislation would remove tax breaks if companies broke those rules.

Still, the proposed legislation would only go part way toward curbing the ability of executives to make early withdrawals. It would exempt from its provisions billions of dollars deferred before the bill is adopted. The legislation also only would apply to top officials, not midlevel executives who often participate in these plans. Finally, executives would still be allowed to withdraw their money early, as long as they set up a schedule of distributions beforehand.

A staffer for Rep. Matsui says that although the legislation is limited to the top executives, it is estimated to raise $4.2 billion in tax revenue in the first five years. "This gives you a clue to how rich the plans are, and how most of the money is concentrated at the top," he says.

—Ellen E. Schultz and Theo Francis

Juniper Networks Inc.

Wider Net Loss for 3rd Quarter Is Posted on Slumping Sales

Juniper Networks Inc. posted a much wider third-quarter net loss on continued slack sales. The Sunnyvale, Calif., maker of Internet-switching equipment posted a loss of $88.3 million, or 24 cents a share, compared with a year-earlier loss of $29.7 million, or nine cents a share. Revenue slumped 25% to $152 million from $201.7 million a year earlier. Among charges included in the results were $83.5 million in costs related to in-process research and development and $22.8 million for restructuring; those items were partly offset by a $62.9 million gain from retirement of debt. The year-earlier period also included several charges. Excluding such items, which are considered part of ordinary operations, Juniper's results were in line with analysts' expectations. "Given the tough market conditions and the integration of our recent acquisition, we are pleased to have met the goals we set for the company for the third quarter," said Chairman and Chief Executive Scott Kriens. Juniper in May agreed to buy **Siemens** AG's Unisphere Networks Inc.

— Dow Jones Newswires

E.W. Scripps Co.

Third-Quarter Profit Doubled, Led by Strength at Cable Unit

Third-quarter net income doubled at **E.W. Scripps** Co., helped by a stronger-than-expected performance from the company's cable-television networks. The Cincinnati broadcasting-and-newspaper concern reported net of $45.7 million, or 57 cents a share, compared with $22.6 million, or 28 cents a share, a year earlier. Revenue increased 11% to $371.5 million from $336.1 million a year earlier. Scripps Networks, which includes the Food Network and Home & Garden Television cable outlets, posted a 26% increase in revenue to $97.1 million. Revenue at the TV station group rose 19% to $72.7 million, which included $5.5 million in political advertising, up from $700,000 a year earlier. In the latest quarter, revenue for the newspaper unit edged up 1.3% to $180.2 million. Newspaper ad revenue was flat at $126.8 million. In 4 p.m. New York Stock Exchange composite trading, Scripps shares rose $5.93, or 9%, to $71.68.

—Dow Jones Newswires

BLACK P1JW284008-4-A00900-1---XA 2705493

1J 36404B-6-A00100-1--- A
****** C

B MAUREEN TKACIK

As letters of the alphabet go, it's always brought up the rear.

A vexing 10-point Scrabble tile, it's the least-often used letter in the English language. The U.S. and Britain can't even agree on what to call it.

Yet the letter 'Z' is fast becoming the new 'S'—that is to say, ubiquitouz.

Just take a walk down the toy aisles this holiday season. There are MGA Entertainment Inc.'s wildly popular Bratz (Girlz and Boyz) dolls and Mattel Inc.'s rival Diva Starz. There's a toy called "Scannerz" made by Radica Games Ltd. and a Hasbro Inc. music box-type trinket called "Finger Jamz."

Target has embraced the Z with zeal. On store shelves labeled "Kool Toyz," the trendy discount chain now sells Loud Lipz, a kids' karaoke machine; Trophy Tailz, a rodeo-themed doll collection; Dinky Digz, a doll house, and Marble Moovz, a toddlers' marble set—not to mention Rescue Rigz, ControlBotz, 4Wheelerz and the now-sold out American Patriotz action figures.

Among snack foods, there's Carefree Coolerz chewing gum, Life Saver Kickerz gummy candy and Oreo and Chips Ahoy Cookie Barz. Marich Confections, a mail-order chocolatier based in Hollister, Calif., last year introduced six varieties of chocolate "Trufflz!"

So how did neglected Z reach the zenith of the zeitgeist?

Some blame it on the Internet. All the zippy lingo fostered by e-mail and chat rooms may have led to Z's new superstardom. "So many kids are instant messag-

P1JW364017-6-C00100-1---XA
****** Composite CMYK

Theatrical Ferrara Defends Firms Against Securities Regulators, Reaping Handsome Dividends

By RANDALL SMITH
And DENNIS K. BERMAN

LO ISIANA REP BLICAN Billy Tauzin was grilling former Gl l Cr i Ltd. sales executive Robin Wright in the backstretch of a six-hour congressional hearing in September when Global Crossing's outside lawyer, Ralph Ferrara, jumped up to protest.

From a perch behind the row of witnesses, Mr. Ferrara demanded: "I would respectfully ask the chair to ask Chairman Tauzin to let the witness finish her answer before there's a second question. She's been interrupted twice. We'd like her to be able to finish her answer." Mr. Tauzin shot back: "I'm going to interrupt any witness who's not answering the questions I asked them."

The unusual breach of decorum, at a venue where aggressive questioning of witnesses is commonplace, stunned members of the Energy and Commerce Committee's subcommittee on oversight and investigation, of which Mr. Tauzin is chairman. But the episode didn't surprise anyone who knew Mr. Ferrara, a former general counsel at the Securities and Exchange Commission who has become a top rainmaker at law firm Debevoise & Plimpton. For 2001, his group's billings of nearly $30 million represented about 8% of the $326 million total for the entire firm.

Scott Pollack

Da a P : *Securities lawyer Ralph Ferrara can be as flamboyant as the operas that he loves.*

In a field dominated by corporate stolidity, Mr. Ferrara stands out for his theatrics. An opera buff who wears $2,600 made-to-measure Brioni suits and sports a crocodile briefcase, Mr. Ferrara regularly attempts to intimidate, flatter and cajole SEC staffers who are investigating his clients.

"I'm not going to be able to make you chairman of the SEC if you can't control your [other] office," he half-jokingly warned one midlevel SEC staffer one evening last spring. Mr. Ferrara, 57 years old, was protesting the issuance of multiple subpoenas by different SEC offices to executives of one of his clients.

His firm has represented a number of companies facing financial-reporting or disclosure probes, including W e M - e e Inc., Micr S r e Inc. and D ll r Ge er l Corp. He also handled a series of insurance-agent misconduct allegations against several insurance companies including Ne Y r Li e I r ce Co., Aeo NV's Transamerica Corp., and

—Inside—

■ **F re ie :** The dollar continues to plummet, as investors seek out other financial "havens." There could be hope for 2003.

(Article on page B8.)

* * *

■ **Cre i M r e :** Expect a blizzard of corporate-bond deals next year, as big issuers celebrate low interest rates.

(Article on page C10.)

* * *

■ **IPO O do :** Behind the increase in issuance of "overnight" stock deals.

(Weekly column on page C5.)

E ૭ E DE

Composite
P1JW364017-6-C00100-1--XA
2800932

AMERICAN STOCK EXCHANGE

Amex Scorecard

December 27, 2002 4 p.m. ET

Price Percentage Gainers...

	VOLUME	CLOSE	CHG	% CHG
MED	204,300	6.04	+0.94	+18.4
EnvrElmnts	24,000	2.39	+0.25	+11.7
NewtekBsSvcs	11,700	4.00	+0.35	+9.6
MauiLand	7,200	15.75	+1.25	+8.6
ImgWreSys	47,600	3.25	+0.25	+8.3

And Losers

	VOLUME	CLOSE	CHG	% CHG
PapckGladFn	9,200	32.50	-4.15	-11.3
IamGold	304,200	4.90	-0.60	-10.9
JAlexndrs	22,000	2.70	-0.25	-8.5
ElitePharm	8,300	1.84	-0.16	-8.0
SngngMach	78,200	8.68	-0.73	-7.8

Most Active Issues

	VOLUME	CLOSE	CHG
Nasdaq 100	40,330,600	24.82	-0.46
SPDR	21,867,800	87.38	-2.01
Diamond	5,871,800	82.96	-1.59
KinrossGld	3,882,100	2.55	+0.05
WheatonRvrMnl	2,403,400	.92	-0.08
SemiConHLDRs	2,171,400	22.98	-0.37
BemaGld	2,081,100	1.36	+0.02
GldnStar	1,834,000	1.80	-0.10
EchoBayMn	1,451,100	1.30	+0.03
SPDR Tch	1,253,800	15.03	-0.27
SP400 SPDRS	1,239,400	78.06	-1.29

Diaries

	FRI	THU	WK 12/27
Issues traded	872	886	1,007
Advances	321	432	468
Declines	434	343	445
Unchanged	117	111	94
New highs	13	19	31
New lows	16	17	52
zAdv vol (000s)	8,663	11,351	60,154
zDecl vol (000s)	36,158	18,016	82,656
zTotal vol (000s)	45,984	36,643	154,687
Comp vol (000s)	117,618	91,505	379,463
zBlock trades	n.a.	762	w2,197

Volume Percentage Leaders

	VOLUME	% DIF*	CLOSE	CHG
AegisRlty	75,200	982.0	x11.40	+0.10
PetroCorp	27,700	441.0	10.23	+0.08
AmBiltrite	25,900	286.2	8.95	+0.05
RgalBeloit	195,700	260.2	x20.20	+0.32
iShrMSEMU	114,800	233.3	41.99	-1.00
IamGold	304,200	a174.6	4.90	-0.60
NV GldCas	55,000	155.6	7.49	+0.17
ProvdntEgy	238,500	145.7	6.84	-0.13
HanovrCap	15,800	129.2	x6.85	-0.16
SngngMach	78,200	119.1	8.68	-0.73

w-Three-day total. z-primary market

Highs & Lows

December 27, 2002 4 p.m. ET

New 52-Week Highs — 13

MED n 6.21; DE CO InsFd 17.10; iShrGSInvst n 109.67; LancerCp TX 9.34; MiramarMng n 1.38; ShlbnPropII s 64.00; AllncBcpNE s 19.25; FITRS Tr5 n 85.77; iShrsLeh1-3 n 82.39; MarkWstEngy n23.25; PetroCorp 10.24; UtdCapital 35.20; AtlTelNtwk 15.30

New 52-Week Lows — 16

AmMtg 85 5.73; ElitePharm 1.84; HaroldStrs 1.02; MedTchSys n 2.22; RobrtsRlty 6.00; US Liquids 0.38; DaxorCp 14.60; EngyPwrSys n 0.40; ImplntSci 4.07; MorgnFoods 1.34; TargetsEMC 1.56; WldWris 0.09; Diomed n 0.21; GlcrWtrTr pf 18.86; IntstGC 3.11; PaxsnCom 2.05

PREFERRED STOCK LISTINGS

EXCHANGE-TRADED PORTFOLIOS

Includes Exchange-Traded Funds and HOLDRs
Friday, December 27, 2002

Insurers Move to Protect Policy

Continued From Page C1

pension benefits for a cash-in-hand, split-dollar policy. Kenneth Lay, former chairman of **Enron** Corp., made such a swap, giving up pensions the company owed him for a policy costing $2.5 million.

The appeal of owning the policy outright is that executives can take the policies with them when they leave, and the benefits are out of the hands of creditors if the company goes into bankruptcy, unlike regular executive pensions. Plus, the executive may get to choose how the cash value is invested.

Another reason for the growing popularity of split-dollar insurance: In an era of increased scrutiny of executive pay, the policies obfuscate the value of massive amounts of compensation to an executive. That is because Securities and Exchange Commission regulations require companies to disclose the economic benefit of a policy to top executives. And for years they have done so using the term life-insurance value of the policy—a fraction of the total value, representing how much it would cost the executive to buy his share of an equivalent amount of term life-insurance coverage. Because term life is so much cheaper than whole or universal life-insurance, it makes the policy look much less costly and valuable than it is.

Motorola Inc. reported that in 2001 it provided Christopher Galvin, its chief executive, term life-insurance premiums totaling $3,928, a seemingly trivial amount, but the company didn't disclose the total value of the policy. A spokeswoman said that the premiums aren't a loan to Mr. Galvin, but declined additional comment.

Some companies report the outsize initial premiums in proxy compensation tables. But once the premiums are paid, usually in a few years, the benefit vanishes from view altogether. Sometimes, individual split-dollar agreements are included as attachments to SEC filings, as Mr. Lay's was. Recently, however, companies have taken to filing generic split-dollar plans, which omit any details about specific benefits promised to individual officers. That leaves investors with nothing more than the scant proxy disclosures to determine how much the executive receives, and how much it costs the company.

Split-dollar insurance has long received favorable tax treatment. Essentially, executives pay no tax on the policies they receive, except for being taxed on the term value of the policy if they didn't pay that portion themselves. Moreover, by channeling the policy through a personal or family trust—something Mr. Lay did, for example—executives can further minimize the impact of income and estate taxes.

> In an era of scrutiny, split-dollar policies obfuscate the value of compensation.

In the last weeks of the Clinton administration, the Treasury Department proposed taxing the premiums as if they were compensation, and a softened version of that proposal is pending. This summer, after Congress passed the Sarbanes-Oxley act, some companies, including **AMR** Corp. eliminated their split-dollar programs. A spokesman for AMR, parent of American Airlines, says the company viewed the arrangement as a form of loan.

The American Council of Life Insurers, a major industry lobbying group, argues that split-dollar policies are neither compensation (beyond the tiny term life-insurance portion that is already taxed), nor loans, so should remain unaffected by any new or proposed rules.

Corporate Dividend News

Dividends Reported Dec. 27

COMPANY	PERIOD	AMT	PAYABLE DATE	RECORD DATE
REGULAR				
CstlFinlCorp (SC)	Q	.055	1-24-03	1-10
Farmer Brothers	Q	.90	2-10-03	1-24
FidelityNational	Q	.05	1-17-03	1-06
Pulaski Finl Corp	Q	.09	1-23-03	1-09
IRREGULAR				
Flanigan's Enterp	A	.27	1-17-03	12-31
FUNDS, REITS, INVESTMENT COS, LPS				
ACM Inco Fd	M	.0825	1-17-03	1-06
ACM MngdInco	M	.0425	1-17-03	1-06
ACM MuniSecsInco	M	.0725	1-17-03	1-06
AllianceCA MuniInc	M	.076	1-17-03	1-06
AllianceNatlMuni	M	.0795	1-17-03	1-06
AllianceNYMuniInc	M	.0765	1-17-03	1-06
AllianceWldDolGv	M	.08	1-17-03	1-06
Dodge&Cox BalFd	–	m1.25	12-31-02	12-26
m-Reflects $0.48 income and $0.77 capital gains.				
Dodge&Cox IncoFd	–	m.211	12-31-02	12-26
m-Reflects $0.051 capital gains and $0.16 income.				
Dodge&Cox StkFd	–	m.76	12-31-02	12-26
m-Reflects $0.36 capital gains and $0.4 income.				
Hancock(J)PatPfDiv	M	.072	1-31-03	1-10
Hancock(J)PatSelDv	M	.09	1-31-03	1-09
MngrsGlblBndFd	A	m.769	12-27-02	12-24
m-Reflects $0.553 income and $0.216 capital gains.				
MngrsIntlEquity	A	h.095	12-27-02	12-24
STOCKS				
Energy Power Syst		s	–	–
s-1-for-3 reverse stock split, pending shrhldr approval.				
IntegrtdInfoSys		s	–	–
s-1-for-5 reverse stock split, effective 12/30/02.				
FOREIGN				
America MovilADS A	Q	t.02148	1-03-03	12-24
Canon Inc ADS	–	tc.14579	–	12-30

A-Annual. M-Monthly. Q-Quarterly. S-Semi-annual.
b-Payable in Canadian funds. c-Corrected. h-From Income. k-From capital gains. r-Revised. t-Approximate U.S. dollar amount per American Depositary Receipt/Share before adjustment for foreign taxes.

Stocks Ex-Dividend Dec. 31

COMPANY	AMOUNT
AMB Prop 8.5%pfA	.53125
AlexandriaRlEst	.50
AlexandriaRlEstpfA	.59375
AlexandriaRlEstpfB	.56875
AmerExpress	.08
BristolMyersSq Inc	.28
Campbell Soup Co	.1575
Canon Inc ADS	tv.05
v-Sold ex-dividend Dec. 27. Reflects the difference of the corrected div amount.	
CoCerveceriasUnid	t.15597
Glatfelter	.175
Highwoods Props D	.50
MerLyPharmHOLDRs	.0504
Mkt2000+ HOLDRs	.0084
Kimco Realty Corp	.54
MetropolMtgeE-7PF	.1903
Murphy Oil Corp	s
s-2-for-1 stock split.	
NorthropGruman pfB	1.75
SummitSec S-3 Pf	.1615
Urstadt Biddle Prp	.19
UrstadtBiddlePr A	.21
Xcel Energy Inc	.1875

t-Approximate U.S. dollar amount per American Depositary Receipt/Share before adjustment for foreign taxes.

SEE
SMELL
TASTE
LAETIZIA RIEDEL
RIEDEL
THE WINE GLASS COMPANY
FOR A RETAILER NEAREST YOU, VISIT THE RIEDEL WEB SITE AT HTTP://WWW.RIEDEL.COM
RIEDEL CRYSTAL OF AMERICA, TELEPHONE (631) 567-7575, FAX (631) 567-7039

P1JW364008-2-A00800-1---XA
** BLACK
EE,MW,SW,WE
12/30/2002

How Life Insurance Morphed Into a Tool of Corporate Finance

Continued From First Page

ers had long insured the lives of their most important executives, to protect themselves. "Key man" policies, as these were called, weren't new.

Nor was the type of insurance. Instead of simple, inexpensive "term" insurance, which protects for a set period, companies bought the kinds called "whole life" and "universal life." These don't have a time limit. They're essentially investment funds for the buyer with a death benefit attached. The critical advantage is that, since they're a form of life insurance, the money in them accumulates untaxed.

What changed in the 1980s was that some companies began shoveling huge amounts of money into key-man policies. They sought both tax-free buildup and another advantage: They could borrow from the policies and deduct the interest. The combination yielded rich benefits with little risk.

By the mid-1980s, companies were pouring so much into the policies that Congress, sensing a misuse of life insurance, cracked down. A 1986 law said only the interest on the first $50,000 borrowed on a given policy would be deductible.

Companies quickly found a way around the cap: Buy a great many policies. If they insured thousands of employees, not just "key men," they could continue placing large sums in life-insurance contracts and taking out large tax-deductible loans.

"They thought, 'Well, if we can do it for 200, why not for 20,000?' " says Kenneth Kirk, who worked at Clark/Bardes Inc. That firm, a publicly held insurance broker and consultant, has played a central role in the evolution of corporate-owned life insurance.

One company Clark/Bardes worked with was Dow Chemical Co. When the Midland, Mich., company decided to have a look at the strategy, it saw an obstacle. Like many states, Michigan required that a beneficiary of a life-insurance policy have an "insurable interest"—that is, the beneficiary would benefit from the insured's continued life and be harmed by the insured's death. Alas, said a Dow Chemical internal memo, except for top-paid executives, it was "doubtful that Dow has an insurable interest in any of its employees."

But Clark/Bardes lobbied the Michigan legislature to agree that employers are harmed when even low-level workers die. Reason: the cost of hiring and training replacements and providing future employee benefits. Michigan agreed to the change. And by 1992, Dow Chemical had bought life-insurance policies on more than 20,000 employees.

Amid lobbying throughout the 1990s, the Michigan legislature chipped away at other requirements, including one that insurance proceeds be used for employee benefits. Thanks to lobbying by Clark/Bardes and others, Michigan and many other states handed employers a near-blanket insurable interest in their workers by the mid-1990s. Some other states followed later, including Texas in 1999.

The lobbyists said employers would use life insurance's tax advantages to finance employee benefits. "The main reason employers are buying life insurance is so that they can provide benefits, in particular retiree medical benefits," says Jack Dolan, a spokesman for the American Council of Life Insurers.

The link to benefits is a tenuous one, however. For one thing, the tax-free buildup in policies isn't cash that employers are free to spend, until covered employees die. Secondly, the gains go into the general corporate pot. "The assets are fungible," Mr. Dolan acknowledges.

Moreover, employers have been cutting retiree health coverage throughout the 1990s, even as they were buying more life insurance. And some that bought janitors insurance didn't offer retiree health coverage to the rank-and-file workers whose lives they were insuring. An example is Hillenbrand Industries Inc., a coffin maker in Batesville, Ind. A spokesman for Hillenbrand says it bought the policies to beef up other employee benefits.

Tom Wamberg, Clark/Bardes's chairman and chief executive, says that "even though there's no lockbox, those programs are, in [employers'] minds, dedicated" to employee benefits.

In many states, it ceased to matter. Thanks to lobbying by Mr. Wamberg's firm and others, many states eventually dropped the requirement that corporate-owned life insurance be used to finance employee benefits. Across the U.S., millions of workers soon were being insured by hundreds of employers, among them AT&T Corp., Nestle USA and Amway.

Unmarked Envelope

In Congress, few knew how big a deal this was until a brown envelope arrived in 1995 on the desk of Ken Kies, chief of staff at the Joint Tax Committee. According to Mr. Kies, inside was a list of companies that had bought life insurance on employees—along with calculations showing how a company might take in $1.2 billion over 10 years by insuring 50,000 of its people. One nugget Congress learned: Wal-Mart Stores Inc. had made itself the beneficiary of insurance on 350,000 workers' lives from 1993 to 1995.

Seeing a big cost to federal coffers, Congress in 1996 voted a three-year phaseout of all deductions for interest on loans against life insurance. The Joint Tax Committee estimated the saving to the Treasury at $16 billion over 10 years.

With no more $50,000-per-policy cap, companies had no more need to buy policies on large numbers of employees. They basically stopped buying janitors insurance policies. And while generally keeping these policies in force, they stopped borrowing against them.

Companies still had a big incentive to own life insurance, though: the tax-free buildup. And they found a way around the interest-deduction crackdown. They simply borrowed elsewhere, with interest that was still deductible, and then bought more insurance. "Indirect leverage," this was called.

Indirect leverage was especially appealing to banks, since they can borrow money cheaply. Banks bought fresh policies on employees. By 1997, some were looking into insuring the lives of depositors and credit-card holders, as well. And Fannie Mae, the giant mortgage buyer, proposed to insure the lives of home-mortgage holders.

That was too much for Congress. It nixed these innovations by going after any loans that a firm might use to buy life insurance on depositors or mortgage holders. The formula: If such a firm bought X amount of life insurance, then for X amount of that firm's loans, interest wasn't deductible.

Yet the new law didn't apply that same interest penalty when the life insurance covered employees. In 1998, the Clinton administration tried to close the door on this exception. Clarke/Bardes was among those lobbying to defeat this effort.

Hiring an Insider

This time around, Clark/Bardes had the help of one of the government's leading experts on the corporate-owned life insurance: Mr. Kies.

As a House Ways & Means Committee staffer in the 1980s, Mr. Kies had helped write the $50,000 limit on deductible loans against policies. After a turn as a tax lawyer and lobbyist, he returned to the government as staff chief at the Joint Tax Committee when the anonymous brown envelope arrived. By early 1998 he was back in the private sector, at a lobbying arm of what's now PricewaterhouseCoopers, and Clark/Bardes engaged him to lobby his old employer, Congress.

Mr. Kies helped lead the insurance industry's defense against the latest threat to corporate-owned life insurance. The campaign blanketed Congress with more than 170,000 letters and faxes and ran radio and newspaper ads targeting lawmakers. One of Mr. Kies's arguments was that companies borrow all the time, and their loans shouldn't be regarded as necessarily going to buy life insurance.

Wanted: Dead or Alive

Employers have continued to buy ever-greater amounts of life insurance on employees, eluding lawmakers' crackdowns again and again.

	KEY MAN INSURANCE	JANITORS INSURANCE	MANAGERS INSURANCE
Employers buy insurance on	Top executives	Rank-and-file workers	Middle managers
When	1980s* to present	1987 to 1996	1996 to present
Government crackdown	**1986:** Congress limits interest deduction for a single-policy loan to $50,000	**1996:** Congress phases out interest deduction for policy loans	**1997:** To prevent lenders from taking out policies on mortgage holders and depositors, Congress limits deduction on loans used to buy life insurance on them; it exempts policies on employees. **1998-2000:** Congress seeks to rescind the 1997 exemption
Employer response	Companies instead buy thousands of smaller policies on rank-and-file workers	Companies instead borrow money from other sources to buy life insurance on managers	Employers continue to buy even more life insurance on employees
Ostensible use of insurance	To protect company from untimely deaths of key executives	To pay for retiree medical benefits	To pay for retiree medical benefits and executive deferred-compensation programs
Financial benefit to employer (for all types)	Money in policies grows tax-free and boosts income. The combination of tax-free returns and deductions for interest on loans used to buy life insurance effectively produces attractive returns.		

*Employers purchased smaller amounts of key man insurance prior to the 1980s.

The Clinton administration's 1998 effort to limit tax deductions for borrowing went down to defeat. So did similar administration efforts in 1999 and 2000. Last year, Clark/Bardes gave a board seat to another Washington heavyweight, former Ways & Means Chairman Bill Archer, who had criticized janitors insurance as a tax shelter in 1995. Mr. Archer didn't return calls seeking comment.

Janitors insurance had by then mutated into managers insurance. Focusing on middle managers made it a little easier to argue that the insurance was being used to finance employee benefits, since managers were almost always eligible for benefits. While most states no longer cared what employers used life insurance for, the IRS did, to some extent. Under tax law, life insurance purchased by a corporation is supposed to have a business purpose.

Consenting Adults

Another change: Instead of keeping their life-insurance buying secret from employees, companies usually got their consent, often by telling them the insurance would help the company thrive.

That's what Bank of America told managers, says Cristina Deniel, who was a vice president there in 1996. She declined to let the bank buy a policy on her life after she learned the bank would keep the policy in force if employees left, tracking their deaths through the Social Security Administration. "I found that disgusting, frankly," says Ms. Deniel, who left the bank the following year.

Employers today sometimes offer managers incentives to agree to be insured. Ms. Deniel says Bank of America offered a modest payment to a charity of her choice when she died. Bank of America declines to comment on Ms. Deniel's experience.

New York Times Co. uses a different kind of carrot: It permits certain highly paid employees to use a deferred-compensation plan if they let the company make itself the beneficiary of insurance on their lives. About 200 employees have agreed to do so, a spokeswoman for the company says.

At KeyCorp, J. Stephen Reid readily gave consent, but changed his mind when he got a sense of how big the policy was. He learned from an annual report in 1998 that KeyCorp's life insurance on workers had a cash value of nearly $2 billion. Estimating that this translated to $8 billion or more in death benefits, he remembers thinking, "My God—they're covering people for huge amounts of insurance, and I'm one of them."

Employers rarely tell employees how much they're covered for, but sometimes an estimate can be teased out. Wachovia Corp.'s life insurance has a cash "surrender" value of $6.1 billion, according to the company and its filings with the Federal Deposit Insurance Corp. That might buy death benefits of a little under $20 billion. Wachovia says it insures about 20,000 lives, implying average death benefits of $952,380. Wachovia says it can't calculate an average death benefit, but calls the estimate high.

Mr. Reid says Key Bank wouldn't tell him how big a policy it had on his life, nor what insurer provided it. An insurance salesman for 38 years, Mr. Reid, 63, calls corporate-owned life insurance "the underbelly of the insurance industry that they don't want you to know about. I know I'm insured for the rest of my life, and I don't like it."

Novel Strategy

Mr. Reid recently wrote a mystery novel, "Murder Insured," in which a firm hired a hit man to kill executives and collect death payments; the firm met its earnings targets, and officers got their bonuses. It was a spoof, of course, but Mr. Reid says he nonetheless refused to let his current employer insure his life: "I didn't want to have two ransoms on my head."

KeyCorp declines to comment on Mr. Reid's experience. A spokesman says that "employees do not pay premiums, and therefore there's no reason to disclose the details of the policy to them."

This year, insurance lobbyists again stepped up to the plate amid new rumblings in Congress about reining in corporate-owned life insurance. Rep. Gene Green, Democrat of Texas, proposed requiring employers to tell all employees, past and present, about any coverage bought on their lives since 1985. Democratic Sen. Jeff Bingaman of New Mexico began looking for cosponsors for a measure to eliminate tax benefits for policies covering employees gone for more than a year.

Clark/Bardes and insurance-industry groups led the opposition, aided by Mr. Kies's lobbying practice, which Clark/Bardes acquired earlier this year. The industry took out radio ads in the Washington area attacking proposals to curb what it called "business insurance." The proposals went nowhere.

Court Record

Recently, lawsuits have shed light on some usually hidden details of corporate-owned life insurance. After the IRS invalidated deductions for interest on loans against janitors insurance, several companies sued to reclaim the lost deductions. So far they've made little headway.

Wal-Mart is involved in two other kinds of lawsuits. First, it has sued several insurers and brokers, claiming it was misled about the risk that loans against janitors insurance might be nailed as a tax shelter. The IRS disallowed interest deductions on the retailer's janitors insurance, and the company subsequently gave up the policies. The defendants in Wal-Mart's suit, filed in Delaware state chancery court, include units of American International Group Inc., Hartford Financial Services Group Inc. and Marsh & McLennan Cos. They declined to comment.

Wal-Mart was itself sued by the widow of a worker whose life it had insured, Douglas Sims. A federal district court in Houston ruled that the retailer had no legal right to insure Mr. Sims. Wal-Mart is appealing.

For investors, the challenge is knowing how much life insurance might be contributing to a company's bottom line. Few companies mention life insurance in their filings. When they do, they sometimes use vague terms such as "mortality income receivable," a phrase favored by Panera Bread Co.

The St. Louis restaurant company collected $3 million from the deaths of employees and ex-employees last year, equal to nearly a quarter of its net income. Panera's chief financial officer, Bill Moreton, says that in 1994, when the company owned Au Bon Pain cafes, it bought policies on 4,600 employees as a "tax strategy." He says Panera borrowed against the policies and used the death benefits to repay some of the loans.

Bank of America obtains about $570 million in revenue and $196 million in net income a year from the life insurance it owns on employees and ex-employees, according to a Wall Street Journal estimate based on the bank's $9.5 billion of life insurance. That would be about 2.9% of 2001 earnings. The bank doesn't dispute the estimate.

Clark/Bardes itself got income from life-insurance on an employee in 2000. "Includes $1 million in life insurance proceeds in Other Income," says a line from a financial summary it provides investors. When asked, the insurance broker and consultant confirms that the payment was a death benefit, paid to it after an employee died in a plane crash.

Insurers Do It, Too

There's sometimes a bit more disclosure when the employer that's buying life insurance on workers is itself an insurer. If it buys the policies from a subsidiary, it has to disclose the purchases as related-party transactions.

Prudential Insurance Co. of America owns four groups of policies on workers' lives, valued at $813 million, prospectuses show. Prudential says it uses the policies to pay for employee benefits but declines to provide details. MetLife Inc., a big seller of corporate-owned life insurance, bought policies on "several thousand" of its own employees in 1993, 1998 and 2001. Hartford, another major provider, took out an undisclosed amount of insurance on about 800 of its own managers earlier this year.

A Des Moines, Iowa, insurer called AmerUs Group Co. has life insurance on most of its 1,000 or so employees. It bought them for the tax benefits, says a company official, Marty Ketelaar, who adds: "It's a profitable piece of business that also allows the employee to derive a benefit." He declines to specify the benefit.

The industry is reluctant to say how big the overall market is or how fast it's growing. A.M. Best determined in 1999 that sales of corporate-owned life insurance were growing faster than sales of other kinds, but Best says it no longer keeps track of corporate life-insurance purchases. CAST Management Consultants in Los Angeles has said that in the two years through 2001, sales of new corporate-owned life insurance rose 60%. It declines to provide more recent figures.

The benefit many companies now say they're financing with life insurance is deferred-compensation, which is a kind of giant savings plan for highly paid executives. But even if an employer buys bales of life insurance in connection with its deferred-comp plans, there's no guarantee the money will remain in the policies.

Consider what happened at Enron Corp. It took out $500 million of life insurance on employees, which it indicated was to finance its deferred-compensation programs and executive pensions. But Enron borrowed most of the assets within the policies, documents from bankruptcy court filings show, leaving it roughly $145 million short of what it owed its executives for deferred-compensation benefits alone.

Now the policies are assets in Enron's bankruptcy proceedings. The total death benefits on the policies, before paying off policy loans, could reach $2 billion. Waiting in line for this money are Enron creditors, to whom Enron executives are worth more dead than alive.

Tax Advantages Of Life Insurance Help Lift Income

By Theo Francis And Ellen E. Schultz

Corporate owners get a variety of tax and accounting benefits from life insurance on employees.

The kind they load up on is "cash value" life insurance, so-called because besides a death benefit, it includes a tax-sheltered investing account. This account is like a big, nondeductible IRA: The policyholder deposits money into it, the insurer subtracts a slice to pay for fees and insurance, and the remainder grows tax-free. That growing remainder is known as the cash surrender value, or cash value. It's an asset.

For families, these cash-value policies are often a poor deal, because the commissions are usually high. But employers negotiate low commissions. It can make sense for them to round up cash they might have lying around, on which they're earning taxable returns, and plow it into a life-insurance policy, where the returns aren't taxed.

The downside is that the money is tied up for long periods, essentially until the insured employees die. The employer could get at it by surrendering the policy, but that would make the gains taxable. Employers used to take big simultaneous loans against the policies, but interest on such loans is no longer deductible. What does free up the money, sooner or later, is the death of the employee. It brings a death benefit, which isn't taxable.

These death benefits, except in rare cases where a number of employees die unexpectedly soon, aren't usually a windfall to the employer. Insurers price their products carefully, so that, over time, the sums an employer pays for the insurance coverage will roughly balance what the insurer has to pay out in death benefits.

Income Stream

So if the deal ties up money so badly, why bother? The answer: All the years that this (tied-up) money is growing, the employer can keep reporting the accumulating gains as income.

The reason is that under generally accepted accounting principles, life insurance investments are treated differently from many other kinds of investments. If the employer had invested in a stock portfolio, and it gained in value, the gains wouldn't add to the company's income until it sold the stock. All the company could do in the interim is add the portfolio gains to its balance sheet.

> Tax-free gains flow to the income statement every quarter, giving a boost to earnings.

But if an investment in life insurance grows, the gains flow straight to the income statement every quarter, boosting earnings. And, of course, those are tax-free gains, unlike the kind the company would get from a stock portfolio.

What about an investment loss? The chance of that is remote with policies that pay fixed returns, which are common. Some policies are invested in stocks, and they of course do lose money at times. Insurers offer mechanisms that help companies to smooth out the gains and losses over several periods, and generally avoid recording hits to income.

Policy Loans

In the late 1980s and early 1990s, many companies took the tax benefits of life insurance one step further, by taking out big loans against the policies at the same time as they bought them.

Here's how it worked. An employer would pour $100 million into insurance on its employees, paying the insurer that much money, plus fees. The insurer credited the employer with, say, a 10% rate of return on this money, or $10 million in the first year, tax-free.

But the employer immediately borrowed out the entire $100 million, paying the insurer 12% interest, or about $12 million the first year.

Wonder how the policy could earn 10% if the proceeds had all been lent back to the employer? The answer is that the employer, technically, borrowed from the insurer, rather than withdrawing its premiums. They remained there, earning their 10%.

So now the employer, paying $12 million in interest and earning $10 million, was out $2 million. Not a good deal? Not until you consider that the $10 million is tax-free, while the $12 million of interest paid is deductible. At a 40% tax rate, that saved the employer $4.8 million off its other taxes.

Bottom line: The employer still had its $100 million, it was paying $2 million to the insurer, and it saved $4.8 million on its taxes—a net gain of $2.8 million.

As for the insurer, it had made an essentially riskless two-percentage-point spread.

In 1996, Congress put a stop to this by abolishing deductions for interest on policy loans. In response, companies began taking out other loans—on which interest was still deductible—and then buying more life insurance. This move has virtually recreated the deal Congress thought it had abolished. It's particularly attractive for employers with cheap access to borrowed money, such as banks.

Whether or not it is leveraged this way, corporate-owned life insurance provides a relatively predictable stream of tax-free investment returns, flowing to the bottom line for years.

U.S., Mexico Close to Chicken Deal

Continued From Page A3

from only around 1%.

But the country's chicken industry—the world's sixth largest—may well be more vulnerable. Mexican tariffs on chicken are slated to fall to zero from 49% overnight. And the tariffs already have fallen sharply—from 99% last year. There are other reasons to worry about the nearly one million Mexicans who work in the poultry industry, too. Because U.S. consumers prefer breast meat and pay a premium for it, U.S. chicken producers export legs and thighs—which Mexican consumers favor—at prices that sometimes are half what Mexican producers charge for them. Even with the tariff at 49% this year, U.S. producers sold about $130 million of chicken parts to Mexico, according to U.S. producers.

A deal between the U.S. and Mexico likely would raise tariffs on chicken parts such as legs back to 2001 levels of 99% for 2003, according to U.S. producers. Tariffs then would drop an average of 20 percentage points a year for five years until they reach zero. In return, Mexico would have to give up an equal amount of trade protection in other parts of the poultry trade, by lifting quotas on whole chickens or turkeys, for instance.

"We are working with the Mexicans on a deal and recognize their concerns, given the nature of this market and that tariffs are dropping fast," said Bill Roenigk, vice president of the U.S. National Chicken Council, which represents chicken producers. Mexican producers and trade officials confirmed the talks, which started in late November.

U.S. producers say they are being pragmatic given what they say is an increase in Mexico's non-tariff trade barriers for incoming chicken parts in recent months, including new disease-testing requirements and a jump in random inspections at customs. "Mexico is red-taping us to death. If we don't do a deal, we're going to get more of the same," said Jim Sumner, president of the USA Poultry and Egg Export Council.

Mexican officials say they are playing fair given that exports of Mexican chickens to the U.S. are blocked because of health concerns.

Economists say there are other reasons for the move, too. Two of Mexico's three biggest poultry producers are U.S.-based **Tyson Foods** Inc. and **Pilgrim's Pride** Corp., and neither company is keen to hurt its Mexican operations.

Mexican producers say the extra time will allow them to create a program with the government to lower high costs for such things as energy and corn feed, which put Mexican growers at a disadvantage compared with U.S. counterparts. But economists say Mexico needs to develop a plan and not just buy time. "The underlying questions is, how much can you do in three or five years? Are you just postponing the inevitable?" said Kenneth Shwedel, an agricultural economist at Dutch bank Rabobank.

U.S. Inventories Labs For Strains of Polio To Prevent Accidents

Associated Press

ATLANTA—The federal government is taking an inventory of polio strains in labs around the country as part of an effort to prevent the virus from accidentally escaping and causing outbreaks once the disease is eradicated.

All 31,000 institutions that have polio virus stocks—including health departments, hospitals and private companies—have until tomorrow to submit a report to the Centers for Disease Control and Prevention.

The CDC is also asking labs that no longer need to work with the virus to destroy any stocks they have.

Federal officials have said polio could be eradicated globally within two years.

Health officials learned a lesson from what happened with the smallpox virus. That disease was eradicated from the world in 1977, but less than a year after the self-congratulatory ceremonies, two smallpox cases emerged from a lab in the United Kingdom.

Polio, which can cause paralysis and death, isn't thought to be as dangerous as smallpox as a bioterrorist weapon because fewer than 1% of those infected with polio develop symptoms. People around the world also have been vaccinated against polio for decades.

There are only 10 countries where polio is endemic, and last year there were fewer than 500 cases world-wide. The last U.S. outbreak happened in 1979.

Three Mile Island Plaintiffs End Action After Court Setback

Associated Press

HARRISBURG, Pa.—Attorneys for 1,990 plaintiffs who said their health was damaged by the 1979 reactor meltdown at the Three Mile Island nuclear plant say their legal action is over.

Earlier this month, the Third U.S. Circuit Court of Appeals refused to hear an appeal of a lower-court decision granting summary dismissal of the claims against former TMI owner General Public Utilities Corp. and related defendants.

"There's nothing more that can be done to proceed with them, essentially," said attorney Lee C. Swartz. "We doubt the U.S. Supreme Court would agree to hear the case." No other major litigation remains from the accident at TMI, the nation's worst commercial nuclear accident.

The plaintiffs said their health was harmed by radiation that escaped from the damaged TMI-2 plant for several days before the reactor was brought under control. An estimated 100,000 people fled the region during the crisis.

GPU and Nuclear Regulatory Commission officials have maintained not enough radiation was released to cause adverse health effects, but some doctors and antinuclear activists argued that was unclear.

A spokesman for a watchdog group that monitors Three Mile Island vowed the group "will continue to pursue and track radiogenic cancers." "While this is a setback, I believe we'll endure and prevail, probably when I'm a very old man," said TMI Alert spokesman Eric Epstein.

Pfizer Inc.

FDA Approves Marketing Of Relpax Drug for Migraines

Pfizer Inc. said it received approval from the Food and Drug Administration to market its Relpax migraine drug. Pfizer said Relpax is the newest product in a class of antimigraine medicines known as triptans. Discovered and developed by Pfizer, Relpax acts on blood vessels and sensory nerve endings to relieve symptoms of a migraine attack. Relpax has been approved for migraine treatment in 51 countries, and it has been introduced in 17 countries. The FDA's review of Relpax had been stalled for more than a year while Pfizer conducted additional tests to assuage agency concerns about coronary safety. Pfizer of New York said the most common side effects reported in clinical trials include fatigue, somnolence, nausea, and dizziness. Relpax's common side effects are similar to the adverse events that have been reported with triptans as a class, the drug maker noted. An estimated 28 million Americans—one in five women and one in 15 men—experience migraines.

—Dow Jones Newswires

Blyth Inc.

Blyth Inc. said it has decided to place Wax Lyrical Ltd., its United Kingdom specialty retail chain, in administrative receivership. Wax Lyrical is a retail chain of 35 candle stores with annual sales of about $16 million. Blyth, Greenwich, Conn., said the chain has been unable to achieve sustained profitability, mainly because the distribution of candles and related products has become increasingly more mainstream, with major retailers and others offering competitive products. Blyth expects to report a loss on the disposal of Wax Lyrical for its fiscal fourth quarter. *—Dow Jones Newswires*

P1JW109008-4-A00800-1---XA
**** BLACK
CX,EE,FL,MW,NE,NY,SA,SW,WE
04/19/2002

When a Worker Dies, Should the Company Profit?

Continued From First Page

tuted the program in 1994 "to offset the rising cost of employee benefits." A spokesman for Nestle says, "We have not done this for financial gain." A spokeswoman for Procter & Gamble says the company uses the insurance "partially to finance retiree health benefits."

Tom Ayres, spokesman for American Electric Power Inc., a Columbus, Ohio, gas-and-electric utility that has COLI policies covering more than 20,000 workers, says the policies improve the company's bottom line. Investment gains on the policies add to income, he says, and "as the insured employees die, we're getting death benefits, which is cash income." But he adds that the death benefits are "dedicated to retiree benefits," though the individuals covered by the insurance receive nothing directly.

John Sullivan, chief financial officer of Trans World Entertainment Corp., an Albany, N.Y., company that acquired CM Holdings in 1999, said he couldn't comment in detail because of a case pending in the U.S. Court of Appeals in Philadelphia. In that case—similar to others brought by Winn-Dixie, AEP and Dow Chemical Co.—Trans World is seeking to have reinstated some interest-payment tax deductions it took on borrowings against its janitors insurance. A federal district court had earlier granted an IRS request to disallow the deductions during CM Holdings' bankruptcy proceedings.

Mr. Sullivan does say that Trans World "inherited the policies" from CM Holdings. Those policies covered at least 1,400 employees in 1990, based on a company document reviewed by The Wall Street Journal. The document, called a death run, lists on page after page the names, ages and Social Security numbers of the workers, as well as how much money the company will receive for each employee's death, even those who die long after leaving the company. Younger workers will generate from about $400,000 to almost $500,000 in death benefits each, the document shows, while older workers will bring the company about $120,000 to $200,000 each. (Younger workers yield bigger payouts because, based on actuarial calculations, they are less likely to die soon, so the same premium amount buys more coverage for them.)

Another name on CM Holdings' 1990 death run is Margaret Reynolds, of Uniontown, Ohio. Mrs. Reynolds suffered from amyotrophic lateral sclerosis, or Lou Gehrig's disease. In her final years, her five grown children took turns caring for her. At one point, says her son John, they begged CM Holdings for $5,000 to pay for a specialized wheelchair so they could take their mother to church. "They said it wasn't covered," Mr. Reynolds says.

Mrs. Reynolds, a $21,000-a-year administrative assistant and buyer, died in 1998 at age 62. Her family received a $21,000 benefit from a life-insurance policy provided to employees by CM Holdings. CM Holdings received a COLI payout of $180,000.

"They got *what?*" John Reynolds says when told. He sells life insurance himself, to small businesses, but he says he had never heard of janitors insurance. "It's mind-boggling."

For decades, a corporation or an individual wanting to buy life insurance on someone else had to have a significant financial or emotional stake in the person's survival, known as an "insurable interest." Thus, companies were able to buy life insurance on certain executives, and partners in law and accounting firms could buy life insurance on each other. The rule had evolved to prevent incentives for murder or negligence, and to discourage one person from profiting from the death of another.

But in the 1980s, insurers persuaded regulators in most states—Texas being a notable exception—to rewrite the rules to allow employers to buy life insurance on the lives of all employees. The practice took off as employers became aware of the tax advantages, especially the ability to borrow against the policies and then deduct the interest payments.

Federal tax law prohibits the use of life insurance as a tax shelter if there isn't a legitimate business purpose for having it. From the start, many companies have asserted that they use COLI to pay for employee benefits. Still, they aren't required to disclose how they do use COLI money.

In 1996, Congress clamped down, forcing companies to begin phasing out the interest-payment deductions they were taking on COLI loans. And the IRS began working on collecting some of the money the companies had deducted from their taxes. Some government officials say the sum under investigation is probably much higher than the $6 billion the IRS confirms, and involves as many as 700 companies.

Security and Exchange Commission filings provide some clues about the amounts of tax dollars at stake. In 2001, American Greetings Corp. recorded a charge of $143 million for potential exposure to disallowed deductions on COLI-loan interest payments. R.R. Donnelley & Son Co., a Chicago printing company, agreed this month to pay the IRS $150 million for disputed deductions related to policies covering more than 20,000 workers. And W.R. Grace & Co. indicated in its 2001 filings that it deducted $163 million in interest after 1992 and has current unresolved tax exposure of $57 million. "We believe the loans had and continue to have a valid business purpose," says a Grace spokesman, who adds that the company took out the policies to pay for benefits programs.

The courts have tended not to accept companies' rationale for using COLI. "We do not believe that the purpose of the [plan] was to fund employee benefits," wrote Judge Robert P. Ruwe in a 1999 federal Tax Court ruling against Winn-Dixie. The Jacksonville, Fla., supermarket chain brought the case against the IRS, seeking to reinstate deductions it took on COLI policy loans covering 56,000 workers.

Judge Ruwe noted that Winn-Dixie had high staff turnover and didn't end up providing retiree medical benefits to most of its workers, while it continued to collect death benefits on those who leave the company before retirement. The judge concluded that the executives "recognized that it was a tax shelter," and that ultimately, over the 60-year life of the policies, the company hoped to save $2 billion in taxes.

In June last year, the U.S. Court of Appeals for the Eleventh Circuit in Atlanta upheld the Tax Court decision. And just Monday, the U.S. Supreme Court declined to hear Winn-Dixie's appeal. A Winn-Dixie spokesman says the company is disappointed with the high court's decision, but is "sufficiently reserved for any liability" arising from the case.

While the IRS can find out about COLI policies directly from the companies, disclosure requirements aren't tight, making it hard for others to determine just how much money is squirreled away in the insurance. Employers do, in fact, use other kinds of COLI to pay for lavish retirement benefits for executives. But disclosure rules don't require them to distinguish between executive COLI and janitors COLI.

Further, companies report all their life insurance in aggregate. Accounting rules require only that they report increases in the aggregate cash values of their life-insurance policies—and only if the increases are "material." Materiality isn't defined.

"So, some large companies with COLI don't need to report it at all," says a former government tax official. Congress would have to ask its economists to estimate the cost to taxpayers, says another former official, J. Mark Iwry, who was chief pension regulator at the Treasury. "They'd have a hard time coming up with a number."

Big Business

Even with the phaseout of the most attractive tax breaks, COLI is still big business. Among the major marketers of COLI are Marsh & McLennan Cos. and MONY Group Inc. Marsh & McLennan has itself "inherited" a policy covering an undisclosed number employees when it acquired insurance consultant Johnson & Higgins in the mid-1990s, a spokeswoman says. She says that the company no longer pays premiums on the coverage, and that it hasn't received any death-benefit payments for its 295 employees who died in the World Trade Center on Sept. 11.

Among insurers, Hartford Life is a major COLI provider. At the end of 2001, Hartford Life had janitors insurance with a face value of $4.3 billion in force among its clients, according to its latest annual report. COLI in all its forms brought the company $37 million of its $1 billion of net income last year.

Since Congress reined in some of the tax breaks, most employers have nonetheless left their janitors coverage in force. After all, they still enjoy the tax-free buildup of value in the policies, which adds to net income. (This income is referred to in financial statements under generic headings like "other income" and "other assets.") And then the death benefits go to the company, tax-free.

These future death benefits become an "attractive off-balance sheet asset," says Albert "Bud" Schiff, president of the Association for Advanced Life Underwriting and chief executive of NYL Executive Benefits LLC, a leading marketer of COLI for executive benefits in Stamford, Conn. "Companies understand that they have this significant downstream earnings growth."

That's why they keep an eye out for the deaths of employees after they have left the company. One way they can do that is by checking the Social Security Administration's database of deaths. When AEP bought its policies in 1990, a company memo noted that "in an effort to keep the tracking of reported deceased participants of the AEP COLI plan as simple as possible," the company "would track each individual reported to us either by AEP or the Social Security sweep."

Employees rarely know about a company's plan to buy COLI policies. In some states, including California, Michigan, Ohio, Illinois and Minnesota, companies are required by law to secure employee consent to include them in coverage. In that case, the employer may offer workers an incentive of a modest amount of life insurance without charge.

That happened to Gloria Jacobs. A few years before she retired in 1993 as a benefits manager for Walt Disney Co. in Orlando, Fla., she received a letter telling her that if she agreed to be covered under a COLI program to finance employee benefits, she would receive free life insurance of $10,000. The alternative was to pay for life insurance herself. Ms. Jacobs agreed to participate.

A Disney spokeswoman declines to say how much the company will receive when Ms. Jacobs dies, nor how many employees and retirees are covered under COLI.

Even when employees are informed about the insurance, they may be unaware that the company stands to benefit more than they themselves, or that the offer of free insurance to get them to consent is not protected under federal benefits law. Employers can cancel it at any time.

Wal-Mart Stores Inc. took out COLI on about 350,000 of its workers in the 1990s, offering $5,000 in life insurance to those who agreed to be covered. Only 500 asked to be excluded, a spokesman says. The brochure that Wal-Mart gave to employees noted that the company would receive the benefits "as a result of financial gains from life insurance policies Wal-Mart will purchase ... [that] will result in the financial benefits for the corporation." But the brochure didn't make it clear that the company expected to receive a benefit far outstripping the death benefit it offered workers. "We could have communicated more," a Wal-Mart spokesman says now. In 1998, the company canceled the $5,000 benefit for workers.

Last year, Jane Sims filed suit against Wal-Mart in U.S. District Court in Houston, alleging that the company didn't have an insurable interest in her late husband, Doug, a Wal-Mart distribution center worker in Plainview, Texas, whose death at age 47 in 1998 brought $64,504 in insurance benefits to the company. The case is pending.

Wal-Mart says that it ended its janitors coverage by January 2000, and that it no longer receives death benefits when employees or former employees die. The company says it "has substantially resolved" all COLI-related issues with the IRS. "We were looking to reduce our corporate income taxes," the spokesman says. "That's really why we did it. ... It was a tax strategy that didn't work out as expected."

Mrs. Sims' lawsuit is one of several filed in recent years in Texas by clients of Houston law firm McClanahan & Clearman LLP. These cases all turn on the argument that mere employment doesn't qualify as the insurable interest that Texas law requires.

That's the argument of Angela Smith. In December 1991, her husband, William, was working extra hours as a clerk at a Stop-N-Go convenience store in Pasadena, Texas, for extra Christmas money when a robber shot and killed him. He was 20 years old.

The store's owner, Houston-based National Convenience Stores Inc., didn't participate in the state workers' compensation system, which provides death benefits to families of workers killed on the job. And like others that opt out, it had taken out insurance on its clerks to protect itself from the cost of wrongful death or negligence lawsuits arising from workplace deaths. The policy, from Lloyds of London, paid NCS $250,000. The company offered Mrs. Smith and her son, Brandon, one year old at the time, a payment of $60,000 to settle any potential lawsuits, she says.

'It Seemed Like a Lot'

Mrs. Smith, who was 18 at the time and still in high school, thought the company was just being nice. "It seemed like a lot to me," she says. When she later discovered that the company would receive about $250,000 from her husband's death, she was appalled. "I can't believe they would do such a thing and make money off people," she says. "It's wrong."

She sued NCS in state court, alleging violation of Texas' insurable-interest rules and seeking payment of the COLI money to Mr. Smith's estate. In 1999, the court awarded the estate $456,513, which included insurance, attorneys' fees and interest, according to Mike Myers, an attorney with McClanahan & Clearman, which represented Mrs. Smith.

NCS appealed that judgment. On Wednesday, NCS agreed to settle with Mrs. Smith for $390,000, McClanahan & Clearman says. Two other plaintiffs in a similar case will receive $375,000 apiece if the Smith settlement is approved in court. Valero Energy Corp., San Antonio, acquired NCS and its COLI policies last year through its acquisition of Ultramar Diamond Shamrock Corp., which had earlier bought NCS. Valero spokeswoman Joanna Weidman, noting that Valero "inherited these cases," said, "We're happy to have resolved them in the best interests of everyone involved."

In a similar case in 1998, NCS argued that it did have an insurable interest in its workers because, without workers, "NCS would not generate revenue and would cease to exist as a viable entity."

The Texas court in that case suggested that NCS consider liability insurance. It also noted: "While it may be true that NCS, like any other company, needs employees to generate revenue ... most cases addressing this issue have found that an employer does not have a pecuniary interest in the continued life of its employee, unless that employee is crucial to the operation of the business."

"Crucial" is an abstract term. But it isn't difficult to see that many people covered by COLI policies play little role, if any, in the companies that benefit from their deaths: part-timers, for instance, and retirees.

In 1994, Rusty Stillwagoner, a police officer in Sulphur Springs, Texas, got a call from the dispatcher saying that his mother, Peggy, had been in a bad accident. Mrs. Stillwagoner, a nurse, was driving to her next home-care appointment when another driver slammed into her Geo Metro. At the hospital, Rusty Stillwagoner found the paramedics performing CPR on his mother. The 51-year-old Canadian immigrant underwent emergency surgery, but she died soon afterward.

Facing tens of thousands of dollars in medical bills, Mrs. Stillwagoner's family asked her employer, Advantage Medical Services Inc., if it provided any life insurance or other benefits. The owner of the company, Ron Lummus, " 'tearfully' denied the existence of any insurance covering Peggy," a Texas appeals-court judge later wrote.

A few months after the accident, an insurance-company investigator called Mrs. Stillwagoner's husband, Kenneth Stillwagoner, asking him to sign papers releasing her medical records. When the family returned the investigator's call, they learned that Advantage Medical Services held a $200,000 insurance policy on Mrs. Stillwagoner's life. "My father blew his top," says Lt. Stillwagoner, who, like several other family members, had worked for Mr. Lummus at one time or another. "We were pretty shocked."

The family sued in state court in Hopkins County, arguing that the company had no insurable interest in Mrs. Stillwagoner's life and seeking the death benefit the company had received.

She was, after all, just a temporary employee who had been with the company for two months, and who was replaced the day after her death.

The family lost and appealed. The company insisted that it did have an insurable interest, because the field nurse had the "opportunity to attract or create new business and was therefore a valuable employee," the Texas appeals court noted.

In late 1998, the appeals court reversed the lower court's ruling and found that Kenneth Stillwagoner had a right to challenge the insurance payment to Advantage Medical Services. Subsequently, the company and Travelers Insurance Co., a unit of Citigroup Inc. that sold Advantage the coverage, settled with the family for $395,000.

A spokeswoman for Travelers declined to comment. Carl D. Bryan, who represented Mr. Lummus and Advantage Medical, says the accidental-death policy was a rider that came with a policy the company had bought to pay wages for employees injured on the job, not a policy the company took out separately. Mr. Lummus "wasn't trying to hide the fact that there was insurance—he didn't even know there was [life] insurance." In any case, Mr. Bryan adds, "if a company pays the premium, why shouldn't it benefit from the policy?"

Death Benefits

How companies profited from the deaths of their employees

	Felipe Tillman	William Smith	Doug Sims	Peggy Stillwagoner
EMPLOYMENT	Music-store worker	Convenience-store clerk	Distribution-center worker	Home-health nurse
DIED	January 1992	December 1991	December 1998	October 1994
AGE	29	20	47	51
CAUSE	AIDS	Murdered at work	Heart attack	Car accident
DEATH BENEFIT	$339,302	$250,000	$64,504	$200,000
PAID TO	Camelot Music/ CM Holdings	National Convenience Stores	Wal-Mart Stores	Advantage Medical Services

Source: WSJ research

'Dead Peasants'

Like many companies, Winn-Dixie took out insurance policies on its rank-and-file workers that pay death benefits to the company when the workers die. Here's how these workers were referred to in internal company memos:

"Bruce- Here is a very rough beginning of the booklet we are preparing for Winn-Dixie. A section on Dead Peasants remains to be written..."

"I want a summary sheet that has... the Dead Peasants in the third column."

Andersen Breaks Off Talks on Its Criminal Case

Continued From First Page

Duncan acted within the scope of his job when he ordered the destruction of tons of Enron-related documents.

The breakoff of settlement talks has broad implications for both Andersen and the government. For Andersen, it heightens chances that the firm will quickly implode. What was the nation's fifth-largest accounting firm has lost about 225 of its 2,300 U.S. publicly held clients this year. Partners are fleeing and the firm has been scrambling to sell off chunks of its operations in the U.S. and overseas to other accounting firms.

As for the Justice Department, it had been counting, as part of a settlement, on winning total cooperation from the accounting firm and its partners and employees in the Enron case. This would give prosecutors unfettered access to all the accounting firm's records. Perhaps more significant: Andersen's personnel could be used to identify which Enron executives took part in key meetings at which the energy company's aggressive accounting moves were devised.

Big Pressure

A lack of cooperation from Andersen hardly would paralyze the Enron investigation. Prosecutors still have Mr. Duncan's cooperation, and they still can exert big pressure on other Andersen partners and employees to turn state's evidence or risk prosecution themselves.

During settlement talks, Andersen had tentatively agreed to provide information on any improper activities by Andersen employees, further bolstering the government's leverage. Now, the government may find itself impugning the testimony of Andersen employees at one trial—that of Andersen in May—and then defending those same employees if they provide information about activities at Enron.

As recently as a week ago, a criminal settlement agreement seemed all but certain. The government would have lifted the obstruction indictment, and Andersen would have admitted that some of its partners and other employees committed criminal wrongdoing for destroying documents in its botched audits of Enron. Andersen would have publicly stated that it was responsible for those actions as a firm. It would have been placed under a probation period of at least two years. If it violated the terms, the indictment would have been reinstated.

Andersen began pursuing a package of reforms designed by Mr. Volcker under which the firm is divesting itself of all operations except auditing, to eliminate potential conflicts of interest.

Meanwhile, Andersen and opposing attorneys in the class action agreed tentatively on a $300 million settlement—a figure based mostly on how much Andersen could afford. The SEC sought relatively nominal amounts in fines.

Turn for the Worse

Settlement discussions in the class-action case took a turn for the worse this week. A dispute erupted between lead shareholders' attorney William Lerach and commercial banks and securities firms that are both creditors of Enron and defendants in the class action. Mr. Lerach had demanded that the banks, including J.P. Morgan Chase & Co. and Citigroup Inc., sign waivers relinquishing their right to have any future trial judgments reduced to reflect Andersen's proportionate liability for Enron's collapse. The banks have consistently refused.

An attorney for J.P. Morgan on Wednesday night publicly criticized Mr. Lerach for continuing to insist on the waivers, saying he was costing his clients "hundreds of millions of dollars." The court-appointed mediator in the class-action case, Eric Green, yesterday blasted the J.P. Morgan attorney for this public criticism and said it had disrupted the settlement talks. Mr. Lerach declined to comment, other than to say the negotiations were "continuing." J.P. Morgan said it stood by its attorney's comments.

Some lawyers involved in the civil talks privately doubt there will be an agreement. Other issues left to resolve include how to divy up the $300 million between shareholders, creditors and other parties. Mr. Green, the mediator, said, "Until I report to the court that we have terminated our negotiations, they are ongoing."

Andersen also faces a trial beginning April 29 in a case brought by the bankruptcy trust for the Baptist Foundation of Arizona in a state superior court in Phoenix. The firm agreed about six weeks ago to pay $217 million to settle that case, but changed its mind later.

A criminal conviction of Andersen probably would mean the death of the firm. Under federal law, it then would be able to continue auditing publicly owned clients only by first securing a waiver from the SEC. Even without a conviction, state accountancy boards could move to pull the firm's licenses. Arizona is among those already seeking to bar Andersen from practicing.

Amid yesterday's tumult, Andersen's dismantling continued. The firm agreed to sell a portion of its tax practice to Deloitte & Touche LLP, ending a two-week battle for the high-margin business, according to people familiar with the matter. In doing so, these people noted, Andersen was passing over an expressed interest for part of the unit by Ernst & Young and an offer to acquire the entire unit in a management-led buyout from San Francisco leveraged-buyout firm Fox Paine & Co.

—Kara Scannell contributed to this article.

Troika of Europeans Are Hoping to Crown Sacramento at Last

Continued From First Page

when he was sidelined.

By winning three-quarters of their 82 regular-season games and the NBA's Pacific Division, the Kings earned crucial home-court advantage throughout the NBA playoffs, which start tomorrow. They also won the right to imagine a great dream come true: toppling their downstate nemesis, the reigning back-to-back NBA champion Los Angeles Lakers.

Are they ready? "I should ask you, are they ready for us?" says Mr. Divac, the Kings' 7-foot-1 center, a couple of days before a Kings-Lakers game in late March. "We have a better record. Everything is in our hands."

Indeed, on Oscar night last month, the big showdown in California wasn't in Hollywood but 350 miles northwest, at the deafening Arco Arena. It was Sacramento's 118th consecutive sold-out game.

Basket for Basket

The ball found its way into Mr. Divac's hands with just 1:19 left in the March 24 contest, and the visiting Lakers clinging to a one-point lead, 93-92. Hyped on national television as a battle for Best in the West, the game had seesawed all night, with the Kings' long-range sharpshooters matching the acrobatic grace of the Lakers' Kobe Bryant basket for basket.

Mr. Divac, the 34-year-old bearded Yugoslav playing on his third NBA team in 13 seasons, clanged a shot off the rim but was fouled by Laker bigman Shaquille O'Neal, who committed his sixth and final foul. Mr. Divac walked slowly to the foul line for two free throws—and a chance to put the Kings on top.

The Kings' players set the tone all season with exhilarating teamwork on the court—many Kings baskets are set up by three or four passes—and unusual camaraderie off the court. "I'm happier than when I score when I see somebody else score from my pass," says Mr. Divac, who, for the fourth time, led the NBA this season in assists per game by a center.

Unselfish Style

The unselfish style is purely by design. Mr. Petrie, the former Princeton University and NBA star who built the team, scoured Europe's basketball leagues for players with sound fundamentals—and salary demands more affordable than the astronomical sums commanded by NBA free agents. The league's highest-paid player this year is Kevin Garnett of the Minnesota Timberwolves, who is earning $22.4 million in the fourth year of a six-year, $126 million contract. By comparison, the Kings' European troika this season is earning a combined $16.7 million.

Mr. Petrie first selected the 6-foot-9 Mr. Stojakovic for the Kings in the 1996 NBA draft, while he was still playing in Greece. He joined the team in 1998. Mr. Petrie picked up Mr. Divac (pronounced DEE-vats) in 1999 after two frustrating seasons with the Charlotte Hornets, and he discovered the 6-foot-8 Mr. Turkoglu (TURK-a-loo) back home in Turkey, signing him in 2000 as the first Turk to play in the NBA. The press conference announcing the deal was broadcast live throughout Turkey.

Pro basketball "has gotten so drawn up with raw athleticism, at the expense of fundamentals," says Mr. Petrie, the Kings' president of basketball operations since 1994. "For the game to be played in its most enjoyable form, you have to be able to do the things well that happen a lot—not just running and jumping but passing, dribbling and shooting."

Stop, Drop and Flop

Late in the first quarter of the Oscar-night game, Mr. O'Neal, the Lakers center, found himself alone under the Kings' basket. Mr. Divac and Kings forward Scott Pollard were lying lifeless on their backs beneath him. That's a signature Divac defense, refined since Mr. Divac's days as a 16-year-old pro player in Eastern Europe: a stop, drop and flop routine designed to bamboozle referees into believing an offensive player has illegally charged into a stationary defender.

It's one of the reasons Los Angeles Clippers coach Alvin Gentry calls Mr. Divac "probably the smartest center in the league."

The refs didn't fall for it this time, but the Kings' playacting got to Mr. O'Neal, compounding his frustration at the mounting foul calls against him on defense. He barked at the referees to make the Kings play on their feet.

The team's owners, brothers Joe and Gavin Maloof, have vowed to build a championship team in Sacramento.

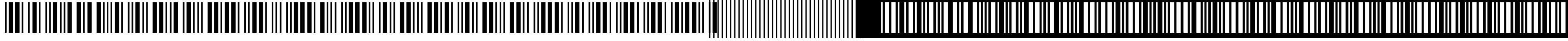
The family is the largest shareholder of California's Wells Fargo Bank and the owner of the $265 million Palms hotel and casino in Las Vegas. They purchased a controlling stake in the Kings and their home court, Arco Arena, for $247 million in 1999. After heavy investments in payroll and arena improvements, the Maloofs have lost $15.5 million over the past three years, according to numbers supplied by the team.

The Maloof brothers were as delirious as the fans when Mr. O'Neal sulked off the court after fouling out on Oscar night. Mr. Divac sank one of two free throws to tie the game, but after more heroics by Mr. Bryant, the Lakers led by a point, 97-96, with 5.2 seconds to go.

The Kings passed the ball in to Mr. Webber, who forced up an off-balance shot with a Lakers defender in his face. The buzzer sounded. The shot didn't drop, but Mr. Webber did, to his hands and knees. The Lakers won.

In Las Vegas, top oddsmakers say they're offering roughly a three-to-one payoff to those who bet the Kings to take the NBA crown this year; the Lakers, perennial favorites, are even money.

243704б P1JW109008-4-A00800-1---XA BLACK



By Ellen E. Schultz
And Theo Francis

Felipe M. Tillman loved music—opera, jazz, country. He played keyboards and drums, sang and was choral director at his Tulsa, Okla., church. To make ends meet, he worked at record stores, where "he could be close to the music," says his brother Anthony Tillman. One of those jobs was a brief stint in the early 1990s at a Camelot Music store.

In 1992, Felipe, then 29 years old, died of complications from AIDS. He never bought life insurance, so his family received no death benefit. But CM Holdings Inc., then the parent company of Camelot Music, did. It received $339,302.

Like hundreds of other large companies, CM Holdings took out life-insurance policies on thousands of its employees, with itself as the beneficiary. Most workers covered this way don't know it, nor do their families.

"If someone is going to use your name for something, even though you're an employee of theirs, you should know what's going on in your name," says Anthony Tillman, who was surprised to learn that his brother's death benefited Felipe's onetime employer. "It isn't fair."

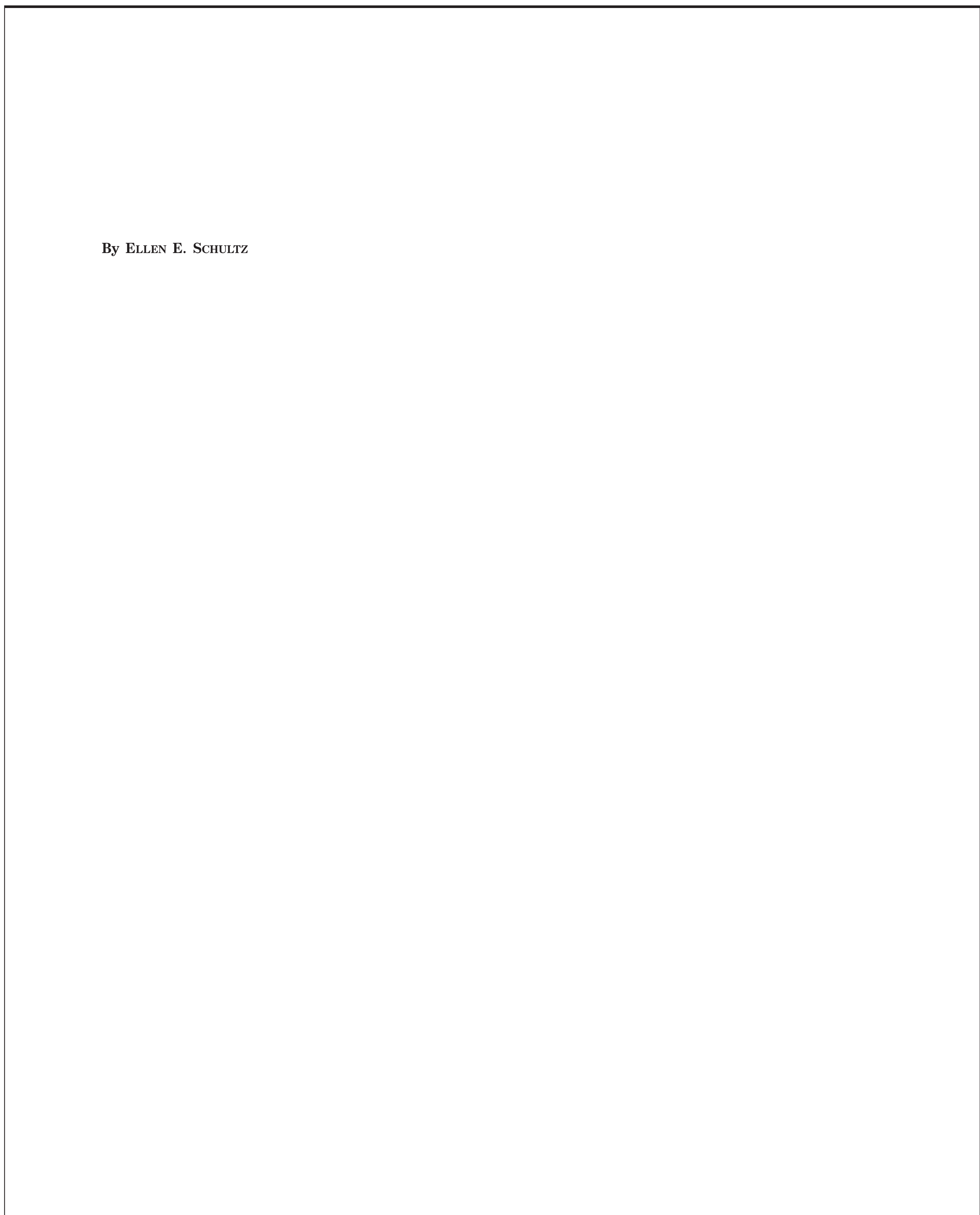
The practice is as widespread as it is little-known. Millions of current and former workers at hundreds of large companies are thus worth a great deal to their employers dead, as well as alive, yielding billions of dollars in tax breaks over the years, as well as a steady stream of tax-free death benefits. Nestle USA has policies covering 18,000 workers, Pitney Bowes Inc. has policies covering 23,000, and Procter & Gamble Co. has 15,000 covered workers, spokespeople for these companies confirm.

The coverage is called broad-based insurance, or corporate-owned life insurance, usually shortened to COLI. For years, companies could insure only key personnel deemed essential to the business. But a loosening of state rules in the 1980s allowed for an explosion in a new kind of COLI that covers rank-and-file workers—known in the insurance industry as janitors insurance or, in at least one instance, dead peasants insurance. "I want a summary sheet that has …the Dead Peasants in the third column," one of Winn-Dixie Stores Inc.'s insurance consultants wrote in a 1996 memo. Winn-Dixie wouldn't comment on the memo.

Companies have put millions of dollars into COLI policies. These policies yield tax-free income as their investment value

P1J 114025-4-C00100-1--- A
**** C CMYK

A ,CL,C ,DL,D ,EE,FL,HO,M ,NC,
04/24/2002



By Ellen E. Schultz

Why Are Workers in the Dark?

Continued From Page C1

out. So, even in states where employers have to get written consent before buying janitors insurance, they might not have to tell employees who ask about the coverage years later.

As a result, most employees have no clue that they are covered. Court documents show that CM Holdings not only didn't ask for employee consent, but hid the janitors coverage internally as well. The company is battling the Internal Revenue Service over tax deductions taken in connection with the policy.

According to March 2000 testimony by Jack K. Rogers, who had been the company's chief financial officer, the company funneled death-benefit payments from the insurer though an executive payroll account before transferring the money to the company's general account. If the money had gone straight to the general account, he noted, "that would have necessitated the inclusion of a number of more people ... in knowledge of the COLI program"—in particular, employees in the accounting department.

> 'The whole point of the bill is to bring some daylight on this issue,' says Rep. Green.

Until the 1980s, employers weren't allowed to take out policies on workers, because they had no "insurable interest" in their survival. In other words, the company couldn't argue that it would suffer financial hardship if janitors, file clerks and nonessential executives perished. Insurable-interest rules were designed to prevent life insurance from providing an incentive for murder or negligence, and ultimately to discourage one person from "wagering" on the life of another.

But after aggressive lobbying by insurance companies, most state insurance departments modified the rules to allow companies to take out "janitors" insurance. Almost no ancillary regulation was developed to address the practice.

Unions may have some ability to force companies to disclose whether they have janitors insurance, under National Labor Relations Board rules, says Jon Hiatt, general counsel for the AFL-CIO. Now that they know about it, "there will very likely be a number of unions seeking to find out about the practice," he says.

Some workers find out by chance. Three years ago, a co-worker told Richard Cowan, 65, a retired meter-reader and supervisor, that he had seen Mr. Cowan's name on a list of employees insured by his former employer, New Jersey utility **Public Service Enterprise Group** Inc. Mr. Cowan doesn't know how much PSEG will get when he dies, or when it took out the insurance. "I was very surprised, then I got a little annoyed," he says. "I'm going to live to be 100, so they can't cash in on this."

The Newark utility says it bought janitors insurance on "several thousand" retirees about a decade ago, and that any who are still living remain covered by the policy. But a spokeswoman says Mr. Cowan wasn't covered by the policy. The spokeswoman declines to say how much the company collects in death benefits, and says the company didn't notify the retirees about the policy because it wasn't required to.

Meanwhile, the only way for many employees to find out if they or their families are worth more dead than alive to their employers and former employers may be through lawsuits. Mr. Mayo sued CM Holdings, arguing that his former employer never had an insurable interest in his life under Texas law. CM Holdings countered that Georgia law should apply, because Camelot "intended to situate their COLI policies in Georgia, and intended for Georgia law to apply, " court documents note. The judge didn't accept that contention, ruling in March 2002 that she would apply Texas law as the plaintiffs requested. The case is pending in federal district court in Houston.

Ironically, Mr. Mayo's subsequent employer also has janitors coverage. **Olin** Corp., based in Norwalk, Conn., bought janitors policies on all salaried or nonunion hourly employees working at Olin on Dec. 31, 1992—including those on short-term disability on that day. When Olin spun off Arch Chemicals Inc. as a separate company in 1998, it kept the policies, and will enjoy death benefits from its former, spun-off employees when they die.

Olin declines to comment. A spokesman for Arch Chemical says that though many of its employees are covered under the insurance coverage Olin took out before the spinoff, Arch itself has no COLI policies and doesn't benefit from them. Says Mr. Mayo: "This stinks."

Marathon Oil Corp.

Profit Fell 87% on Lower Prices Of Gas, Tight Refining Margins

Citing tight refining margins and lower natural-gas prices, **Marathon Oil** Corp. posted a steep first-quarter drop in net income, which slid 87% to $67 million, or 22 cents a share, from $509 million, or $1.62 a share, a year earlier. Revenue fell 26% to $6.45 billion. The Houston firm's recent results included a $13 million gain on a change in accounting principles and a $27 million gain from an adjustment of oil reserves. Prices of refined products such as gasoline failed to keep pace with the price of crude oil. Marathon reported a first-ever loss of $51 million in refining, marketing and transportation, in contrast with a profit of $276 million a year ago.

NASDAQ NATIONAL MARKET ISSUES

Continued From Page C9

YTD % CHG	52-WEEK HI	52-WEEK LO	STOCK (SYM)	DIV	YLD %	PE	VOL 100s	CLOSE	NET CHG
-66.7	8	0.44	Netzee NETZ s		...	dd	92	0.56	-0.01
-20.9	54.26	20.10	Neurocrine NBIX		...	dd	722	40.60	-0.55
-29.1	23.93	11.25	Neurogen NRGN		...	...	105	12.40	-0.35
81.5	3.50	0.20	NevadaChem NCEM	.03	1.1	...	20	2.85	...
95.1	10.62	3.36	NwBrunsSci NBSC s	stk	...	29	136	9.70	-0.31
-8.0	2.06	0.14 ♣	NewCentEq NCEH		...	dd	436	0.46	-0.02
106.8	**29.50**	**8.05**	**NewCentFnl NCEN**	**.10e**	**.4**	**13**	**3011**	**27.98**	**1.58**
-23.9	20.55	2.10	NewFocus NUFO		...	dd	4963	2.90	-0.10
▲ 9.8	17.80	13.15	NH Thrift NHTB	.64	3.7	10	6	17.18	-0.07
-19.7	18.70	8.30	NwHrznWld NEWH		...	15	1661	9.23	-0.37
24.7	31.63	16.25 ♣	NY CmntyBcp NYCB s	.80f	2.8	21	3289	28.52	-0.01
▲ **25.3**	**17.85**	**7.49**	**NewmarkHm NHCH**	**e**	**...**	**8**	**724**	**18.09**	**2.08**
32.1	19.75	11.08	NewmilBcp NMIL	.50	2.6	15	60	19.35	-0.15

YTD % CHG	52-WEEK HI	52-WEEK LO	STOCK (SYM)	DIV	YLD %	PE	VOL 100s	CLOSE	NET CHG
16.7	1.24	0.31	Onvia.com ONVI	.39e	61.9	dd	6802	0.63	0.04
-12.1	7.38	3.50	OnyxAccept ONYX		...	5	3	4.56	-0.02
64.1	**12.25**	**3.25 ♣**	**OnyxPharm ONXX**		**...**	**dd**	**3282**	**8.40**	**0.65**
-28.6	31.79	17.90	OpenText OTEX		...	43	1410	21.11	-0.03
-45.8	16.68	3.80	OpenTV A OPTV		...	dd	795	4.48	-0.19
▼ **-51.2**	**46.90**	**5**	**OpenwvSys OPWV**		**...**	**dd**	**33531**	**4.78**	**-0.38**
-23.1	5.79	0.60	OplinkComm OPLK		...	dd	1155	1.45	...
-37.8	21.06	4.75	OPNET Tech OPNT		...	39	658	8.96	-0.27
26.5	1.90	0.85	OptaFood OPTS		...	dd	976	1.29	0.24
-11.2	6.90	1.82	Optibase OBAS		...	dd	203	2.31	-0.01
-50.9	14.25	0.66	OpticalCabl OCCF		...	dd	3081	0.80	-0.03
-34.5	16.49	1.80	OpticalComm OCPI		...	...	1188	2.58	-0.10
86.7	**2.93**	**0.60**	**Optika OPTK**		**...**	**dd**	**558**	**1.96**	**-0.18**
-51.3	53.55	13.30	OptmlRbtcs OPMR		...	29	1100	17.25	-0.45
-31.3	1.16	0.32	OptioSftwr OPTO		...	dd	510	0.46	0.06

O

P Q

R

S

T

U

V

W

X Y Z

Key Currency Cross Rates

Late New York Trading Wednesday, May 1, 2002

C	1.5607	1.4131	2.2835	0.9732	.16567	.01224	...
	127.47	115.41	186.50	79.485	13.51.675		
	9.4205	8.5293	13.783	5.87420W.9	6.0361		
	1.6037	1.4520	2.34640W.9	.01258	1.0276		
. .	.68350	.6188.4262	.07255	.00536	.43793		
	1.10450	6d7	.68871	.11724	.00866	.70769	

Special Drawing Rights (SDR) are based on exchange rates for the U.S., British, and Japanese currencies. Source: International Monetary Fund.

a-Russian Central Bank rate. b-Government rate. y-Floating rate.

TORONTO in Canadian dollars

Abitibi C	14.20	0.01
AirCanada	6.51	−0.11
Alcan	57.90	...
Atco Ltd CL 1	51.55	0.03
Aur Res	3.73	−0.17
BC Gas	39.35	0.15
BCE Inc	27.55	...
Bank Mtl	37.40	0.02
Bank N S	54.96	1.01
Barick gld	32.14	0.49
Bombardier B	13.65	0.15
Breakwtr Res	0.22	...
C Util	57.00	1.85
CAE	11.97	0.07
CCL Indus B	17.06	−0.27
CIBC	53.70	

MSCI Indexes

	APR 30	APR 29	% CHG FROM 12/01
U.S.	1012.5	1001.4	−6.6
Britain	1566.9	1564.1	−1.2
Canada	954.7	942.6	−1.1
Japan	681.7	684.9	+4.8
France	1488.6	1476.7	−3.4
Germany	640.6	634.9	−2.9
Hong Kong	6341.7	6250.0	+4.7
Switzerland	838.4	839.5	+3.1
Australia	673.5	674.0	−2.5
W I	**968.2**	**961.3**	**3.5**
EAFE MSCI	**1160.7**	**1158.3**	**+0.5**

As calculated by Morgan Stanley Capital International Perspective, Geneva. Each index, calculated in local currencies, is based on the close of 1969 equaling 100.

Key Currency Cross Rates

Late New York Trading Wednesday, May 1, 2002

C	1.5607	1.4131	2.2835	0.9732	.16567	.01224	...
	127.47	115.41	186.50	79.485	13.51.675		
	9.4205	8.5293	13.783	5.87420W.9	6.0361		
	1.6037	1.4520	2.34640W.9	.01258	1.0276		
. .	.68350	.6188.4262	.07255	.00536	.43793		
	1.10450	6d7	.68871	.11724	.00866	.70769	

Special Drawing Rights (SDR) are based on exchange rates for the U.S., British, and Japanese currencies. Source: International Monetary Fund.

a-Russian Central Bank rate. b-Government rate. y-Floating rate.

TORONTO in Canadian dollars

Abitibi C	14.20	0.01
AirCanada	6.51	−0.11
Alcan	57.90	...
Atco Ltd CL 1	51.55	0.03
Aur Res	3.73	−0.17
BC Gas	39.35	0.15
BCE Inc	27.55	...
Bank Mtl	37.40	0.02
Bank N S	54.96	1.01
Barick gld	32.14	0.49
Bombardier B	13.65	0.15
Breakwtr Res	0.22	...
C Util	57.00	1.85
CAE	11.97	0.07
CCL Indus B	17.06	−0.27
CIBC	53.70	

MSCI Indexes

	APR 30	APR 29	% CHG FROM 12/01
U.S.	1012.5	1001.4	−6.6
Britain	1566.9	1564.1	−1.2
Canada	954.7	942.6	−1.1
Japan	681.7	684.9	+4.8
France	1488.6	1476.7	−3.4
Germany	640.6	634.9	−2.9
Hong Kong	6341.7	6250.0	+4.7
Switzerland	838.4	839.5	+3.1
Australia	673.5	674.0	−2.5
W I	**968.2**	**961.3**	**3.5**
EAFE MSCI	**1160.7**	**1158.3**	**+0.5**

As calculated by Morgan Stanley Capital International Perspective, Geneva. Each index, calculated in local currencies, is based on the close of 1969 equaling 100.