

THE WALL STREET JOURNAL

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Breaking Points

As Fed Cuts Rates, Retirees Are Forced To Pinch Pennies

With Interest Income Down, Seniors in Florida Complex Are Facing Tough Choices

A \$1.63 Splurge at Burger King

By KELLY GREENE

CLEARWATER, Fla.—For Ruth Putnam, an 86-year-old widow in a small retirement community here, the consequences of the Federal Reserve's continuing interest-rate cuts are painfully clear: She's selling her English Rose china collection, piece by piece.

Mrs. Putnam relies on interest income to make ends meet—and her investments are earning only a fraction of what they did when she retired 24 years ago. So she's selling her treasures to make up some of the difference. "I don't know what else I could do," she says.



Ruth Putnam

Across the country, retirees and older adults are struggling with the dark side of falling interest rates. The Federal Reserve has made 13 cuts in the past 2½ years, chipping its benchmark rate to 1% from 6.5%. While cheap money has helped fuel a housing boom and may yet spur capital spending, the low rates are ravaging interest income from older Americans' investment vehicles of choice—certificates of deposit, bonds and money-market accounts.

Low interest rates have always been a threat to retirees relying on interest income. But the relentless decline of the past two years, with no uptick in sight, is taking a particularly hard toll on elderly CD and money-market investors. These are the people who tried to do everything conservatively with their money. For the most part, they didn't chase Internet stocks, and they didn't load up on debt. They sacrificed to pay off the mortgage while building nest eggs to leave their kids.

"They've had their plans in place for 40 years, and now, through no fault of

What's News—

Business and Finance World-Wide

FREDDIE MAC and Fannie Mae have escaped major legislative consequences, despite the Freddie Mac accounting restatement. Lobbyists for the government-sponsored mortgage companies have warned lawmakers that too tough a response could upset the housing market.

(Article in Column 5)

■ **The bond market is slumping** in the U.S., Europe and Japan as investors shift to stocks. Falling prices and higher yields could threaten an economic recovery.

■ **The Dow Jones industrials** finished a holiday-shortened week up 81.16 points at 9070.21, despite a 72.63-point drop Thursday.

(Article on Page C1)

■ **Adelphia's creditors** filed suit against more than 450 banks that made loans to the cable company's controlling family.

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■ **The labor market deteriorated** in June as the jobless rate hit a nine-year high, raising concerns about an economic rebound.

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■ **Liberty Media's decision** to buy Comcast's 57% stake in QVC for \$7.9 billion adds a new twist to Vivendi's asset auction.

(Article on Page A3)

■ **The Justice Department** and states have raised concerns over Microsoft's compliance with parts of the 2001 antitrust settlement.

(Article on Page A12)

■ **EU regulators have narrowed** their scrutiny of GE's proposed deal for Finland's Instrumentarium to patient-monitoring devices.

(Article on Page A2)

■ **Office rents declined** in the second quarter and vacancy rates edged higher as the U.S. economy continued to shed jobs.

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■ **The apartment-vacancy rate** fell to 6.7% in the second quarter, its first decline since 2000.

(Articles on Page A4)

■ **VF is near an agreement** to buy apparel maker Nautica for about \$580 million. A deal could be announced as early as today.

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■ **"Terminator 3"** topped the weekend box office but didn't meet forecasts. "Sinbad" sank, a bad sign for traditional animation.

(Article on Page A9)

■ **DirecTV will begin broadcasting** gay and lesbian-themed films through a venture with Regent Entertainment's Here Films.

(Article on Page A11)

■ **Alnylam plans to merge** with Germany's Ribopharma. The concerns use so-called RNA interference to find new drugs.

(Article on Page A12)

■ **Oracle extended to July 18** its \$6.3 billion bid for PeopleSoft. Oracle said less than 11% of PeopleSoft's shares have been tendered.

(Article on Page A12)

■ **American Air moved to mortgage** seven jets to raise \$254.9 million, another sign the carrier expects to escape a Chapter 11 filing.

(Article on Page A10)

■ **The Arkansas Supreme Court** lifted an injunction barring union workers from soliciting members in Wal-Mart properties.

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■ **Voltage Security plans to announce** an unusual technique to encrypt e-mail or documents.

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—Markets—

Stocks: NYSE vol. 761,181,450 shares, Nasdaq vol. 967,544,617. DJ Industrials 9070.21, ▼ -72.63; Nasdaq composite 1663.46, ▼ -15.27; S&P 500 index 985.70, ▼ -8.05.

Bonds (2 p.m.): 10-yr Treasury ▼ -1, yld 3.656%; 30-yr Treasury ▼ -1 25/32, yld 4.685%.

Dollar: 118.22 yen, +0.18; euro \$1.1495, -0.47 cent against the dollar.

■ **IRAQ QUAGMIRE FEARS GREW** amid persistent guerrilla resistance. U.S. troops suffered casualties in a Ramadi ambush and two died in earlier attacks in Baghdad, where a British TV journalist was shot dead near the national museum Saturday. That same day, seven Iraqi police recruits died in a bombing before a ceremony marking completion of U.S. training. The top U.S. general said American soldiers face five distinct hostile elements. The U.S. offered a \$25 million reward for Hussein after al-Jazeera ran a purported audiotape. (Page A3)

■ **Washington agreed to free 11 Turkish soldiers** following protests by Ankara. They were captured in northern Iraq and suspected of plotting to kill a U.S.-allied Kurdish official.

■ **Israel's cabinet agreed** to release some of the thousands of Palestinian prisoners it holds, but Sharon conditioned the move on the dismantling of militant groups. A top Palestinian official floated the idea of fall general elections if an Israeli withdrawal is substantially done by then.

■ **Hong Kong's government put off** a vote on antismuggling legislation following huge protests last week. The battle, which is far from over, will test how the city's leaders will balance fealty to Beijing with the desire of the populace not to accept Chinese-style repression. (Page A8)

■ **Liberia's Charles Taylor** accepted an offer of asylum in Nigeria, but gave no timetable. U.S. lawmakers say Bush needs Congress's approval before sending any troops to Liberia.

■ **Bush departs today** for a visit to five African nations. Last stop will be Nigeria, which is in the grip of a general strike. Workers rejected the latest government offer on fuel prices.

■ **Russia's Putin put off** a foreign trip after two female suicide bombers killed 15 Saturday at a suburban Moscow rock concert. Authorities put blame on Chechen rebels. (Page A8)

■ **Justice O'Connor indicated** in a TV interview she won't step down. Speculation about her or Rehnquist or both retiring was rife at the end of the Supreme Court's term. (Page A4)

■ **Congress returns from holiday** recess this week with Medicare drug coverage, tax rebates and annual appropriations bills topping its agenda.

■ **U.S. hospitals face growing scrutiny** for dunning patients with little or no insurance and not passing along discounts they get. (Page A9)

■ **Mexican voters thwarted** President Fox's desire for control of Congress, giving most seats to the PRD, PRI and Greens, a TV exit poll said.

■ **Pakistan detained 17 suspects** in Friday's Quetta mosque attacks that killed 44 Shiites. Sunni extremists, possibly Taliban allies, are blamed.

■ **Myanmar media accused** Aung San Suu Kyi of being a U.S. pawn, but ran a photo of the jailed dissident shaking hands with the junta's chief.

■ **Corsicans narrowly rejected** limited autonomy from France in a referendum, according to a minister who pushed for greater local power.

■ **British troops blocked** for a sixth year the Ulster Protestant march in Catholic Drumcree. The event, often riotous, seems to be losing its sting.

■ **U.N. health authorities declared** on Saturday SARS is contained for now and removed the last hot spot, Taiwan, from a list of infected areas.

■ **A Lake Michigan undertow** killed at least four swimmers in western Michigan July Fourth. Three others are missing and presumed drowned.

■ **Roger Federer won** the Wimbledon men's tennis title, beating Mark Philippoussis. Among women, Serena Williams defeated sister Venus.

■ **Died:** Barry White, 58, soul singer with a bedroom baritone, Friday, in Los Angeles, of kidney failure. ... Nixau, approximately 59, bushman star of the 1980 cult film "The Gods Must Be Crazy," recently, in Namibia.

—Online Today—
Eyes on the Road: Some middlebrow brands have been all but squeezed out of the market by economy models and aging boomers' shift to luxury vehicles.

Seven Questions: Fund manager Jordan Shreiber discusses how the Medicare bill may affect the health industry, why he's down on drug stocks and what he likes in biotech.

Real Time: Why a Net-enabled "smart fridge" is a dumb idea.

The Worm Turns: Off Home Turf, It's Down to No Good

Interloper in Northern Forests, It Devours Undergrowth Other Fine Creatures Need

By ELLEN BYRON

When Cindy Hale hikes through stretches of the Chippewa National Forest in north-central Minnesota, she sees the depredations of her sworn enemy all around her.

The colorful spring flowers that once bloomed are all but gone. Ferns and the seedlings of sugar-maple trees are in short supply. The thick, spongy forest floor that cushioned every step has disappeared, leaving bare dirt. There are fewer ovenbirds, warblers that rely on the downy floor for their nests.

The dark, green forest is slowly being stripped. Over time, Ms. Hale fears, dozens of species of animals that depend on the forest floor and its abundant plant life will be affected.

Blame the earthworm. Ms. Hale, often referred to as the Worm Woman, has declared it her mission to stop the alien invasion. She is



The night crawler, Lumbricus terrestris

conducting a census of Minnesota worm populations and organizing Worm Watch tours in which she teaches amateur hunters to track and identify various species of worms, none of which are welcome in Minnesota forests.

Her crusade is gaining force. This year, the Minnesota Department of Natural Resources, after conducting its own study primarily funded by the U.S. Fish and Wildlife Service, agreed to include in its annual fishing-regulations guide an advisory against dumping earthworms. The guide went to all 1.5 million fishing-license holders in the state. Minnesota also distributed more than 1,000 "Contain Those Crawlers" posters to bait shops.

Only in recent years have scientists begun to recognize the damage earthworms are causing in North American forests. The early bird, Ms. Hale has discovered as she travels around the state, catches some pretty strange looks.

"No one believes this at first because we're taught since kindergarten that earthworms are these benevolent creatures," says Ms. Hale, 41 years old, who is working on her doctoral dissertation at the University of Minnesota and conducts research for the Department of Forest Resources and the Natural Resources Research Institute in Duluth.

"Seeing how they can nuke an area is amazing."

To be sure, on farms and in gardens, earthworms can be beneficial. They help stir the soil and replace nutrients.

But they're exotic creatures in vast stretches of North America, including nearly all of Canada and the

northern U.S. The reason: About 10,000 years ago, glaciers retreated from these areas, leaving the region earthworm free. For thousands of years thereafter, forests and other ecosystems in these parts evolved in a state of wormlessness.

So how did worms get there? They didn't crawl. Earthworm populations move only about 15 to 20 feet a year.

Scientists say that when European settlers arrived, they brought animals and plants, both of which probably carried earthworms or earthworm cocoons of the European Lumbricidae family. Europeans also used soil as ballast in their ships, and dumped it once they reached U.S. and Canadian shores.

New infestations keep coming. An

Please Turn to Page A6, Column 5

Faint Signals Tech Supplier Senses Businesses May Be Near a Spending Uptick

Still Very Wary, Some at Least Now Consider Taking Step The Economy Is Awaiting

By GREG IP

GREELEY, Colo.—When the economy starts to rebound, one of the first places it will show up is on Ted Warner's "pipeline" reports. Those are the lists of sales prospects that the five salesmen at Connecting Point, his small technology supply company, turn in every week.

Right now, the reports show lots of unfulfilled hopes and long shots. A mortgage broker says it will need to outfit new offices in the region, but it has delayed opening them. A plastics manufacturer has been dithering for a year about whether to buy a new phone system.

"Are we ever going to get those deals, or will they drag on forever?" Mr. Warner asks a salesman.

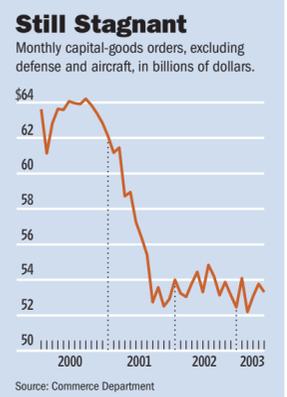
It's a question lots of businesspeople and economists are asking. For more than two years, business spending has been the weakest part of a fragile economy. Investment in everything from computers and machine tools to office buildings and airliners plunged in the recession of 2001 and has stagnated since.

That has been a drag on the entire economy and one reason the unemployment rate climbed to a nine-year high of 6.4% in June, according to a Labor Department report Thursday.

Now there are signs that business spending has stopped its long decline and is even beginning to inch back up. But there's just as much evidence that businesses are still wary about making new investments: Many are now optimistic enough to consider new purchases but not enough to follow through on them. That means frustration for entrepreneurs such as Mr. Warner, who get lots of new leads that go nowhere.



Ted Warner



Source: Commerce Department

Business spending is crucial to a recovery because other sectors of the economy can't do much more to boost growth. Consumer spending can't grow much faster after a two-year spree of home and automobile buying. The Federal Reserve cut its short-term interest rate target recently to 1%, a 45-year low, and has little room left to trim it further. The weaker dollar will help exports but not by much if European and Japanese economies remain moribund. Congress and President Bush have just passed a big tax cut, but two previous tax cuts have yet to turn the economy around.

The optimistic forecasts for the second half of this year rely on a projected upturn in business buying. But many businesspeople don't see the basis for that optimism. "Everyone is so anxious to get a little glimmer of hope," Kevin Rollins, president of Dell Computer Corp., which is managing to grow by taking business away from competitors, said last month.

Mr. Rollins told Wall Street analysts, "We are seeing an attitudinal improvement: People are feeling better about the market in general." But customers have yet to revive plans "that have been on the shelf for months. So while we're hopeful, we have not seen hard data that suggests there's any more movement in the marketplace."

On the one hand, the latest economic numbers suggest business spending finally has stopped declining and is starting to turn up. Orders for high-tech hard

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Freddie, Fannie Dodge New Rules; Congress Fears Upsetting Housing

By JOHN D. MCKINNON

WASHINGTON—Despite a billion-dollar accounting scandal at Freddie Mac, the government-sponsored mortgage-industry giant and its big sister Fannie Mae have escaped major legislative consequences for now.

Thanks mainly to fears that a heavy-handed response to the improper accounting would upset the housing market—the still-fragile economy's biggest bright spot—friends and foes alike say the companies likely will maintain the government privileges that have fueled their phenomenal growth and the ire of their critics.

Calls for reining in Freddie Mac and Fannie Mae have come from such prominent economists as William Poole, the St. Louis Federal Reserve Bank president. Mr. Poole in March warned of a potential "crisis" should the huge mortgage companies fail and called for the government to sever its ties with them.

Still, unless Freddie Mac's accounting scandal mushrooms enough to alter the political landscape, the companies' success at beating back the opposition just when they seemed most vulnerable would provide fresh evidence of their renowned lobbying ability and the impact of their outside political contributions.

A principal lobbying target in recent weeks has been Louisiana Republican Rep. Richard Baker, chairman of the House Financial Services Committee's capital-markets subcommittee. A long-time critic of the companies, Mr. Baker has aggressively argued that their lucrative connections to the federal government should be ended. But after Freddie

and Fannie allies and top Bush administration officials urged him to avoid roiling the housing market, he agreed to hold most of his fire, introducing legislation last month that would beef up government oversight of the two companies but do little else. The bill includes none of Mr. Baker's more drastic prior proposals.

Fannie and Freddie are even less threatened in the Senate, where Banking Committee Chairman Richard Shelby, an Alabama Republican, says he's not yet sure any legislation is needed.

Freddie Mac is clearly chastened by the accounting irregularities, having forced out three top executives and going to great lengths to clean up past accounting errors. But neither it nor Fannie Mae is ready to give up its dominant role in the mortgage industry. The companies own or guarantee \$3.1 trillion in mortgages, or 45% of residential debt outstanding in the U.S.

Congress chartered the companies decades ago to shore up the home-loan industry by giving local banks a mechanism to sell mortgages. The companies buy mortgages from retail lenders and package them into securities that are sold to Wall Street investors, dispersing the risk of retail lending and freeing up capital for more loans.

Over the years, Congress gradually privatized Freddie and Fannie, but it has allowed them to retain significant government-backed advantages, as so-called gov-

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— NOTICE TO READERS —

The Marketplace section is included in the first section today.

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While sales of the pants fall in the U.S., fashion-conscious Asians find snug, sexy jeans a perfect fit, and they're wearing them everywhere, including formal events. A9

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Good Things in Small Packages: Microcap Funds Post Big Gains

REPORT BEGINS ON RI

As Fed Cuts Rates, Retirees Must Pinch Pennies

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miniums in three-story buildings with whimsical names such as "South Seas" or "Royal Chateau." A grand arch marks the entrance to the development; behind it lies a grassy mall featuring a giant globe and a column-filled sculpture garden. Activities include golf, bingo and shuffleboard, as well as classes in yoga and art.

The people who live here make up retirement's middle class. Median annual income for people 65 and older in the community's ZIP code is estimated at \$29,696 this year, just \$209 more than the national number for that age group, according to demographic-research firm Environmental Systems Research Institute Inc., of Redlands, Calif. Most residents cover day-to-day bills through a combination of Social Security checks and interest generated from their plain-vanilla investments. The luckiest have pensions, though the development's many widows sometimes receive a mere sliver of their late husbands' former benefits.

So, with interest rates at a four-decade low, one big piece of income is drying up. The average rate for a one-year CD purchased last week was 1.59%, nearly four points off the average rate in 2000, according to Bankrate.com. The return on some money-market funds approaches zero after subtracting for overhead.

The cuts aren't leaving the residents destitute or starving, but they have been forced to start cutting back once again after a lifetime of scrimping and saving. They can't visit family as often, eat out or go to shows. Department stores now are out of the question for many; some have decided that membership at a new Costco discount retailer down the street is too wheeler of a splurge.

Pat Wheeler, a Clearwater financial

planner, got an earful while manning an advice hotline two months ago for a local TV station. The retirees he talked to typically had several hundred thousand dollars in CDs that had been paying 7% interest a few years ago and were now down to 2%, he says. "If you have \$200,000, that's \$14,000 a year in interest that's gone down to \$4,000. It's quite a cut in pay."

Mrs. Putnam says she has had to scrimp "to the point that a lot of my friends think I'm cheap." Twenty-four years ago, she and her husband relocated from New Hampshire, where he managed a country estate and she worked as a hairdresser. They kept most of their money in CDs, then paying 18% interest. They had some exposure to stocks through a mutual fund, which they picked because the fund company was also called Putnam. The investment had grown to \$40,000 two years ago, she says, but since then has plummeted by half.

Meanwhile, interest rates started their steady drop. Rates for one-year CDs at the AmSouth branch a few blocks away from her home fell to a mere 0.8% on June 27 from 5.9% in early 2001. On her bank's advice, Mrs. Putnam started converting her CDs several years ago to fixed annuities paying 4.5% interest. That provides a monthly income of \$157—less than her former CD income, but more than she would be making with CDs at the moment, she says. The cut is making it tougher to cover her \$3,000 annual premium for supplemental Medicare insurance. She also could use hearing aids, but they are so expensive—at least several hundred dollars apiece—that "it's out of the question."

To continue trips to see her sons in California and Norway, she's selling off collectibles that she and her husband

gathered over the years, including watches, rings and porcelain she no longer uses. Mrs. Putnam has continued to eat lunch out every day, which she considers her main social outlet. But she has downgraded from sit-down restaurants overlooking nearby Clearwater Beach, where she would spend \$5 "without thinking about it," to Wendy's and Burger King, where she orders something from the 99-cent menu, along with coffee, for \$1.59 or \$1.63.

Betty Houghton, who lives a mile away, feels she has to stay put in CDs and a money-market account. Seven years ago, she accepted an invitation to a dinner sponsored by an investment adviser and wound up sinking nearly \$120,000—almost three-quarters of her and her husband's life savings—into variable annuities that since have lost a third of their value. "I made such a big mistake giving them such a big check," she says.

Now Mrs. Houghton, 76, goes to great lengths to protect the principal in two CDs valued at \$20,000 and \$7,000, each paying less than 2% at the moment, and a \$14,000 money-market account that earns a paltry 0.2%. "It's a terrible time," she says. "We get practically nothing from the money market, but I don't want to do anything risky anymore."

When she volunteers at her church's clothes closet for people in need, part of the church's storefront mission, she sometimes asks for permission to take clothes for herself. Mrs. Houghton has quit going to the beauty parlor and wears



Betty Houghton

a wig instead. Her husband's doctor has started giving them extra free samples of medications: Zocor for high cholesterol and Aricept for her husband's Alzheimer's disease.

She and her husband each receive a small pension. Mrs. Houghton gets \$147 a month from her work as a nurse, and her husband gets \$69 a month for his 20 years at Singer Co. It would have been more, she says, but Singer's retirement benefits were curtailed after the company became mired in debt and the fund was taken over by the federal Pension Benefit Guaranty Corp.

All together, the couple's Social Security, pension and \$60 or so a month in interest income add up to just over \$2,000. Off the top, \$216 goes toward the premium for a life-insurance policy Mr. Houghton has had since age 59 and Mrs. Houghton is afraid to drop. Another \$438 is earmarked for the couple's Medicare HMO, which provides coverage beyond the program's basic plan. Then there's \$300 for monthly condominium maintenance fees, \$100 toward property taxes and \$350 to help their 57-year-old son, who is disabled.

"There are no frills," Mrs. Houghton says. "No going out to dinner, no movies, no new clothes. It's just a way of existing, really." She has considered going back to work, but would need to get her certification renewed to do her most recent job as a diabetes educator. And regular nursing "at my age would kill me." She's trying not to dip into her interest-bearing accounts, but sometimes, when a CD matures, "I have to take out a few thousand dollars. We're having the same basic bills with less income."

And Mrs. Houghton worries about what would happen to her husband, whom she cares for at home, if she dies before he does. "He's failing," she

says. "We don't have any life insurance on me, and there's no way we could afford it now."

Joseph Nemeth, an 80-year-old retired electrician who lives a mile east of On Top of the World, says he lost \$3,000 in interest income over the past year through his individual retirement account, which he keeps in fixed-income investments. That's money he has counted on in the past to pay his taxes and insurance bills. Now he's digging into principal to pay those bills and cutting back on bimonthly trips to see his eight living children, 13 grandchildren and two great-grandchildren. "When you start pulling money out of savings, you don't buy things you want," he says.

Despite the low rates and specter of chipping away at savings, few retirees so far seem tempted to diversify their investments. When people ask Mr. Allsbrook, the bank economist, for advice, he tells them, "One alternative would be to buy stocks that pay higher dividends than the interest you're getting on CDs. Have you thought about that?" But they hear the word "stocks," and you can see them tense up.

Before Mary Ellen Owen's husband died several years ago, he moved much of their savings into Treasury, municipal, airport and corporate bonds paying 8% to 9% interest. The 83-year-old widow, who lives just south of Clearwater in Belleair Bluffs, remembers him telling her that their money would be safe and secure. She could live off the income, without having to worry about investment strategy.

For some retirees, bonds they bought years ago when interest rates were higher have proved a solid investment. The bonds have appreciated in value as interest rates have fallen, and they've continued to pay their higher returns.

But municipal bonds, particularly tax-free municipal bonds favored by retirees, can

be called, which means the issuer can redeem them before they mature. Issuers frequently call bonds early if interest rates drop, which allows them to issue new bonds at a lower rate. Bond holders sometimes get a small premium on their principal, such as 3%, when bonds are called early, but it hardly makes up for the lost interest income.

"With the current rate cuts, the bonds 'are getting called right and left,'" Mrs. Owen says.

In an attempt to stabilize her income, the widow is diversifying a bit into blue-chip stocks that pay dividends. Still, she's nervous about a future with less money, so she's doing without things she's enjoyed since moving here 33 years ago from Richmond, Va. This spring, she scrapped a summer trip to Europe. She has started substituting lunches for dinners at Belleair Country Club, cutting the cost of going out to eat virtually in half.

The daughter of a minister, she has continued giving to First United Methodist Church of Clearwater, where her son Rick Owen serves as treasurer. But she worries about the many retirees who have not. The church has seen a 25% drop in pledges this year, much of that among retirees who say they don't know how much they're going to have to live on, Rick Owen says. "You would like to have cash reserves of two months. We don't have that this year."

The situation is the same at Mrs. Owen's club. Two weeks ago, as she hesitated to spend \$37 on a dinner and mystery-theater act, the hostess told her that a lot of members are cutting back on the special events. One of Mrs. Owen's friends recently told her that she's considering dropping her membership altogether.

"I'm not going hungry, but I am uneasy," says Mrs. Owen. "I don't feel that it would be wise to take money, at a point when my income is dropping, and spend it on any pleasures."

Tech Supplier Senses Businesses May Be Near a Spending Uptick

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ware have risen for three straight months, the Commerce Department says. Wall Street analysts expect that technology companies' second-quarter profits were up 20% from last year, according to Thomson First Call, and those companies have had surprisingly few negative profit warnings—a sign that their customers are ordering more or canceling less. The tech-dominated Nasdaq Stock Market has soared 30% since March to the highest level in a year.

But other kinds of business investment, on items such as power plants, vehicles and buildings, remain sluggish. Navistar International Corp. recently said demand for heavy-duty trucks improved in May but stressed that signs of an industrywide turnaround were "tentative." Meanwhile, office construction has been depressed by high vacancy rates in key markets.

So, are the tentative signs of a sorely needed uptick in business investment real? Companies such as Connecting Point are anxiously watching the answer waver between yes and no.

Connecting Point buys hardware and software from distributors and installs them for small and medium-size businesses. Many of its customers, like companies around the country, have delayed needed purchases for several years because they bought more than they needed in the 1990s and are wary about making expensive purchases until they believe the economy is sound. While no single company can represent the vast, complex U.S. economy, there's a good chance that when Connecting Point's customers start opening their wallets, it means the long-awaited investment recovery has finally begun.

Mr. Warner is a natural optimist who signs each of his e-mails "Make it a great day!" But business has been so tough that he's wary of predictions of an upturn. Connecting Point's annual sales have declined by more than half since 1999, as have those of many technology companies, and they're likely to fall short of Mr. Warner's forecast of \$5 million this year. At best, he thinks, he'll break even. He has slashed two-thirds of his staff, leaving 21 employees, and put his wife, Sue, on the payroll to help out family finances. Many of his big-

gest customers still haven't placed orders, and a lot of those who have keep finding reasons to postpone the purchases.

"Either we stink or it's part of what's going on in the economy," he says in his office around the corner from a Greeley strip mall, about an hour's drive north of Denver.

"Or a combination of both," shoots back his wife.

Still, Mr. Warner has noticed subtle changes that suggest better times may lie ahead. His salesmen are getting their calls returned more promptly. The sale of a big phone system to a car dealer has just closed, and another to a local bank may close soon. His company made a profit in June after losing money in April and May. Even terrorist fears are spawning opportunities. Mr. Warner put in a bid for an \$8 million Internet-based security system for the police and fire departments of a nearby town. If he wins, it would be the biggest deal of his life.

"I think I'm seeing this thing turn," says the 49-year-old Mr. Warner. "But I said the same thing six months ago, and I was absolutely wrong."

Michael Shoop, a golfing buddy of Mr. Warner and president of Professional Finance Co., a collection agency, is typical of today's technology buyer. Six months ago, Mr. Warner pitched him a \$40,000 system that could boost productivity by recording calls between Mr. Shoop's collection agents and delinquent customers, allowing supervisors to listen in for training purposes or to investigate complaints. At the time, Mr. Shoop wasn't interested. Now he is. "I'm looking at a system," he says, but a cheaper one than Mr. Warner first proposed. "Cost and cash flow are always an issue."

At a recent meeting, Mr. Warner eyes the flat-screen monitor on Mr. Shoop's desk, which has a screen-saver photo of Mr. Shoop's private plane. Have you thought of buying flat-screen monitors for all of your staff, Mr. Warner asks. Flat screens now cost about \$300, not much more than conventional screens cost 2½ years ago.

Mr. Shoop gives this pitch a colder reception than the productivity-boosting voice-recording system. "Flat screens are luxuries," says Mr. Shoop. "We'll probably head in that direction at some

point, [but] I'm going to wait until our terminals need to be replaced."

Back at his office, Mr. Warner acknowledges that it's hard to make a convincing argument for flat screens, since he hasn't bought them for his own staff. Like many of his customers, Mr. Warner himself is holding off on purchasing the latest technology until he's more confident that business will pick up. A little while ago he lost an \$11,000 deposit on a badly needed \$65,000 accounting-software system after he decided he couldn't afford it now. "Isn't that sad," he says. "We should have all the latest technology. We're like the cobblers' kids who have ratty old shoes."

Trim, gravel-voiced and perpetually tanned, Mr. Warner walks as fast as others run, drives a turbocharged red Volvo and plays a fiercely competitive brand of golf. One of his technology suppliers, Ingram Micro Inc., once auctioned off the right to be Mr. Warner's golf partner at a charity tournament it was sponsoring. When one nongolfer bid \$500, Mr. Warner joked that he'd offer \$200 to get an experienced golfer as a partner. Another executive won the auction by bidding about \$1,000, joined Mr. Warner's foursome, and the Warner team won for the third year in a row.

Mr. Warner's company is dealing with more than just a soft overall economy; his industry is also in the doldrums. Four years ago, technology customers were enthralled with the Internet and ready to shell out for the latest computer gear. Cost was seldom an issue. That euphoria has long vanished.

In a recent survey by Prudential Securities and CIO Magazine, just 41% of chief information officers said they planned to spend more on technology hardware over the next year, while 20% planned to spend less and 38% to spend the same amount. Those numbers have been flat for almost a year. Hewlett-Packard Co. Chief Executive Carly Fiorina recently lamented to Wall Street analysts that she saw "no short-term catalysts for improvement" in information-technology demand.

But others, such as forecasters at the Federal Reserve, see a possible spur for spending: Investment has been reduced so much that most of the 1990s glit is gone. The ratio of capital spending to deprecia-

tion—which compares how much companies spend on new equipment with how much value their old equipment has lost—is at its lowest level in more than 30 years, according to a J.P. Morgan estimate. Companies may have to start investing more, simply to replace what's worn out or grown obsolete.

Scott Gattis, a Connecting Point salesman, thinks he has hooked a company like that. Adams McClure LP, a Denver printing firm specializing in high-quality reproductions, once spent lavishly on new equipment, including a \$3.5 million Heidelberg color press that could faithfully display the glistening juices in Burger King hamburgers. But its investment budget has been so tight that for two years it has put off replacing a phone system that has too few lines and lacks voice mail.

When Mr. Gattis visited, he sensed Adams McClure was getting ready to loosen its purse strings. The printer has boosted profits by dropping marginal business, and its orders picked up after the end of the Iraq war. The head office in Dallas recently approved some big purchases, such as \$28,000 for two Hewlett-Packard digital printers. The phones may be next. Last fall, Vice President Steve Oldani bent down to pick up a bag of trash and hit a tangle of wires on the telephone system circuit board, knocking out several lines.

Mr. Gattis has demonstrated a phone system for Adams McClure and hopes to land the contract. "Everything appears to be in place with the exception of [the head office's] approval," he says. Mr. Oldani couldn't confirm the status of the order.

But getting customers interested is one thing; closing sales has been difficult since 2000. Almost a year ago, Mr. Gattis got Plastic Arts Products, of Greeley, interested in a phone system, then priced at \$34,000. But Plastic Arts never went ahead with the purchase as business continued to slump. The manufacturer, whose products include software packaging and airbag components, also had to cope with a price increase for oil-based raw materials during the buildup to the Iraq war.

Another Connecting Point salesman, Duane Franzen, has been trying to complete the sale, in part by offering a \$22,000 model. In a small boardroom at the factory, Plastic Arts' materials manager, David Zike, said that business has stabilized, and a new phone system is "a necessity." The old one is getting so unreliable that when it shorted out last fall, employees couldn't be dialed direct for three days.

Can Connecting Point expect a purchase soon? Mr. Franzen probed. Not for another two months, Mr. Zike replied, and "not the more expensive one."

Mr. Franzen has more luck with another customer, a mortgage broker who wanted to order phones and computers. The equipment is intended for new offices in Denver and Fort Collins, but the broker has delayed opening the branches. When Mr. Warner spots the company on a pipeline report, he grouches, "Week after week, nothing is happening."

But the next day, Mr. Franzen hears the broker has found space in Fort Collins and will open shortly. Mr. Warner is pleased—and there are other positive signs. A printing company that hadn't placed an order in years suddenly called and bought a \$70,000 computer network. An accounting firm just spent \$30,000 to upgrade four-year-old equipment. Thanks to a strong June, Connecting Point probably had a profitable quarter after losing money in the two previous quarters.

To be sure, some customers are still hesitant. Mr. Shoop has delayed plans to buy the voice-recording system, and the local bank has yet again delayed its phone-system purchase. It's like a roller coaster, explains Mr. Warner, that climbs slowly to the top of the track before accelerating down the other side. "We're almost to the top of the hill," he says.

He's going to hire another salesman soon, and if he has a few more profitable quarters, he'll finally buy a new accounting system—though it will be "the Chevy model, not the Cadillac."

Adelphia Creditors Sue Lenders

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family in its alleged looting of the cable company. Moreover, the suit claims the loans to the family were made in order to win lucrative investment-banking business from Adelphia.

Adelphia, a cable company based in Greenwood Village, Colo., supports the suit and is named as a nominal plaintiff.

The charge is the latest in a spate of lawsuits filed by investors seeking to hold banks responsible for corporate wrongdoing. J.P. Morgan Chase & Co. and Citigroup are fighting multiple cases related to Enron Corp., and investors in WorldCom Inc. (now MCI) are battling with banks over the company's assets. Adelphia's lenders have been named in previous investor suits seeking compensation for the company's financial collapse.

Yet the latest case brings to light new details on loans made by several banks to the Rigas family. The family has been charged by federal prosecutors with looting billions of dollars from the company. Federal prosecutors arrested company founder John Rigas and his sons, Timothy and Michael, in July 2002. Adelphia filed for Chapter 11 bankruptcy-court protection in June 2002.

In their lawsuit, Adelphia's creditors charge Bank of America, Wachovia, Bank of Montreal, Citigroup and about 450 other banks and financial institutions with "knowing participation, substantial assistance and complicity" in the alleged Rigas fraud by making improper loans to the Rigases that were guaranteed by Adelphia. The plaintiffs said they had to name so many banks because the loans were syndicated, or sold off to other banks in small pieces, and this was the only way to freeze loans in total.

Worms Turn to Troublemaking

Continued From First Page
glers, after a day of fishing, often dump leftover bait along the shores. The tire treads of all-terrain vehicles, construction equipment and cars can carry worm cocoons and add to the problem. Worms can also escape from composting kits and tag along with plants.

For centuries before the worms arrived, fallen leaves and other forest litter decomposed slowly, creating a spongy layer of organic material, called duff, which provides habitats for plants and ground-dwelling animals. Now the earthworms are getting to the duff first, and eating it out from under species that rely on it. Earthworms typically eat more than 10 times their body weight each month. Studies have shown that when worms invade, the duff layer is devoured in three to five years.

Ms. Hale and a handful of other scientists examining this phenomenon fear the long-term stability of the forests is in jeopardy. Without the duff, many species of plants can't survive. Sensitive animals such as salamanders and frogs would likely be the first to suffer. It isn't clear yet whether larger animals would also disappear.

"There's a whole ecosystem that's being fundamentally altered by this loss of duff layer," says John Casson, a biologist with the Chippewa National Forest, where earthworms have eaten patches of the forest floor down to dirt.

Ms. Hale uses her Worm Watch seminars to try to beat back the invasion. She's training participants to conduct worm surveys in their hometowns. Her goal is a comprehensive census of worm populations in Minnesota, determining for the first time which parts of the state have been overrun, and which are still worm free. Similar efforts are under way in Canada.

In Finland, Minn., Worm Watch participants hike with Ms. Hale to learn worm-tracking techniques. On one recent outing, she poured a mustard-and-water solution onto the forest floor, leaned in and waited for worms to squirm to the

surface, their skin irritated by the mustard.

"Look, here they come!" worm watcher Carrie Anderson said with a gasp.

"I can hear the screams already," said Kurt Mead, scooping up the invertebrates in his hands.

Many new infestations come from lake shores, where bait is dumped. Laura Jewison, a cashier at Billy's, a bait shop and gas station in Elysian, Minn., sells long night crawlers for \$2.35 a dozen. She put up her worm-watching poster near the cash register. "It sounded pretty funny to me at first," Ms. Jewison says. "But now it's starting to make sense."

Lifelong fisherman Gene Dodge, 85, of New Richland, Minn., said he recently heard about the earthworm problem and pledged to "straighten out" his sons and grandsons on their next fishing trip. "It's really surprising. I never thought they could be bad for anything," he said.

Now Ms. Hale and others are looking for solutions. She has ruled out poison because it would be too costly and harmful to other organisms. The same goes for running electric current through the ground to kill worms.

There has been talk of importing other animals that prey on earthworms, such as a species of flatworms from New Zealand. But that could open up a whole new can of worms.

Until scientists find a way to reduce the worm population, they are focusing on other ways to save the forests. One solution might be to reduce populations of deer in areas affected by worms so plants face one less predator.

Mr. Mead, who attended one of Ms. Hale's Worm Watch seminars, offered another suggestion to get rid of the worms: eat them. He says he has baked chocolate-chip-and-earthworm cookies for his teenage students in a nature class.

"Look," he says, "earthworms are a natural and abundant protein source."

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